2018 APPENDICES

ANNUAL REPORT

Contents

GRI table

[GRI 102-55]

Indicator	Reference / Comment	Page
GRI 102: General Disclosures		
1. Organizational profile		
Disclosure 102-1 Name of the organization		About NLMK, Company profile, Company profile, p. 13
Disclosure 102-2 Activities, brands, products, and services		About NLMK, Company profile, What we make and market, p. 23
Disclosure 102-3 Location of headquarters		About NLMK, About the Report, Contact details, p. 11
Disclosure 102-4 Location of operations		About NLMK, Company profile, Company profile, p. 13 About NLMK, Company profile, Where we make and market steel, p. 14
Disclosure 102-5 Ownership and legal form	The organizational structure of the Company can be found on its website https://www.nlmk.com/ru/about/group-structure/ The legal form of all companies belonging to NLMK Group is presented in “About the Report” section.	
Disclosure 102-6 Markets served		About NLMK, Company profile, Company profile, p. 13 About NLMK, Company profile, Where we make and market steel, p. 14
Disclosure 102-7 Scale of the organization		About NLMK, Company profile, Company profile, p. 13 About NLMK, Company profile, NLMK's integrated process environment, p. 16 Our team, Our employees, Our employees, p. 23
Disclosure 102-8 Information on employees and other workers		Our team, Our employees, Our employees, p. 23, 24
Disclosure 102-9 Supply chain		Our team, Supply chain management, 2018 performance, p. 15
Disclosure 102-10 Significant changes to the organization and its supply chain	In the reporting period, there were no significant changes in the structure and activities of the Company.	Our team, Supply chain management, 2018 performance, p. 15
Disclosure 102-11 Precautionary Principle or approach		Governance, Corporate governance, Operational control and risk management, Internal control and risk management system, p. 41
Disclosure 102-12 External initiatives		About NLMK, Sustainability management, Participation in industry associations and external initiatives, p. 57

Indicator	Reference / Comment	Page
Disclosure 102-13 Membership of associations		About NLMK, Sustainability management, Participation in industry associations and external initiatives, p. 57
2. STRATEGY		
Disclosure 102-14 Statement from senior decision-maker		About NLMK, President's Statement, p. 6
3. ETHICS AND INTEGRITY		
Disclosure 102-16 Values, principles, standards, and norms of behaviour		About NLMK, Sustainability management, Our approach to sustainability management, p. 51 Governance, Corporate governance, Operational control and risk management, Anti-Corruption Compliance and Fair Business Practices, p. 48,49
4. CORPORATE MANAGEMENT		
Disclosure 102-18 Governance structure		Governance, Corporate governance, Corporate governance system, p. 7
5. DIALOGUE WITH STAKEHOLDERS		
Disclosure 102-40 List of stakeholder groups		Our team, Stakeholder dialogue, Our approach to stakeholder engagement, p. 5
Disclosure 102-41 Collective bargaining agreements		Our team, Our employees, Social policy, p. 33
Disclosure 102-42 Identifying and selecting stakeholders		Our team, Stakeholder dialogue, Our approach to stakeholder engagement, p. 5
Disclosure 102-43 Approach to stakeholder engagement		Our team, Stakeholder dialogue, Our approach to stakeholder engagement, p. 5
Disclosure 102-44 Key topics and concerns raised		Our team, Stakeholder dialogue, Our approach to stakeholder engagement, p. 5-8
6. REPORTING PRACTICE		
Disclosure 102-45 Entities included in the consolidated financial statements		About NLMK, About the Report, Scope of reporting, p. 9
Disclosure 102-46 Defining report content and topic boundaries		About NLMK, About the Report, The process of defining material topics, p. 10
Disclosure 102-47 List of material topics		About NLMK, About the Report, Material topics, p. 11
Disclosure 102-48 Restatements of information		About NLMK, About the Report, Methodology for preparing and revising data, p. 10
Disclosure 102-49 Changes in reporting		About NLMK, About the Report, Methodology for preparing and revising data, p. 10
Disclosure 102-50 Reporting period		About NLMK, About the Report, Our approach to preparing reports, p. 9

Indicator	Reference / Comment	Page
Disclosure 102-51 Date of most recent report		About NLMK, About the Report, Our approach to preparing reports, p. 9
Disclosure 102-52 Reporting cycle		About the Report, About the Report, Our approach to preparing reports, p. 9
Disclosure 102-53 Contact point for questions regarding the report		About NLMK, About the Report, Contact details, p. 11 Governance, Corporate governance, Information for shareholders and investors, Contacts for shareholders, p. 55
Disclosure 102-54 Claims of reporting in accordance with the GRI Standards		About NLMK, About the Report, Our approach to preparing reports, p. 9
Disclosure 102-55 GRI content index		About NLMK, About the Report, Our approach to preparing reports, p. 9 Appendices to 2018 Annual Report, p. 2
Disclosure 102-56 External assurance		About NLMK, About the Report, Our approach to preparing reports, p. 11 Appendices to 2018 Annual Report, p. 67
MATERIAL TOPICS		
GRI 200 ECONOMIC		
GRI 201: Economic Performance		
GRI 103: Management Approach		About NLMK, 2018 performance review, p. 58 Appendices to 2018 Annual Report, p. 67
Disclosure 201-1 Direct economic value generated and distributed		About NLMK, 2018 performance review, p. 58 About NLMK, Sustainability management, Generating economic value, p. 56
GRI 203: INDIRECT ECONOMIC IMPACTS		
GRI 103: Management Approach		Our team, Developing local communities, Our approach to managing external social activities, p. 46
Disclosure 203-1 Infrastructure investments and services supported		Our team, Developing local communities, 2018 performance, p. 51
Disclosure 203-2 Significant indirect economic impacts		Our team, Developing local communities, Our approach to managing external social activities, p. 46
GRI 205: ANTI-CORRUPTION		
GRI 103: Management Approach		Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 48

Indicator	Reference / Comment	Page
Disclosure 205-1 Operations assessed for risks related to corruption		Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 49
Disclosure 205-2 Communication and training about anti-corruption policies and procedures		Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 48, 50
Disclosure 205-3 Confirmed incidents of corruption and actions taken		Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 50
GRI 300 ENVIRONMENTAL		
GRI 302 ENERGY		
GRI 103: Management Approach		Environment, Energy efficiency, Our approach to managing energy efficiency, p. 22
Disclosure 302-1 Energy consumption within the organization		Environment, Energy efficiency, Energy resource consumption in 2018, p. 24, 25
Disclosure 302-3 Energy intensity	The Company considers it unhelpful to calculate the energy intensity indicator for the Group as a whole due to different production specifics at its companies. This indicator is calculated only for the main Russian production site - NLMK Lipetsk	Environment, Energy efficiency, Energy resource consumption in 2018, p. 25
Disclosure 302-4 Reduction of energy consumption		Environment, Energy efficiency, Energy resource consumption in 2018, p. 29
GRI 303: WATER AND EFFLUENTS		
GRI 103: Management Approach		Environment, Environmental protection, Our approach to managing environmental protection, p. 6 Environment, Environmental protection, Water resources, p. 10
Disclosure 303-1 Interactions with water as a shared resource		Environment, Environmental protection, Water resources, p. 10
Disclosure 303-2 Management of water discharge-related impacts		Environment, Environmental protection, Our approach to managing environmental protection, Monitoring and control, p. 7 Environment, Environmental protection, Water resources, p. 10
Disclosure 303-3 Water withdrawal		Environment, Environmental protection, Water resources, p. 10, 11

Indicator	Reference / Comment	Page
Disclosure 303-4 Water discharge		Environment, Environmental protection, Water resources, p. 12
Disclosure 303-5 Water consumption		Environment, Environmental protection, Water resources, p. 10
GRI 304: BIODIVERSITY		
GRI 103: Management Approach		Environment, Environmental protection, Our approach to managing environmental protection, p. 6 Environment, Environmental protection, Biodiversity, p. 18
Disclosure 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		Environment, Environmental protection, Biodiversity, p. 18
Disclosure 304-2 Significant impacts of activities, products, and services on biodiversity		Environment, Environmental protection, Biodiversity, p. 18
Disclosure 304-3 Habitats protected or restored		Environment, Environmental protection, Biodiversity, p. 18
Disclosure 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations		Environment, Environmental protection, Biodiversity, p. 18
GRI 305: EMISSIONS		
GRI 103: Management Approach		Environment, Environmental protection, Our approach to managing environmental protection, p. 6 Environment, Environmental protection, Air emissions, p. 13 Environment, Environmental protection, Greenhouse gas emissions, p. 15
Disclosure 305-1 Direct (Scope 1) GHG emissions		Environment, Environmental protection, Greenhouse gas emissions, p. 15
Disclosure 305-2 Energy indirect (Scope 2) GHG emission		Environment, Environmental protection, Greenhouse gas emissions, p. 15
Disclosure 305-4 GHG emissions intensity		Environment, Environmental protection, Greenhouse gas emissions, p. 15
Disclosure 305-6 Emissions of ozone-depleting substances (ODS)	NLMK Group companies do not produce, emit or use ozone-depleting substances in its processes, except for the use as a reagent in chemical laboratory analyses in extremely limited quantities, as well as for refuelling compressor equipment, air conditioning and fire extinguishing systems.	

Indicator	Reference / Comment	Page
Disclosure 305-7 Nitrogen oxides (NO_X), sulfur oxides (SO_X), and other significant air emissions		Environment, Environmental protection, Air emissions, p. 14
GRI 306: EFFLUENTS AND WASTE		
GRI 103: Management Approach		Environment, Environmental protection, Our approach to managing environmental protection, p. 6 Environment, Environmental protection, Water resources, p. 10 Environment, Environmental protection, Waste handling and efficient use of natural resources, p. 16
Disclosure 306-1 Water discharge by quality and destination		Environment, Environmental protection, Water resources, p. 12
Disclosure 306-2 Waste by type and disposal method		Environment, Environmental protection, Waste handling and efficient use of natural resources, p. 16
Disclosure 306-3 Significant spills	In the course of the Company's activities in the reporting year, no significant spills were recorded.	
Disclosure 306-4 Transport of hazardous waste	NLMK Group's companies do not import or export hazardous waste or ship it internationally. Transportation of waste outside the Group's premises is carried out by specialized organizations with appropriate licenses.	
GRI 307: ENVIRONMENTAL COMPLIANCE		
GRI 103: Management Approach		Environment, Environmental protection, Our approach to managing environmental protection, p. 6
Disclosure 307-1 Non-compliance with environmental laws and regulations		Environment, Environmental protection, Our approach to managing environmental protection, p. 7
GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT		
GRI 103: Management Approach		Environment, Environmental protection, Our approach to managing environmental protection, p. 6 Our team, Supply chain management, p. 11
Disclosure 308-1 New suppliers that were screened using environmental criteria		Environment, Environmental protection, Our approach to managing environmental protection, p. 9
Disclosure 308-2 Negative environmental impacts in the supply chain and actions taken		Environment, Environmental protection, Our approach to managing environmental protection, p. 9

Indicator	Reference / Comment	Page
GRI 400: SOCIAL		
GRI 401: EMPLOYMENT		
GRI 103: Management Approach		Our team, Our employees, Our approach to staff management p. 22
Disclosure 401-1 New employee hires and employee turnover		Our team, Our employees, Our employees, Turnover, p. 25 Our team, Our employees, Our employees, Staff recruitment, p. 24
GRI 403: OCCUPATIONAL HEALTH AND SAFETY		
GRI 103: Management Approach		Our team, Occupational health and safety, Our approach to managing occupational health and safety, p. 37
Disclosure 403-1 Occupational health and safety management system		Our team, Occupational health and safety, Our approach to managing occupational health and safety, p. 37
Disclosure 403-2 Hazard identification, risk assessment, and incident investigation		Our team, Occupational health and safety, Our approach to managing occupational health and safety, p. 39, 40
Disclosure 403-3 Occupational health services		Our team, Our employees, Social policy, p. 33
Disclosure 403-4 Worker participation, consultation, and communication on occupational health and safety		Our team, Occupational health and safety, Our approach to managing occupational health and safety, Staff training and engagement, p. 39 Our team, Occupational health and safety, 2018 performance, p. 42, 43
Disclosure 403-5 Worker training on occupational health and safety		Our team, Occupational health and safety, Our approach to managing occupational health and safety, Staff training and engagement p. 39
Disclosure 403-6 Promotion of worker health		Our team, Our employees, Social policy, p. 31, 32
Disclosure 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		Our team, Occupational health and safety, Our approach to managing occupational health and safety, p. 39
Disclosure 403-8 Workers covered by an occupational health and safety management system		Our team, Occupational health and safety, Our approach to managing occupational health and safety, Management system and certification p. 39
Disclosure 403-9 Work-related injuries		Our team, Occupational health and safety, 2018 performance, p. 42
Disclosure 403-10 Work-related ill health		Our team, Our employees, Social policy, p. 32

Indicator	Reference / Comment	Page
GRI 404: TRAINING AND EDUCATION		
GRI 103: Management Approach		Our team, Our employees, Training and development, p. 28
Disclosure 404-2 Programs for upgrading employee skills and transition assistance programs		Our team, Our employees, Training and development, p. 28, 30, 31 Our team, Our employees, Social policy, p. 32
Disclosure 404-3 Percentage of employees receiving regular performance and career development reviews		Our team, Our employees, Training and development, Evaluation and remuneration, p. 27
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY		
GRI 103: Management Approach		Our team, Our employees, Our approach to staff management, p. 22
Disclosure 405-1 Diversity of governance bodies and employees		Our team, Our employees, Our employees, p. 23, 24
GRI 406: NON-DISCRIMINATION		
GRI 103: Management Approach		Our team, Human rights, Managing human rights issues, p. 17
Disclosure 406-1 Incidents of discrimination and corrective actions taken		Our team, Human rights, 2018 performance p. 19
GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING		
GRI 103: Management Approach		Our team, Human rights, Managing human rights issues, p. 17
Disclosure 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		Our team, Human rights, Managing human rights issues, p. 17 Our team, Human rights, 2018 performance p. 19
GRI 408: CHILD LABOR		
GRI 103: Management Approach		Our team, Human rights, Managing human rights issues, p. 17
Disclosure 408-1 Operations and suppliers at significant risk for incidents of child labour		Our team, Human rights, Managing human rights issues, p. 17 Our team, Human rights, 2018 performance p. 19
GRI 409: FORCED OR COMPULSORY LABOR		
GRI 103: Management Approach		Our team, Human rights, Managing human rights issues, p. 17
Disclosure 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour		Our team, Human rights, Managing human rights issues, p. 17 Our team, Human rights, 2018 performance p. 19

Indicator	Reference / Comment	Page
GRI 413: LOCAL COMMUNITIES		
GRI 103: Management Approach		Our team, Human rights, Managing human rights issues, p. 17
Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs		Our team, Stakeholder dialogue, Our approach to stakeholder engagement, p. 5 Our team, Developing local communities, Our approach to managing external social activities, p. 47 Our team, Developing local communities, 2018 performance, p. 49

RESPONSIBILITY STATEMENT

NLMK management, having considered the information available regarding the activities of the Company, confirms its responsibility for:

1. Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with IFRS, as of December 31, 2018 and also for the year ended on that data, within balance sheets, profit and loss statements, cash flow statements, equity statements and the statements on the total income of shareholders and notes to the consolidated financial statements.

   Management confirms the reliability of NLMK's financial status, operational results and cash flow results, as well as its companies and dependent companies in the consolidated financial statements.

2. The completeness and correctness of the information submitted in the NLMK Group Annual Report for 2018, specifically the information on the operational results of NLMK Group, the results of its strategic development, risks and events which in the near future may have impact on the operations of the Group.

   The Company management confirms that the operational and financial indices fully reflect the outcome of NLMK Group's operations in 2018 and main changes regarding the previous periods as well as give a comprehensive representation on the development of NLMK and its companies and dependent companies.

President (Chairman of the Management Board) G. Fedorishin

NLMK's Internal Audit Service conclusion
on the risk management and internal control of the Company
in 2018

Lipetsk «01» March 2019

The Internal Audit Service assessed the reliability and efficiency of risk management and internal control in terms of the available and functioning controls that are necessary to manage material risks of NLMK's key business processes in 2018.

The Internal Audit Service activity was guided by the Federal Law "On Joint-Stock Companies", the Corporate Governance Code of the Central Bank of the Russian Federation, the Regulations on the Internal Audit Department, International professional organizations documents in the field of risk management and internal control, including COSO ERM "Enterprise Risk Management", COSO IC "Internal Control. Integrated Framework", as well as internal regulatory documents of NLMK's Internal Audit Department.

In the assessment process, the Internal Audit Service considered if the Company has necessary controls to implement the relevant principles of material risk management and internal control of the company in practice in the following processes: finance and economics, asset management, procurement, scrap collection, production, sales, implementation of investment projects, industrial safety and environment management.

Based on the assessment results the Internal Audit Service have not found any facts that gave us a reason to believe that the considered controls did not allow managing material risks in the above-mentioned business processes of the Company.

Director of the Internal Audit Department
(The Head of the Internal Audit Service) M. Makeev

Information about Annual Report 2018 approval procedure

No.	Stage	Document
1	Preliminary approve by the Board of Directors	MoM No 262 dd. 15/03/2019
2	Approval by the General Shareholders' meeting	MoM No 53 dd. 19/04/2019

Compliance with the requirements of Regulations on Information Disclosure by Issuers of Issue-Grade Securities

No.	Requirement	Reference to an item of Regulations	Status	Comments
1	Availability of data on the status of a joint-stock company in the industry	70.3.	In compliance	The information is presented in About NLMK booklet, NLMK Profile section
2	Availability of data on the priority lines of a joint-stock company's operations	70.3.	In compliance	The information is presented in About NLMK booklet, Strategy 2022 section, Analysis of NLMK's operations in 2018
3	The report of the Board of Directors on the results of a joint-stock company's development split by priority lines of its operations	70.3.	In compliance	The information is presented in About NLMK booklet, Strategy 2017 results section
4	Information on the quantities of each of the energy resources used in the reporting year in natural and monetary terms	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
5	Data on the development prospects	70.3.	In compliance	The information is presented in About NLMK booklet, Strategy 2022 section
6	Report on the payment of declared (accrued) dividends	70.3.	In compliance	The information is presented in Corporate Governance booklet, For Shareholders section and in the Appendix to the Annual Report
7	Description of key risk factors	70.3.	In compliance	The information is presented in Corporate Governance booklet, Operational Control and Risk Management section
8	List of transactions recognized to be major transactions in accordance with Federal Law "On Joint Stock Companies"	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
9	List of transactions recognized to be interested-party transactions in line with Federal Law "On Joint Stock Companies"	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
10	Composition of the Company's Board of Directors, changes in the composition of the Board of Directors, data on the members of the Board of Directors, transactions of the members of the Board of	70.3.	In compliance	The information is presented in Corporate Governance booklet, Management Composition section, Report on the Management Board's Activity

	Directors on acquisition or disposal of the Company's shares			
11	Data on the person being (functioning as) a sole executive body of the Company and members of a collegial executive body, transactions concluded by a person being (functioning as) a sole executive body of the Company and (or) members of a collegial executive body on the acquisition or disposal of shares of a joint-stock company	70.3.	In compliance	The information is presented in Corporate Governance booklet, Management Composition section
12	Fundamental principles of a joint-stock company's policy on remuneration and (or) reimbursement of expenses	70.3.	In compliance	The information is presented in Corporate Governance booklet, Report on Remuneration to Governing Bodies
13	Data (report) on the observance of principles and recommendations of the Corporate Governance Code	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
14	Data on approval of the annual report by the General Shareholders' Meeting or the Board of Directors of a joint-stock company	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
15	Corporate Governance Code: Statement of the Board of Directors (Supervisory Board) of a joint-stock company on the observance of corporate governance principles documented in the Corporate Governance Code, and if such principles are not observed fully or in part by the joint-stock company - specifying those principles and a summary of violation	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
16	Corporate Governance Code: A summary of the most significant aspects of the corporate governance model and practice in a joint-stock company;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
17	Corporate Governance Code: Description of the methodology used by the joint-stock company in its assessment of observance of corporate governance principles documented in the Corporate Governance Code;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report

18	Corporate Governance Code: Description of root causes, factors and (or) specific circumstances of a full or partial non-observance by a joint-stock company of corporate governance principles documented in the Corporate Governance Code	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
19	Corporate Governance Code: Description of corporate governance mechanisms and instruments used by a joint-stock company instead (in substitution) of those recommended by the Corporate Governance Code;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
20	Corporate Governance Code: Planned (proposed) actions and activities of a joint-stock company aimed at the improvement of a corporate governance model and practice specifying the deadlines for such actions and activities;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
21	A section on the status of net assets, if after the end of the second reporting year or each subsequent reporting year the value of a joint-stock company's net assets is less than its authorized capital.	70.5.	Not applicable	-

NLMK companies and affiliates as of 31.12.2018 г.

No	Company name	Adress	Activity	Novolipetsk in Charter Capital, %
1	2	3	4	5
Company companies				
	VIZ-Steel, Limited Liability Company	28 Kirova St., Ekaterinburg, 620219, Russia	Production and marketing of electrical steel	100
	Vtorchermet NLMK, Limited Liability Company	3 Novinskaya St., Yekaterinburg, 620024, Russia	Collection, processing and sales of ferrous and non-ferrous scrap	100
	Zhernovsky-1 Mining and Processing Complex, Limited Liability Company	offices 503-506, bld 11A, str. Pavlovskogo, Novokuznetsk, Kemerovo Region, 654007,Russia	Entire range of works related to coal mining and processing	100
	Usinsky-3 Mining and Processing Complex, Limited Liability Company	30 Kommunisticheskaya St., Syktyvkar, Komi Republic, Russia	Entire range of works related to coal mining and processing	100
	Hotel Metallurg, Limited Liability Company	36 Lenina St., Lipetsk, 398020, Russia	Hotel services	100
	NLMK Information Technologies, Limited Liability Company	Lipetsk, Russia	IT, computing and telecom services	100
	NLMK Kaluga, Limited Liability Company	village Vorsino, Borovsk district, Kaluga region, Russia	Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel	100
	NLMK-Metiz, Limited Liability Company	5, Koltsevaya Str, Beryozovsky 623704, Sverdlovsk Region, Russia	Production of wire, wire products, fasteners and springs.	100
	NLMK-Svyaz, Limited Liability Company	Lipetsk, Russia	Telecom services.	100

	NLMK-Sort (NLMK Long Products), Limited Liability Company	3 Novinskaya Str., Ekaterinburg, 620024, Russia	Managing company, trading and procurement activities.	100
	NLMK-Uchetniy Tsentr (Accounting Centre), Limited Liability Company	Lipetsk, Russia	Book-keeping and tax accounting services for NLMK Group businesses	100
	NLMK Overseas Holdings, Limited Liability Company	Lipetsk, Russia	Develops the growth strategy for NLMK Group companies, supports relations between the Group's Russian and international businesses	100
	Novolipetskaya Metallobaza, Limited Liability Company	8 Almaznaya St.,Lipetsk, Russia	Manufacturing of plastic and steel products	100
	Novolipetsky Pechatny Dom (Printing House), Limited Liability Company	Russia, Lipetsk	Printing services.	100
	NLMK Construction and Assembly Trust, Limited Liability Company	2 Fanernaya St., Lipetsk, 398017, Russia	Contracting of industrial, housing, utilities, cultural services and road construction works. Construction of health facilities, household natural gas supply lines.	100
	NLMK Trade House, Limited Liability Company	Moskow, Russia	Consolidated purchases of raw materials and inputs, sale of NLMK Group by-products.	100
	Uralvtorchermet, Closely-held Joint-Stock Company	room 501, 3 Novinskaya Str, Ekaterinburg, Russia, 620024, Sverdlovsk Region	Consulting services re commercial activities, management, investing in securities, leasing of assets.	100
	Altai-Koks, Open Joint-Stock Company	2, Pritaezhnaya st, Zarinsk, Altaisky region 659107, Russia	Production and marketing of coke and by-products, generation and marketing of heat and electric power.	100
	Dolomit, Open Joint-Stock Company	1 Sverdlova St., Dankov, Lipetsk Region, Russia,	Mining and processing of dolomite.	100
	Stoilensky Mining and Processing Plant, Open Joint-Stock Company	4 Fabrichny proezd, Stary Oskol, Belgorod region, Russia, 309500	Mining and processing of iron ore and other minerals.	100
	Studenovskaya Joint Stock Mining Company, Open Joint-Stock Company	Studenovskaya industry area, Lipetsk region, Russia, 398507	Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roadwork.	100

	«NLMK-Engineering» Joint-Stock Company	1 Kalinina str. , Lipetsk, Russia, Office 205	Design and survey operations.	100
	Joint Stock «Ural Research and Development Institute of Architecture and Construction»	26 Bluhera Str., Ekaterinburg, Sverdlovsk Region, Russia	Design and survey operations	100
	«NLMK-Urals» Joint-Stock Company	3, Karl Libknekht st., Revda, Sverdlovsk Region, Russia	Production of long steel stock, hot-rolled and forged flat steel	92,59
Affiliated companies				
25.	Neptune, Limited Liability Company	Office 35, 1C Adm. Makarova St.,	Neptune, Limited Liability Company	25,00

Usage of energy resources of NLMK (Novolipetsk) in 2017-2018.

