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# CONTENT

## ABOUT NLMK

2017 HIGHLIGHTS.....	2
CEO STATEMENT .....	4
COMPANY PROFILE.....	6
WHERE WE MAKE AND MARKET STEEL.....	8
WHAT WE MAKE AND MARKET .....	10
NLMK GROUP BUSINESS MODEL .....	14
NLMK'S INTEGRATED PROCESS ENVIRONMENT.....	18
NLMK PRODUCTION SYSTEM.....	24
RESEARCH AND DEVELOPMENT.....	28
STRATEGY 2017 .....	30
STRATEGY 2017 RESULTS .....	31
KEY PERFORMANCE INDICATORS .....	36
MARKET REVIEW.....	40
2017 FINANCIAL AND OPERATING REVIEW.....	42
GLOSSARY.....	46
10-YEAR HIGHLIGHTS .....	47

## OUR TEAM

HIGHLIGHTS 2017.....	48
NLMK VALUES.....	50
HUMAN RIGHTS PROTECTION .....	51
SUSTAINABLE DEVELOPMENT PRIORITIES.....	52
DIALOGUE WITH STAKEHOLDERS.....	54
OUR EMPLOYEES .....	62
OCCUPATIONAL HEALTH AND SAFETY.....	72
COMMUNITY DEVELOPMENT .....	76
KEY INDICATORS.....	81

## CORPORATE GOVERNANCE

LEADERSHIP .....	82
CORPORATE GOVERNANCE.....	91
OPERATIONAL CONTROL AND RISK MANAGEMENT .....	111
INFORMATION FOR SHAREHOLDERS.....	116

## ENVIRONMENT

2017 ENVIRONMENTAL HIGHLIGHTS.....	120
NLMK GROUP'S ENVIRONMENTAL ACTIVITIES .....	122
INVESTMENTS IN ENVIRONMENTAL INITIATIVES.....	128
ENVIRONMENTAL PROTECTION .....	130
ENERGY EFFICIENCY .....	142
KEY HIGHLIGHTS .....	149

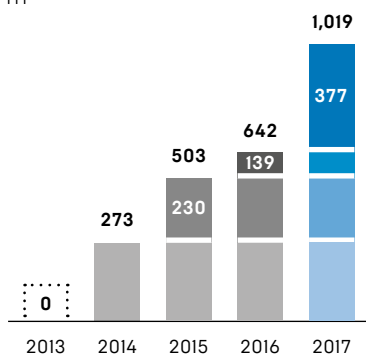
REPORTING AND APPLICATIONS .....	150
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# 2017 HIGHLIGHTS

## SUCCESSFUL EXECUTION OF STRATEGY 2017

### SUBSTANTIAL STRUCTURAL GAIN FROM STRATEGIC INITIATIVES\*

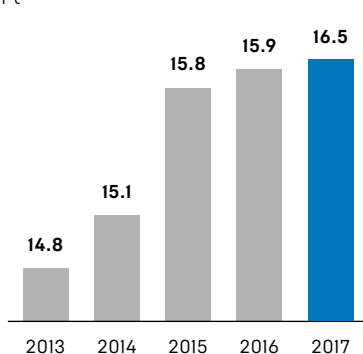
\$ m



## RECORD OPERATING RESULTS

### CONTINUOUS GROWTH OF SALES VOLUMES

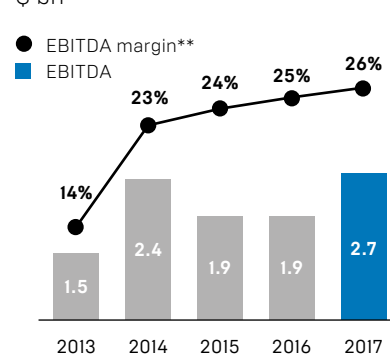
m t



## GROWTH OF BUSINESS PROFITABILITY

### CONSISTENT GROWTH OF PROFITABILITY

\$ bn



# 102%

of Strategy 2017 targets met,  
with

# 70%

achieved through management  
initiatives [for more details,  
please refer to Strategy 2017  
Results]

# 90%

of blast furnace capacities  
equipped with PCI technology

EBITDA margin is expanding for  
the **fourth** year running

\* With NBH

\*\* See the Glossary on p. 46



## KEY FACTS AND FIGURES

### Setting records in operations

In 2017, NLMK posted record operating results, steel output growing to 17.1 m t, and sales increasing to 16.5 m t.

### Stable financials and debt reduction

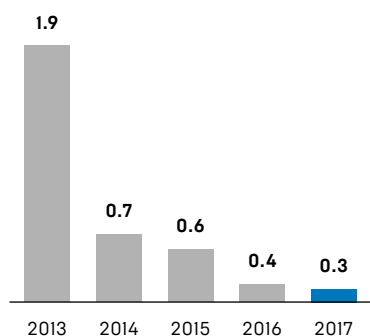
EBITDA margin expanded for a fourth year running to 26% in a weak market. Debt was at a comfortable level below target.

### Successful Strategy 2017 accomplishment

The Strategy 2017 target of \$1 billion in annual EBITDA gains has been achieved. Strategy 2017 delivered structural annual EBITDA gain of \$1,019 m. Management initiatives contributed around \$740 m (over 70%) to the result.

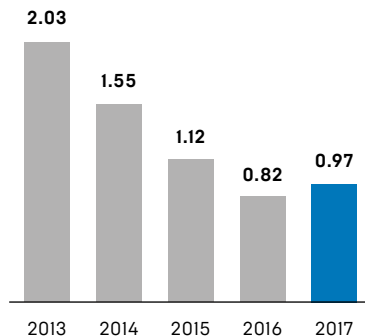
## STRENGTHENING FINANCIAL STANDING

### LOW LEVERAGE (NET DEBT/EBITDA)



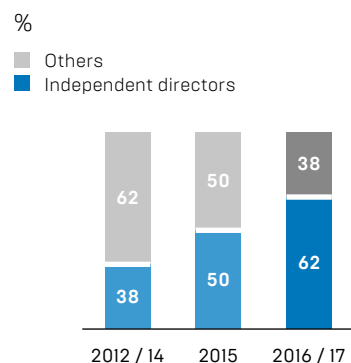
## ENHANCING OCCUPATIONAL HEALTH AND SAFETY

### 53% INJURY RATES REDUCTION VS 2013 (LTIFR\*, NLMK Group)



## IMPROVING CORPORATE GOVERNANCE

### INCREASE IN NUMBER OF INDEPENDENT DIRECTORS ON THE BOARD\*\*



A 7-year Eurobond was issued in September 2017 for

**\$500 million**

with a coupon rate of 4.0% and a maturity date of September 2024. This was used to cover short-term debt

NLMK was awarded the gold medal in the '100 Best Russian Organizations. Ecology and Environmental Management' competition

Index provider MSCI added NLMK to the MSCI Emerging Markets and MSCI Russia indices in May 2017

[→ For more details](#)



# CEO STATEMENT

**OLEG BAGRIN**

President and CEO of NLMK Group  
(Chairman of the Management Board)\*

**Dear colleagues,**

**C**hange can only happen if a team has a common goal. Leadership, cooperation and support must be common values. Only then can the team function as one, and the company as a single production chain stretching from Altai to the USA.

Following this course, we have become a single team and proven ourselves capable of rising to any challenge, no matter how complex.