Name	Item	2018	2017	Change, %
Electro energy	mln kWth	3061,84	3786,21	-19,1
	mln of RUB with VAT	4807,1	5377,1	-10,6
Natural gas	mln m3.	2006,1	2142,8	-6,4
	mln of RUB with VAT	10694,9	11114,8	-3,8
Heating energy	GCal	134641,1	116604	+15,5
	mln of RUB with VAT	219,7	182,6	+20,3
Gas oil	‘000 liters	22942,4	23432,2	-2,1
	mln of RUB with VAT	1129,3	755,3	+49,5
Benzine	t	344,2	552,3	-37,7
	mln of RUB with VAT	17,8	26,2	-32,1
Heating oil	t	1110,6	1107,9	+0,2
	mln of RUB with VAT	5,7	5,6	+1,8
Coking coal	‘000 t	4633	4218	+9,8
	mln of RUB with VAT	53734	45643	+17,7

List of transactions performed by NLMK in 2018, which are recognized as major transactions in line with the Federal Law "On Joint Stock Companies", as well as of other transactions falling under the extended the procedure for approving major transactions in line with the Company's Charter.

In 2018, NLMK did not perform any transactions that the Federal Law "On Joint Stock Companies" recognizes as major transactions. NLMK's Charter does not specify any additional cases falling under the extended procedure for approval of major transactions in line with the Federal Law "On Joint Stock Companies.

List of transactions performed by NLMK in 2018 recognized as interested-party transactions in line with the Federal Law "On Joint Stock Companies".

An interested- party transaction is a transaction involving in accordance with the Federal Law "On Joint Stock Companies" an interest of a member of the Board of Directors, the President (Chairman of the Management Board), the Interim or Acting President (Chairman of the Management Board), a member of the Management Board of the Company or a controlling entity of the Company, or an entity entitled to give binding instructions to the Company.

Resolution on consent to an interested-party transaction shall be passed by the Board of Directors of the Company, unless otherwise stipulated in the Federal Law "On Joint Stock Companies".

Resolution on consent to such a transaction shall be passed by the Company's Board of Directors by the majority of votes of the Directors who are not interested in its conclusion, who are not, and have not been, within 1 year prior to such a resolution:

- the President (Chairman of the Management Board), the Interim or Acting President (Chairman of the Management Board), the executive manager of the Company, a member of the Management Board, a person holding offices in management bodies of the managing entity;
- a person whose spouse, parents, children, full-blood and half-blood brothers and sisters, adoptive parents and adoptees are persons holding offices in the said management bodies of the Company, managing entity of the Company or holding the office of a manager of the Company;
- controlling entity of the Company or the Company's managing organization (manager) entrusted with the functionality of the Company's sole executive body or entitled to give mandatory instructions to the Company.

Resolution on consent to an interested-party transaction shall be passed by the General Shareholders' Meeting by the majority of votes of all the shareholders - owners of the Company's voting shares participating in the voting, who are not interested in the transaction, in the following cases:

- in case a transaction or several related transactions are made in respect of the property with the book value (quotation price of the acquired property) of 10 or more per cent of the book value of the Company's assets according to the data of its accounting (financial) statements as of the latest reporting date;
- if a transaction or several related transactions involve the sale of common shares keeping records of over two percent of the common shares earlier distributed by the Company, and common shares, which earlier distributed securities convertible into shares can be converted into, unless the Charter provides for a lower number of shares.

In 2018, NLMK did not perform any transactions, recognized as interested-party transactions in line with the Federal Law "On Joint Stock Companies.

R E P O R T

on compliance with the Corporate Governance Code principles and recommendations

The present report on observance of principles and recommendations of the Corporate Governance Code was studies by the Novolipetsk Steel's Board of Directors at the meeting [MoM No. 262 dd. 15.03.2019].
The Board of Directors confirms that the data given in the present report contain complete and reliable information on observance by the Company of principles and recommendation of the Corporate Governance Code in 2018.
A detailed description of the key aspects of corporate governance model and practices is presented in the "Corporate Governance" section of the Annual Report.

Information on compliance with specific principles and key recommendations of the Corporate Governance Code is presented in the table below in the format recommended for use by the Bank of Russia.

The methodology for evaluating NLMK's compliance with the principles of corporate governance enshrined in the Corporate Governance Code is based on the Recommendations on how to compile a compliance report regarding the Corporate Governance Code principles and recommendations (Letter of the Bank of Russia No. IN-06-52/8 dd. 17 February 2016).

Explanations of non-compliance with the criteria of the corporate governance principles, a description of corporate governance mechanisms and tools, plans for its improvement are given in the table below, as well as in the "Corporate Governance" section of the Annual Report.

N	Principles of corporate governance	Criteria of corporate governance principles observance evaluation	Status of compliance with a corporate governance principle	Clarification of a deviation from criteria of corporate governance principles observance evaluation
1.1	The Company shall provide equal and fair treatment to all shareholders exercising their right to participate in the Company governance.			
1.1.1.	The Company creates the most favourable conditions for shareholders to participate in General Shareholders' Meeting as well as conditions to elaborate a grounded stand in terms of General Meeting agenda items, to coordinate their actions as well as a possibility to express their opinions in relation to the items under consideration.	1. The Company's internal document approved by the General Meeting and regulating the General Meeting procedures is publicly available. 2. The Company provides an accessible way of communication with the company like a hot line, e-mail or a web-based message board, which allow shareholders expressing their opinion and asking about an agenda in the course of the general meeting preparation. The Company ensured the compliance with the above-mentioned criteria shortly before the convocation of every General Meeting within the reporting period.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
1.1.2.	The procedure of General Meeting holding and submission of materials for the General Meeting shall enable shareholders to get properly prepared for participation therein.	1. A notice of the General Shareholders' Meeting is published on the Company's Internet website at least 30 days ahead of the date of the meeting. 2. The notice of the General Meeting specifies the venue of the meeting and the documents needed to get access to the venue. 3. Shareholders have an access to the information who proposed the agenda items and who nominated the candidates for election to the Board of Directors and Audit commission of the Company.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

1.1.3.	In preparation to the General Shareholders' Meeting and its convocation, shareholders had an opportunity to receive information on the meeting and materials therefor, to ask executive bodies and members of the Company's Board of Directors questions and to communicate with each other freely and in a timely manner.	1. In the reporting period shareholders were given a chance to ask members of executive bodies and of the Company's Board of Directors shortly before the convocation and during the Annual General Shareholders' Meeting. 2. The opinion of the Board of Directors (including specific opinions entered into the MoM) on each agenda item of the General Shareholders' Meetings held within the reporting period was quoted in the materials to the General Shareholders' Meeting. 3. The Company provided an access to a list of persons having the right to participate in the General Shareholders' Meeting to the shareholders entitled to it starting from the date on which the Company received it, in all cases of General Shareholders' Meeting convocation in the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
1.1.4.	The shareholders experienced no needless complexities in exercising their right to convene a General Shareholders' Meeting, to nominate candidates to the governing bodies, and to propose agenda items for a General Shareholders' Meeting	1. In the reporting period, shareholders had an opportunity to propose items for inclusion in the agenda of the Annual General Shareholders' Meeting at least 60 days after the respective calendar year-end. 2. In the reporting period the Company did not refuse to accept proposals on the agenda items or candidates to the Company's governing bodies due to misprints and other minor faults in a shareholder's proposal.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

1.1.5.	Every shareholder had an opportunity for unhindered exercise of their voting right in the simplest and the most convenient manner.	1. The Company's internal document (internal policy) contains provisions according to which every participant of the General Shareholders' Meeting can request a copy of the ballot filled in by them certified by the Counting commission before the end of the respective meeting.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
1.1.6.	The rules of the General Shareholders' Meeting procedure established by the Company provide for an equal possibility for all persons present at the meeting to express their opinions and ask relative questions.	1. When General Shareholders' Meetings were held in the reporting period in the form of a meeting (the joint presence of shareholders), sufficient time was given for reports on the agenda items and time to discuss those items. 2. Candidates to the Company's management and supervision bodies were available to answer questions from shareholders in those meetings where their nominations were put to vote. 3. While taking decisions related to preparation and holding of General Shareholders' Meetings the Board of Directors studied the issue of using telecommunications to provide shareholders with a remote access to participate in General Shareholders' Meetings in the reporting period.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

1.2	The shareholders are provided an equal and fair opportunity to participate in the Company’s profit by receiving dividends.			
1.2.1	The Company developed and implemented a transparent and obvious mechanism of dividends determination and their payment.	1. The Dividend policy was developed by the Company, approved by the Board of Directors and disclosed. 2. If the Company’s Dividend Policy uses the Company’s statement indicators to define dividends, the respective provisions of the Dividend Policy take into account consolidated financial statement indicators.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
1.2.2	The Company does not make decisions to pay dividends, if such a decision, though not violating legal restrictions formally, is economically groundless and can lead to false representations on the Company’s business.	1. The Company’s dividend policy contains clear indications of financial/economic circumstances under which dividends should not be paid.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

1.2.3	The Company does not allow for impairment of dividend rights of its shareholders.	1. In the reporting period, the Company did not take any actions resulting in impairment of dividend rights of its shareholders.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
1.2.4	The Company seeks to exclude the use by shareholders of other methods of obtaining profit (income) at the Company's expense, except for dividends and liquidation value.	1. In order to exclude the use by shareholders of other methods of obtaining profit (income) at the Company's expense, except for dividends and liquidation value, the Company's internal documents establish control mechanisms ensuring timely determination and approval procedure for transactions with persons affiliated with (related to) material shareholders (persons entitled to dispose of the votes attributed to the issuer's voting shares) in cases when such transactions are not legally recognized as interested-party transactions	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

1.3	Corporate governance system and practice ensure parity for all shareholders owning shares of the same category (type), including minority shareholders and foreign shareholders, and their equal treatment by the Company.			
1.3.1	The Company established conditions for fair treatment of each shareholder by the Company's management and supervisory bodies including conditions ensuring inadmissibility of abuse of minor shareholders by major shareholders.	1. During the reporting period management procedures of a potential conflict of material shareholders' interests have been effective, and the Board of Directors have paid due attention to shareholders' conflicts.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
1.3.2	The company does not take any actions, which result in or may result in artificial redistribution of corporate governance.	1. There are no quasi-treasury shares or they have not participated in voting within the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

1.4	Shareholders are provided with reliable and efficient procedure for registration of their shareholder rights and a possibility to dispose of their shares in a free and unhindered manner.			
1.4	Shareholders are provided with reliable and efficient procedure for registration of their shareholder rights and a possibility to dispose of their shares in a free and unhindered manner.	1. Quality and reliability of the Registrar's activities in maintaining the Register of shares comply with the Company's and its shareholders' requirements.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.1	The Board of Directors performs strategic management of the Company, identifies the basic principles and approaches to the Company's risk management and internal control systems, supervises the activity of the Company's executive bodies and also performs other key functions.			
2.1.1.	The Board of Directors is responsible for decision-making in relation to appointment and dismissal from office of executive bodies including undue performance of their duties. The Board of Directors ensures that the Company's executive bodies act in compliance with the approved development strategy and core businesses of the Company.	1. In line with the Company's Charter, the Board of Directors is entitled to appoint, dismiss from office and define contractual terms and conditions with regard to members of executive bodies. 2. The Board of Directors reviews the report (reports) of the sole executive body and members of the collegial executive body on execution of the Company's strategy.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.1.2.	The Board of Directors defines main milestones of the Company's business on a long-term basis, evaluates and approves key business indicators and main business objectives of the Company, assesses and approves strategy and business plans related to core activities of the Company.	1. Within the reporting period the Board of Directors reviewed the following issues: status and update of the Company's strategy; approval of the Company's business plan (budget); consideration of criteria and indicators (including interim ones) of the Company's strategy and business plans execution.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.1.3.	The Board of Directors defines the principles and approaches of the Company's risk management and internal control system.	1. The Board of Directors defined the principles and approaches to the arrangement of the Company's risk management and internal control system. 2. The Board of Directors evaluated the Company's risk management and internal control system within the reporting period.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.1.4.	The Board of Directors defines the Company's policy on remuneration and (or) reimbursement of expenses (compensations) to members of the Board of Directors, executive bodies and other key executives of the Company.	1. The Company elaborated and introduced the policy (policies) approved by the Board of Directors on remuneration and reimbursement of expenses (compensations) to members of the Board of Directors, executive bodies and other key executives of the Company. 2. During the reporting period the issues related to the mentioned policy (policies) were reviewed at the Board of Directors' meetings.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.1.5.	The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts between the Company's Bodies, shareholders and employees.	1. The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts. 2. The Company established the system of identification transactions related to a conflict of interests and the system of measures aimed at settlement of such conflicts.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.1.6.	The Board of Directors plays a key role in ensuring the Company's transparency, timely and complete disclosure of the information, easy access of shareholders to the Company's documents.	1. The Board of Directors approved the Regulations on Information Policy. 2. The Company appointed persons responsible for ensuring compliance with the Information Policy.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.1.7.	The Board of Directors exercises control over the corporate governance practices in the Company and plays a key role in the Company's significant corporate events.	1. During the reporting period the Board of Directors reviewed the corporate governance practices of the Company.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.2	The Board of Directors is accountable to the Company’s shareholders.			
2.2.1.	Information on activities of the Board of Directors is disclosed and provided to shareholders.	1. The Annual Report of the Company for the reporting period covers information on attendance of the Board of Directors’ and committees’ meetings by individual directors. 2. The Annual Report contains information on the key results of evaluation of the Board of Directors’ activities performed during the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.2.2.	Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. The Company employs a transparent procedure giving shareholders a possibility to ask questions and share their opinion to the Chairman of the Board of Directors.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.3	The Board of Directors is an effective and professional governing body of the Company, capable of making impartial independent judgements and decisions that are in the interest of the Company and its shareholders.			
2.3.1	Only persons who have impeccable business and personal reputation, and have the knowledge, skills and experience required to make decisions within the Board of Directors' area of expertise and necessary for the effective performance of its functions, are elected as members of the Board of Directors.	1. The procedure for assessing the efficiency of the Board of Directors adopted in the Company includes an evaluation of the professional qualifications of members of the Board of Directors. 2. In the reporting period, the Board of Directors (or its Nominating Committee) evaluated the candidates to the Board of Directors in terms of whether they have the necessary experience, knowledge and business reputation, lack of conflict of interest, etc.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.3.2	Members of the Board of Directors are elected through a transparent procedure that allows shareholders to receive information on the candidates, sufficient to get an idea of their personal and professional qualities.	1. In all cases when the General Shareholders' Meeting was held in the reporting period and its agenda included an item on election of the Board of Directors, the Company presented to shareholders the curricula vitae of all the candidates to the Board of Directors, the results of evaluation of the candidates, performed by the Board of Directors (or its Nominating Committee), and information on compliance of the candidate with the independence criteria, in accordance with recommendations No. 102 to 107 of the Code and the written consent of the candidates for election to the Board of Directors	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.3.3	The composition of the Board of Directors is balanced, including the qualifications of its members, their experience, knowledge and business qualities, and enjoys the trust of shareholders.	1. As part of the procedures for the Board of Directors' evaluation held during the reporting period, the Board of Directors reviewed its own needs in the field of professional qualification, experience and business skills.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.3.4	The quantitative composition of the Board of Directors enables to arrange the activities of the Board of Directors in the most efficient manner, including the formation of the Board's committees; it also provides significant minority shareholders an opportunity to elect a candidate for whom they vote.	1. As part of the Board of Directors evaluation procedure carried out in the reporting period, the Board of Directors considered the issue of compliance of the quantitative Board composition with the Company's needs and the interests of shareholders.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.4	The Board of Directors has a sufficient number of independent directors.			
2.4.1	An independent director is a person who has sufficient competence, experience and independence to form their own position, is able to make objective and fair judgments that are independent of the influence of the Company's executive bodies, certain groups of shareholders or other interested parties. It should be borne in mind, however, that in ordinary circumstances a candidate (elected member of the Board of Directors), who is associated with the Company, its significant shareholder, significant counterparty or a competitor, or is associated with the state, can not be regarded as an independent candidate.	1. During the reporting period, all independent Board members met all the independence criteria set out in recommendations 102-107 of the Code, or were recognized as independent by the decision of the Board of Directors.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.4.2	The candidates to members of the Board of Directors are evaluated for compliance with the independence criteria; independent directors are also regularly evaluated for compliance with the independence criteria. During this evaluation, the content should prevail over the form.	1. In the reporting period, the Board of Directors (or the Board's Nominating Committee) formed an opinion of each candidate's independence and submitted an appropriate conclusion to shareholders. 2. During the reporting period, the Board of Directors (or the Board's Nominating Committee) at least one time evaluated the independence of the current Board members; they are indicated in the Annual Report as independent directors. 3. The Company has procedures in place which define the necessary actions for a Board member to take in case they lose the independent status, including the obligation to inform the Board of this fact in due time.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.4.3	At least one third of the elected members of the Board are independent directors.	1. At least one third of members of the Board are independent directors.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.4.4	Independent directors play a key role in preventing internal conflicts in the Company and in the Company’s execution of material corporate actions.	1. Independent directors (with no conflict of interest) give a preliminary evaluation of material corporate actions related to a possible conflict of interest; this evaluation is submitted to the Board of Directors.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.5	The Chairman of the Board of Directors promotes the most efficient implementation of the functions assigned to the Board of Directors.			
2.5.1.	An independent director is elected Chairman of the Board of Directors, or a Senior Independent Director is chosen from among the elected Independent Directors, who coordinates the activities of independent directors and carries out interaction with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director, or a Senior Independent Director chosen from among independent directors. 2. The role, rights and duties of the Board Chairman (and senior independent director, if any) are duly defined in the internal corporate documents.	☐ Compliance ensured ✓ Partial compliance ☐ Non-compliance	1. Non-compliance A member of the Board of Directors, who made a significant contribution to the development of the Company and has the most experience, professional competence and authority among shareholders, members of management bodies and employees of the Company was unanimously elected Chairman of the Board of Directors. Independent Directors, who make up the majority of members of the Company’s Board, play a key role in the Board’s activities; each of them fully enjoys an opportunity to have face-to-face communication with the Chairman of the Board of Directors. The Company believes that this way it has achieved the optimal structure of the Board of Directors, contributing to the efficient work of the body. The Company is monitoring the situation and will take measures to correct it if necessary. 2. Compliance ensured

2.5.2.	Chairman of the Board instates constructive atmosphere at meetings, ensures open discussions on the agenda items and monitors the implementation of resolutions passed by the Board of Directors.	1. The efficiency of Chairman of the Board's performance was evaluated during the evaluation of the Board's performance in the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.5.3.	Chairman of the Board takes reasonable measures to ensure timely submittal of information required by the Board members for taking decisions on the agenda items.	1. The obligation of Chairman of the Board to take measures to ensure timely submittal of materials to the Board members, which are required for taking decisions on the agenda items, is set out in the Company's internal documents.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.6	Members of the Board act reasonably and in good faith in the interests of the Company and its shareholders, based on sufficient information, with due diligence and care.			
2.6.1.	Members of the Board take decisions taking into account all available information, with no conflict of interest, on the condition of equal treatment of the Company's shareholders, within the normal business risk.	1. The Company's internal documents state that a Board member must duly notify the Board of Directors if a conflict of interest arises pertaining to any agenda item of the Board meeting or a Board committee meeting, before the start of discussions on the respective agenda item. 2. Internal documents of the Company state that a Board member must refrain from voting on any item they have a conflict of interest. 3. There is a procedure in place in the Company, which entitles the Board of Directors to receive professional consultations on items within their area of expertise at the Company's expense.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	1.
2.6.2.	The rights and obligations of the Board members are clearly worded and stated in the Company's internal documents.	1. There is a published document in effect in the Company, which clearly defines the Board members' rights and obligations.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.6.3.	The Board members have enough time to perform their duties.	1. Individual presence at the meetings of the Board and committee meeting, as well as the time dedicated to preparations for such meetings, were taken into consideration during the Board evaluation in the reporting period. 2. According to the Company's internal documents, members of the Board must notify the Board of Directors of their intention to enter management Bodies of other organizations (except the controlled and affiliated companies) and of the fact of such an appointment.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.6.4.	All members of the Board have equal access to the documents and information of the Company. Newly elected members of the Board promptly receive sufficient information on the Company and the Board of Directors' activities.	1. In accordance with the Company's internal documents, members of the Board of Directors have the right to access documents and make inquiries regarding the Company and its companies, while the Company's executive bodies shall provide relevant information and documents. 2. The Company has a formal induction procedure for newly elected members of the Board.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.7	Meetings of the Board of Directors, preparation for them and attendance by the Board members ensure efficient performance of the Board of Directors.			
2.7.1.	Meetings of the Board of Directors are conducted on an ad hoc basis, taking into account the scope of activities and tasks, which the Company is facing at a certain period of time.	1. The Board of Directors had at least six meetings during the reporting year.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.7.2.	Internal documents of the Company set the procedure for preparation and holding of the Board meetings allowing the Board members the opportunity to be properly prepared.	1. The Company has an approved internal document in place, which sets the procedure for preparations and holding of the Board meetings and, among others, states that the notice of the meeting should be made, as a rule, at least 5 days in advance.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.7.3.	The format of the Board meeting is determined by the degree of importance of the agenda items. The most important issues are resolved at meetings held in presence.	1. The Charter or an internal document of the Company requires that the most significant issues (according to the list specifies in recommendation 168 of the Code) should be considered at Board meetings held in presence.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.7.4.	Resolutions on the most important issues of Company's business are passed at the Board meetings by qualified majority or by a majority of votes of all the elected members of the Board of Directors.	1.The Company's Charter stipulates that the resolutions on the most important issues listed in recommendation 170 of the Code are to be passed at the Board meetings by qualified majority, at least 75% of votes, or by a simple majority of votes of all the elected members of the Board of Directors.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	In accordance with the Charter, resolutions on most of the issues that are in the competence of the Board of Directors are made by open voting of the members of the Board of Directors participating in the meeting with a simple majority. Exceptions are made for the decisions which have to be made unanimously by all members of the Board of Directors without regard to retired members of the Board of Directors, in accordance with the legislation Considering the high attendance of meetings by members of the Company's Board of Directors and preliminary study of the most important issues by independent directors within the scope of the activities of the Board Committees, the maximum consideration of the opinions of all members of the Board of Directors is ensured.

2.8	The Board of Directors sets up committees for pre-review of the most important issues of the Company's activity.			
2.8.1	The Audit Committee consisting of independent directors is set up for the pre-view of issues related to the control over the company's financial and economic activities.	1. The Board of Directors has set up the Audit Committee consisting only of independent directors. 2. The Company's internal documents define the tasks for the Audit Committee, including, among others, the tasks listed in recommendation 172 of the Code. 3. At least one member of the Audit Committee who is an independent director has experience in and knowledge about the compilation, analysis, evaluation and audit of accounting (financial) statements. 4. Meetings of the Audit Committee were held at least once per quarter during the reporting period.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	1. Partial compliance When the Board of Directors formed the Audit Committee, it was guided by the Board member's professional background, special knowledge and skills in the preparation, analysis, evaluation and audit of accounting (financial) statements, which would enable them to make a significant contribution to the work of the Committee and to improve the Committee decision-making, in addition to being an independent Director. In this way, the necessary expertise of the Audit Committee was achieved. A key role in the work of the Audit Committee is assigned to the independent directors, who constitute the majority of members of the Committee, including the Chairman of the Committee. This structure of the Committee in the opinion of the Company is optimal. The Company is monitoring the situation and will take measures to correct the structure if necessary. 2. Compliance ensured 3. Compliance ensured 4. Compliance ensured

2.8.2	For the pre-view of issues related to the development of an efficient and transparent remuneration practice, a Remuneration Committee has been set up which consists of independent directors and is chaired by an independent director who is not the Board Chairman.	1. The Board of Directors has set up a Remuneration Committee, which consists of independent directors only. 2. The Chairman of the Remuneration Committee is an independent director who is not Chairman of the Board. 3. The Company's internal documents define the tasks of the Remuneration Committee, including, among others, the tasks listed in recommendation 180 of the Code.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	1. Partial compliance When the Board of Directors formed the Human Resources, Remunerations and Social Policy Committee, it was guided by the Board member's professional background, special knowledge and skills, which would enable them to make a significant contribution to the work of the Committee and to improve the Committee decision-making, in addition to being an independent Director. In this way, the necessary expertise of the Committee was achieved, with most members of the Committee being independent directors, including its Chairman who play the key role in the Committee's work. This structure of the Committee in the opinion of the Company is optimal. The Company is monitoring the situation and will take measures to correct the structure if necessary. 2. Compliance ensured 3. Compliance ensured

2.8.3	For the pre-review of issues related to human resources planning (succession planning), occupational structure and efficient performance of the Board of Directors, a Nomination (appointments, staffing) Committee has been set up which mostly consists of independent directors.	1. The Board of Directors has set up a Nomination Committee (alternatively, another committee performs its tasks listed in recommendation 186 of the Code) which mostly consists of independent directors. 2. The Company's internal documents define the tasks of the Nomination Committee (or another committee performing similar tasks), including, among others, the tasks listed in recommendation 186 of the Code.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.8.4	Considering the scope of activities and risk level, the Board of Directors has made sure that the composition of its committees is fully in line with the Company's business objectives. Additional committees have either been formed or deemed unnecessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, and others).	1. During the reporting period, the Board of Directors has considered the compliance of its committees' composition with the goals of the Board and objectives of the Company. Additional committees have either been formed or deemed unnecessary.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.8.5	The committees are composed in such a way as to enable comprehensive examination of issues under consideration based on various opinions.	1. Committees of the Board are chaired by independent directors. 2. The company's internal documents (polices) contain provisions stating that non-members of the audit committee, nomination committee and remuneration committee may only attend their meetings when invited by the respective committee's chair.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	1. Partial compliance Pursuant to the recommendations of the Corporate Governance Code, the Audit Committee and the HR, Remunerations and Social Policy Committee of the Company are chaired by independent directors. Besides the Audit Committee and the HR, Remunerations and Social Policy Committee, formed in accordance with the Corporate Governance Code as a matter of priority, the Board of Directors has formed a Strategic Planning Committee that contributes to the Company's long-term efficiency. 2. Compliance ensured
2.8.6	Committee chairs regularly inform the Board of Directors and its Chairman of their respective Committees' performance.	1. Within the reporting period the chairs of the Committees regularly reported on their performance to the Board of Directors.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

2.9	The Board of Directors ensures that the performance of the Board, its committees and members is evaluated.			
2.9.1	The evaluation of the Board of Directors is designed to determine the efficiency of the Board's, its Committees' and members' performance, correspondence of their performance to the development needs of the Company, step up the Board's activities and identify the areas for potential improvement.	1. Self-evaluation or external evaluation of the Board's performance was held within the reporting period; it included evaluation of the Committees' performance, individual members of the Board and the Board of Directors as a whole. 2. Results of self-assessment or external assessment of the Board of Directors made within the reporting period have been reviewed at the Board of Directors' meeting in praesentia.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
2.9.2	Assessment of performance of the Board of Directors, committees and Board members is made on a regular basis minimum once a year. For independent quality assessment of performance of the Board of Directors minimum once in three years an external company (consultant) is involved.	1. Independent performance evaluation of the Board of Directors was carried out at least once within the last three reporting periods by an independent auditor (consultant).	☐ Compliance ensured ☐ Partial compliance ✓ Non-compliance	Within the framework of the formalized procedure, in January 2018 a performance evaluation (self-evaluation) of the Company's Board of Directors was carried out. The results of the Board's performance evaluation and recommendations for further improvement of the activities of the Board of Directors, its Committees and individual members were considered at the meeting of the Board of Directors held in person in March 2018. The issue of engaging an external consultant for the Board's performance evaluation is on the agenda of the Human Resources, Remunerations and Social Policy Committee for 2019.

3.1	The Corporate Secretary of the Company ensures efficient day-to-day interaction with shareholders, coordinates the Company's activities aimed at the protection of shareholders' rights and interests, and supports efficient operation of the Board of Directors.			
3.1.1.	The Corporate Secretary has sufficient knowledge, experience and qualification to perform imposed obligations, impeccable reputation and credibility with shareholders.	1. The Company has adopted and disclosed an internal document: Regulations on the Corporate Secretary. 2. There is a biography of a corporate secretary with the same level of detail as for the Board members and the company's executive management, at the company's Internet site and in the Annual Report.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
3.1.2.	The Corporate Secretary has sufficient independence from the Company's executive bodies and has the required authority and resources to execute the tasks assigned to him.	1. The Board of Directors approves the appointment, dismissal from office and additional remuneration of the Corporate Secretary.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

4.1	Level of remuneration paid by the Company is sufficient to attract, motivate and retain the persons with required expertise and qualification. Remuneration to the Board members, executive bodies and other key executives of the company shall be paid according to the remuneration policy adopted in the Company.			
4.1.1	Level of remuneration paid by the Company to the Board members, executive bodies and other key executives is sufficient to motivate them for efficient performance; it enables the Company to attract and retain competent and qualified professionals. At the same time the company avoids to have a higher than necessary remuneration level as well as unreasonably large gap between remuneration of the persons mentioned above and the company employees.	1. The Company has adopted an internal document (internal documents) – a policy (policies) on remuneration of the Board members, members of executive bodies and other key executives, which expressly establishes approaches to remuneration paid to these persons.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
4.1.2	The Company's remuneration policy is developed by the Remuneration Committee and is approved by the Board of Directors. The Board of Directors with the assistance of the Remunerations Committee supervises incorporation and implementation of the remuneration policy in the Company, and if required - revises and amends it.	1. Within the reporting period the Remunerations Committee has reviewed the remuneration policy (policies) and practices and, if it was required, gave respective recommendations to the Board of Directors.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

4.1.3	The Company's remuneration policy contains transparent mechanisms for determining the remuneration of the Board members, members of executive bodies and other key executives of the Company, and regulates all types of payments, benefits and privileges granted to the these persons.	1. The Company's remuneration policy (policies) contains (contain) transparent mechanisms for determining the remuneration of the Board members, members of executive bodies and other key executives of the Company; and regulates (regulate) all types of payments, benefits and privileges granted to the these persons.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
4.1.4	The Company establishes the policy of reimbursement of expenses (compensation), specifying the list of reimbursable expenses and the level of service to which Board members, executive bodies and other key executives of the Company are entitled. This policy can be a part of the Company's remuneration policy.	1. Remuneration policy (policies) or other internal documents of the Company establish the rules of reimbursement of the Board members' expenses, members of executive bodies and other key executives of the Company.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

4.2	System of remuneration of members of the Board of Directors aligns the financial interests of directors with long-term financial interests of shareholders.			
4.2.1	The Company pays fixed annual remuneration to the Board members. The Company does not pay remuneration for participation in individual meetings of the Board of Directors or Committees of the Board. The Company does not use any forms of short-term incentive and additional material incentives for members of the Board of Directors.	1. Fixed annual remuneration was a sole form of monetary remuneration to the Board members for their work on the Board of Directors during the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
4.2.2	Long-term ownership of the Company's shares is most conducive to bringing the financial interests of the Board members closer together with the long-term interests of shareholders. At the same time, the Company does not stipulate the rights to sell shares by achieving certain performance indicators, and members of the Board of Directors do not participate in option programmes.	1. If the Company's internal document (documents) – policy (policies) on remuneration provides for the ownership of the Company's shares by the Board members, clear explicit rules aimed at encouraging long-term ownership of the Company's shares by the Board members should be introduced and disclosed.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

4.2.3	The Company does not provide for additional payments or compensations in the event of early termination of the Board members' appointment in connection with the transfer of control over the Company or other circumstances.	1. The Company does not provide for additional payments or compensations in the event of early termination of the Board members' appointment in connection with the transfer of control over the Company or other circumstances.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
4.3	The Company's Remuneration system regarding members of executive bodies and other key executives provides for a correspondence between the amount of remuneration and the Company's performance and personal contribution to achieving this performance.			
4.3.1	Remuneration of members of executive bodies and other key executives of the Company is determined in such a way as to ensure a reasonable and justified correspondence between the fixed part of remuneration and the variable part of remuneration depending on the Company's performance and personal (individual) contribution of the employee to the final result.	1. Within the reporting period annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of members of executive bodies and other key executives of the Company 2. During the latest evaluation of the Company's remuneration system regarding members of executive bodies and other key executives, the Board of Directors (Remuneration Committee) has made sure that efficient ratio of the fixed part and the variable part of remuneration is applied in the Company. 3. The Company provides for a procedure that ensures that the Company's bonuses that have been illegally received by members of executive bodies and other key executives of the Company are returned to the Company.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	1. Compliance ensured 2. Compliance ensured 3. Non-compliance The Company uses a clear mechanism for paying bonuses to members of executive bodies and other senior executives. The participation of the Board of Directors and the Human Resources, Remunerations and Social Policy Committee in the approval of the annual bonus to members of the executive bodies makes it impossible for unjustified payments to take place. The Company believes that this system eliminates the need for an additional procedure for the return of bonuses. The Company is monitoring the mechanism of payment of bonuses and will take measures to correct it if necessary.

4.3.2	The Company has implemented a long-term incentive programme for members of executive bodies and other key executives of the Company using the Company's shares (options or other derivative financial instruments based on the Company's shares).	1. The Company has implemented a long-term incentive programme for members of executive bodies and other key executives of the Company using the Company's shares (financial instruments based on the Company's shares). 2. The long-term incentive programme for members of executive bodies and other key executives of the Company provides for the right to sell the shares and other financial instruments not earlier than three years from the moment of their granting. In this case the right to sell them depends on the achievement of certain performance indicators of the Company	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	In conditions when significantly changing market prices have a determining influence on the share price, a long-term incentive programme using the Company's shares has been recognized as ineffective and is not used in the Company. The Company has adopted a long-term incentive programme for members of executive bodies and other key executives of the Company, which does not provide for the use of the Company's shares (financial instruments based on the Company's shares).
4.3.3	The amount of compensation (golden parachute) paid by the Company to members of executive bodies or other key executives in case of their early termination initiated by the Company and with no fraudulent actions on their part, does not exceed the two-fold amount of the fixed part of their annual remuneration.	1. The amount of compensation (golden parachute) paid by the Company to members of executive bodies or other key executives in case of their early termination initiated by the Company and with no fraudulent actions on their part, did not exceed the two-fold amount of the fixed part of their annual remuneration in the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

5.1	The Company has an efficiently functioning risk management and internal control system in place, aimed at providing reasonable assurance that the Company will achieve its targets.			
5.1.1	The Board of Directors defines the principles and approaches to the Company’s risk management and internal control system.	1. The Company’s internal documents/respective policy approved by the Board of Directors explicitly defines the functions of the Company’s various management Bodies and subdivisions in the risk management and internal control system.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
5.1.2	The Company's executive bodies ensure that an efficiently functioning risk management and internal control system is established and maintained in the Company.	1. The Company's executive bodies ensured that risk management and internal control functions and authority are well distributed between the managers (heads) of subdivisions reporting to them.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

5.1.3	The Company's risk management and internal control system ensures objective, fair and clear understanding of the Company's current state and prospects; integrity and transparency of the Company's statements; and that the risks assumed by the Company are reasonable and acceptable.	1. The Company has adopted an Anti-corruption policy. 2. There is a procedure in place in the Company aimed at informing the Board of Directors or the Board's Audit Committee on the facts of violation of legislation, the Company's internal procedures, and ethics code.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
5.1.4	The Company's Board of Directors takes the necessary measures to ensure that the Company's risk management and internal control system functions efficiently and complies with the principles and approaches determined by the Board of Directors.	1. During the reporting period, the Board of Directors or the Board's Audit Committee evaluated the efficiency of the Company's risk management and internal control system. Outcomes of this evaluation are included in the Company's Annual Report.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

5.2	The Company arranges internal audit for systematic independent evaluation of reliability and efficiency of the risk management and internal control system and corporate governance practice.			
5.2.1.	A separate structural subdivision has been set up in the Company for internal audit or an independent external auditor has been engaged. Functional and administrative jurisdictions of the Internal Audit Department are separated. The Internal Audit Department functionally reports to the Board of Directors.	1. The Company has set up a separate structural subdivision for internal audit, which functionally reports to the Audit Committee and the Company's Board of Directors; or engaged an independent auditor under the same accountability principle.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
5.2.2.	The Internal Audit Department evaluates the efficiency of the internal control, risk management and corporate governance systems. The Company is guided by generally accepted internal audit standards.	1. During the reporting period, the internal audit evaluated the efficiency of the internal control and risk management system. 2. The Company is guided by generally accepted approaches to internal control and risk management.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

6.1	The Company and its activity are transparent for its shareholders, investors and other stakeholders.			
6.1.1	The Company has developed and implemented an information policy, which ensures efficient interaction between the Company, its shareholders, investors and other stakeholders information-wise.	1. The Company's Board of Directors has approved the Company's Information Policy developed with regard to recommendations of the Code. 2. The Board of Directors (or one of its Committees) has reviewed the issues related to information policy observance at least one time within the reporting period.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
6.1.2	The Company discloses information on its corporate governance system and practices, including detailed information on observance of the principles and recommendations of the Code.	1. The Company discloses information on its corporate governance system and on the general principles of corporate governance used in the Company, including on the Company's Internet website. 2. The Company discloses information on the composition of its executive bodies and the Board of Directors, the independence of the Board members and their membership in the Board Committees (in accordance with the definition set out in the Code). 3. If there is a person controlling the Company, the Company publishes a memorandum of the controlling person regarding their plans with regard to the Company's corporate governance.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	1. Compliance ensured 2. Compliance ensured 3. Non-compliance NLMK does not have information on availability of a memorandum, which contains plans in regard to the Company of the person controlling it. If the Company receives from the controlling person statements regarding the Company's corporate governance, the Company undertakes to publish them on its website.

6.2	The Company discloses complete, valid and reliable information on the Company in due time to enable the Company's shareholders and investors to make informed decisions.			
6.2.1	The Company discloses information guided by the principles of regularity, consistency and efficiency as well as availability, reliability, completeness and comparability of the information disclosed.	1. The Information Policy of the Company defines approaches and criteria of determining information that can significantly affect the Company's valuation and the value of its securities; it also defines procedures ensuring timely disclosure of such information. 2. If the Company's securities circulate on foreign regulated markets the disclosure of significant information in the Russian Federation and in these markets is done simultaneously and similarly during the reporting year. 3. If foreign shareholders own a significant quantity of the Company's shares, during the reporting year the information was disclosed not only in Russian but also in one of the most common foreign languages.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
6.2.2	The Company avoids a box-ticking approach while disclosing information; it discloses significant information on its activities even if law does not require such disclosure.	1. During the reporting year, the Company disclosed its annual and semi-annual IFRS financial statements. The Annual Report of the Company for the reporting year includes annual IFRS financial statements and an auditor's opinion. 2. The Company discloses information on the structure of the Company's equity in full in line with Recommendation 290 of the Code in its annual statement and on the Company's Internet website	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

6.2.3	The annual report as one of the most important tools of interaction with shareholders and other stakeholders contains information, which enables evaluation of the Company's performance over a year.	1. The Company's Annual Report contains information on the key aspects of the Company's operations and its financial performance. 2. The Company's Annual Report contains information on environmental and social aspects of the Company's activities	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
6.3	The Company presents information and documents requested by shareholders in line with the principle of equal and easy access.			
6.3.1	Information and documents requested by shareholders are disclosed in line with the principle of equal and easy access.	1. The Company's Information Policy determines an easy procedure of giving access to information for shareholders including the information on legal entities controlled by the Company on shareholder's request.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

6.3.2	When providing information to shareholders the Company ensures a reasonable balance between the interests of certain shareholders and the interests of the Company itself, which is interested in preserving important confidential information confidentiality, which may have significant influence on competitiveness of the Company.	1. In the reporting year, the Company did not refuse to satisfy the shareholders' requests to provide information or such refusals were justified. 2. In cases defined by the Information Policy of the Company, shareholders are warned about the confidential nature of the information and undertake to keep it confidential.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
7.1	Actions that significantly affect or can significantly affect the structure of the share capital and the financial status of the Company and, accordingly, the shareholders' standing (i.e. material corporate events) are carried out on fair terms ensuring observance of the rights and interests of shareholders and other interested parties.			
7.1.1	The material corporate events include restructuring of the Company; acquisition of 30 and over percent of the Company's voting shares (takeover); material transactions effected by the Company; increase or reduction of the Company's authorized capital; listing and delisting of the Company's shares; other actions which may cause a significant change of the shareholders' rights or violation of their interests. The Company's Charter lists (specifies the criteria of) transactions and other actions that are recognized as material corporate events and attributed to the area of expertise of the Company's Board of Directors.	1. The Company's Charter lists transactions and other actions that are recognized as material corporate events and the criteria to determine them. Decision-making regarding material corporate events lies in the area of expertise of the Company's Board of Directors. In cases when the decision on performing such corporate actions is statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to shareholders. 2. The Company's Charter lists the following actions among others as material corporate events: restructuring of the Company; acquisition of 30 and over percent of the Company's voting shares (takeover); increase or reduction of the Company's authorized capital; listing and delisting of the Company's shares.	☐ Compliance ensured ✓ Partial compliance ☐ Non-compliance	The actions, acknowledged by the Corporate Governance Code as material corporate events, lie in the area of expertise of the Company's Board of Directors. In cases when such corporate actions are statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to shareholders. The Company evaluates the advisability of including the term "material corporate events" in internal documents.

7.1.2	The Board of Directors plays a key role in decision-making or in preparing recommendations regarding the material corporate events; the Board of Directors relies on the opinion of the Company's independent directors.	1. The Company has a procedure ensuring that the independent directors declare their opinion on material corporate events before they are approved.	✓ Compliance ensured ☐ Partial compliance ☐ Non-compliance	
7.1.3	In case of material corporate events that affect the rights and legitimate interests of shareholders, equal conditions are provided to all the Company's shareholders; if the procedures set out in the legislation and designed to protect the shareholders' rights are not sufficient, additional measures are taken to protect the rights and legitimate interests of the Company's shareholders. In this case, the Company is guided not only by compliance with formal statutory requirements but also by principles of the corporate governance outlined in the Code.	1. The Company's Charter, taking into account the specifics of the Company's activities, establishes the minimal criteria for the attribution of the Company's transactions to material corporate events, which are lower than those statutorily required. 2. During the reporting period all the material corporate actions underwent an approval procedure prior to their implementation.	☐ Compliance ensured ✓ Partial compliance ☐ Non-compliance	1. Partial compliance Decisions on transactions, which the Corporate Governance Code recognizes as material corporate events, fall within the remit of the Company's Board of Directors. In cases where, under the legislation, decisions on such corporate transactions are directly attributed to the competence of the General Meeting of Shareholders, the Board of Directors provides shareholders with appropriate recommendations using the statutorily required criteria for determining the materiality of transactions. 2. In the opinion of the Company, no further measures are required at present to protect the rights and legitimate interests of shareholders. The Company is monitoring the system for protecting the rights and legitimate interests of shareholders and will take measures to correct it if necessary. 2. Compliance ensured

7.2	The Company provides for such a procedure for material corporate events that enables shareholders to receive full information thereof in due time; to influence such events and guarantees observance and proper level of protection of their rights when such events take place.			
7.2.1	Information on material corporate events is disclosed with an explanation of the grounds, conditions and consequences of such events.	1. During the reporting period, the Company disclosed information on its material corporate events in a timely and detailed manner including the grounds and timing of such events.	☑ Compliance ensured ☐ Partial compliance ☐ Non-compliance	

7.2.2	Rules and procedures related to the Company's performance of material corporate actions are specified in the Company's internal documents.	1. The Company's internal documents provide for a procedure for engaging an independent appraiser to estimate the value of property to be disposed of or acquired as a material transaction or as an interested party transaction. 2. The Company's internal documents provide for a procedure for engaging an independent appraiser to estimate the value of acquisition and repurchase of its shares. 3. The Company's internal documents provide for an expanded list of grounds on which the Board members and other parties are recognized as an interested party in the Company's transactions under the Russian legislation.	☐ Compliance ensured ☑ Partial compliance ☐ Non-compliance	1. Partial compliance The Company engages an independent appraiser in cases set out in the legislation of the Russian Federation. 2. Compliance ensured 3. Partial compliance Before the conclusion of any transaction in which there can be an interest, the Company evaluates all possible circumstances that could lead to the existence of an interest, including those not provided for by law. This approach has proved to be effective in practice, and the Company does not deem it appropriate to provide an expanded list of grounds on which the Board members and other parties are recognized as an interested party in the Company's internal documents. The Company is monitoring the system and will take measures to correct it if necessary.

Report on dividends declared

Year	Period	Dividend per share, RUB.	Declaration date	Amount, RUB.	As a % of Net Income*	Date of payment	Paid** as at 31.12.2018	
							RUB.	As a % from declared
2018	9 month	6,04	21.12.2018	36 199 092 529,60	83	from 10.01.2019 to 13.02.2019 (including)	36 191 049 152,20***	99,98***
2018	6 month	5,24	28.09.2018	31 404 510 737,60	82	from 13.10.2018 to 19.11.2018 (including)	31 366 084 855,79	99,88
2018	3 month	5,73	08.06.2018	34 341 192 085,20	111	from 21.06.2018 to 25.07.2018 (including)	34 301 558 961,64	99,88
2017	year	14,04 (Taking into account paid interim dividends RUB 3,36 per share to be paid)	08.06.2018	84 144 910 449,60 (Taking into account paid interim dividends RUB 20 137 243 526,40 to be paid)	98	from 21.06.2018 to 25.07.2018 (including)	84 048 118 466,99	99,88
2017	9 month	5,13	22.12.2017	30 745 255 741,20	147	from 10.01.2018 to 13.02.2018 (including)	30 710 686 414,22	99,89
2017	6 month	3,20	29.09.2017	19 178 327 168	96	from 13.10.2017 to 17.11.2017 (включительно)	19 156 619 840,59	99,89
2017	3 month	2,35	02.06.2017	14 084 084 014	77	from 15.06.2017 to 19.07.2017 (including)	14 066 792 203,51	99,88
2016	year	9,22 (Taking into account paid interim dividends RUB 3,38 per share to be paid)	02.06.2017	55 257 555 152,80 (Taking into account paid interim dividends RUB 20 257 108 071,20 to be paid.)	98	from 15.06.2017 to 19.07.2017 (including)	55 193 828 646,37	99,88
2016	9 month	3,63	23.12.2016	21 755 414 881,20	93	from 10.01.2017 to 13.02.2017 (including)	21 729 982 929,32	99,88

2016	6 month	1,08	30.09.2016	6 472 685 419,20	55	from 13.10.2016 to 17.11.2016 (including)	6 465 117 545,81	99,88
2016	3 month	1,13	03.06.2016	6 772 346 781,20	178	from 15.06.2016 to 19.07.2016 (including)	6 764 360 024,41	99,88
2015	year	6,95 (Taking into account paid interim dividends RUB 2,43 руб per share to be paid)	03.06.2016	41 652 929 318 (Taking into account paid interim dividends RUB 14 563 542 193,20 to be paid)	67	from 15.06.2016 to 19.07.2016 (включительно)	41 604 103 401,72	99,88
2015	9 month	1,95	21.12.2015	11 686 793 118	40	from 09.01.2016 to 12.02.2016 (including)	11 673 042 713,68	99,88
2015	6 month	0,93	30.09.2015	5 573 701 333,20	50	from 13.10.2015 to 17.11.2015 (ncluding)	5 567 172 711,62	99,88
2015	3 month	1,64	05.06.2015	9 828 892 673,60	56	from 17.06.2015 to 21.07.2015 (including)	9 817 350 062,10	99,88
2014	year	2,44 (Taking into account paid interim dividends RUB 1,56 per share to be paid)	05.06.2015	14 623 474 465,60 (Taking into account paid interim dividends RUB 9 349 434 494,40 to be paid)	36	from 17.06.2015 to 21.07.2015 (including)	14 606 429 478,91	99,88
2014	6 month	0,88	30.09.2014	5 274 039 971,20	40	from 12.10.2014 to 18.11.2014 (including)	5 267 886 094,32	99,88
2013	year	0,67	06.06.2014	4 015 462 250,8	61	from 18.06.2014 to 22.07.2014 (including)	4 010 805 407,24	99,88

* - the ratio "Dividends to net profit,%" is calculated as Dividends per share in rubles multiplied by the number of shares (5,993,227,240) divided by the dollar rate on the day of the announcement divided by the net profit attributable to NLMK shareholders under IFRS multiplied by 100%;

** - the obligation to pay dividends on shares was fulfilled by PJSC "NLMK" in the terms established by the legislation of the Russian Federation. The reason for paying dividends is not in full amount due to incorrect payment details of shareholders;

*** - as at December 31, 2018 dividends payment deadline has not expired. The data is related to the expiry date of the dividend payout period the 9 months of 2018 - deadline expiring – February 13, 2019.