In 2017, NLMK Group continued to consistently improve its operating and financial performance: NLMK sales hit an all-time high of 16.5 m t; profitability has been on the rise for five years running, hitting 26% in 2017. 2017 EBITDA\*\* grew by 37% yoy to \$2.7 bn, a record high since 2009. NLMK Group's high creditworthiness and the success of its business model received high acclaim from international rating agencies: NLMK's credit ratings have been upgraded by S&P and Moody's over the last 18 months. NLMK currently has investment grade ratings from all three international rating agencies.

Vertical integration, cost control, sales diversification and a flexible business model enable NLMK to grow throughout the value chain and deliver outstanding operational and financial performance.

We were able to significantly increase dividends without jeopardizing financing for major investment projects.

## Market conditions

In 2017, the steel market rebounded following a challenging 2016. Steel consumption in Russia grew for the first time in several years. A drop in Chinese exports and increased demand in the Company's key markets pushed steel product prices up, and key raw material prices followed suit.

## Strategy 2017 in action

Successful execution of Strategy 2017 was the key driver behind improved financials. We rose to the most important challenges of this five-year cycle, restoring the efficiency of the business, achieving self-sufficiency in iron ore, and improving safety. The figures speak for themselves. Compared to 2012, we have increased steel output by 2 million tonnes, reduced the cost of production by 25%, doubled our profitability, leverage is down to a minimum, and the injury rate has dropped by 50%. Company profits in 2017 reached a post-2008 high. Last year's results showed net gains from Strategy 2017 projects exceeded \$1 billion, with around 70% generated by operational efficiency initiatives. This wasn't driven by the market or anything short-term,

*NLMK Group posted record high sales vs. 2013, well ahead of market growth rates.*

*The scale of NLMK's business, the quality of our strategy and execution will ensure that we use available growth options to continue generating shareholder returns going forward.*

\* Oleg Bagrin held the position of President (Chairman of the Management Board) until 12 March 2018

\*\* See the Glossary on p. 46

Vertical integration,  
control over costs,  
diversification of sales,  
and a flexible business  
model



*Successful  
execution of  
Strategy 2017 laid  
a solid foundation  
for our next  
strategic cycle:  
Strategy 2022.*

this came about through structural transformation. We implemented over 3,000 operational efficiency projects, a twelvefold increase in just five years. We will see further gains of about \$200 million during 2018 driven by recently completed investment projects, including Stoilensky pelletizing plant and integration of PCI technology at Lipetsk's BF Shop No. 2.

**HAVING COMPLETED ITS STRATEGIC CYCLE, NLMK GROUP HAS CONSOLIDATED ITS LEADING POSITION. GAINS FROM ALL STRATEGY 2017 PROJECTS EXCEEDED \$1 BN IN 2017**

## Looking to the future

2018 sees the beginning of a new five-year strategic cycle. NLMK's technology, the quality of our team, the scale of our business and, most importantly, the unique potential for growth and efficiency our company enjoys within the steel industry will open up a multitude of opportunities. After successful completion of the previous strategic cycle, our team today has the right, the duty even, to set more ambitious goals than ever before.

## One team

In the common cause of realizing Strategy 2017, it was not just the contribution of

individual people that was important, but above all the contribution of the team that our large, international company represents.

I'm extremely grateful to my team for this contribution, and most importantly for your engagement and for your capacity to rethink and to sacrifice some principles and convictions that were perhaps mistaken. The willingness to rethink, the willingness to change – these are the qualities for which I'd like to thank you the most. The most important outcome of this Strategy is that it is not about the past, but about the future; we have succeeded in creating the best team in the steel industry, without dissidents or skeptics, which will continue, calmly and confidently, to move forward. This is the most important outcome of our Strategy.

We're proud of what we have achieved and fully recognize that our achievements were made possible thanks to the contribution of our international team, united by the common goal of leadership for NLMK Group.

I would like to express my sincere gratitude to our shareholders, customers, suppliers and contractors. I thank our employees across all of our divisions and companies for their commitment which enables NLMK Group to achieve its potential and be recognized as the leader of the global steel industry.

GROWTH OF SALES  
VS. 2013

**+11%**

GROWTH OF EBITDA  
MARGIN TO

**26%**

GROWTH OF LABOUR  
PRODUCTIVITY  
VS. 2013 BASE

**+27%**

GAINS FROM  
STRATEGY 2017

**+\$1<sub>BN</sub>**

DECREASE IN LTIFR\*  
VS. 2013

**-53%**

→ For more details, please see  
[Strategy 2017 Results on p.31](#)

# COMPANY PROFILE

NLMK Group is the largest integrated steelmaker in Russia and one of the most efficient in the world.

## PRODUCTION CAPACITIES

**>17** MILLION  
TONNES  
PER YEAR

**0.35x**

## NET DEBT/EBITDA

*A stable financial position supported by a balanced financial policy and growth of positive free cash flow*

**98%**

## UTILIZATION RATE OF NLMK GROUP'S STEELMAKING CAPACITY

*Capacity utilization of the key site running at 100% vs. a global average of about 70%*

**23%**

## OF STEEL PRODUCTION IN RUSSIA

*No.1 steelmaker in Russia and among TOP 20 leading steelmakers globally*

**\$250**

## CASH COST PER Tonne OF SLABS

*Among TOP 3 most cost-efficient steelmakers globally*

## EFFICIENT VERTICAL INTEGRATION

**53%**

*Self-sufficiency in energy*

**76%**

*Self-sufficiency in scrap*

**92%**

*Self-sufficiency in iron ore concentrate*

**86%**

*Self-sufficiency in iron ore pellets, >100% self-sufficiency in coke*

**26%** EBITDA  
MARGIN

*Stable growth in profitability over the last few years, driven by consistent execution of Strategy 2017. Global average does not exceed 15%*

## HIGH STANDARDS OF SUSTAINABILITY

*NLMK sustainability KPIs are in line with or approaching the level of best global practices for the steel industry, as a result of the Company's comprehensive initiatives:*

- Group LTIFR\* is 0.97 (0.51 for NLMK's Russian companies) vs. best practice of 0.6;
- Specific air emissions are 20.5 kg/t vs. best practice of 18.9 kg/t

**NLMK OPERATES PRODUCTION FACILITIES IN RUSSIA, EUROPE AND THE UNITED STATES. THE COMPANY'S STEEL PRODUCTION CAPACITY EXCEEDS 17 MILLION TONNES PER YEAR.**

\* LTIFR — Lost Time Injury Frequency Rate (per million man-hours worked). See the Glossary on p. 46



## PRODUCTS

NLMK Group's steel products are used in various industries, from construction and machine building to the manufacturing of power-generation equipment and offshore windmills.

## PERFORMANCE

NLMK has the most competitive cash cost among global manufacturers and one of the highest profitability levels in the industry. In 2017, the Company generated \$10.065 billion in revenue and \$2.655 billion in EBITDA. As of 31 December 2017, Net debt/EBITDA stood at 0.35x. The company has investment grade credit ratings from S&P, Moody's and Fitch.

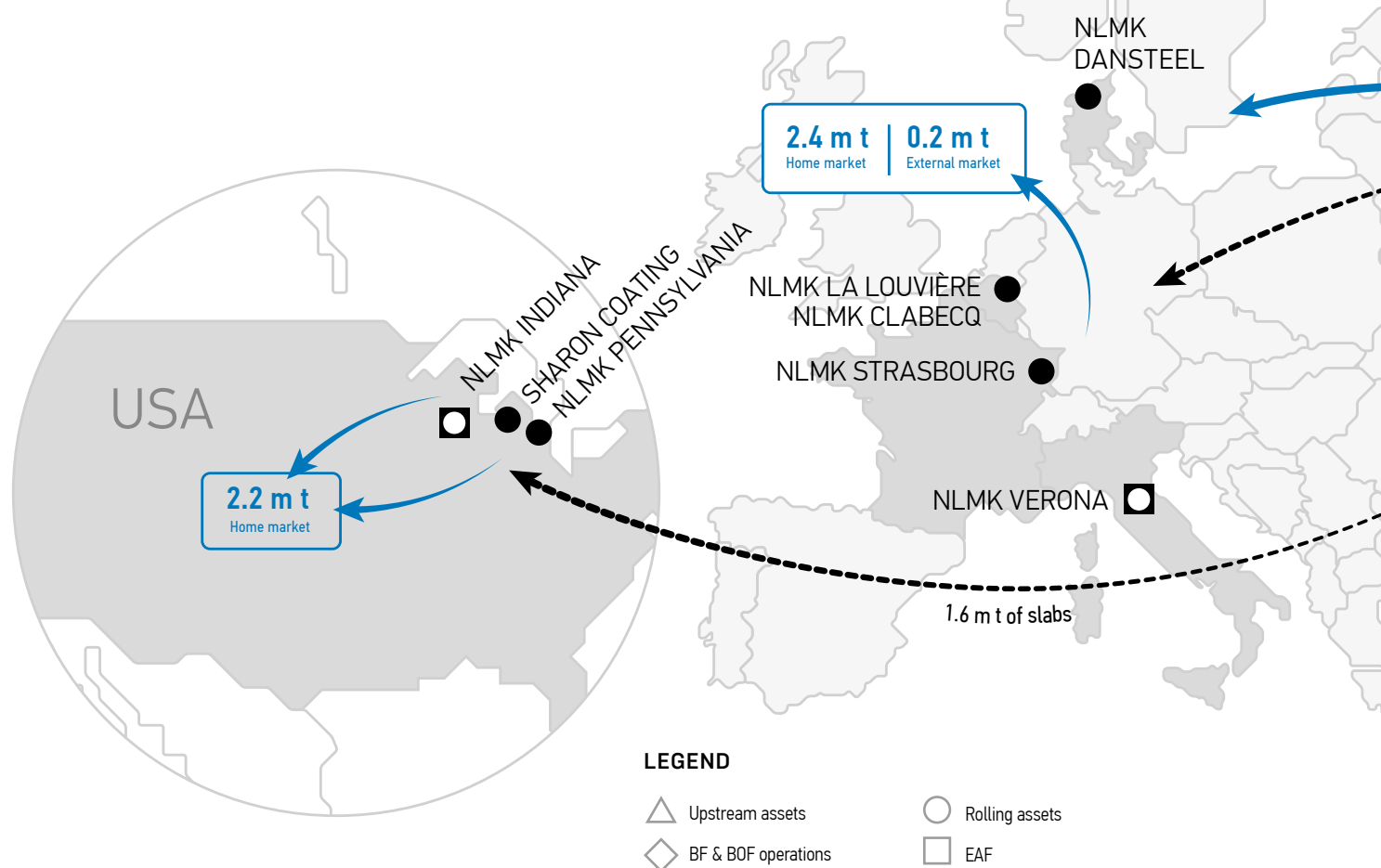
## SHARES

NLMK's ordinary shares with a 16% free-float are traded on the Moscow Stock Exchange (ticker "NLMK") and its global depository shares are traded on the London Stock Exchange (ticker "NLMK:LI"). The share capital of the Company is divided into 5,993,227,240 shares with a par value of RUB1.

## OUR TEAM

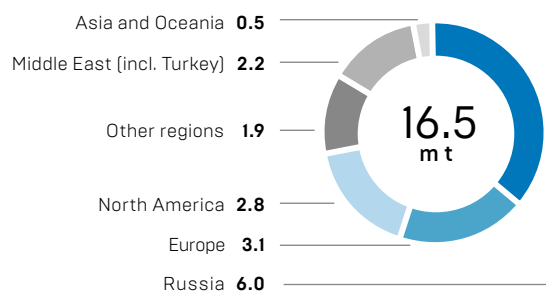
Our corporate culture, which targets continuous development and brings together more than 53,000 professionals across multiple regions, serves as a solid foundation for further growth.

# WHERE WE MAKE AND MARKET STEEL



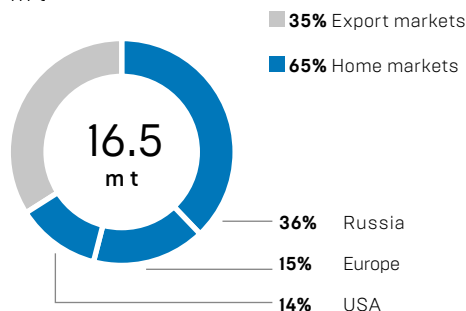
## STEEL PRODUCT SALES BY REGION

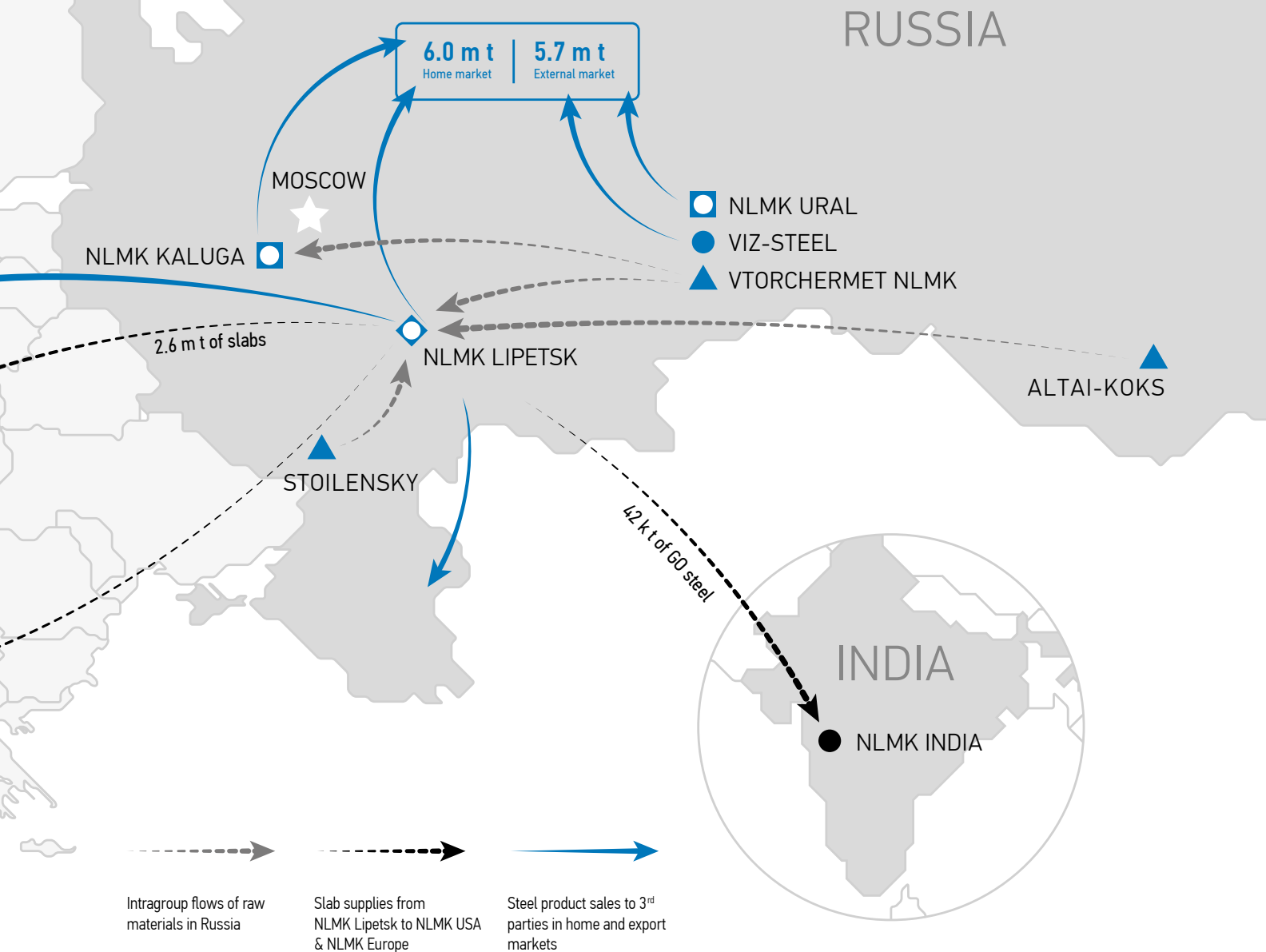
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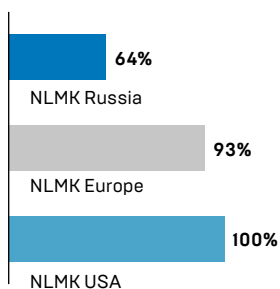
## STEEL PRODUCT SALES BY MARKET