FINANCIAL STATEMENTS

Part 1 – 2018 CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Part 2 – 2018 FINANCIAL STATEMENTS OF PAO “NLMK” (RAS)

[GRI 102-56]

NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

CONTENTS

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 2018, 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 2018;
  - profit or loss for the year ended 31 December 2018;
  - comprehensive income for the year ended 31 December 2018;
  - changes in equity for the year ended 31 December 2018;
  - cash flows for the year ended 31 December 2018; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

- Overall Group materiality: 123 million US Dollars (USD), which represents 1% of the Group's consolidated revenue

- We conducted audit work at 11 components (entities or business activities, which prepare financial information that is included in the consolidated financial statements) in five countries
- The Group engagement team visited the Group companies in the Russian Federation, Switzerland and the Netherlands and also the joint venture located in Belgium
- Our audit scope covered 92% of the Group's consolidated revenues and 90% of the Group's consolidated total assets

- Key Audit Matter 1 - Management assessment of the carrying value of goodwill, intangible assets and property, plant and equipment
- Key Audit Matter 2 – 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. 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 123 million (2017: USD 100 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 current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
1. Management's assessment of the carrying value of goodwill, intangible assets and property, plant and equipment *Refer to Notes 8 and 9 to the consolidated financial statements*	
The Group management performed an analysis of existence of indicators of impairment of the Group's property, plant and equipment (PP&E), intangible assets and goodwill as well as indicators of potential reversal of an impairment loss recognised in prior periods as of 30 September 2018 and updated it as of 31 December 2018. This analysis revealed: • high volatility on the market of certain finished products and raw materials; • continuing recovery of the US economy followed by strong prices on steel products; and • price increase for long products. The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment. Indication that an impairment loss	We obtained, understood and evaluated management's impairment models. We involved our valuation experts to assist in the evaluation of the methodology, mathematical accuracy and assumptions used in the models. Specific work performed over the impairment test included: • comparing the key assumptions used within the impairment models to the historic performance of the respective CGUs, approved estimates, and other supporting calculations; • benchmarking the key assumptions used within the impairment models, including price forecasts, inflation and discount rates, against external expert valuations, macroeconomic and industry forecasts, which corroborated their validity;

Key audit matter	How our audit addressed the Key audit matter
recognised in prior periods may no longer exist or may have decreased has not been identified. The recoverable amount of PP&E, intangible assets and goodwill for each Group's CGU subject to testing was calculated by management as of 30 September 2018 and updated based on the actual performance of these CGUs as of 31 December 2018. 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 2018. We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.	• performing a sensitivity analysis over the key assumptions in order to assess their potential impact on impairment results and ranges of possible outcomes of the recoverable amounts; • examining management's assessment of the degree to which steel prices and sales volumes would need to reduce and the discount rates would need to increase, in isolation from other changes in assumptions, before an impairment arises on these CGUs; • validating the key assumptions used in the impairment models also as of 31 December 2018; • 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(d) to the Consolidated Financial Statements*	
NBH is a joint venture between the Group and Societe Wallonne de Gestion et de Participations S.A. (hereinafter – "SOGEPA"). In December 2018, the Group contributed an additional USD 210 million into the share capital of NBH in the form of conversion of a loan previously issued to NBH. The Group management considered that SOGEPA's share in this contribution should not be expensed immediately, but the investment in NBH as a whole should be tested for impairment as of the date of this additional contribution using a discounted cash flow model. Management performed an analysis of the business performance, industry outlook and operational plans. High volatility on the markets of finished goods and raw materials triggered impairment testing of investment in the share capital of NBH. As a result of this testing performed by management, additional impairment loss of USD 87 million was recognized as of 31 December 2018.	Our audit procedures included: 1) agreeing the amount of the Group's additional contribution into the share capital 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, macroeconomic and industry forecasts, which corroborated their validity; • performing sensitivity analysis over key assumptions (for example, weighted average

Key audit matter	How our audit addressed the Key audit matter
We focused on this area as the amount of contribution made in 2018 and the judgement over impairment of the investment in NBH are significant for the consolidated financial statements taken as a whole.	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 the geographic and management structure of the Group, the Group's accounting processes and controls, and the industry in which the Group operates.

The Group's major production facilities are located in the Russian Federation, the USA and Western Europe and the trading company is based in Switzerland. Based on our continuing assessment, we included in our group audit scope the 11 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 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 2018 and the Issuer's Report for the first quarter of 2019, but does not include the consolidated financial statements and our auditor's report thereon. Both of these reports are expected to be made available to us after the date of this auditor's report.

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

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

When we read the Group Annual Report for 2018 and the Issuer's Report for the first quarter of 2019, 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.

7 February 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

(millions of US dollars)

	Note	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Assets				
Current assets				
Cash and cash equivalents	3	1,179	301	610
Short-term financial investments	5	19	1,284	970
Trade and other accounts receivable	6	1,326	1,228	955
Inventories	7	1,816	1,879	1,549
Other current assets		10	19	19
		4,350	**4,711**	**4,103**
Non-current assets				
Long-term financial investments	5	85	2	164
Investments in joint ventures	4	159	205	181
Property, plant and equipment	8	4,798	5,549	5,328
Goodwill	9	224	265	253
Other intangible assets	9	165	164	140
Deferred income tax assets	17	152	84	62
Other non-current assets		11	16	8
		5,594	**6,285**	**6,136**
Total assets		**9,944**	**10,996**	**10,239**
Liabilities and equity				
Current liabilities				
Trade and other accounts payable	10	1,122	1,029	888
Dividends payable		525	537	361
Short-term borrowings	11	398	380	468
Current income tax liability		28	53	12
		2,073	**1,999**	**1,729**
Non-current liabilities				
Long-term borrowings	11	1,677	1,901	1,801
Deferred income tax liability	17	346	417	386
Other long-term liabilities		14	33	13
		2,037	**2,351**	**2,200**
Total liabilities		**4,110**	**4,350**	**3,929**
Equity attributable to Novolipetsk Steel shareholders				
Common stock	12(a)	221	221	221
Additional paid-in capital		10	10	10
Accumulated other comprehensive loss		(6,782)	(5,631)	(5,978)
Retained earnings		12,370	12,029	12,039
		5,819	**6,629**	**6,292**
Non-controlling interests		**15**	**17**	**18**
Total equity		**5,834**	**6,646**	**6,310**
Total liabilities and equity		**9,944**	**10,996**	**10,239**

The consolidated financial statements as set out on pages 11 to 65 were approved by the Group's management and authorised for issue on 7 February 2019.

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue	14	12,046	10,065	7,636
Cost of sales		(7,680)	(6,798)	(5,074)
Gross profit		**4,366**	**3,267**	**2,562**
General and administrative expenses		(375)	(364)	(316)
Selling expenses		(886)	(788)	(699)
Net impairment losses on financial assets		(1)	(7)	(6)
Other operating (expenses)/income, net		(4)	3	16
Taxes other than income tax	16	(88)	(80)	(70)
Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		**3,012**	**2,031**	**1,487**
Loss on disposals of property, plant and equipment		(7)	(1)	(3)
Impairment of non-current assets	4, 8, 9	(4)	(17)	(14)
Share of results of joint ventures	4	(243)	(90)	(61)
Losses on investments, net		(2)	(5)	(4)
Finance income	18	21	29	39
Finance costs	18	(70)	(87)	(105)
Foreign currency exchange gain/(loss), net	19	33	17	(129)
Other expenses, net		(11)	(54)	(38)
Profit before income tax		**2,729**	**1,823**	**1,172**
Income tax expense	17	(486)	(371)	(233)
Profit for the year		**2,243**	**1,452**	**939**
Profit is attributable to:				
Novolipetsk Steel shareholders		**2,238**	**1,450**	**935**
Non-controlling interests		**5**	**2**	**4**
Earnings per share:				
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	13	0.3734	0.2419	0.1560
Weighted-average number of shares outstanding: basic and diluted (in thousands)	12(a)	5,993,227	5,993,227	5,993,227

(millions of US dollars)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit for the year		2,243	1,452	939
Other comprehensive (loss)/income:				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	(1,154)	348	1,013
Total comprehensive income for the year		**1,089**	**1,800**	**1,952**
attributable to:				
Novolipetsk Steel shareholders		1,087	1,797	1,946
Non-controlling interests		2	3	6

(millions of US dollars)

		Attributable to Novolipetsk Steel shareholders					
	Note	**Common stock**	**Additional paid-in capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016		**221**	**10**	**(6,989)**	**11,883**	**12**	**5,137**
Profit for the year		-	-	-	935	4	939
Cumulative translation adjustment	2(b)	-	-	1,011	-	2	1,013
Total comprehensive income		**-**	**-**	**1,011**	**935**	**6**	**1,952**
Dividends to shareholders	12(b)	-	-	-	(779)	-	(779)
Balance at 31 December 2016		**221**	**10**	**(5,978)**	**12,039**	**18**	**6,310**
Profit for the year		-	-	-	1,450	2	1,452
Cumulative translation adjustment	2(b)	-	-	347	-	1	348
Total comprehensive income		**-**	**-**	**347**	**1,450**	**3**	**1,800**
Acquisition of non-controlling interest		-	-	-	-	(1)	(1)
Dividends to shareholders	12(b)	-	-	-	(1,460)	(3)	(1,463)
Balance at 31 December 2017		**221**	**10**	**(5,631)**	**12,029**	**17**	**6,646**
Profit for the year		-	-	-	2,238	5	2,243
Cumulative translation adjustment	2(b)	-	-	(1,151)	-	(3)	(1,154)
Total comprehensive income		**-**	**-**	**(1,151)**	**2,238**	**2**	**1,089**
Acquisition of non-controlling interest		-	-	-	(1)	(3)	(4)
Dividends to shareholders	12(b)	-	-	-	(1,896)	(1)	(1,897)
Balance at 31 December 2018		**221**	**10**	**(6,782)**	**12,370**	**15**	**5,834**

(millions of US dollars)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash flows from operating activities				
Profit for the year		**2,243**	**1,452**	**939**
Adjustments to reconcile profit for the year to net cash provided by operating activities:				
Depreciation and amortisation		577	624	456
Loss on disposals of property, plant and equipment		7	1	3
Losses on investments		2	5	4
Finance income	18	(21)	(29)	(39)
Finance costs	18	70	87	105
Share of results of joint ventures	4	243	90	61
Income tax expense	17	486	371	233
Impairment of non-current assets		4	17	14
Foreign currency exchange (gain)/loss, net	19	(33)	(17)	129
Change in impairment allowance for inventories and credit loss allowance of accounts receivable		1	13	14
Changes in operating assets and liabilities				
(Increase)/decrease in trade and other accounts receivable		(258)	(223)	3
Increase in inventories		(187)	(262)	(201)
Decrease/(increase) in other operating assets		7	-	(9)
Increase in trade and other accounts payable		177	105	244
Cash provided by operations		**3,318**	**2,234**	**1,956**
Income tax paid		(577)	(335)	(257)
Net cash provided by operating activities		**2,741**	**1,899**	**1,699**
Cash flows from investing activities				
Purchases and construction of property, plant and equipment and intangible assets		(680)	(592)	(559)
Proceeds from sale of property, plant and equipment		3	10	9
Purchases of investments and loans given, net		(91)	(44)	(79)
Placement of bank deposits		(305)	(1,264)	(989)
Withdrawal of bank deposits		1,349	1,105	1,261
Interest received		22	28	36
Acquisition of subsidiary, net of cash and cash equivalents acquired		(4)	-	-
Acquisition of non-controlling interest		(4)	(1)	-
Cash received in the course of bankruptcy proceedings		-	-	11
Net cash provided by/(used in) investing activities		**290**	**(758)**	**(310)**
Cash flows from financing activities				
Proceeds from borrowings		470	988	803
Repayment of borrowings		(643)	(1,093)	(1,256)
Interest paid		(56)	(69)	(84)
Dividends paid to Novolipetsk Steel shareholders		(1,888)	(1,283)	(583)
Dividends paid to non-controlling interests		(2)	(2)	-
Net cash used in financing activities		**(2,119)**	**(1,459)**	**(1,120)**
Net increase/(decrease) in cash and cash equivalents		**912**	**(318)**	**269**
Effect of exchange rate changes on cash and cash equivalents		(34)	9	(2)
Cash and cash equivalents at the beginning of the year	3	301	610	343
Cash and cash equivalents at the end of the year	3	**1,179**	**301**	**610**

Supplemental disclosures of cash flow information:

Non-cash investing activities:				
Conversion of debt to equity	4	210	84	139

(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 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 2018, 2017 and 2016, the Parent Company's major shareholder with 84.03% 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 2018	Share at 31 December 2017	Share at 31 December 2016
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	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%

(millions of US dollars)

1 Background (continued)

Among joint ventures the major is:

	Activity	Country of incorporation	Share at 31 December 2018	Share at 31 December 2017	Share at 31 December 2016
NLMK Belgium Holdings S.A.	Holding company*	Belgium	49.00%	51.00%	51.00%

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

2 Basis of preparation of the consolidated financial statements

(a) Basis of preparation

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

(millions of US dollars)

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.

	2018	2017	2016
Russian ruble to US dollar			
For the year ended 31 December	62.7078	58.3529	67.0349
As at 31 December	69.4706	57.6002	60.6569
Russian ruble to Euro			
For the year ended 31 December	73.9546	65.9014	74.2310
As at 31 December	79.4605	68.8668	63.8111

3 Cash and cash equivalents

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Cash			
Russian rubles	44	11	11
US dollars	138	63	89
Euros	318	70	52
Swiss francs	24	-	-
Other currencies	2	4	2
Deposits			
Russian rubles	103	98	49
US dollars	42	19	394
Euros	168	24	1
Hong Kong dollars	309	-	-
Other currencies	5	-	1
Other cash equivalents	26	12	11
	1,179	**301**	**610**

4 Investments in joint ventures

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
NLMK Belgium Holdings S.A. ("NBH")	149	194	171
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	10	11	10
	159	**205**	**181**

(millions of US dollars)

4 Investments in joint ventures (continued)

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

	2018	2017	2016
As at 1 January	**205**	**181**	**118**
Share of net loss	(120)	(61)	(61)
Conversion of debt to equity	210	84	139
Impairment of investments	(87)	-	-
Disposal of 2% stake in NBH	(7)	-	-
Share of change in unrealised profit in inventory	(36)	(29)	(5)
Share of change in other comprehensive income	(2)	-	1
Translation adjustment	(4)	30	(11)
As at 31 December	**159**	**205**	**181**

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

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Current assets	969	940	736
Non-current assets	562	686	670
Total assets	**1,531**	**1,626**	**1,406**
Current liabilities	(684)	(864)	(560)
Non-current liabilities	(673)	(548)	(634)
Total liabilities	**(1,357)**	**(1,412)**	**(1,194)**
Equity	**174**	**214**	**212**

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue	1,837	1,539	1,221
Net loss	(242)	(122)	(120)

NBH cash and cash equivalents as at 31 December 2018, 2017 and 2016 amounted to $1, $26 and $52, respectively.

NBH financial liabilities excluding trade and other accounts payable as at 31 December 2018, 2017 and 2016 amounted to $690, $794 and $671, respectively, and are included in current and non-current liabilities.

(millions of US dollars)

4 Investments in joint ventures (continued)

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

	2018	2017	2016
Net assets as at 1 January	**19**	**29**	**4**
Net loss for the year	(197)	(97)	(111)
Conversion of debt to equity	210	84	139
Acquisition of treasury shares	(5)	-	-
Other comprehensive income	1	-	1
Translation adjustment	5	3	(4)
Net assets as at 31 December	**33**	**19**	**29**
PP&E valuation difference	141	195	183
Adjusted net assets as at 31 December	**174**	**214**	**212**
As at 31 December:			
Share in net assets	85	109	108
Excess of fair value of investment in NBH as at the deconsolidation date	100	104	104
Accumulated share of the other investor in conversion of debt to equity	316	218	177
Accumulated impairment of investments	(318)	(240)	(240)
Share of unrealised profit in inventory	(70)	(34)	(5)
Cumulative translation adjustment	36	37	27
Investments in NBH	**149**	**194**	**171**

The other investor in NBH is SOGEPA, a Belgian state-owned company, controlling the stake of 49.0% as of 31 December 2018, 2017 and 2016.

In December 2018, the Group converted existing loans to NBH into share capital in the amount of $210 (in December 2017: $84; in June 2016: $139).

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

(millions of US dollars)

5 Financial investments

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Short-term financial investments			
Bank deposits (Note 22 (c)), including:			
- Russian rubles	-	6	1
- US dollars	-	1,051	855
- Euros	-	-	42
- Other currencies	5	-	-
Total bank deposits	5	1,057	898
Loans to related parties (Note 23)	14	222	66
Other short-term financial investments	-	5	6
	19	**1,284**	**970**
Long-term financial investments			
Loans to related parties (Note 23)	85	-	164
Bank deposits	-	2	-
	85	2	164
	104	**1,286**	**1,134**

The carrying amounts of financial investments approximate their fair values.

6 Trade and other accounts receivable

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Financial assets			
Trade accounts receivable	1,099	996	693
Credit loss allowance of trade accounts receivable	(21)	(23)	(24)
Other accounts receivable	30	29	25
Credit loss allowance of other accounts receivable	(17)	(20)	(18)
	1,091	982	676
Non-financial assets			
Advances given to suppliers	76	58	54
Allowance for impairment of advances given to suppliers	(3)	(3)	(2)
VAT and other taxes receivable	161	190	225
Accounts receivable from employees	1	1	2
	235	246	279
	1,326	**1,228**	**955**

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

As at 31 December 2018, 2017 and 2016, accounts receivable with a carrying value of $173, $160 and $122, respectively, served as collateral for certain borrowings (Note 11).

(millions of US dollars)

6 Trade and other accounts receivable (continued)

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

	2018	2017	2016
As at 1 January	**(43)**	**(42)**	**(31)**
Credit loss allowance recognised	(8)	(11)	(16)
Accounts receivable written-off	-	4	2
Credit loss allowance reversed	7	6	8
Disposal of subsidiary	-	3	-
Translation adjustment	6	(3)	(5)
As at 31 December	**(38)**	**(43)**	**(42)**

7 Inventories

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Raw materials	859	830	705
Work in process	504	603	460
Finished goods	501	514	443
	1,864	1,947	1,608
Impairment allowance	(48)	(68)	(59)
	1,816	**1,879**	**1,549**

As at 31 December 2018, 2017 and 2016 inventories with a carrying value of $472, $423 and $296, respectively, served as collateral for certain borrowings (Note 11).

Cost of raw materials and acquired semi-finished goods in cost of sales for the years ended 31 December 2018, 2017 and 2016 amounted to $5,521, $4,676 and $3,443, respectively. Cost of fuel and energy resources in cost of sales for the years ended 31 December 2018, 2017 and 2016 amounted to $632, $651 and $552, respectively.

(millions of US dollars)

8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Cost at 1 January 2016	101	1,378	1,687	4,687	219	950	9,022
Accumulated depreciation and impairment	-	(561)	(1,061)	(2,795)	(153)	-	(4,570)
Net book value at 1 January 2016	**101**	**817**	**626**	**1,892**	**66**	**950**	**4,452**
Additions	-	-	-	-	-	540	540
Disposals	-	(1)	(1)	(4)	-	(6)	(12)
Transfers	-	159	118	526	21	(824)	-
Depreciation charge	-	(34)	(46)	(350)	(19)	-	(449)
Translation adjustment	20	156	115	294	14	198	797
Cost at 31 December 2016	121	1,799	2,113	5,994	266	858	11,151
Accumulated depreciation and impairment	-	(702)	(1,301)	(3,636)	(184)	-	(5,823)
Net book value at 31 December 2016	**121**	**1,097**	**812**	**2,358**	**82**	**858**	**5,328**
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**

(millions of US dollars)

8 Property, plant and equipment (continued)

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
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**

The amount of borrowing costs capitalised is $36, $37 and $37 for the years ended 31 December 2018, 2017 and 2016, respectively. The capitalisation rate was 6.5%, 3.7% and 4.1% in 2018, 2017 and 2016, respectively.

(millions of US dollars)

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 2018. High volatility on the market of certain finished products and raw materials triggered impairment assessment of some of the Group's assets, which required the reassessment of the recoverable amounts using the income approach based primarily on Level 3 inputs as at 31 December 2018. Goodwill was also tested for impairment as of the same date. Indication of an impairment loss recognized in prior periods may no longer exists or may have decreased has not been identified. As of 31 December 2018 the Group's management did not reveal any additional impairment indicators or indicators of reversal previously recognized impairment loss. Testing for impairment in the comparative periods was also caused by similar factors and was conducted as of 31 December 2017 and 31 October 2016.

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 cash generating units (further – "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. Sales price is estimated using an average annual growth rate, over the 5-year (31 December 2017: 6-year; 31 October 2016: 7-year) forecast period 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 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 2018 impairment testing showed that recoverable amount of investment (value in use) in NLMK Belgium Holdings S.A. was below its carrying amount by $87.

					Sensitivity, % of change		
CGU	**Asset type**	**Discount rate, %**	**Product types**	**Average sale price*, $ per tonne (FCA)**	**Sales Price**	**Sales volume**	**Discount rate**
NLMK Belgium Holdings S.A.	Investment	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.*

(millions of US dollars)

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 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.

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

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

(millions of US dollars)

8 Property, plant and equipment (continued)

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

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

** Weighted average prices based on the forecast product mix, averaged for the period from November 2016 to 2023.*

(millions of US dollars)

9 Intangible assets

	Goodwill	Mineral rights	Industrial intellectual property	Beneficial lease interest	Total
Cost at 1 January 2016	229	277	9	9	524
Accumulated amortisation and impairment	(14)	(173)	(3)	(1)	(191)
Net book value at 1 January 2016	**215**	**104**	**6**	**8**	**333**
Additions	-	-	11	-	11
Amortisation charge	-	(7)	(5)	-	(12)
Translation adjustment	38	21	2	-	61
Cost at 31 December 2016	267	333	23	9	632
Accumulated amortisation and impairment	(14)	(215)	(9)	(1)	(239)
Net book value at 31 December 2016	**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**

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 $68, $86 and $86 as at 31 December 2018, 2017 and 2016, respectively.

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

(millions of US dollars)

9 Intangible assets (continued)

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

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Russian flat products	146	176	167
NLMK USA	21	21	21
Russian long products	3	3	3
Mining	54	65	62
	224	**265**	**253**

Goodwill impairment testing

The Group tested goodwill for impairment as at 31 December 2018, 31 December 2017 and 31 October 2016. For the purpose of annual impairment testing of goodwill related to CGUs JSC Stoilensky GOK, LLC VIZ-Steel and LLC NLMK Indiana as at 31 December 2018, management decided to use the previous detailed calculations of these CGUs' recoverable amounts as there were no significant changes in the underlying businesses. The recoverable amount has been determined as value in use of the respective assets. For the purpose of this impairment testing, the Group used the same assumptions and estimates as for other assets, as disclosed in Note 8. Impairment testing showed no impairment of goodwill as at 31 December 2018, 31 December 2017 and 31 October 2016.