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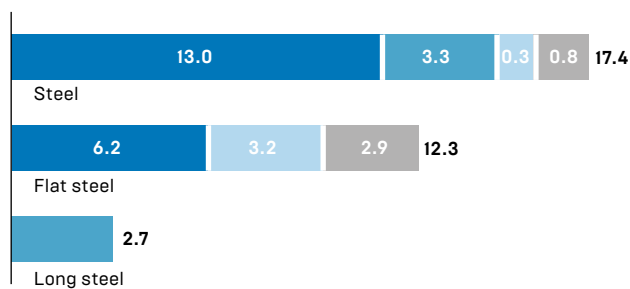


### SHARE OF FINISHED STEEL SALES IN HOME MARKETS



### NLMK PRODUCTION CAPACITIES

m t ■ NLMK Russia Flat ■ NLMK Russia Long ■ NLMK Europe ■ NLMK USA





# WHAT WE MAKE AND MARKET





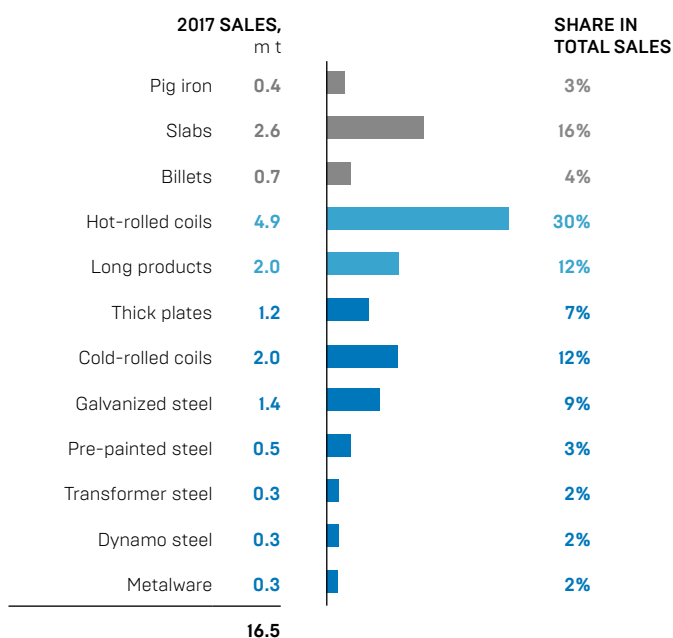
*NLMK 2017 steel product sales: 16.5 M T*

## NLMK IS A LEADING SUPPLIER OF HIGH-QUALITY STEEL PRODUCTS IN KEY SALES MARKETS

NLMK has a balanced product mix that includes semi-finished, high value added and niche products.





Flat steel accounts for around 80% of total output, 20% is accounted for by long steel used in construction.

### NLMK SALES TO THIRD PARTIES (WITH NBH)



- Semi-finished products
- Standard products
- High value added products

## OUR PRODUCTS

	 <b>SEMI-FINISHED PRODUCTS</b>	 <b>THICK PLATE</b>	 <b>HOT-ROLLED STEEL</b>	 <b>COLD-ROLLED STEEL</b>
PRODUCTS	<p>Semi-finished steel products for further processing: slabs are processed into flat steel products; billets are processed into long steel products.</p> <p>A wide range of semi products, both standard and niche products with specific chemical composition, physical properties and dimensions.</p>	<p>Flat steel products. A range of standard products and niche abrasion-resistant and high-strength plates.</p> <p>Produced at NLMK Group's European plants from slabs supplied by NLMK Lipetsk.</p>	<p>Flat steel products that have been hot-rolled.</p> <p>A wide range of hot-rolled steel in sheets and coils with a variety of performance characteristics.</p>	<p>Flat steel products that have been cold-rolled</p> <p>A wide range of cold-rolled steel sheets and coils with a variety of performance characteristics, including niche high ductility products.</p>
SHARE OF TOTAL SALES	<b>23%</b>	<b>7%</b>	<b>30%</b>	<b>12%</b>
CONSUMING SECTORS	Steelmaking, pipe industry.	Lifting and transport equipment, offshore wind power engineering, drilling platforms, shipbuilding, pipelines, boilers, tanks for aggressive environment (pressure, temperature, load, etc.).	Pipe industry, steel structures, shipbuilding, machine building, high-pressure vessels, yellow machinery, commercial, residential and infrastructure construction.	Automotive manufacturing, machine building, pipe industry, yellow machinery and white goods, commercial, residential and infrastructure construction.
SITES	NLMK Lipetsk NLMK Kaluga	NLMK Dansteel NLMK Clabecq NLMK Verona	NLMK Lipetsk NLMK La Louvière NLMK Indiana NLMK Pennsylvania	NLMK Lipetsk NLMK La Louvière NLMK Pennsylvania
MARKET SHARE*	<i>Global market</i> <b>23%</b>	<i>European market</i> <b>9%</b>	<i>Russian market</i> <b>12%</b>	<i>Russian market</i> <b>31%</b>

\* NLMK's share in apparent consumption.

## KEY FACTS AND FIGURES

### Balanced product mix

NLMK's product portfolio includes semi-finished products, as well as rolled steel with standard properties and unique products.

### Consumers in home markets

Our key customers in all our markets are the construction and the machine building industries, including automotive manufacturers, as well as the wind energy sector, shipbuilding and yellow goods manufacturers in Europe. In Russia, we also supply our products to the pipe sector.

### NLMK's position in the global market

NLMK is one of the 20 largest steel producers in the world. The Company sells steel to 70 countries around the world. NLMK holds around 23% of the global slab market and is one of the world's largest producers of transformer steel.



### COATED STEEL

Galvanized and pre-painted steel from hot-rolled and cold-rolled steel.

Available in coils, strip and sheets.

**12%**

Automotive manufacturing, yellow and white goods, construction, facing materials.

NLMK Lipetsk  
NLMK Strasbourg  
Sharon Coating

Russian market  
**21%**  
galvanized steel

**21%**  
pre-painted steel



### ELECTRICAL STEEL

Dynamo (non-grain-oriented) and transformer (grain-oriented) electrical steel. Includes a range of standard products with ordinary properties, and unique high-permeability steel.