10 Trade and other accounts payable

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Financial liabilities			
Trade accounts payable	584	524	463
Other accounts payable	147	106	75
	731	630	538
Non-financial liabilities			
Accounts payable and accrued liabilities to employees	177	156	179
Advances received	120	153	130
Taxes payable other than income tax	94	90	41
	391	399	350
	1,122	**1,029**	**888**

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

(millions of US dollars)

11 Borrowings

Rates	Currency	Maturity	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Bonds					
8.05% to 11.10%	RUR	2017	-	-	168
4.00% to 4.95%	USD	2019-2024	1,354	1,501	1,318
Loans					
LIBOR +1.50%	USD	2021	159	94	332
EURIBOR +0.90% to EURIBOR +1.60%	EUR	2019-2022	562	686	451
			2,075	**2,281**	**2,269**
Less: short-term borrowings and current maturities of long-term borrowings			(398)	(380)	(468)
Long-term borrowings			**1,677**	**1,901**	**1,801**

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

	As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,200	1,150	1,346	1,385	1,307	1,325

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 2018, 2017 and 2016.

The long-term borrowings mature as follows:

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
1-2 years	133	228	586
2-5 years	1,044	473	501
Over 5 years	500	1,200	714
	1,677	**1,901**	**1,801**

Collateral

As at 31 December 2018, 2017 and 2016, the loan facilities were secured by inventories and accounts receivable with the total carrying value of $645, $583 and $418, respectively (Notes 6, 7).

(millions of US dollars)

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)**

12 Shareholders' equity

(a) Shares

As at 31 December 2018, 2017 and 2016, 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 2018, 2017 and 2016, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $4,689, $5,728 and $5,024, converted into US dollars using the exchange rates at 31 December 2018, 2017 and 2016, respectively.

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

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

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

			2018		2017		2016
	Declaration period	Per share*	Total amount	Per share*	Total amount	Per share*	Total amount
For the 4th quarter of previous year	June	3.36	326	3.38	358	2.43	218
For the 1st quarter of current year	June	5.73	556	2.35	249	1.13	102
For the 2nd quarter of current year	September	5.24	477	3.20	328	1.08	102
For the 3rd quarter of current year	December	6.04	537	5.13	525	3.63	357
			1,896		**1,460**		**779**

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

12 Shareholders' equity (continued)

(c) Capital management

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

When managing capital, the Group uses the following indicators:

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

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

13 Earnings per share

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit for the year attributable to the NLMK shareholders (millions of US dollars)	2,238	1,450	935
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Basic earnings per share (US dollars)	**0.3734**	**0.2419**	**0.1560**

Basic net earnings per share is calculated by dividing profit for the year attributable to the NLMK shareholders by the weighted average number of common shares outstanding during the reporting period. NLMK does not have potentially dilutive financial instruments during the years ended 31 December 2018, 2017 and 2016.

14 Revenue

(a) Revenue by product

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Revenue from sale of goods			
Flat products	6,172	5,356	4,062
Pig iron, slabs and billets	3,265	2,383	1,681
Long products and metalware	1,202	978	741
Coke and other chemical products	257	280	150
Scrap	73	67	49
Iron ore and sintering ore	-	-	130
Other products	214	268	174
Total revenue from sale of goods	**11,183**	**9,332**	**6,987**
Revenue from transportation services	863	733	649
	12,046	**10,065**	**7,636**

(millions of US dollars)

14 Revenue (continued)

(b) Revenue by geographical area

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

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Russia	4,051	3,887	3,077
North America	2,556	1,932	1,328
European Union	2,268	1,730	1,373
Middle East, including Turkey	1,375	1,083	629
Central and South America	557	425	377
Asia and Oceania	489	277	317
CIS	405	432	317
Other regions	345	299	218
	12,046	**10,065**	**7,636**

Except for NBH Group (Note 23), the Group does not have customers with a share of more than 10% of the total revenue.

15 Labour costs

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

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Cost of sales	720	711	602
General and administrative expenses	230	221	194
Selling expenses	29	28	28
	979	**960**	**824**

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

Total remuneration of the key management personnel, including social security costs amounted to $38, $24 and $31 in 2018, 2017 and 2016, respectively. As at 31 December 2018, 2017 and 2016 accrued liabilities to key management personnel related to the long-term incentive plan amounted to $25, $9 and $18, respectively.

(millions of US dollars)

16 Taxes other than income tax

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

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Cost of sales	76	70	64
General and administrative expenses	4	3	2
Other operating expenses	8	7	4
	88	**80**	**70**

17 Income tax

Income tax charge comprises the following:

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax expense	(574)	(374)	(237)
Deferred income tax benefit	88	3	4
Total income tax expense	**(486)**	**(371)**	**(233)**

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%.

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

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit before income tax	2,729	1,823	1,172
Income tax at rate 20%	(546)	(365)	(234)
Change in income tax:			
- tax effect of non-deductible expenses	-	(16)	(13)
- non-taxable translation adjustments	7	(2)	(5)
- effect of different tax rates	27	5	-
- unrecognized deferred tax asset on investments in joint ventures	(71)	(21)	(20)
- unrecognised tax loss carry forward for the year	(8)	(3)	(2)
- utilisation of previously unrecognised tax loss carry forward	56	50	51
- effect of tax on intercompany dividends	(6)	-	-
- write-off of previously recognised deferred tax assets	(15)	(19)	(21)
- recognition of previously unrecognised tax loss carry forward	70	-	-
- other	-	-	11
Total income tax expense	**(486)**	**(371)**	**(233)**

(millions of US dollars)

17 Income tax (continued)

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

	As at 31 December 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)**

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

(millions of US dollars)

17 Income tax (continued)

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

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

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
From 1 to 5 years	-	99	211
From 5 to 10 years	-	115	98
More than 10 years	-	749	828
No expiration	1,393	1,486	1,398
Total	**1,393**	**2,449**	**2,535**

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

The Group has not recorded a deferred tax liability in respect of temporary differences of $1,728, $1,569 and $1,448 for the years ended 31 December 2018, 2017 and 2016, 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 2018, 2017 and 2016, 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 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income on bank accounts and bank deposits	12	23	29
Other finance income	9	6	10
Total finance income	**21**	**29**	**39**
Interest expense on borrowings	(77)	(88)	(104)
Capitalised interest	21	23	33
Other finance costs	(14)	(22)	(34)
Total finance costs	**(70)**	**(87)**	**(105)**

(millions of US dollars)

19 Foreign exchange differences

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Foreign exchange gain/(loss) on cash and cash equivalents	72	(3)	(84)
Foreign exchange gain/(loss) on financial investments	245	(56)	(434)
Foreign exchange (loss)/gain on debt financing	(250)	28	393
Foreign exchange (loss)/gain on other assets and liabilities	(34)	48	(4)
	33	**17**	**(129)**

20 Operating leases

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

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Within 1 year	15	13	12
From 1 to 5 years	50	46	43
After 5 years	228	238	241
Total commitments for minimum lease payments	**293**	**297**	**296**

In 2018, 2017 and 2016 total rental expenses relating to operating leases were $17, $13 and $9, respectively.

21 Segment information

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

The Group management determines pricing for intersegmental sales, as if the sales were to third parties. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss. The Group management evaluates performance of 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.

(millions of US dollars)

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 deconsoli-dation adjust-ments	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 amortisation	(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.*

(millions of US dollars)

21 Segment information (continued)

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

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

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

(millions of US dollars)

21 Segment information (continued)

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

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

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

(millions of US dollars)

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 2018	As at 31 December 2017	As at 31 December 2016
Russian Federation	4,731	5,512	5,242
USA	310	350	378
Denmark	145	124	103
Other	12	8	6
	5,198	**5,994**	**5,729**

22 Risks and uncertainties

(a) Operating environment of the Group

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

The Russian economy 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 2018. 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.

(millions of US dollars)

22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Fixed rate instruments			
Financial assets			
- cash and cash equivalents (Note 3)	1,179	301	610
- financial investments (Note 5)	104	1,286	1,134
- trade and other accounts receivable less credit loss allowance (Note 6)	1,091	982	676
	2,374	**2,569**	**2,420**
Financial liabilities			
- trade and other accounts payable (Note 10)	(731)	(630)	(538)
- dividends payable	(525)	(537)	(361)
- borrowings (Note 11)	(1,354)	(1,501)	(1,486)
	(2,610)	**(2,668)**	**(2,385)**
Variable rate instruments			
Financial liabilities			
- borrowings (Note 11)	(721)	(780)	(783)
	(721)	**(780)**	**(783)**

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 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**

(millions of US dollars)

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 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)**

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

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

Sensitivity analysis

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

A 25 percent strengthening of the following currencies against the functional currency as at 31 December 2018, 2017 and 2016 would have increased/(decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to $29 loss, $23 gain and $45 gain, respectively, due to foreign exchange movements from intercompany operations (Note 19).

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
US dollar	(332)	(117)	(73)
Euro	92	(5)	7
Hong Kong dollar	78	-	-
Swiss franc	6	-	-

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

Commodity price risk

Commodity price risk is 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.

22 Risks and uncertainties (continued)

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

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

(c) Credit risk

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

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

The Group controls the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. 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 record, 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.

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.

(millions of US dollars)

22 Risks and uncertainties (continued)

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.

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 2018	As at 31 December 2017	As at 31 December 2016
Cash and cash equivalents (Note 3)	1,179	301	610
Trade and other accounts receivable (Note 6)	1,091	982	676
Financial investments (Note 5)	104	1,286	1,134
Total on-balance sheet exposure	**2,374**	**2,569**	**2,420**
Financial guarantees issued (Note 23(d))	309	304	255
	2,683	**2,873**	**2,675**

(millions of US dollars)

22 Risks and uncertainties (continued)

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 2018	As at 31 December 2017
AAA	19	40
A	25	41
B	41	95
C	18	21
D	2	5
NR, including:		
- NBH Group companies	411	288
- Credit insurance (AA international agencies' credit ratings)	284	214
- Bank coverage (A- and above international agencies' credit ratings)	202	137
- Not covered	76	132
	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 2018	As at 31 December 2017	As at 31 December 2016
Bank balances and term deposits			
AAA-BBB	1,173	199	517
BB-B	4	99	91
Unrated and cash on hand	2	3	2
	1,179	**301**	**610**
Short-term and long-term bank deposits			
AAA-BBB	5	724	396
BB-B	-	335	502
	5	**1,059**	**898**

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**

(millions of US dollars)

22 Risks and uncertainties (continued)

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**

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

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

(d) Liquidity risk

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

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

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

	As at 31 December 2018	**As at 31 December 2017**	**As at 31 December 2016**
Less than 1 year	296	348	536
From 1 to 2 years	193	298	647
From 2 to 5 years	1,342	735	609
Over 5 years	520	1,255	762
Total borrowings	**2,351**	**2,636**	**2,554**

(millions of US dollars)

22 Risks and uncertainties (continued)

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

As at 31 December 2018, 2017 and 2016, 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.

(a) Sales to and purchases from related parties

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Sales			
NBH group companies	1,330	970	692
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	2	1	1
Other related parties	1	1	1
Purchases			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	410	335	330
NBH group companies	65	66	45
Other related parties	5	4	6

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 11.0%, 9.6% and 9.1% of the total sales of the Group for the years ended 31 December 2018, 2017 and 2016, respectively.

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

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Accounts receivable and advances given			
NBH group companies	412	289	199
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	32	26	34
Accounts payable			
NBH group companies	31	25	16
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	6	5	3

(millions of US dollars)

23 Related party transactions (continued)

(c) Financial transactions

As at 31 December 2018, 2017 and 2016, loans issued to NBH group companies amounted to $99, $222 and $230, respectively. When issuing loans to the foreign companies of the Group and joint ventures, interest rate is determined using information on similar external deals subject to company's internal credit rating.

(d) Financial guarantees issued

As at 31 December 2018, 2017 and 2016, guarantees issued by the Group for borrowings received by NBH group companies amounted to $309, $304 and $255, 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.

The maturity of the guaranteed obligations is as follows:

	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Less than 1 year	57	105	70
From 1 to 2 years	-	199	5
Over 2 years	252	-	180
	309	**304**	**255**

(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 $714, $629 and $473 as at 31 December 2018, 2017 and 2016, respectively.

(e) Social commitments

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

(f) Tax contingencies

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

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

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

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

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

(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 2018, 2017 and 2016.

25 Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

25 Significant accounting policies (continued)

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

Joint ventures

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

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

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

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

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

Disposals of subsidiaries and joint ventures

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

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

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

(b) Cash and cash equivalents

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

25 Significant accounting policies (continued)

(c) Value added tax (VAT)

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

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

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

(d) Inventories

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

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

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

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

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

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

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

Measurement at recognition

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

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

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

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

25 Significant accounting policies (continued)

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

Subsequent measurement

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

Subsequent expenditures

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

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

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

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

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

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

Borrowing costs

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

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

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

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

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

Mineral rights

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

25 Significant accounting policies (continued)

Depreciation

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

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

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

Buildings and land and buildings improvements	10 – 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".

(f) Leasing

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

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

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

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

25 Significant accounting policies (continued)

(g) Goodwill and intangible assets

Goodwill is the difference between:

- the comprehensive 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.

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

25 Significant accounting policies (continued)

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

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

Amortisation

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

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

• Mineral rights	20-36 years
• Industrial intellectual property	1-10 years
• Beneficial lease interest	80 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 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 expectation of recovering additional 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.

25 Significant accounting policies (continued)

Deferred tax

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

Deferred tax is not recognised if temporary differences:

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

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

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

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

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

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

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-pained steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment 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. 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. 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 remaining useful lives of property, plant and equipment

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

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 2018:

IFRS 9 "Financial Instruments" (with amendments issued in July 2014).

For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. Details of the new accounting policy are disclosed in Note 25.

The adoption of IFRS 9 did not significantly impact the balance sheet classification of financial assets and liabilities in the consolidated financial statements of the Group. The amount of expected credit losses as at 1 January 2018 does not materially differ from the amount of recognised provisions and allowances in the consolidated financial statements as at 31 December 2017 and therefore there is no quantitative effect of transition as of 1 January 2018. Financial assets and liabilities previously classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" within categories loans and receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and borrowings, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

IFRS 15 "Revenue from Contracts with Customers" (with amendments issued in April 2016)

In accordance with the transition provisions in IFRS 15 the Group has elected the simplified transition method with the effect of transition to be recognised as at 1 January 2018. The Group applied the practical expedient available for the simplified transition method. Details of the new accounting policy are disclosed in Note 25.

Apart from providing more extensive disclosures on the Group's revenue transactions (Note 14), including presentation of goods transportation services as a separate performance obligation and disaggregation of revenue by geographical area, the adoption of IFRS 15 did not have a significant impact on the financial position or financial performance of the Group. Therefore comparative information and opening equity as at 1 January 2018 were not restated.

The following amended standards became effective from 1 January 2018, but did not have a material impact on the Group.

- Amendments to IFRS 2 *Share-based Payment* (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 *Financial Instruments* with Amendments to IFRS 4 *Insurance Contracts* (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 *Transfers of Investment Property* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

(millions of US dollars)

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 2019 or later, and which the Group has not early adopted:

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management estimates that on adoption of IFRS 16 starting 1 January 2019, the Group will recognise lease liabilities in the amount of $89 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 to be applied to the lease liabilities on 1 January 2019 expected to be 6.45%. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives.

A reconciliation of the operating lease commitments to this liability is as follows:

	As at 31 December 2018
Total future minimum lease payments for non-cancellable operating leases (Note 20)	293
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	14
Future lease payments for leases with a term of less than 12 months	(2)
Effect of discounting to present value	(216)
Total lease liabilities on adoption of IFRS 16	**89**

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

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- 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).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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

Novolipetsk Steel

Independent auditor’s report on financial statements

2018

[Translation from Russian]

pwc

Independent Auditor's Report

To the Shareholders and Board of Directors of Novolipetsk Steel:

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Novolipetsk Steel (hereinafter – the Company) as at 31 December 2018 as well as its financial performance and cash flows for the year then ended in accordance with the reporting rules established in the Russian Federation.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2018;
- the profit & loss statement for the year ended 31 December 2018;
- the statement of changes in equity for the year ended 31 December 2018;
- the cash flow statement for the year ended 31 December 2018; and
- explanatory notes to the balance sheet and the profit & loss statement.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the 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

Materiality	• Overall materiality: Russian Roubles 4, 900 million (RUB m), which represents 1% of the Company's revenue.
Key audit matter	• Impairment of long-term financial investments: investments in «NLMK Overseas Holdings» share capital

As a part of planning, we determined materiality and assessed the risks of material misstatement in the 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. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

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

Materiality

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

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

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 took into account misstatements and / or potential misstatements, which, in our opinion, are material due to qualitative factors.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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	Audit procedures to address the key audit matter
Impairment of long-term financial investments: investments in NLMK Overseas Holdings' share capital The Company's management performs annual impairment tests of financial investments, including investments in the authorized capital of subsidiaries accounted for at cost. If there are impairment indicators, management determines recoverable value of the investments in subsidiaries and compares it with their book value. The recoverable value of participation in NLMK Overseas Holdings that holds interests in its own subsidiaries is calculated as a percentage of its net assets pro rata to the recoverable value of ultimate investees. The latter is measured based on a discounted cash flow model for main manufacturing enterprises and based on net assets for other companies. These models and calculations were prepared as of 31 December 2018. The tests performed by the management detected an increase in the recoverable value of investment in NLMK Overseas Holdings, as a result	We obtained, understood and evaluated the management's impairment testing, and did not identify any additional factors that should have been but were not taken into account during such testing. To review the recoverable value of investments in NLMK Overseas Holdings' share capital based on discounted cash flow models, we performed the following procedures: • reviewing the discounted cash flow models prepared by the management with involvement of the auditor's valuation expert to assist us with reviewing the approach and assumptions used in the models; • comparing the key assumptions used in the models to the NLMK Overseas Holdings' subsidiaries' performance results in the past reporting periods and to their approved budgets; • benchmarking the key assumptions used in the models, including product sales prices, level of inflation and discount rates against external expert valuations, macroeconomic and industry forecasts; • analysis of management judgments to which the calculation results are the most sensitive As a result of the above procedures, we agreed with the management's position and recovery of full amount of the previously accrued provision.

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Key audit matter	Audit procedures to address the key audit matter
previously accrued provision in amount RUB 15,160 m was fully recovered. We focused on this area because of the degree of judgement over the impairment test of investments in subsidiaries and the book value of the assets under consideration are significant.	

Other information

Management is responsible for other information. The other information included in NLMK's 2018 Annual Report and the Issuer's Q1 2019 Report, but does not include the 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 financial statements does not cover other information and we will not express any form of assurance conclusion thereon.

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

When we read the NLMK Annual Report for 2018 and the Issuer's Report for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance

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

The management is responsible for the preparation and fair presentation of financial statements in accordance with the reporting rules established in the Russian Federation, and for internal control system as the management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISA 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, due to fraud or error; design and perform audit procedures in response 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 system;
- 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the feasibility of accounting valuations and related disclosures made by the management;
- Conclude on the appropriateness of the 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 Company'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 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 audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 communicated with them on all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the reporting 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.

15 February 2019

Moscow, Russian Federation

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

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

NOVOLIPETSK STEEL

NLMK 2 Metallurgov sq., Lipetsk, 398040
tel.: +7 (4742) 44 42 22 | fax: +7 (4742) 44 11 11
e-mail: info@nlmk.com | www.nlmk.com

NOVOLIPETSK STEEL'S 2018 ACCOUNTING (FINANCIAL) STATEMENTS

CONTENTS

BALANCE SHEET
as at 31 December 2018

2018 Accounting (Financial) Statements

		CODES
	Form acc. to OKUD	0710001
	Date (date, month, year)	31.12.2018
Organization **Novolipetsk Steel**	acc. to OKPO	05757665
Taxpayer Identification Number	INN	4823006703
Type of business **Production of cold-rolled steel flats**	acc. to OKVED	24.10.4
Type of business entity / form of ownership		
Public company / Joint private and foreign property	acc. to OKOPF/ OKFS	12247 / 34
Unit of measurement - RUB million	acc. to OKEI	385

Address **2, Metallurgov sq., 398040 Lipetsk**

Description	Line Code	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016	Notes
1	2	3	4	5	6
ASSETS					
I. Non-current assets					
Intangible assets	1110	1 666	1 603	807	2.1, 3.1
Results of research and development	1120	6	19	22	2.2
Property, plant and equipment	1150	139 314	130 017	130 677	2.3, 3.2
Financial investments	1170	177 809	147 966	124 336	2.4, 2.6, 3.3
Deferred tax assets	1180	1 770	162	154	2.12, 3.11
Other non-current assets	1190	7 044	6 158	1 965	2.7, 3.5.1
Total Section I	**1100**	**327 609**	**285 925**	**257 961**	
II. Current assets					
Inventories	1210	61 111	54 022	53 202	2.5, 3.4
Value added tax on goods purchased	1220	554	3 038	6 486	
Accounts receivable	1230	126 333	145 022	134 055	2.6, 3.5.1
Financial investments (less cash equivalents)	1240	2 498	62 558	58 324	2.4, 2.6, 3.3
Cash and cash equivalents	1250	60 340	8 910	27 802	2.8, 3.6
Total Section II	**1200**	**250 836**	**273 550**	**279 869**	
TOTAL SECTIONS I and II (sum of lines 1100 + 1200)	**1600**	**578 445**	**559 475**	**537 830**	

Balance Sheet

Form 0710001 p. 2

Description	Line Code	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016	Notes
1	2	3	4	5	6
LIABILITIES					
III. Equity and reserves					
Common stock	1310	5 993	5 993	5 993	3.7
Revaluation of non-current assets	1340	3 291	3 300	3 308	
Additional capital	1350	772	772	772	
Reserve capital	1360	300	300	300	
Retained earnings (loss)	1370	325 751	329 936	304 722	
Total Section III	**1300**	**336 107**	**340 301**	**315 095**	
IV. Long-term liabilities					
Borrowings	1410	84 067	79 364	95 620	2.6, 2.9, 3.8
Deferred tax liabilities	1420	10 985	10 954	11 342	2.12, 3.11
Other liabilities	1450	15	4	12	2.6, 3.5.2
Total Section IV	**1400**	**95 067**	**90 322**	**106 974**	
V. Short-term liabilities					
Borrowings	1510	21 824	25 361	20 796	2.6, 2.9, 3.8
Accounts payable	1520	118 358	99 018	89 820	2.6, 3.5.2
Estimated liabilities	1540	7 089	4 473	5 145	2.10, 3.9
Total for Section V	**1500**	**147 271**	**128 852**	**115 761**	
SECTION III, IV, V (sum of lines 1300 + 1400 + 1500)	**1700**	**578 445**	**559 475**	**537 830**	

On behalf of Novolipetsk Steel **O.G. Zarubina**

by virtue of Power of Attorney No.437 dd. 14.11.2018

February 15, 2019

2018 Accounting (Financial) Statements

PROFIT AND LOSS STATEMENT
for 2018

		CODES
	Form acc. to OKUD	0710002
	Date (date, month, year)	31.12.2018
Organization **Novolipetsk Steel**	acc. to OKPO	05757665
Taxpayer Identification Number	INN	4823006703
Type of business **Production of cold-rolled steel flats**	acc. to OKVED	24.10.4
Type of business entity / form of ownership **Public company / Joint private and foreign property**	acc. to OKOPF/ OKFS	12247 / 34
Unit of measurement – RUB million	acc. to OKEI	385

Description	Line Code	For 2018	For 2017	Notes
1	2	3	4	5
Revenue	2110	493 829	410 032	2.11, 3.10.1
incl. sales of steel products	2110.1	491 972	407 875	
Cost of sales	2120	(331 447)	(299 700)	2.11, 3.10.1
including steel products sold	2120.1	(329 714)	(297 038)	
Gross profit (loss)	2100	162 382	110 332	
Selling expenses	2210	(32 374)	(28 047)	
General and administrative expenses	2220	(16 303)	(14 221)	
Profit (loss) from sales	**2200**	**113 705**	**68 064**	
Income from participation in other companies	2310	21 967	37 962	3.3
Interest receivable	2320	847	1 507	2.4, 3.3
Interest payable	2330	(4 182)	(4 617)	2.9, 3.8
Other income	2340	23 560	28 199	2.11, 3.10.2
Other expenses	2350	(19 489)	(8 482)	
Profit (loss) before tax	**2300**	**136 408**	**122 633**	
Current income tax	2410	(20 104)	(13 549)	2.12, 3.11
including permanent tax liabilities (assets)	2421	(8 755)	(11 373)	
Change in deferred tax liabilities	2430	(31)	387	
Change in deferred tax assets	2450	1 608	8	
Other	2460	(28)	(20)	
Income tax redistribution within a consolidated group of taxpayers	2465	6	7	2.12, 3.11
Net profit (loss)	**2400**	**117 859**	**109 466**	3.7