Available in coils, strip and sheets.

**3%**

Electrical machines, transformers, power engineering, instrument making.

NLMK Lipetsk  
VIZ-Steel

Russian market  
**74%**  
dynamo steel

**~100%**  
transformer steel



### LONG PRODUCTS

Rebar in rods and coils, wire rod, sections.

**12%**

Construction.

NLMK Ural  
NLMK Kaluga

Russian market  
**18%**  
rebar



### METALWARE

A wide range of low-carbon metalware. This includes wire and secondary products, with various coatings and surface finishes, nails, fasteners.

**2%**

Construction, machine building.

NLMK Metalware

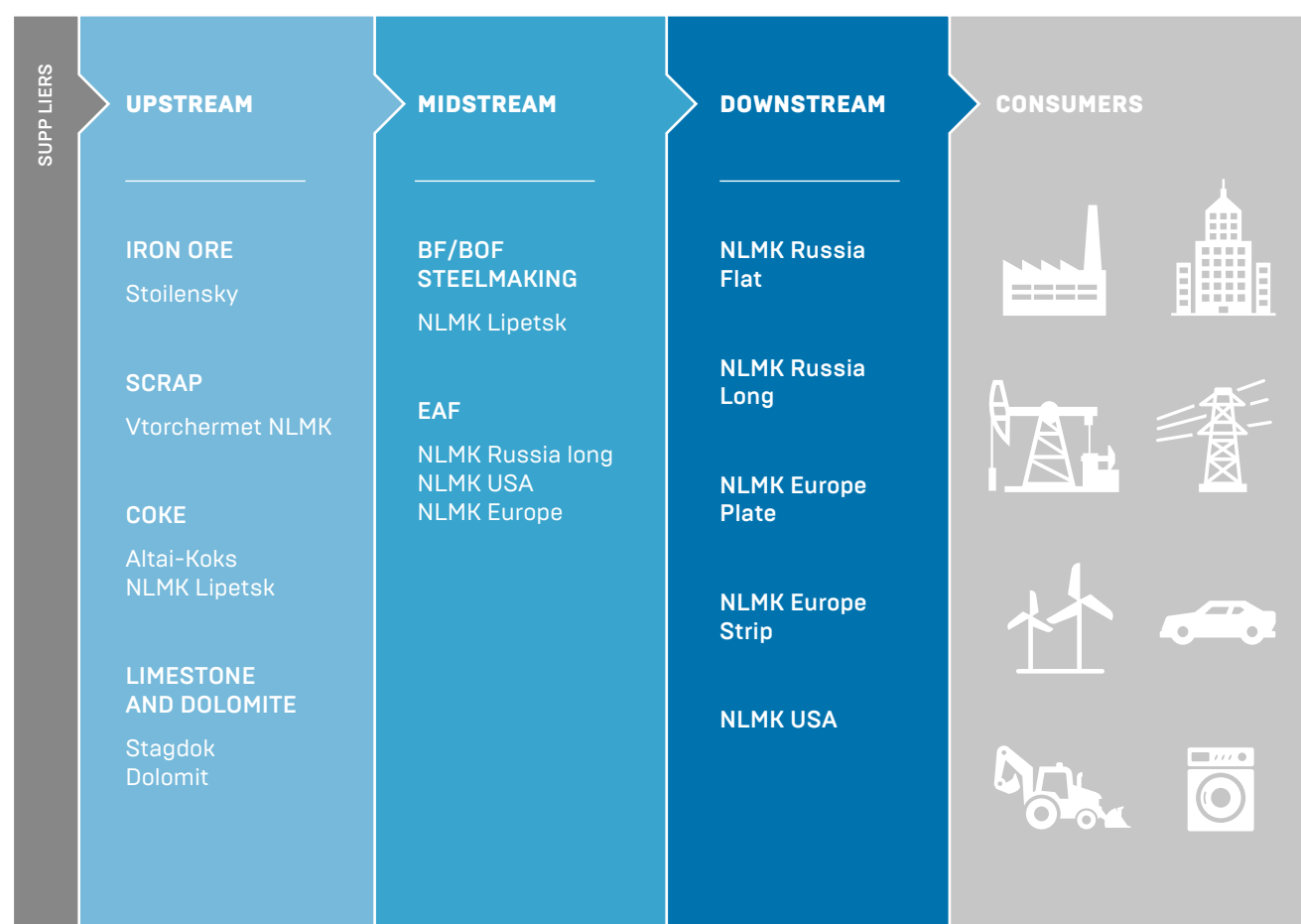
Russian market  
**20%**  
metalware

# NLMK GROUP'S BUSINESS MODEL

*A flexible and well-balanced business model secures industry leadership for NLMK Group.*

## VALUE CHAIN

*Up to 100% of resource needs covered by the previous link in the chain*





## UPSTREAM

The status of one of the most cost-efficient steelmakers in the world is achieved through a world-class resource base with leading-edge technology for mining and processing, an optimal process environment and the professionalism of the NLMK team.

*Up to 100% of raw materials produced are used in the steel production stage further along the value chain.*

### NLMK ADVANTAGES

#### ➤ CAPTIVE ELECTRIC ENERGY

is generated primarily through the recovery of by-product gases from coke and blast furnace operations.

#### ➤ CAPTIVE PRODUCTION OF COKE

guarantees NLMK high-quality coke products, which boosts the efficiency of operations further along the value chain.

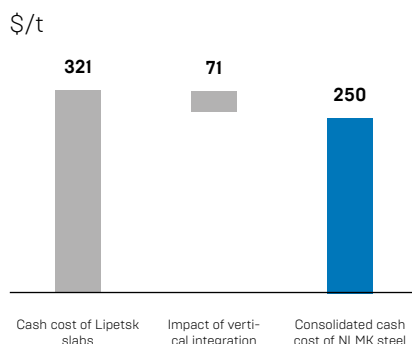
#### ➤ IRON ORE PRODUCTION

Stoilensky is one of the most efficient iron ore producers in the world, located 250 km from the Group's main production facility in Lipetsk. Stoilensky's iron ore reserves are upward of 5 billion tonnes, concentrate cash cost is ca. \$12 per tonne.

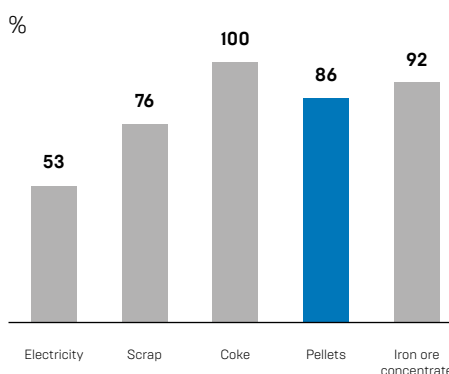
#### ➤ NLMK'S SCRAP COLLECTION AND PROCESSING NETWORK

NLMK's scrap collection and processing network is the largest in Russia and secures stable delivery of scrap to NLMK Group's Russian steelmaking facilities.

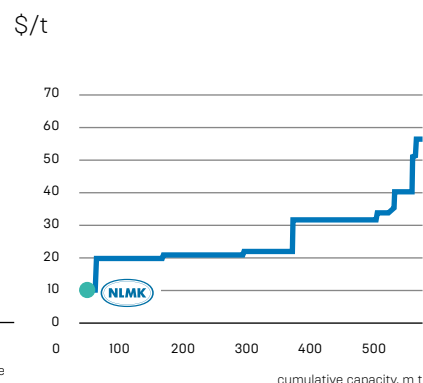
#### IMPACT OF VERTICAL INTEGRATION ON REDUCTION IN CASH COST PER 1 TONNE OF STEEL IN 2017



#### SELF-SUFFICIENCY IN KEY RESOURCES



#### IRON ORE CONCENTRATE PRODUCTION COST IN 2017\*



#### 2017 FACTS AND FIGURES

##### IRON ORE PRODUCTION

**17.1** MT

INCLUDING 6 MT OF PELLETS

##### COKE OUTPUT

**6.9** MT

EXCEEDS 100% OF NLMK LIPETSK'S NEEDS

##### PRODUCTION COST OF IRON ORE CONCENTRATE

**\$12** PER TONNE

#### DEVELOPMENT IN 2017

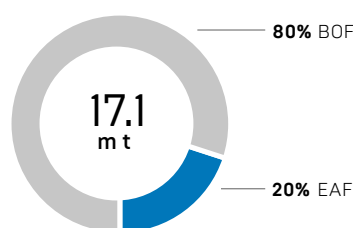
##### PELLETIZING PLANT REACHED ITS DESIGN CAPACITY OF

**6** MTPA

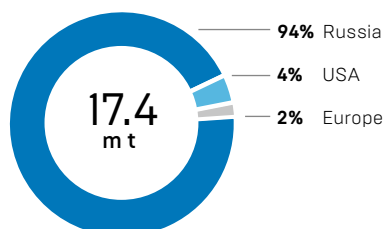


Leading-edge equipment and finely tuned business processes enable the production of high-quality cost-efficient steel products. NLMK Group's steel production capacity exceeds 17 million tonnes per year, 95% of which is made in Russia.

#### NLMK STEEL PRODUCTION (BY TYPE)



#### NLMK STEEL PRODUCTION (BY REGION)



## NLMK ADVANTAGES

### ➤ COST LEADERSHIP

NLMK is among the global leaders in cost. Over the past five years, the Company has consolidated its leadership: the gap between NLMK's production cost and the industry average has increased from 25% to 36%. NLMK Group enjoys sustainable cost leadership through its unique business model that ensures high utilization rates, efficient vertical integration and upgraded production capacities. The production cost of Lipetsk steel in 2017 was \$250 per tonne, compared to an industry average of \$390 per tonne.

### ➤ SALES VS. FURTHER PROCESSING

77% of NLMK steel is processed into finished products, 23% is sold as semi-finished steel. NLMK produces both flat and long steel products, and our reputation as a reliable supplier ensures stable demand for the Group's product offering.

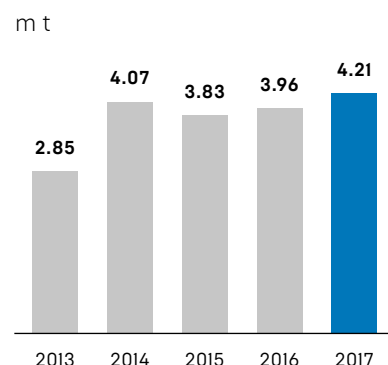
### ➤ HIGH CAPACITY UTILIZATION

An expansive product offering and rolling facilities located in the regions of consumption, i.e. in Russia, Europe and the United States, enable NLMK to maintain a high-capacity utilization rate of 98% throughout the cycle.

### ➤ OPTIMAL LOGISTICS

Production facilities located in regions with developed infrastructure and proximity to raw material sources lowers outlay on logistics as well as related risks.

#### SLAB SUPPLIES TO SUBSIDIARIES AND AFFILIATES



#### 2017 FACTS AND FIGURES

**17.1** MT (WITH NBH)  
STEEL PRODUCTION

**98%**  
NLMK GROUP STEELMAKING CAPACITY UTILIZATION RATE

**\$250**  
PER TONNE SLAB CASH COST OF THE LIPETSK SITE

**90%**  
OF BLAST FURNACE CAPACITIES ARE EQUIPPED WITH THE PULVERIZED COAL INJECTION (PCI) TECHNOLOGY. GUARANTEE TESTS OF PCI SYSTEMS AT BLAST FURNACES NO. 6 AND 7 COMPLETED

## DOWNSTREAM

Finished products are made locally for the Company's strategic markets of Russia, the EU and the USA, in close proximity to consumers. With a total production capacity of finished products in excess of 15 million tonnes, NLMK can process as much as 90% of captive crude steel at its own rolling facilities.

*The Group can satisfy up to 100% of internal demand for slabs from its main steelmaking facility in Lipetsk.*

### NLMK ADVANTAGES

#### ➤ HIGH QUALITY

*The use of captive raw materials in rolled steel production guarantees high quality and short lead times. The Company's products are certified to international standards.*

#### ➤ BALANCED PRODUCT PORTFOLIO

*NLMK's extensive steel product offering, from standard types of hot-rolled steel to custom electrical steels and other niche products, allows the Company to diversify sales by sector, reducing the dependency for sales volume on demand fluctuations in individual sectors.*

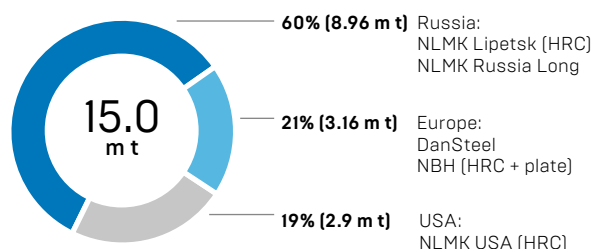
#### ➤ DIVERSIFICATION OF SALES

*An expansive geographical breakdown of sales and a flexible marketing policy create a global footprint, with the ability to divert sales of steel products to the most attractive market, ensuring full utilization of production capacity throughout the value chain.*

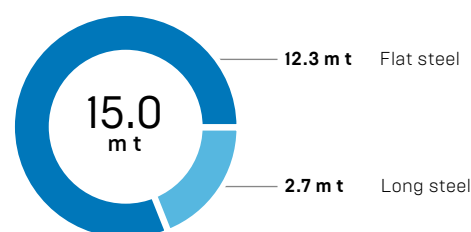
#### ➤ OPTIMAL PRODUCTION FOOTPRINT

*Due to the location of NLMK Group's rolling operations in strategic markets, 65% of steel is sold in the region where it was produced. This allows the Company to meet the customers' most challenging delivery timescales and respond rapidly to local demand fluctuations.*

### NLMK'S ROLLING CAPACITIES



### DOWNSTREAM CAPACITY BREAKDOWN



2017 FACTS AND FIGURES

**12.8<sup>MT</sup>**

FINISHED STEEL OUTPUT  
(WITH NBH)

**+11%**

GROWTH IN SALES TO  
HOME MARKETS VS. 2013

SALES TO MORE THAN  
70 COUNTRIES AROUND  
THE WORLD

**82%**

FLAT STEEL

**18%**

LONG STEEL

DEVELOPMENT IN 2017

NLMK USA: SHARON COATING  
RE-STARTED ITS NO. 2 HOT-DIP  
GALVANIZING LINE WITH A  
CAPACITY OF APPROXIMATELY

**226 k TONNES  
PER YEAR**

WITH THE RE-LAUNCH OF  
THE SECOND LINE, SHARON  
COATING'S EFFECTIVE  
CAPACITY INCREASED BY 43%.

# NLMK'S INTEGRATED PROCESS ENVIRONMENT

Over the past decade, NLMK has transformed from a local steel producer into a global steel company with control over every production stage, from raw materials extraction to the sale of HVA products to consumers.

NLMK Group is an integrated process environment that stretches from the Urals in Russia to the Great Lakes in the USA.