Income statement

Form 0710002 p. 2

Description	Line Code	For 2018	For 2017	Notes
1	2	3	4	5
Cumulative financial result for the year	2500	117 859	109 466	
REFERENCE				
Earnings per share (RUB)	2900	19,67	18,26	3.7

On behalf of Novolipetsk Steel **O.G. Zarubina**
by virtue of Power of Attorney No.437 dd. 14.11.2018

February 15, 2019

STATEMENT OF CHANGES IN EQUITY
for 2018

2018 Accounting (Financial) Statements

		CODES
	Form acc. to OKUD	0710003
	Date (date, month, year)	31.12.2018
Organization **Novolipetsk Steel**	acc. to OKPO	05757665
Taxpayer Identification Number	INN	4823006703
Type of business **Production of cold-rolled steel flats**	acc. to OKVED	24.10.4
Type of business entity / form of ownership		
Public company / Joint private and foreign property	acc. to OKOPF/ OKFS	12247 / 34
Unit of measurement – RUB million	acc. to OKEI	385

1. Changes in equity

Description	Line Code	Common stock	Additional capital	Reserve capital	Retained earnings (loss)	Total
1	2	3	4	5	6	7
Equity as of 31 December 2016	**3100**	**5 993**	**4 080**	**300**	**304 722**	**315 095**
For 2017						
Increase of equity - **total:**	3210	--	--	--	**109 471**	**109 471**
including: net profit	3211	X	X	X	109 466	109 466
income directly attributable to equity	3213	X	--	X	5	5
Decrease of equity – **total**:	3220	--	--	--	**(84 265)**	**(84 265)**
including: dividends	3227	X	X	X	(84 265)	(84 265)
Additional capital change	3230	X	(8)	--	8	X
Equity as of 31 December 2017	**3200**	**5 993**	**4 072**	**300**	**329 936**	**340 301**
For 2018						
Increase of equity - **total:**	3310	--	--	--	**117 888**	**117 888**
including: net profit	3311	X	X	X	117 859	117 859
income directly attributable to equity	3313	X	--	X	29	29
Decrease of equity – **total**:	3320	--	--	--	**(122 082)**	**(122 082)**
including: dividends	3327	X	X	X	(122 082)	(122 082)
Additional capital change	3330	X	(9)	--	9	X
Equity as of 31 December 2018	**3300**	**5 993**	**4 063**	**300**	**325 751**	**336 107**

Statement of changes in equity

3. Net assets

Description	Line Code	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
1	2	3	4	5
Net assets	3600	336 107	340 301	315 095

On behalf of Novolipetsk Steel **O.G. Zarubina**
by virtue of Power of Attorney No.437 dd. 14.11.2018

February 15, 2019

2018 Accounting (Financial) Statements

STATEMENT OF CASH FLOWS
for 2018

		CODES
	Form acc. to OKUD	0710004
	Date (date, month, year)	31.12.2018
Organization **Novolipetsk Steel**	acc. to OKPO	05757665
Taxpayer Identification Number	INN	4823006703
Type of business **Production of cold-rolled steel flats**	acc. to OKVED	24.10.4
Type of business entity / form of ownership		
Public company / Joint private and foreign property	acc. to OKOPF/ OKFS	12247 / 34
Unit of measurement – RUB million	acc. to OKEI	385

Description	Line Code	For 2018	For 2017
1	2	3	4
Cash flows from operating activities			
Receipts - **total**	**4110**	**512 656**	**403 886**
including:			
from sales of finished goods, trade goods, works and services	4111	510 838	402 486
lease payments, license payments, royalties, commissions and other payments	4112	171	224
other receipts	4119	1 647	1 176
Payments - **total**	**4120**	**(401 918)**	**(351 753)**
including:			
to suppliers for raw materials, works and services	4121	(337 617)	(294 302)
wages and salaries	4122	(27 932)	(28 779)
interest on borrowings	4123	(4 197)	(4 796)
income tax	4124	(21 080)	(13 437)
other payments	4129	(11 092)	(10 439)
Net cash flows from operating activities	**4100**	**110 738**	**52 133**
Cash flows from investing activities			
Receipts - **total**	**4210**	**113 652**	**37 521**
including:			
from sale of non-current assets (except financial investments)	4211	30	61
from sale of shares (ownership interests) in other entities	4212	81	47
from return of loans, sales of debt securities (chose of possession of cash from third parties)	4213	24 038	4 824
dividends, interests from long term financial investments and receipts from participation in other entities	4214	26 560	32 589
other receipts	4219	62 943	--

Statement of cash flows

Description	Line Code	For 2018	For 2017
1	2	3	4
Payments – **total**	**4220**	**(45 024)**	**(25 097)**
including:			
purchase, construction, modernisation, reconstruction and preparation for the use of non-current assets	4221	(19 653)	(16 166)
purchase of debt securities (chose of possession of cash from third parties), loans granted	4223	(10 243)	(62)
borrowing costs included to the cost of the investment assets	4224	(2)	(1)
other payments	4229	(15 126)	(8 868)
Net cash flows from investment activities	**4200**	**68 628**	**12 424**
Cash flows from financing activities			
Receipts - **total**	**4310**	**8 615**	**66 265**
including:			
borrowings	4311	8 615	66 265
Payments – **total**	**4320**	**(140 880)**	**(149 223)**
including:			
dividends and other distributions to shareholders	4322	(111 365)	(71 829)
redemption (buyback) of promissory notes and other debt securities, loan repayment	4323	(24 513)	(73 990)
other payments	4329	(5 002)	(3 404)
Net cash flows from financing activities	**4300**	**(132 265)**	**(82 958)**
Net cash flows for the reporting period	**4400**	**47 101**	**(18 401)**
Cash and cash equivalents at the beginning of the reporting period	**4450**	**8 910**	**27 801**
Cash and cash equivalents at the end of the reporting period	**4500**	**60 340**	**8 910**
Foreign exchange rate difference	4490	4 329	(490)

On behalf of Novolipetsk Steel **O.G. Zarubina**

by virtue of Power of Attorney No.437 dd. 14.11.2018

EXPLANATORY NOTES TO BALANCE SHEET AND PROFIT AND LOSS STATEMENT

1. GENERAL INFORMATION

Novolipetsk Steel (hereinafter referred to as “the Company”) is an integrated steel-making company specializing in production of a wide variety of rolled steel products.

Abbreviated Company name: NLMK

Domicile of the Company: 2, Metallurgov sq., Lipetsk, Russia
Postal address of the Company: 2, Metallurgov sq., Lipetsk, 398040, Russia

Main activities of the Company are:

- production and sale of iron and steel products;
- production and sale of mechanical engineering products (equipment, accessories, tools and spare parts);
- industrial construction, rendering construction and public utilities services;
- production of construction materials, structures, and products;
- foreign and domestic trade;
- generation, transmission and distribution of electrical and heat power;

  and others.

The Company has obtained licenses for all types of licensable activities.

The Company has a representative office in Moscow as well as a branch office in Yekaterinburg.

As of 31.12.2018, the Company’s headcount was 27,502 employees, as of 31.12.2017 the Company’s headcount was 27,130 employees.

Board of Directors as of December 31, 2018:

Chairman of the Board of Directors	– Vladimir Lisin
Members:	– Oleg Bagrin
	– Thomas Veraszto
	– Helmut Wieser
	– Nikolai Gagarin
	– Marjan Oudeman
	– Karen Sarkisov
	– Stanislav Shekshnia
	– Benedict Sciortino

Management Board as of 31 December 2018:

Grigory Fedorishin	– President, Chairman of the Management Board
Sergey Filatov	– Managing Director
Mikhail Arkhipov	– Vice-President, HR & Management System
Tatiana Averchenkova	– Vice-President, Operational Efficiency
Ilya Guschin	– Vice-President, Sales
Ben De Vos	– Vice-President, International Operations
Sergey Likharev	– Vice-President, Logistics
Evgeny Ovcharov	– Vice-President, Risk Management
Sergey Chebotarev	– Vice-President, Energy

President (Chairman of the Management Board) is a sole executive body of the Company.

Information on the risk management, internal control and internal audit is presented at Company's website[1].

Information on the Registrar and the Auditor:
The Company's registrar is AO Agency RIR; license No. 042-13984-000001, dd. 29.11.2002 with an unlimited validity. The Register of the issuer's registered securities owners has been held by the registrar since March 4, 2004.
The Company's auditor is AO PricewaterhouseCoopers Audit.

Financial and tax accounting
Financial and tax accounting of the Company's business to the extent established by the current legislation is conducted by NLMK Accounting Centre in line with Service Contract No. 91408 dd. 01.02.2011.
The financial statements signing is conducted by O.G. Zarubina - Director of the Direction of Accounting and HR management by virtue of Power of Attorney.

The Company's operational environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. 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 2018. Moreover, the existing tax, currency and customs legislation is subject to various interpretations and thus creates additional difficulties for Russian companies. Such economic environment cannot but influence the Company's business. The Management takes all necessary steps to assure sustainable financial standing of the Company. However, future consequences of the economic situation are difficult to foresee and their influence on the Company's business may differ from today's expectations of the Management.

The main financial risks intrinsic to the Company's operations include market risks, credit risks, currency risks and liquidity risks. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The risk management functions are intended to ensure proper functioning of the Company's internal policies and procedures, in order to minimise these risks. The Company discloses its risks management procedures at its official website of the Company[1].

[1] *Presented at the website of NLMK http://www.nlmk.com*

The Russian legislation provides the possibility for tax authorities to make transfer pricing adjustments and 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 on an arm's length basis. In order to meet requirements of the applicable legislation on transfer pricing the Company's Management introduced internal control procedures. In the reporting year, the Company submitted the notice of controlled transactions for 2017 to the tax authority (in 2017 - for 2016).

The Company is preparing transfer pricing documentation which will confirm the compliance of prices used with the market level for tax purposes. Nevertheless, there is a possibility that due to further practice in application of transfer pricing rules these prices can be challenged and consequences of such outcome cannot be securely evaluated.

According to the Law on Controlled Foreign Companies (hereinafter - CFC) corporate income tax was introduced in the Russian Federation for foreign companies and foreign ventures controlled by tax residents of the Russian Federation (controlling persons) without establishing an entity (including funds). Starting from 2015 CFCs' income is taxed at 20% in line with the legislation requirements.

The Company has established a consolidated taxpayer group (hereinafter - CTG) for the purpose of calculation and payment of corporate income tax, taking into account the total financial result of a business, in which it acts as the responsible party. Since 2016, 21 NLMK Group companies have been included in the CTG.

In order to manage NLMK Group companies' liquidity through consolidating funds, the Company concluded an Agreement with different banks on accession to the Cash Pooling Service for a Master Account where the Company acts as a Parent Company. Cash pooling is executed through operations under the loan agreements between the Company and NLMK Group companies.

2. KEY ASPECTS OF SIGNIFICANT ACCOUNTING POLICIES AND PRESENTATION OF INFORMATION IN FINANCIAL STATEMENTS

The Accounting (financial) statements are prepared in accordance with the accounting and reporting rules applicable in the Russian Federation, specifically the Federal Law "On Accounting" and the Regulation on Accounting and Reporting in the Russian Federation, approved by the Ministry of Finance of the Russian Federation.
The unit of measurement for financial indicators is RUB million without decimal digits. In accounting (financial) statements, negative figures or figures deductible from relevant indicators in order to calculate intermediate or total values, are given in round brackets.
The companies whose names were brought in line with the Civil Code requirements (renaming to Public Company (PJSC), Joint-Stock Company (JSC) or Production Cooperative (PC)) as of the reporting date, are presented with their names changed.

The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

2. 1 INTANGIBLE ASSETS

Intangible assets are presented in the balance sheet based on the actual costs of acquisition, manufacture and additional expenses in order to bring assets to a state in which they could be used as intended, less accumulated amortisation.
Amortisation is accrued on a straight-line basis unless the application of another method could be justified by a reliable calculation of expected receipt of future economic benefits from using the intangible asset, including financial result from potential sale of that asset.
When the useful life of an intangible asset is reviewed in order to determine whether its adjustment is required, such adjustment of the useful life is performed in case of significant changes (equal to or exceeding 12 months as compared to the previously defined one) in the period within which the Company plans to use that asset.
Should it be impossible to define the useful life for intangible assets recognised before January 1, 2008, standard amortisation charges are established on the basis of a 20-year term. For similar intangible assets recognised on or after January 1, 2008, amortisation is not charged.

There are no regular revaluations or impairment reviews of intangible assets.

Expenses on purchasing non-exclusive rights for using the results of intellectual activity or the means of individualization (computer software, etc.) are charged to relevant accounts on a monthly basis in equal instalments and in the amounts determined by the Company's agreements or calculations, during the period they apply to.

2. 2 RESULTS OF RESEARCH AND DEVELOPMENT

Scientific research, development and design and technological operations, the results of which are used for production or management purposes, are shown on account 04 *Intangible assets* separately and are recognised in the balance sheet under line "R&D results". They are written off on a straight-line basis as general expenses within three years from the first day of the month following the month of their actual use started in.

2. 3 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Structure of property, plant and equipment (PPE)

From January 1, 2011 property, plant and equipment with a cost less than RUB 40 thousand per unit are recognised within inventories.

Special tools, devices, equipment and work clothes with a useful life exceeding 12 months and the cost exceeding RUB 40 thousand per unit are recognised as property, plant and equipment.

Evaluation basis

The original cost of property, plant and equipment acquired by the Company with cash consists of the actual costs of acquisition, construction and manufacture less taxes refundable. The original cost of property, plant and equipment received under agreements, which provide for the fulfilment of liabilities (payments) by non-monetary means, shall be equal to the price of valuables handed over or to be handed over. Such price is based on the price at which the Company normally determines the value of similar valuables in comparable circumstances.

Expenses related to completion, retooling, reconstruction and modernization increase the original cost of property, plant and equipment.

Over the period from 1992 to 1997, the Company conducted annual re-evaluations of property, plant and equipment in accordance with the Russian Government regulations. Currently, no annual re-evaluation of property, plant and equipment is conducted.

Property, plant and equipment purchased before 01.01.1997 are shown in the balance sheet at replacement cost, and those purchased after 01.01.1997 – at original cost less accumulated depreciation.

Depreciation

Depreciation of property, plant and equipment is accrued with straight-line method on the basis of original (replacement) cost of property and depreciation rates calculated using established useful lives of such items.

Groups of property, plant and equipment	**Useful life (years) of items carried on the balance sheet**	
	before 01.01.2003	**since 01.01.2003**
Buildings	5-256	5-45
Constructions	8-106	3-45
Machinery and equipment including household equipment and other similar items	3-100	1-42
Vehicles	13-35	3-25
Cultivated resources of vegetable origin	40	30

For property, plant and equipment put into operation before 01.01.2003, useful life is set on the basis of depreciation rates approved by USSR Ministers Council's Resolution No. 1072 "On uniform norms of depreciation for complete recovery of national economy of the USSR" dd. 22.10.1990, and for those acquired on or after 01.01.2003 – using the rates calculated based on the useful lives set by the Company.

Depreciation is not charged on the items mothballed for longer than three months as well as on items with the recovery period longer than 12 months.

Disposal, writing-off and liquidation

Disposed or liquidated property, plant and equipment are written off from the balance sheet along with the accumulated depreciation. The revaluation surplus amount of disposed property, plant and equipment is transferred from additional paid-in capital to retained earnings of the Company, remaining within equity.

Income and loss on disposal of PPE are recognised in the Profit & Loss Statement for the reporting period when they were incurred within line other income and expenses.

Construction in progress

Construction in Progress reflects the scope of construction works which the Company accepted from its contractors.

Settlements between the Company (Developer) and contractors are performed on a monthly basis in accordance with construction agreements, after phased (interim) acceptance of completed construction and installation works. Information on the value of completed works contained in Forms KS-2 and KS-3 is a basis for recognising expenses related to construction of property, plant and equipment. The cumulative value of works is based on the contract prices and also budgeted prices according to which the Company's settlements with the contractors are cumulatively effected since the beginning of the works, the beginning of the year and over the reporting period.

2. 4 FINANCIAL INVESTMENTS

A unit of financial investment accounting is: for shares – a share; for bonds – a bond; for contributions to the equity capital – ownership interest; for certificates of deposit and promissory notes – series and number of a security; for loans, deposits, assignment and simple partnership contracts – a contract.

Financial investments are recognised on the basis of actual acquisition costs. Debt securities for which current market value is not determined are recognised at Cost until disposal. Financial investments for which the current market value is determined in accordance with the established procedure are estimated at their current market value as of the quarter end.

Debt securities and loans granted are not estimated using discounted value. At the moment of disposal financial investments in securities (shares, bonds) for which the current market value is not defined are estimated at the average acquisition cost for that type of securities.

Interests on loans granted and other similar agreements are accrued as of the month end.

In order to show the impairment of financial investments the Company made a provision for impairment, calculated in the basis of information on impairment indicators. If the financial investments for which market value is not defined demonstrate any impairment indicators as of the end of the reporting year, the Company makes a provision amounting to the excess of book value of such investments over their calculated value based on the information available to the Company.

Short- term deposits placed for a period not exceeding 3 months are classified as cash equivalents and included in other Cash.

2. 5 INVENTORIES

Evaluation of inventories acquired for cash is performed as of the end of the reporting period at actual costs. Within the reporting period, they are recognised at book value, determined when a stock was initially booked. Upon receipt of materials, their cost is determined based on the price specified in the delivery order under a contract or in accordance with other data sources. Subsequently, accounting price of materials is based on the book value of the acquired materials for the preceding period. Receipt of materials purchased is recognised using synthetic accounts 15 "Procurement and acquisition of tangible assets" and 16 "Deviation in value of tangible assets". At the end of a reporting period, any deviations of the actual cost of materials from their acquisition cost are written off pro rata to the value of materials consumed in the reporting period at book value to the corresponding accounts in accordance with the purposes of materials usage and to account 10 "Materials" for adjustment of its balance by the amount of deviations related to the unused materials balance.

Inventories received from suppliers without settlement documents are recorded as unbilled deliveries at accounting price.

When tangible assets are released into production or otherwise disposed of they are recognised within the reporting period at accounting value with subsequent writing off of deviations of actual cost from the accounting value to the relevant accounts at the end of the reporting period. When materials are written off, their evaluation includes their quantity and cost as of the beginning of the month and all receipts during the month.

Finished products are recognised as of the end of the reporting period at actual cost for each product type, which is the sum of the value of finished product balances as of the beginning of the reporting period and the costs incurred during the reporting period.

Within the reporting period, finished products are recognised at accounting prices without application of account 40 "Product (works, services) output". Accounting price of the finished products is based on book price of finished goods for the preceding period.

The difference between actual cost and accounting value of finished goods is charged to a separate subaccount of account 43 "Finished goods" by product types.
Finished goods are written off at accounting price when dispatched. At the same time, deviations related to finished goods sold are written off to sales accounts pro rata to their quantity. Deviations related to the balance of finished goods are written off from the deviations subaccount to finished goods subaccounts by product type at the end of the reporting period, in order to determine their actual cost.
Work-in-progress as of the reporting period end is evaluated at the actual cost based on the cost of work-in-progress at the beginning of reporting period and production costs over the reporting period. The evaluation of work-in-progress by order method of calculation is made on the basis of actual costs incurred.
In the balance sheet, inventories, including work-in-progress, are recognised net of estimated reserves charged quarterly. The method of reserves estimation takes into account the value of identified unused lasting inventories and potential disposal price.

2. 6 SHORT-TERM AND LONG-TERM ASSETS AND LIABILITIES

Accounts payable and receivable, including indebtedness under loans and borrowings, are recognised as short-term assets and liabilities, if their maturity does not exceed 12 months from the balance sheet date in accordance with contractual conditions, or if it is not fixed. Financial investments are classified as short-term or long-term depending on estimated useful lifetime (circulation, hold or maturity).
At the end of the reporting period, long-term assets and liabilities are shown on the balance sheet as short-term ones when their remaining circulation (maturity) period does not exceed 12 months from the balance sheet date.

2. 7 ADVANCE GIVEN FOR NON-CURRENT ASSETS

For a more reliable presentation of information on the Company's financial standing, the amounts of advances given for construction or acquisition of property, plant and equipment and other non-current assets are recognised in Section I of the Balance Sheet in line 1190 "Other non-current assets".

2. 8 CASH AND CASH EQUIVALENTS

Short-term deposits placed for a period not exceeding 90 days are classified as cash equivalents and reported in the financial statements as part of other cash assets.
Interest received on cash equivalents is recognised in the statement of cash flows as part of cash flow for the operating activities.
Cash flow amounts in foreign currencies are converted into rubles at the official rate of such foreign currency to ruble established by the Central Bank of the Russian Federation as of the date of payment or cash receipt.
The following items are presented on a net basis as cash inflow (payments) in accordance with the cash flow type within the statement of cash flows:

- placement and receipts of deposits for 3 or more months;
- indirect taxes as part of cash received from buyers and customers, payments to suppliers and contractors and payments to / refunds from the Russian budget;
- receipts from contractors as refund of payments made earlier;
- currency exchange transactions;
- payments and receipts of payments as refunds under earlier transactions;
- loans received or provided under the cash pooling agreements.

Cash flows from operating, investing and financing activities are included in the same reporting segment identified by the type of activity.
The cash flows necessary to maintain the Company's current business volume are included in current operations. The cash flows associated with the Company's business expansion are included in investing activities.
Proceeds and payments on the investing activities include cash flows related to interest-free loans granted to related parties on the grounds of the economic benefits the Company receives from them as dividends or indirectly.

2. 9 BORROWINGS

Interest payable to a lender (creditor) is recognized in the cost of an investment asset or as part of other expenses evenly over the contract validity period.
Additional borrowing costs are recognised in accounting and financial statements within the reporting period to which they are attributed.
The discount on bonds placed is recognised within other expenses evenly over the loan agreement's validity period.

2. 10 ESTIMATED LIABILITIES

The Company recognises estimated liabilities for forthcoming expenses on vacation pays and payment of bonuses to employees. On the balance sheet, such liabilities are reported within short-term liabilities. The accrual procedure for estimated liabilities and their further accounting is governed by the methodologies approved by the Company.
The necessity of recognizing other estimated liabilities is subject to consideration by the Company.

2. 11 INCOME AND EXPENSES

The Company's income and expenses are classified as general and other income and expenses.
Sales proceeds are recognised as of the date of title transfer for products, goods, results of works, services rendered (for cash) on the basis of settlement documents presented to the buyers (customers).
Production costs of goods (works, services) sold domestically or exported are defined by straight-line calculation on the basis of types of products and their actual cost.
Expenses related to the sales of goods (services, works) and general administrative expenses are recognized in full within cost of sales of goods (services, works) within the reporting period as general expenses.
Expenses on licenses and certificates are included in the cost of goods manufactured (works, services) on a monthly basis by equal amounts during their validity period.
Actual expenses related to maintenance and repairs are recognized as current period expenses upon completion of the works.
Income generated from granting temporary use or possession of assets, rights, arising out of patents for inventions, industrial models and other kinds of intellectual property in return for a fee, from holding shares in other entities, interest received from loans given, and other income from securities not related to the Company's core activity is attributed to other income.
The Company makes provisions for inventory impairment, shortage and losses from impairment of tangible assets and financial investments and provisions for bad debts. Estimated reserves are accrued on the account of other expenses.

2. 12 TAXES

Corporate income tax

Profit before tax and taxable profit are determined in accordance with the current legislation of the Russian Federation using various methods for valuation and accounting of income and expenses.
The amount of current corporate income tax is determined using the accounting records based on the amount of provisional profits tax expenses (income) adjusted for permanent tax liability (asset), deferred tax asset and deferred tax liability of the reporting period.
The Company accounts for permanent and temporary differences which are generated based on analytics by comparing of income and expenses as per financial and tax accounting. The data are recorded in the tax registers for accounting differences by groups of uniform items.
Deferred tax assets and liabilities are recorded in the balance sheet as non-current assets and long-term liabilities, respectively.
Consolidated group of taxpayers' (CTG's) consolidated tax base is defined as arithmetic sum of the profits of all CTG participants decreased by the arithmetic sum of all CTG participants' expenses taking into account the provisions of the Tax Code of the Russian Federation.
Settlements with participants in respect of CTG's income tax are included in other receivables (line 1230 "Accounts receivable") and other payables (line 1520 "Accounts payable").