*All our facilities across the globe share common values and work for a common goal.*

## NLMK RUSSIA

### UPSTREAM

#### PRODUCTION SITES:

Stoilensky  
Dolomit  
Stagdok

#### FUNCTIONS:

Covers the Group's demand for raw materials

#### PRODUCTS:

Iron ore concentrate, pellets, sinter ore, limestone, dolomite

#### HEADCOUNT:

**7,000**  
PEOPLE

#### PRODUCTION:

**IRON ORE**  
**17.1** MT  
(0% yoy)

**FLUXES**  
**6.3** MT  
(-1% yoy)

#### REVENUE:

**\$944** M  
(+58% yoy)

#### EBITDA:

**\$642** M  
(+102% yoy)

#### INVESTMENTS:

**\$116** M  
(-47% yoy)

**STOILENSKY COMPLETED STAGE 2 OF ITS HIGH PRESSURE GRINDING ROLLS (HPGR) PROJECT AT ITS BENEFICIATION PLANT. IT WILL ADD A TOTAL OF ABOUT 1.8 MT OF CAPACITY, AND TOGETHER WITH OTHER INITIATIVES WILL ENABLE THE COMPANY TO BRING CONCENTRATE OUTPUT UP TO 17.4 MT PA BY 2018.**

#### SALES:

**IRON ORE CONCENTRATE:** 9.6 m t

**PELLETS:** 6 m t

**SINTER ORE:** 1.5 m t

**LIMESTONE:** 3.7 m t  
(78% to the Lipetsk site)

**DOLOMITE:** 2.3 m t  
(73% to the Lipetsk site)

#### CONSUMERS:

**INTERNAL:** NLMK Lipetsk

**EXTERNAL:** steelmakers, road construction, agriculture





## NLMK RUSSIA FLAT

### PRODUCTION SITES\*:

NLMK Lipetsk  
VIZ-Steel  
Altai-Koks

### FUNCTIONS:

Steel production,  
including semis for  
international divisions,  
and flat products

### PRODUCTS:

Coke, pig iron, slabs,  
hot-rolled steel, cold-  
rolled steel, galvanized  
steel, pre-painted steel,  
grain-oriented and  
non-grain oriented steel

### INTRA-GROUP SALES:

**SUPPLIES TO  
NLMK USA:**  
1.6 m t (+25% yoy)  
**SUPPLIES TO  
NLMK EUROPE:**  
2.6 m t (-2% yoy)

### HEADCOUNT:

**30,500**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**13.0** <sup>M T</sup>  
**FLAT**  
**PRODUCTS**  
**6.2** <sup>M T</sup>

### PRODUCTION:

**COKE:** 6.9 m t (+0% yoy)  
**PIG IRON:** 12.8 m t (+1% yoy)  
**STEEL:** 13.2 m t (+2% yoy)  
**COMMODITY SEMIS:**  
6.7 m t (+3% yoy)  
**FINISHED STEEL:**  
5.9 m t (+1% yoy)

### TOTAL REVENUE:

**\$7,659** <sup>M</sup> (+37% yoy)

### EBITDA:

**\$1,722** <sup>M</sup> (+28% yoy)

### INVESTMENTS:

**\$422** <sup>M</sup> (+40% yoy)

### STEELMAKING CAPACITY UTILIZATION:

**100%**

### CONSUMERS:

**INTERNAL:** international divisions  
**EXTERNAL:** construction, pipe  
production, automotive industry, machine  
building, white goods, yellow machinery,  
instrumentation engineering, power  
industry, and other sectors

**SALES OF FINISHED  
STEEL TO EXTERNAL  
CONSUMERS INCREASED  
BY 4% YOY TO 5.8 M T,  
THEIR SHARE IN TOTAL  
SALES WAS 66%**

### SALES TO EXTERNAL CUSTOMERS:

**COMMODITY PIG IRON:** 0.4 m t (+18% yoy)  
**SLABS:** 2.5 m t (-4% yoy)  
**HOT-ROLLED STEEL:** 2.7 m t (+2% yoy)  
**COLD-ROLLED STEEL:** 1.4 m t (-2% yoy)  
**GALVANIZED STEEL:** 0.7 m t (+15% yoy)  
**PRE-PAINTED STEEL:** 0.4 m t (-12% yoy)  
**NGO STEEL:** 0.3 m t (+5% yoy)  
**GO STEEL:** 0.3 m t (+5% yoy)

### EXTERNAL SALES GEOGRAPHY:

Russia (51% of sales), Turkey, Latin  
America, the European Union, North  
America, Middle East, the CIS



## NLMK RUSSIA LONG

### PRODUCTION

#### SITES:

Scrap collecting facilities  
NLMK Vtorchermet  
NLMK Ural  
NLMK Kaluga  
NLMK Metalware

#### FUNCTIONS:

Processes scrap for the  
Group's steelmaking  
capacities in Russia  
Long products and  
metalware production

#### PRODUCTS:

Scrap, billets, rebar,  
wire rod, sections,  
metalware

#### HEADCOUNT:

**8,900**  
PEOPLE

#### PRODUCTION CAPACITIES:

STEEL  
**3.3** M T  
LONG  
PRODUCTS  
**2.7** M T

#### STEELMAKING CAPACITY

UTILIZATION: **92%**

#### TOTAL REVENUE:

**\$1,794** M  
(+39% yoy)

#### EBITDA:

**\$152** M  
(+10% yoy)

#### INVESTMENTS:

**\$22** M  
(+38% yoy)

#### CONSUMERS:

Construction,  
machine building

**TOTAL SALES OF WIRE  
ROD INCREASED BY 60%  
YOY TO 0.3 M T, DRIVEN BY  
THE EXPANSION OF SALES  
GEOGRAPHY. TOTAL SALES OF  
LONG STEEL PRODUCTS AND  
BILLETS INCREASED YOY BY 6%  
TO REACH 3 M T**

#### PRODUCTION:

**SCRAP PROCESSING:** 2.3 m t (+11% yoy)

**STEEL:** 3.0 m t (+5% yoy)

**LONG PRODUCTS:** 1.9 m t (+2% yoy)

**METALWARE:** 0.3 m t (+4% yoy)

#### SALES TO EXTERNAL CUSTOMERS:

**BILLETS:** 0.7 m t (+12% yoy)

**LONG PRODUCTS:** 2.0 m t (+4% yoy)

**METALWARE:** 0.3 m t (+4% yoy)

#### EXTERNAL SALES GEOGRAPHY:

Russia (54% of sales), the European Union, North Africa



## NLMK USA

### PRODUCTION SITES:

NLMK Pennsylvania  
NLMK Indiana  
Sharon Coating

### FUNCTIONS:

Produces flat steel  
from slabs supplied by  
NLMK Lipetsk, as well  
as from in-house slabs

### PRODUCTS:

Hot-rolled steel,  
cold-rolled steel,  
galvanized steel

### SALES GEOGRAPHY:

100% of sales in the USA

### HEADCOUNT:

**1,100**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**0.8<sup>MT</sup>**

**FLAT  
PRODUCTS**  
**2.9<sup>MT</sup>**

### TOTAL REVENUE:

**\$1,670<sup>M</sup>** [+44% yoy]

### EBITDA:

**\$197<sup>M</sup>** [+11% yoy]

### INVESTMENTS:

**\$28<sup>M</sup>** [+47% yoy]

### STEELMAKING CAPACITY

UTILIZATION: **81%**

**THE DIVISION INCREASED ITS  
FLAT STEEL SALES BY 21%,  
SUPPORTED BY THE GROWTH  
OF CONSUMER ACTIVITY IN THE  
US MARKET**