Notes

The Company presents individually calculated income tax in line 2410 “Current income tax” of the Statement.
The amount of savings due to CTG’s operating results is shown in the Statement of financial results in line 2465 “Income tax redistribution within a consolidated taxpayer group”. The cash flows of CTG members are presented within the cash flows from current operations of the Statement of cash flows.

Land tax
The Company pays land tax since it has property right to industrial area land. The Company pays rent for the rest of the land used.

2. 13 ASSETS, LIABILITIES AND OPERATIONS IN FOREIGN CURRENCY

For accounting items denominated in foreign currencies, the official exchange rate of a foreign currency to the Russian rouble as of the date of the transaction is used. In order to prepare financial statements, funds on bank accounts (bank deposits), cash and payment documents, securities (except for shares), accounts receivable and payable (except for advance payments issued and received) and loans denominated, deposits)in foreign currencies are translated into roubles at the exchange rate as at the reporting date.
Exchange rate differences are accounted as part of other income and expenses separately from other kinds of income and expenses including financial results from operations with foreign currency during the period they occurred in.

Exchange rates of foreign currencies to Russian rouble set by the Russian Central Bank:

(RUB)

Foreign currency	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
1 USD	69.4706	57.6002	60.6569
1 EUR	79.4605	68.8668	63.8111

2. 14 SEGMENT INFORMATION

The Company owns assets only on the territory of the Russian Federation and is a sole integrated operating facility for production and sale of steel iron and steel products.
The Company identifies reporting segments based on the type of activity. Key indicators are revenue revenue from sale of goods, financial result (profit or loss). The information on assets and liabilities within a reporting segment is not presented, because one segment dominates in the Company’s results in terms of production and revenue.
In addition to key information, revenue indicators, revenue by product, share of export revenue are disclosed separately.
Reporting segment’s information is disclosed using the same valuation techniques as those used for the presentation of similar information in the Company’s financial statements.
Besides, the Company discloses segment information in its consolidated financial statements in line with International Financial Reporting Standards (IFRS), where the Company is included in the Russian flat products segment without further subdivision by product types.

2018 Accounting (Financial) Statements

2. 15 CHANGES IN ACCOUNTING POLICIES

In the reporting year, no changes in accounting standards which could cause any significant changes in the Company's accounting policies or any adjustments to accounting records and its presentation in the financial statements have come into force.
No significant changes have been made to the accounting policies.

2. 16 COMPARATIVE DATA

Comparative information of these financial is derived from financial statements are formed by transferring the respective financial statements for items the previous reporting period except the following: currency sales operations and currency differences in other income and expenses in the statement of financial results are represented in a contracted form; other expenses and remuneration to customers for achievement of target volume of production delivery in the statement of financial results are reclassified; loans granted under the cash pooling agreements in the statement of cash flows are represented in a contracted form. The changes made do not impact users' opinion on the Company's financial statements, however improve its understanding.

(RUB million)

	Line code	Before adjustment	Adjustment	After adjustment
Balance sheet as of 31.12.2017				
Accounts receivable	1230	146 072	(1 050)	145 022
Accounts payable	1520	100 068	(1 050)	99 018
Statement of financial results for 2017				
Revenue	2110	411 806	(1 774)	410 032
incl. sales of steel products	2110.1	409 649	(1 774)	407 875
Cost of sales	2120	(299 452)	(248)	(299 700)
Gross profit (loss)	2100	112 106	(1 774)	110 332
Selling expenses	2210	(30 112)	2 065	(28 047)
Management expenses	2220	(13 769)	(452)	(14 221)
Profit (loss) from sales	2200	67 766	298	68 064
Other income	2340	320 870	(292 671)	28 199
Other expenses	2350	(301 562)	293 080	(8 482)
Before-tax income (pre-tax loss)	**2300**	**122 633**	**--**	**122 633**
Statement of cash flows for 2017				
Receipts provided by investing activities- total	4210	130 448	(92 927)	37 521
from return of loans, sales of debt securities (chose of possession of cash from third parties)	4213	97 751	(92 927)	4 824
Payments used in investing activities- total	4220	(118 024)	92 927	25 097
purchase of debt securities (chose of possession of cash from third parties), loans granted	4223	(92 989)	92 927	62

Notes

In addition, the respective indicators in Explanatory notes were recalculated.

For the convenience, all amounts in the statements are presented in RUB millions, unless otherwise indicated (in reports for previous periods – RUB thousand). This change did not lead to a significant change in comparative data.

2018 Accounting (Financial) Statements

3. DISCLOSURE OF SIGNIFICANT INFORMATION

3. 1 INTANGIBLE ASSETS

Availability of intangible assets

(RUB million)

Name	As of 31.12.2018			As of 31.12.2017			As of 31.12.2016		
	Cost	Accumulated amortisation	Carrying amount	Cost	Accumulated amortisation	Carrying amount	Cost	Accumulated amortisation	Carrying amount
Groups of intangible assets – **total**	1 748	(123)	1 625	1 693	(115)	1 578	893	(114)	779
including: research and development	36	(13)	23	33	(11)	22	26	(9)	17
software and data bases	1 709	(107)	1 602	1 657	(101)	1 556	864	(102)	762
trademarks and service marks	1	(1)	--	1	(1)	--	1	(1)	--
original works of fiction or art	2	(2)	--	2	(2)	--	2	(2)	--
Expenses for purchase of intangible assets	X	X	41	**X**	**X**	25	**X**	**X**	28
Total	**X**	**X**	**1 666**	**X**	**X**	**1 603**	**X**	**X**	**807**
Reference: *Internally developed For information:* *intangible assets*	--	--	*30*	--	--	*27*	--	--	*21*
Fully depreciated intangible assets cost	*106*	*(106)*	--	*84*	*(84)*	--	*82*	*(82)*	--

There are no intangible assets with an indefinite useful life.

Notes

3. 2 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Availability of property, plant and equipment and capital investments in progress

(RUB million)

Name	As of 31.12.2018			As of 31.12.2017[1]			As of 31.12.2016[1]		
	Original value	Depreciation	Book value	Original value	Depreciation	Book value	Original value	Depreciation	Book value
Property, plant and equipment									
Buildings	33 764	(10 895)	22 869	*32 856*	*(9 956)*	*22 900*	29 262	(9 082)	20 180
Structures	33 432	(16 560)	16 872	*32 551*	*(15 224)*	*17 327*	31 338	(14 024)	17 314
Machinery and equipment including household implements and other items	156 284	(104 632)	51 652	*149 841*	*(93 852)*	*55 989*	144 112	(82 234)	61 878
Vehicles	4 600	(2 600)	2 000	*3 912*	*(2 414)*	*1 498*	3 838	(2 232)	1 606
Cultivated resources of vegetable origin	1	--	1	1	--	1	1	--	1
Land plots and land improvement expenses	1 343	--	1 343	1,052	--	1,052	1,052	--	1,052
Total	**229 424**	**(134 687)**	**94 737**	**220 213**	**(121 446)**	**98 767**	**209 603**	**(107 572)**	**102 031**
For reference: *value of real estate received for use and undergoing state registration.*	*4 655*	*X*	*X*	*4 741*	*X*	*X*	*3,612*	*X*	*X*
value of property, plant and equipment rented out	*1 523*	*(881)*	*642*	*1 526*	*(796)*	*730*	*1 739*	*(837)*	*902*
Capital investments in progress									
Construction of properties[1]	X	X	32 910	X	X	23 674	X	X	22 732
Acquisition of properties	X	X	305			122	X	X	324
Equipment to be installed	X	X	8 260	X	X	6 331	X	X	4 028
Materials and spare parts for construction and installation works	X	X	3 102			1 123	X	X	1 562
Total	**X**	**X**	**44 577**	**X**	**X**	**31 250**	**X**	**X**	**28 646**

Notes

[1]The largest construction in progress as of 31.12.2018 is reconstruction of a by-product filtering shop, merger of coke gas flows in coke battery, replacement of converters with gas exhaust ducts and fugitive emissions filtering and treatment system, pulverized coal injection system in blast furnaces, , reconstruction of combustion gas cogeneration plant complete with turbo-blower, reconstruction of blast-furnance №6.

2018 Accounting (Financial) Statements

Changes in property, plant and equipment (original value)

(RUB million)

Name	For 2018		For 2017	
	Received[1]	Retired	Received	Retired
Buildings	1 486	(578)	3 647	(53)
Structures	908	(27)	1 230	(17)
Machinery and equipment including household equipment and other items	7 024	(581)	6 298	(569)
Vehicles	743	(55)	120	(46)
Land plots and land improvement expenses	291	--	--	--
Total	**10 452**	**(1 241)**	**11 295**	**(685)**
For reference:				
The increase of the property's value due to additional construction, installation of additional equipment, reconstruction	*2 112*	--	*3 672*	--
the decrease of the property's value as a result of partial liquidation	--	*(21)*	--	*(196)*

[1] The largest property, plant and equipment commissioned in the reporting year are those acquired under NLMK investment programme. For more details please refer to www.nlmk.com

Non-depreciable property, plant and machinery

(RUB million)

Name	Original value		
	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Plots of land	1 343	1,052	1,052
Facilities on preservation	705	728	740
Housing facilities	18	--	2
Other	--	--	2
Total	**2 066**	**1 780**	**1 796**

As of 31.12.2018, the Company rents property, plant and equipment (including land lots) in the amount of RUB 4 792 million, as of 31.12.2017 – RUB 4 565 million, as of 31.12.2016 – RUB 4 478 million (off-balance sheet value according to lease agreements). The Company rents land lots with the total area of 2 389 thousand square meters. The land lots rented are located in Lipetsk and the Lipetsk Region.

Notes

2018 Accounting (Financial) Statements

3. 3 FINANCIAL INVESTMENTS

Availability of financial investments

(RUB milion)

Name	As of 31.12.2018			As of 31.12.2017			As of 31.12.2016		
	Original value	Provision for financial investment impairment	Book value	Original value	Provision for financial investment impairment	Book value	Original value	Provision for financial investment impairment	Book value
Long-term financial investments - total	**189 469**	**(11 660)**	**177 809**	**174 759**	**(26 793)**	**147 966**	**174 431**	**(50 095)**	**124 336**
Investments in subsidiaries	189 017	(11 226)	177 791	173 709	(26 399)	147 310	173 790	(49 699)	124 091
including: NLMK Overseas Holdings	70 362	--	70 362	55 362	(15 160)	40 202	55 362	(38 460)	16 902
NLMK-Kaluga	39 185	--	39 185	39 185	--	39 185	39 185	--	39 185
Stoilensky GOK	21 196	--	21 196	21 196	--	21 196	21 196	--	21 196
VIZ Steel	18 477	--	18 477	18 477	--	18 477	18 477	--	18 477
Altai-Koks	14 754	--	14 754	14 754	--	14 754	14 754	--	14 754
NLMK-Metalware	12 901	(11 226)	1 675	12 901	(11 226)	1 675	12 901	(11 226)	1 675
Uralvtorchermet	4 196	--	4 196	4 196	--	4 196	4 196	--	4 196
Loans granted	16	--	16	655	--	655	233	--	233
Other financial investments	436	(434)	2	395	(394)	1	408	(396)	12
Short-term financial investments - total	**2 499**	**(1)**	**2 498**	**65 952**	**(3 394)**	**62 558**	**61 713**	**(3 389)**	**58 324**
Loans granted	2 498	(1)	2 497	6 623	(3 394)	3 229	7 875	(3 389)	4 486
including: NLMK-Kaluga	2 490	--	2 490	3 005	--	3 005	3 783	--	3 783
Maxi-Group	--	--	--	3 383	(3 383)	--	3 383	(3 383)	--
Deposits	1	--	1	59 329	--	59 329	53 838	--	53 838
Total	**191 968**	**(11 661)**	**180 307**	**240 711**	**(30 188)**	**210 524**	**236 144**	**(53 484)**	**182 660**

As of 31.12.2018, 31.12.2017 and 31.12.2016 there were no financial investments for which the current market value was to be determined.

Notes

2018 Accounting (Financial) Statements

Changes in financial investments

In March 2018, the Company completed the transaction on selling 100% interest in LLC ”Pansionat Metallurg”. Revenue from the transaction amounted to RUB 14 million, the carrying value of the disposed investment amounted to RUB 14 million.
In August 2018, the Company acquired 100% shares of OJSC Institute UralNIIAS from NLMK Metalware in the amount of RUB 108 million.
In January-April 2018 the Company acquired 42,43% shares of NLMK Engineering in the amount of RUB 214 million, thus increased stake in the share capital to 100%.
Due to liquidation of OJSC Maxi-Group and write-off of the loan issued in the amount of RUB 3 383 million, the impairment allowance for the loan issued was reversed in the amount of RUB 3 383 million.
In order to increase net assets, the Company contributed cash to the capital of LLC NLMK Overseas Holdings in the amount of RUB 15 000 million and recognized as financial investments, in accordance with the provisions of point 7 PBU 1/08 “Accounting Policy of a Legal Entity”. As a result of the impairment testing performed as of 31 December 2018 - the previously created impairment allowance for the investment in LLC NLMK Overseas Holding was reversed in the amount of RUB 15 160 million. Income from reversal whose income shown in line 2340 “Other incomes” of Statement of financial results.
The Company granted loans to its related parties.

Income from financial investments

Name	Income, RUB million	
	For 2018	For 2017
Income from short-term deposits (from 3 months up to 1 year)	200	801
Dividends from subsidiaries	21 967	37 962
Interests on loans granted	275	302
Total	**22 442**	**39 065**

3. 4 INVENTORIES

Structure of inventories

(RUB million)

Type of inventories	As of 31.12.2018			As of 31.12.2017			As of 31.12.2016		
	Production costs	Provisions for inventory impairment	Book value	Production costs	Provisions for inventory impairment	Book value	Production costs	Provisions for inventory impairment	Book value
Raw and other materials, other similar valuables	31 279	(1 982)	29 297	28 374	(2 715)	25 659	27 457	(2 101)	25 356
Work in progress	11 278	(278)	11 000	10 591	(291)	10 300	9 220	(385)	8 835
Finished goods and goods for resale	8 367	--	8 367	8 808	--	8 808	8 079	--	8 079
Goods shipped	12 269	--	12 269	8 890	--	8 890	10 739	--	10 739
Deferred expenses	178	--	178	365	--	365	193	--	193

Notes

Total	**63 371**	**(2 260)**	**61 111**	**57 028**	**(3 006)**	**54 022**	**55 688**	**(2 486)**	**53 202**

2018 Accounting (Financial) Statements

Inventories, which will be sold to buyers rather than be used in a further production stage were accounted for in finished goods.

3. 5 ACCOUNTS RECEIVABLES AND LIABILITIES

3. 5. 1 Accounts receivables

Structure of accounts receivables

(RUB million)

Type of accounts receivables	As of 31.12.2018			As of 31.12.2017			As of 31.12.2016		
	Accounted as per the Contract terms	allowance for impairment	Book value	Accounted as per the Contract terms	Allowance for impairment	Book value	Accounted as per the Contract terms	Allowance for impairment	Book value
Long-term accounts receivables - total	**5 599**	**--**	**5 599**	**17 034**	**--**	**17 034**	**6 646**	**--**	**6 646**
including: settlements with buyers and customers	--	--	--	14	--	14	1	--	1
advances given[1] - total	716	--	716	1 871	--	1 871	1 118	--	1 118
including: for current operations	80	--	80	78	--	78	90	--	90
for non-current assets[3]	636	--	636	1 793	--	1 793	1 028	--	1 028
other	4 883	--	4 883	15 149	--	15 149	5 527	--	5 527
Short- term accounts receivables - total	**136 395**	**(8 617)**	**127 778**	**143 103**	**(8 957)**	**134 146**	**138 175**	**(8 801)**	**129 374**
including: settlements with buyers and customers	8 662	(396)	8 266	16 692	(348)	16 344	9 779	(340)	9 439
advances given - total	9 941	(177)	9 764	6 682	(187)	6 495	3 167	(98)	3 069
including: for current operations	3 532	(176)	3 356	2 316	(186)	2 130	2 229	(97)	2 132
for non-current assets[3]	6 409	(1)	6 408	4 366	(1)	4 365	938	(1)	937
other	117 792	(8 044)[2]	109 748	119 729	(8 422)[2]	111 307	125 229	(8 363)	116 866
Total	**141 994**	**(8 617)**	**133 377**	**160 137**	**(8 957)**	**151 180**	**144 821**	**(8 801)**	**136 020**

Notes

[1] Here and hereafter advances given are presented including VAT.

[2] There were no significant changes in the composition and structure of allowance for impairment compare to prior.

[3] Advances given for construction, purchase of property, plant and equipment items and other non-current assets recognised in the balance sheet line 1190 "Other non-current assets".

Other debtors

2018 Accounting (Financial) Statements

(RUB million)

Type of receivables	As of 31.12.2018	As of 31.12.2017	As of 31.12.2019
Other long-term receivables - total	**4 883**	**15 150**	**5 527**
including: settlements with personnel on other operations	297	338	325
interest-free loans granted	2 400	3 623	2 915
interest on long-term financial investments	2 186	11 189	2 286
Other short-term receivables - total	**109 748**	**111 306**	**116 866**
including: interest-free loans granted	66 962	81 567	83 125
including: interest-free loans NLMK Overseas Holdings	64 637	78 686	78 516
received non-interest bearing notes	1 766	401	375
settlements related to interest accrued	10 266[1]	2 625	12 071
settlements upon assignment of receivables	9 595	12 307	12 306
Including: receivables from assignment of receivables to NLMK Overseas Holdings[2]	9 595	12 306	12 306
settlements with budget and off-budget funds in terms of taxes and duties	40	590	265
settlements with budget in respect of VAT	6 873	3 907	3 462
settlements with customs	483	188	153
claim settlements	154	15	40
settlements with CTG participants	1 093	585	--
settlements related to reimbursable services	33	12	11
lease settlements	37	23	18
settlements with staff in terms of salaries and wages and other operations	2	7	18
settlements with accountable persons	21	2	2
settlements related to dividends	5 550	8 012	1 010
interest-free loans granted (cash pooling)	6 615	823	3 940
others	258	242	70
Total	**114 631**	**126 456**	**122 393**

Notes

[1] *Including interest on the loan to JSC NLMK-Ural in the amount of RUB 10,182 million maturing in 2019.*

[2] *In January 2018, a decision was made to extend the maturity by December 31, 2019*

2018 Accounting (Financial) Statements

Overdue accounts receivables

(RUB million)

Type of receivables	As of 31.12.2018		As of 31.12.2017		As of 31.12.2016	
	Accounted as per the Contract terms	Book value	Accounted as per the Contract terms	Book value	Accounted as per the Contract terms	Book value
Total	**2 407**	**1 422**	**2 074**	**776**	**1 432**	**306**
including: settlements with buyers and customers	1 256	860	611	263	557	217
advances given - total	567	391	549	363	168	71
including: for current operations	567	391	549	363	168	71
other	584	171	914	150	707	18

3. 5. 2 Accounts payables

Structure of accounts payables

(RUB million)

Type of payables	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Long-term payables - total	**15**	**4**	**12**
including: settlements with suppliers and contractors	15	4	12
Short-term payables - total	**118 358**	**99 018**	**89 820**
including: advances received[1]	45 587	37 227	40 171
suppliers and contractors	32 537	26 050	23 973
settlements related to payables to employees	834	772	684
settlements related to taxes and duties	1 986	3 050	791
settlements related with state non-budgetary funds	615	693	621
dividends payable to shareholders[2]	36 475	30 922	21 853
other	324	304	1 727
Total	**118 373**	**99 022**	**89 832**

[1] *Hereinafter advances received from buyers and customers are presented net of VAT payable to budget.*

Notes

Overdue payables

(RUB million)

Description	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Total	**7 419**	**2 835**	**2 166**
including:			
settlements with suppliers and contractors	4 328	2 418	2 051
advance payments received	3 060	407	112
other	31	10	3

3. 6 CASH AND CASH EQUIVALENTS

(RUB million)

Description	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Settlement accounts	2 869	497	520
Currency accounts	17 511	1 516	2 395
Deposits (up to 3 months)	39 955	6 893	24 882
Other cash	5	4	5
including: monetary instruments	--	--	1
Total	**60 340**	**8 910**	**27 802**

Other income and payments from operating activities

(RUB million)

Description	For 2018	For 2017
Other income from operating activities	**1 647**	**1 176**
Income from litigation, claims	299	282
Interest on cash equivalents	302	406
Remuneration from depositary receipts program	531	226
Other income	515	262
Other payments under operating activities	**11 092**	**10 439**
Tax payments	6 684	7 570
including VAT	*4 730*	*5 474*
Cash transferred to the companies of the Group	*1 184*	--
Other settlements with personnel	913	946
Settlements with sundry creditors	753	613
Insurance payments	452	424
Settlements of claims	501	371
Charity expenses	157	202
Land lease settlements	110	128
Settlements with the pension fund	104	106
Currency difference	163	32
Other remittance	71	47

2018 Accounting (Financial) Statements

CGT participants' cash transfers to the Company and CGT income tax payments to the budget were reflected in line 4124 "Income tax" on a net basis within cash flows from operating activities.

Other cash flows from investment activities include placement and withdrawal of deposits for over 3 months on a net basis: placement in amount of RUB 77 577 million (in 2017 – RUB 63 571 million), withdrawal in amount of RUB 14 634 million (in 2017 – RUB 72 196 million).

Other payments on financing activities include cash flow of tax transfer deducted on dividends payments in amount of RUB 4 989 million.

Cash flows with subsidiaries and other related parties (including VAT)

(RUB million)

Description	Receipts		Payments	
	In 2018	In 2017	In 2018	In 2017
Cash flows from operating activities	**316 903**	**232 342**	**166 952**	**142 886**
Subsidiaries	14 938	11 002	166 464	142 511
Other companies[1]	301 965	221 340	488	375
including: NLMK Trading SA	301 963	221 020	354	375
Cash flows from investing activities	**39 022**	**36 520**	**16 644**	**1 454**
Subsidiaries	39 022	36 520	16 644[2]	1 454
Cash flows from financing activities	**1 735**	**36 265**	**4 847**	**28 141**
Subsidiaries	1 735	32 576	2 328	28 141
Other companies[1]	--	3 689	2 519	--
Total	**357 660**	**305 127**	**188 443**	**172 481**

[1] Cash flows of NLMK Trading S.A., Novexco (Cyprus) Limited, NLMK DanSteel A/S

[2] Including contribution to the capital LLC NLMK Overseas Holding in order to increase net assets in the amount of RUB 15 000 million, represented in line 4229 "other payments on investing activities" in the Statement of cash flows.

3. 7 EQUITY AND DIVIDENDS

(RUB million)

Description	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Common stock	5 993	5 993	5 993
Reserve capital	300	300	300
Additional capital - **total**	4 063	4 072	4 080
including: revaluation of property, plant and equipment	3 291	3 300	3 308
other sources	772	772	772
Retained earnings (undistributed loss)	325 751	329 936	304 722
Total	**336 107**	**340 301**	**315 095**

Notes

Company shares

As of 31.12.2018 common stock was fully paid up and consisted of 5,993,227,240 ordinary shares at par value RUB 1 each.

Shareholders with more than 5% of common stock

Description	Share, %		
	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
FLETCHER GROUP HOLDINGS LIMITED	84	84	84

Other shares are in free circulation including global depositary shares traded on London Stock Exchange, where Deutsche Bank Trust Company Americas is PJSC NLMK's depositary bank, and shares traded on Moscow Stock Exchange.

Earnings per share

Description	In 2018	In 2017
Net profit for the reporting period, RUB million	117 859	109 466
Weighted average number of ordinary shares in issue	5 993 227 240	5 993 227 240
Basic earnings (loss) per share, RUB	19,67	18,26

Diluted earnings per share were not calculated due to absence of factors having dilutive effect on the basic profit per share indicator.

Dividends

The Annual General Meeting of Shareholders held on 08.06.2018 approved payment of dividends of RUB 14.04 per ordinary share based on the 2017 performance results that amounted to RUB 84 145 million in total, including interim dividends of RUB 64 008 million accrued in 2017.

The following interim dividends were declared in the reporting year: RUB 5.73 per ordinary share for Q1, which amounted to RUB 34 341 million; RUB 5.24 per ordinary share for H1, which amounted to RUB 31 405 million; and RUB 6.04 per ordinary share for 9 months, which amounted to RUB 36 199 million.

As of 31.12.2018 the dividends for 2017, Q1 and H1 2018 accrued by the Company were paid up in full.

Notes

2018 Accounting (Financial) Statements

3. 8 BORROWINGS

Structure of borrowings

(RUB million)

Type of liabilities	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Long-term liabilities - total	**84 067**	**79 364**	**95 620**
including:			
corporate loans	84 067	77 661	80 309
bank loans	--	1 703	15 311
Short-term liabilities - total	**21 824**	**25 361**	**20 796**
including:			
corporate loans	12 763	15 619	11 234
loans supported by the cash pooling agreement	7 100	5 314	2 779
bank loans	1 961	4 428	6 783
Total	**105 891**	**104 725**	**116 416**

Bank loans

As of 31.12.2018 and 31.12.2017, the Company signed agreements with AO ALFA-BANK, Sberbank of Russia and VTB Bank on the opening of loan facilities with a total limit of RUB 78 000, million, for the working capital financing and other corporate purposes. Unused amount under all credit facility agreements is RUB 78 000 million.

Bank loans

(RUB million)

Creditor	Maturity	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Deutsche Bank AG , Amsterdam branch[1]		--	--	12 193
Deutsche Bank AG [1]	2019	1 961	6 117	9 901
Other banks	2019	--	14	--
Total bank loans, incl. interest accrued		**1 961**	**6 131**	**22 094**
including:				
with maturity up to 1 year, incl. current portion of long-term loans		1 961	4 428	6 783

[1] *This loan was obtained from a syndicate of banks, agent bank is specified as the creditor here.*

Notes

Corporate loans

(RUB million)

Lender	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Steel Funding DAC (Eurobonds) [2]	94 105[1]	86 464[1]	79 939[1]
Subsidiaries and other related parties	2 725	6 816[1]	1 415[1]
including: interest-free loans	*150*	*2 431*	*542*
Bonds issued	--	--	10 189[1]
Loans under the cash pooling agreement	7 100[1]	5 314[1]	2 779[1]
including: interest-free loans	*5 923*	*4 468*	*2 320*
Total loans, incl. interest accrued	**103 930**	**98 594**	**94 322**
including: with maturity up to 1 year, incl. current portion of long-term loans	19 863	20 933	14 014

[1] Including the interest accrued.

[2] Four issues of Eurobonds maturing 2019-2024. The remaining debt is short-term.

For more details on the structure and terms and conditions of the debt portfolio please refer to the Company's website (http://www.nlmk.com).

3. 9 ESTIMATED LIABILITIES

(RUB million)

Description	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Estimated liabilities – **total**	**7 089**	**4 473**	**5 145**
including:		1 770	
upcoming expenses on vacations	1 536		1 369
upcoming expenses on bonuses	5 240	2 669	3 725
unsettled court proceedings and claims	313	34	51

3. 10 INCOME AND EXPENSES

3. 10. 1 Income and expenses from ordinary activities

Income from general activities

(RUB million)

Description	For 2018	For 2017
Revenue from sales of goods (services) outside of Russia	306 234	235 300
Revenue from sales in Russia	187 595	174 732
Total	**493 829**	**410 032**

Cost of production

(RUB million)

Description	For 2018	For 2017
Materials cost – **total**	331 379	291 706
including: raw and other materials	226 588	185 855
fuel, energy	67 573	73 444
work and services rendered by third parties[1]	37 218	32 407
Payroll expenses	23 698	21 775
Allocations for social needs	6 626	6 562
Depreciation and amortisation	13 732	13 941
Other expenses	8 799	7 905
Total for components	**384 234**	**341 889**
Change of (increase [-], decrease [+]): work in progress, semi-finished products, finished goods	- 4 110	79
Total general expenses	**380 124**	**341 968**
For reference: *Cost of maintenance and repair*	***13 550***	***12 603***

[1]Including expenses related to the sale of products in the amount of RUB 30 492 million (for 2017 – RUB 26 324 million).

3. 10. 2 Other income and expenses

Other income and expenses

(RUB million)

Description	For 2018		For 2017	
	Income	Expenses	Income	Expenses
Sale of foreign currency	101	309	--	32
Foreign exchange difference[1]	1	9 973	587	111
Assignment of rights	3 558	3 526	579	566
Estimated reserves	15 725	--	23 319	705
Profit and losses of previous years	316	92	396	2 053
Sales of inventories	1 641	1 392	1 247	956
Disposal of property, plant and equipment, capital investments	259	384	184	264
Transactions with securities	24	25	45	101
Borrowing expenses	--	51	--	696
Writing-off of inventories, packaging, inventories from repairs	667	753	1 022	1 488
Other expenses of Company Group (Note 3.14.2)	--	1 184	--	--
Other expenses	1 268	1 800	820	1 510
Total	**23 560**	**19 489**	**28 199**	**8 482**

3. 11 CURRENT INCOME TAX

Calculation of income tax in accordance with PBU 18/02

(RUB million)

Description	For 2018	For 2017
Accounting profit (loss) before tax	136 408	122 633
Conditional expenses (income) on the profit tax (according to accounting records)	27 282	24 527
Permanent tax liabilities (assets)	(8 755)	(11 373)
Change in deferred tax assets	1 608	8
Change in deferred tax liabilities	(31)	387
Current income tax	20 104	13 549
Taxable profit (according to the tax records)	100 520	67 746
Permanent difference leading to taxable profit increase according to tax records	--	4 449
Permanent difference leading to taxable profit decrease according to tax records	(43 775)	(61 312)
Taxable temporary differences	(155)	1 937
Deductible temporary differences	8 042	38

When the tax base was determined, income received in the form of dividends from ownership interests in other entities and income received from recovery of provisions for impairment of financial investments and inventories were not included. Expenses not recognised for taxation purposes mostly consist of accrual of estimated reserves and other expenses within NLMK Group.

Taxable temporary differences are associated with differences in tax and accounting recognition of initial evaluation of property to be depreciated, accrued depreciation, depreciation premium, and appraisal of construction in progress, work in progress, semi-finished products and materials produced in-house, finished products.

Deductible temporary differences are associated with differences in tax and accounting recognition of deferred expenses, and losses from supporting facilities, losses from sale of depreciated property, estimated liabilities, related to employee benefits and remuneration to customers for achievement of target volume of delivery.

2018 Accounting (Financial) Statements

3. 12 INFORMATION BY SEGMENTS

The Company discloses information on a single segment based on the type of activity.

(RUB million)

Parameter	Segment		Not distributed		Company as a whole	
	2018	2017	2018	2017	2018	2017
Sales revenue, RUB million	490 938	406 096	2 891	3 936	493 829	410 032
Share of proceeds from sales in total proceeds, %	99,41	99,04	0,59	0,96	100,00	100,00
Total production costs, RUB million	378 232	338 196	1 892	3 772	380 124	341 968
Sales profit (loss), RUB million	112 706	67 900	999	164	113 705	68 064
Share of profit in total profit, %	99,12	99,76	0,88	0,24	100,00	100,00

(RUB million)

Type of product	Sales revenue		Change
	for 2018	for 2017	
Pig iron	17 447	11 150	6 297
Slabs	228 152	178 896	49 256
Hot rolled steel	90 388	86 043	4 345
Cold rolled steel	57 768	52 747	5 021
Pre-painted steel	64 989	51 725	13 264
Electrical steel	23 601	18 274	5 327
Other by-products and energy resources	8 593	7 261	1 332
Total	**490 938**	**406 096**	**84 842**

In the reporting year the proceeds from sales to foreign customers accounted for 62.38 % (57.94% in 2017) of the total proceeds from sales in the segment.

3. 13 SECURITY OF LIABILITIES

(RUB million)

Description	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Received -**total**	**4 379**	**4 734**	**2 648**
including:			
bank guarantees	4 379	4 734	2 648
Sureties granted	**72 260**	**56 885**	**37 722**

Notes

As of 31.12.2018, 31.12.2017 and 31.12.2016 the Company had obligations under surety agreements (RUB 71 429 million, RUB 56 581 milion and 37 722 million, accordingly) granted in respect of loans of related parties. These liabilities in accordance with the terms and conditions of the agreements will remain valid until 2022 and will cease to exist pro rata to repayment of the loans by the related parties. Granted sureties are not likely to cause and negative implications.

2018 Accounting (Financial) Statements

3. 14 INFORMATION ABOUT RELATED PARTIES

3. 14. 1 List of related parties[1]

The list of related parties includes the affiliates of the Company[1] in accordance with the Russian legislation as well as related parties categorised as such on other grounds.

The main business entity holding 84% of the Company's shares is FLETCHER GROUP HOLDINGS LIMITED.

The Beneficial owner of the above company in accordance with the definition used in the Russian legislation is Mr. Vladimir Lisin.

There are no predominant (participating) business entities.

In addition to listed, related parties include Board of Directors and Management Board members listed in General Information.

List of NLMK's subsidiaries and dependent companies as of 31.12.2018:

Name	Ownership interest as of 31.12.2018, %	Name	Ownership interest as of 31.12.2018, %
LLC -VIZ-Steel	100	OJSC Institute UralNIIAS	100
NLMK- Communications	100	Trade House NLMK	100
Vtorchermet NLMK	100	Construction and Assembly Trust NLMK	100
Stagdok	100	Stoilensky GOK	100
Dolomit	100	NLMK Long Products	100
Uralvtorchermet	100	Novolipetsk Steel Service Center	100
NLMK-Metalware	100	Hotel Complex "Metallurg"	100
NLMK Kaluga	100	Novolipetsk Printing House	100
Mining & Concentration Complex Zhernovsky-1	100	NLMK Accounting Center	100
Mining & Concentration Complex Usinsky-3	100	NLMK Engineering	100
Altai-Koks	100	NLMK Ural	92.59
NLMK Information Technologies	100	Neptune	25.00
NLMK Overseas Holdings	100		

Notes

All the companies specified are registered in the Russian Federation.

Operations with the Neptune are immaterial and are not disclosed in the reporting and comparative period.

Other related parties

[1] *The complete list of the Company's affiliated parties is subject to mandatory disclosure by the Issuer of issue-grade securities and is published at NLMK's web-site (http://www.nlmk.com).*

2018 Accounting (Financial) Statements

Notes

Other related parties include entities belonging to the same group as the Company, as well as organizations and their subsidiaries which are significantly influenced by the members of the Company's Board of Directors and/or the Company's management through holding voting shares / participation in management.

Other related parties with whom the Company had transactions in the reporting period and/or in regards of which there were outstanding balances under operations not completed at the reporting date

First Freight Company	PO TatVtorchermet
Universalny Expeditor	Vtorchermet
Tuapse Sea Trade Port	Chuvashvtormet
Taganrog Sea Trade Port	Vtorchermet NLMK Center
Saint-Petersburg Sea Port	Vtorchermet NLMK North
UNIVERSAL FORWARDING COMPANY (UFC) LIMITED	Vtorchermet NLMK Siberia
Novexco (Cyprus) Limited [1]	Vtorchermet NLMK Western Siberia
NLMKTrading S.A.[2]	Vtorchermet NLMK Ural
NLMK DanSteel A/S[1]	Vtorchermet NLMK Black Belt Region
NLMK Pennsylvania LLC[1]	Vtorchermet NLMK South
Steel Funding DAC	Vtorchermet NLMK East
VIZ-Broker	Vtorchermet NLMK Perm
NLMK - Ural Service	Vtorchermet NLMK West
Railcar Repair Company "Gryazi"	Vtorchermet NLMK Republic
InServicePlus	Vtorchermet NLMK Povolzhie
Gazobeton 48[1]	Vtorchermet NLMK Bashkortostan
NLMK Verona SpA	Vtorchermet NLMK Volga
NLMK Belgium Holdings S.A.	NLMK Plate Sales S.A.
Miloserdije, Charity Fund of Social Security	NLMK Clabecq S.A.
Verkh-Isetsky Steel Plant	Novolipetsk Medical Center
LLC Blinovskoye	SC Lipetsk Metallurg
Lisya Nora	Pride Media
Ural Health-Center Nizhnie Sergi	Lisogub Pavel Vladimirovich
Iron and steel Industry Association "Russian Steel"	NLMK International B.V.[1]
Advocate Bureau "Reznik, Gagarin and Partners", Moscow	Tsyrlin Stanislav Eduardovich (till 27.04.2018)
Franz Struzl (till 08.06.2018)	

[1] *Other related parties controlled by NLMK via NLMK Overseas Holdings.*

[2] *Novex Trading (Swiss) S.A till 13.08.2018*

2018 Accounting (Financial) Statements

3. 14. 2 Related party transactions

Transactions related to individual companies are disclosed including VAT, for the period of their actual inclusion into the list of related parties.

The Company enters into transactions with the related parties on an arm's-length basis.

Sales to related parties

(RUB million)

Name	For 2018					For 2017				
	Total	Products, goods	Inventories	Services	Lease	Total	Products, goods	Inventories	Services	Lease
Subsidiaries	**14 538**	13 805	306	376	51	**10 719**	10 215	145	266	93
including: VIZ Steel	9 260	9 231	--	29	--	7 307	7 285	--	22	--
Novolipetsk Steel Service Center	3 803	3 732	37	34	--	2 479	2 429	--	33	17
Other related parties	**293 287**	293 097	1	178	11	**225 066**	224 871	--	184	11
including: Novexco (Cyprus) Limited	--	--	--	--	--	2 324	2 324	--	--	--
NLMK Trading S.A.	292 380	292 359	--	21	--	221 941	221 924	--	17	--
Total	**307 825**	**306 902**	**307**	**554**	**62**	**235 785**	**235 086**	**145**	**450**	**104**

Purchases from related parties

(RUB million)

Name	For 2018				For 2017			
	Total	Inventories	Services	Lease	Total	Inventories	Services	Lease
Subsidiaries	167 425	163 952	3 465	8	**145 612**	142 256	3 348	8
including: Altai-Koks	48 853	48 853	--	--	55 285	55 285	--	--
Stoilensky GOK	85 404	85 404	--	--	61 589	61 589	--	--
Vtorchermet NLMK	27 640	27 640	--	--	23 470	23 470	--	--
Other related parties	23 753	2	23 251	500	18 990	347	18 221	422
including: First Freight Company	20 599	--	20 099	500	15 639	--	15 217	422
Total	**191 178**	**163 954**	**26 716**	**508**	**164 602**	**142 603**	**21 569**	**430**

Notes

2018 Accounting (Financial) Statements

Receivables

(RUB million)

Name	As of 31.12.2018			As of 31.12.2017			As of 31.12.2016		
	Debt	Bad debt provision	Book value	Debt	Bad debt provision	Book value	Debt	Bad debt provision	Book value
Subsidiaries	29 536	(175)	29 361	35 514	(571)	34 943	28 869	(573)	28 296
including:									
NLMK Ural	12 385	(30)	12 355	13 123	(1)	13 122	13 437	--	13 437
NLMK Overseas Holdings	9 595	--	9 595	12 306	--	12 306	12 306	--	12 306
Stoilensky GOK	5 190	(106)	5 084	8 059	(1)	8 058	1 072	(1)	1 071
Other related parties	1 927	(77)	1 850	1 693	(45)	1 648	1 762	(2)	1 760
including:									
First Freight Company	1 821	(65)	1 756	1 125	(42)	1 083	1 484	--	1 484
Total	**31 463**	**(252)**	**31 211**	**37 207**	**(616)**	**36 591**	**30 631**	**(575)**	**30 056**

Payables

(RUB million)

Name	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Subsidiaries	11 280	10 519	8 670
including:			
Stoilensky GOK	6 500	*5 503*	*4 237*
Altai-Koks	3 995	*4 460*	*3 824*
Other related parties	40 746	32 031	34 835
including:			
NLMK Trading SA	40 635	*31 454*	*32 538*
Total	**52 026**	**42 550**	**43 505**

Notes

2018 Accounting (Financial) Statements

Dividends received from subsidiaries

(RUB million)

Name	За 2018 год	За 2017 год
Stoilensky GOK	21 016	23 006
Altai-Koks	2 001	7 201
VIZ Steel	1 000	--
Novolipetsk Steel Service Center	117	135
NLMK Engineering	100	243
Dolomit	84	180
NLMK Accounting Center	51	25
NLMK- Communications	34	--
Stagdok	20	--
Novolipetsk Printing House	7	--
Construction and Assembly Trust NLMK	--	30
Trade House NLMK	--	90
NLMK Information Technologies	--	40
Other subsidiaries which ceased to be related parties	--	10
Total	**24 430**	**30 960**

Loans granted to related parties

In the reporting year, the Company granted short-term and long-term loans, repayment of which is expected not later than in 2023: *(RUB million)*

Name	For 2018		For 2017	
	Granted	Repaid	Granted	Repaid
Subsidiaries	15 213	29 744	5 617	5 698
Including: LLC “Pansionat Metallurg”	--	--	5	--
including: interest-free loans NLMK Overseas Holdings	15 213	29 263	5 612	5 442
including: LLC NLMK Metalware	--	481		256
Other related parties[1]	23	874	--	2
including: LLC Blinovskoye	23	3	--	2
Total	**15 236**	**30 618**	**5 617**	**5 700**

[1] *Including the long-term loans for 2018 granted in the amount of RUB 19 million; repaid – RUB 655 million.*

Notes

2018 Accounting (Financial) Statements

Outstanding short-term and long-term loans:

(RUB million)

Borrower's name	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Subsidiaries[1]	69 361	88 584	89 429
including:			
NLMK Ural	2 802	4 100	4 864
NLMK Overseas Holdings	64 636	78 686	78 516
Maxi-Group	--	3 383	3 383
Vtorchermet NLMK	1 923	1 923	1 923
Other related parties[2]	20	871	878
Total	**69 381**	**89 455**	**90 307**

[1]Including interest-free loans to subsidiaries as of 31.12.2018 and 31.12.2017, 31.12.2016 in the amount of RUB 69 361 million, RUB 85 190 million and RUB 86 040 million.
[2]Interest loans.

The Company granted loans to related parties under the cash pooling agreement:

(RUB million)

Borrower's name	For 2018		For 2017	
	Granted	Repaid	Granted	Repaid
Subsidiaries[1]	156 265	152 310	87 139	91 805
including:				
NLMK-Ural	42 199	41 667	29 996	32 952
Vtorchermet NLMK	20 881	20 386	21 797	22 308
NLMK Kaluga	34 190	34 705	24 113	24 892
Stoilensky GOK	41 311	38 530	4 585	5 020
NLMK-Metalware	6 768	6 768	6 106	6 106
Other related parties[2]	246	220	177	171
Total	**156 511**	**152 530**	**87 316**	**91 976**

[1]Including the interest-free loans granted in the amount of 122 054 in 2018 (in 2017 – 63 014 million), repaid – 117 583 million (in 2017 – 66 902 million).
[2]Interest-free loans.

Notes

2018 Accounting (Financial) Statements

Outstanding loans granted under the cash pooling agreement:

(RUB million)

Borrower's name	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
Subsidiaries	9 069	3 815	7 718
including: interest-free loans	6 579	811	3 935
Other related parties	38	12	--
including: interest-free loans	38	12	--
Total	**9 107**	**3 827**	**7 718**

Income from loans provided:

(RUB million)

Borrower's name	For 2018	For 2017
Subsidiaries	--	1
Other related parties	24	70
Total	**24**	**71**

Loans received from related parties

The Company received loans from subsidiaries and other related parties.

(RUB million)

Lender	For 2018		For 2017	
	Received	Repaid	Received	Repaid
Subsidiaries	--	2 332	30 429	28 494[1]
including Stoilensky GOK	--	1 931	30 255	28 324
Other related parties	--	2 652	3 689	--
including:				
Novexco (Cyprus) Limited	--	2 652	3 689	--
Total[2]	**--**	**4 984[1]**	**34 118**	**28 494[1]**

[1] Including the interest accrued.

[2] Including interest-free loans not granted in 2018 (in 2017 – RUB 30 429 million), repaid – RUB 2 281million (in 2017 – RUB 28 381 million).

Notes

Interest payable:

(RUB million)

Lender	For 2018	For 2017
Subsidiaries	27	36
Other related parties	149	65
Total	**176**	**101**

In addition, the Company received loans from subsidiaries and other related parties under the cash pooling agreement.

(RUB million)

Lender	For 2018		For 2017	
	Received	Repaid	Received	Repaid
Subsidiaries[1]	173 028	171 363	115 843	113 747
including:				
Stoilensky GOK	114 749	115 153	64 474	61 643
Altai-Koks	8 622	9 077	23 402	24 212
Vtorchermet NLMK	21 894	21 894	11 316	11 316
VIZ Steel	15 412	13 894	7 692	7 216
Other related parties[1]	892	843	810	803
Total	**173 920**	**172 206**	**116 653**	**114 550**

[1] Including interest free loans granted in 2018 in the amount of RUB 171 802 million (in 2017 – RUB 115 756 million), repaid – RUB 170 348 million (in 2017 – RUB 113 782 million).

Interest payable on loans received from subsidiaries under the cash pooling agreement:

(RUB million)

Lender	For 2018	For 2017
Subsidiaries	72	53
Total	**72**	**53**

2018 Accounting (Financial) Statements

Notes

Security

The Company stood surety for subsidiaries and other related parties:

(RUB million)

Security granted by the Company	As of 31.12.2018	As of 31.12.2017	As of 31.12.2016
NLMK Kaluga	667	879	1 093
VIZ Steel	813	310	403
Stoilensky GOK	9 138	8 674	9 607
NLMK DanSteel A/S	7 365	6 474	6 718
NLMK Trading S.A.	19 892	17 303	4 572
VIZ- Broker	50	67	85
NLMK Pennsylvania LLC	12 826	5 668	--
LLC “NLMK-Metiz”	11	--	--
JSC “Dolomit”	37	--	--
NLMK Belgium Holdings S.A.	3 974	3 444	3 280
NLMK Plate Sales S.A.	7 949	5 931	4 977
NLMK Verona SpA	9 538	7 788	6 024
NLMK Clabecq S.A.	--	347	963
Total	**72 260**	**56 885**	**37 722**

Liabilities under the above securities are valid through 2022.

Other transactions with related parties

In 2018, the Company provided cash subsidy to LLC Vtorchermet NLMK in the amount of RUB 1 184 million.

Operations with key management personnel

Members of the Board of Directors and the Management Board represent the top management of the Company.

Terms and conditions of remuneration and reimbursement of expenses related to the execution of the Board of Directors member’s functions, is stated in NLMK’s Regulations on Remuneration of the Board of Directors members (“Regulations”) approved by the General Shareholders Meeting.

Terms and conditions of payment of remuneration to the members of the Management Board are determined by the agreement concluded with the members following the proposal of the Committee for Human Resources, Remuneration and Social Policy. Historical data for 2017 were adjusted for the actual amounts paid in 2018.

(RUB million)

Name	For 2018	For 2017
Bonuses and salaries (without estimated liabilities for upcoming expenses on vacations)	440[1]	682
Remunerations	148[2]	137
Other payments [3]	1 281	521
Total	**1 869**	**1 340**

[1] Bonuses to the members of the Management Board in 2018 are based on a preliminary calculation for the reporting year performance.

[2] Remuneration to the members of the Board of Directors in 2018 is determined on the basis of a preliminary calculation according to the Regulation.

[3] Other payments includes provision for the long-term motivation programme for achieving the Company's strategic targets in 2017-2018, which payments are expected in 2019.

3. 15 CONTINGENT LIABILITIES

In the ordinary course of business the Company participates in several court proceedings acting as a claimant or a defendant. The Company's management believes that liabilities, which may arise from these proceedings, cannot have a material adverse effect on its financial standing and performance.
Since the Company fulfils the requirements of regulatory authorities for environment protection and takes actions aimed at improvement of environmental situation in the region, at present there are no liabilities related to damage to the environment and its elimination.
The Russian tax law allows various interpretations and is subject to frequent changes. The Company's Management does not rule out some possible disputes with supervisory agencies over transactions that took place in the reporting and previous periods, which could result in changes of performance results. Tax audits may cover three calendar years of business immediately preceding the year of audit. Earlier periods may be subject to auditing under certain circumstances. In the Company Management's opinion, as of 31.12.2018, they interpreted respective legal regulations correctly, and the Company's position in terms of tax laws is going to be stable.

3. 16 SUBSEQUENT EVENTS

Thera are no significant subsequent events that should be disclosed in these financial statements which occurred through the period after 31 December 2018 to the date when these financial statements are signed.

O.G. Zarubina

On behalf of NLMK management
by virtue of Power of Attorney No.437 dd. 14.11.2018

February 15, 2019