### PRODUCTION:

**STEEL:** 0.6 m t [+11% yoy]

**FLAT PRODUCTS:** 2.2 m t [+21% yoy]

### SALES:

**HOT-ROLLED STEEL:** 1.2 m t [+31% yoy]

**COLD-ROLLED STEEL:** 0.5 m t [-9% yoy]

**GALVANIZED STEEL:** 0.5 m t [+40% yoy]

### CONSUMERS:

Construction, pipe production, automotive  
industry, machine building, white goods  
and yellow machinery production





# NLMK EUROPE

## NLMK EUROPE STRIP

### PRODUCTION SITES:

NLMK La Louvière\*  
NLMK Strasbourg\*

### FUNCTIONS:

Produces flat steel from slabs supplied by NLMK Lipetsk

### PRODUCTS:

Hot-rolled steel, cold-rolled steel, galvanized steel, pre-painted steel

### PRODUCTION:

#### FLAT PRODUCTS:

1.4 m t (+6% yoy)

### HEADCOUNT:

**900**  
PEOPLE

### PRODUCTION CAPACITIES:

**FLAT PRODUCTS**  
**1.7<sup>MT</sup>**

### ROLLING

#### CAPACITY

#### UTILIZATION:

**80%**

**RENAUD MORETTI WAS APPOINTED CEO OF NLMK EUROPE STRIP. HE BECAME HEAD OF MAINTENANCE SERVICE AT LA LOUVIÈRE IN 2006, WHICH AT THE TIME WAS PART OF NLMK AND DUFERCO JV. HE LATER MANAGED COLD-ROLLING OPERATIONS AND WAS EXECUTIVE DIRECTOR AT NLMK LA LOUVIÈRE.**

### SALES:

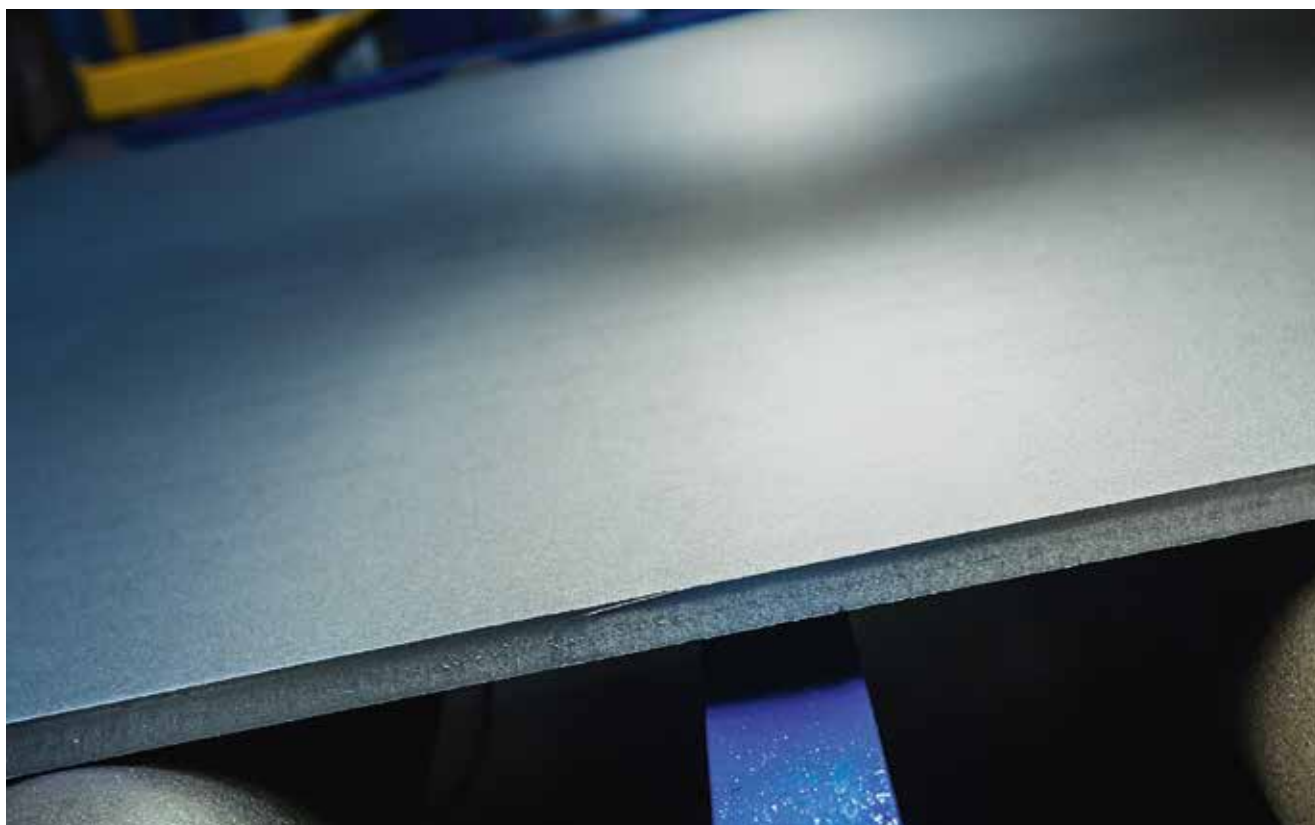
**HOT-ROLLED STEEL:** 1.0 m t (+2% yoy)  
**COLD-ROLLED STEEL:** 0.05 m t (-14% yoy)  
**GALVANIZED STEEL:** 0.2 m t (-15% yoy)  
**PRE-PAINTED STEEL:** 0.1 m t (+3% yoy)

### CONSUMERS:

Construction industry, pipe manufacturers, automotive industry, machine building, manufacturers of white goods and yellow goods

### SALES GEOGRAPHY:

93% of sales in the European Union



## NLMK EUROPE PLATE

### PRODUCTION FACILITIES:

NLMK DanSteel  
NLMK Clabecq\*  
NLMK Verona\*

### FUNCTIONS:

Produces plates from  
slabs supplied by  
NLMK Lipetsk, as well  
as from captive slabs

### PRODUCTS:

Niche steel semis,  
plates, including Quard  
and Quend grades

### HEADCOUNT:

**1,200**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**0.2<sup>MT</sup>**

**THICK  
PLATES**  
**1.5<sup>MT</sup>**

### ROLLING CAPACITY UTILIZATION:

**78%**

**IN 2017, THE SALES OF QUARD AND QUEND NICHE PLATES  
INCREASED BY 14% YOY TO 101,000 T**

### SALES:

**PLATE:** 1.2 m t (-1% yoy)

### SALES GEOGRAPHY:

93% of sales in the European Union

### CONSUMERS:

Producers of heavy vehicles and loading equipment, offshore wind turbines, drilling rigs,  
shipbuilding sector, producers of pipes, boilers, and reservoirs for hostile environment

### PRODUCTION:

**STEEL:** 0.2 m t (+11% yoy)

**THICK PLATES:** 1.2 m t (-3% yoy)

# NLMK PRODUCTION SYSTEM

## NLMK PRODUCTION SYSTEM IS BASED ON THE FOLLOWING PRINCIPLES:

- ↗ BALANCED OBJECTIVES
- ↗ SYSTEMATIC ACHIEVEMENT OF RESULTS THROUGH PROCESS IMPROVEMENT
- ↗ TRANSPARENCY AND OBJECTIVITY OF INFORMATION, CONTINUOUS IMPROVEMENT
- ↗ ENGAGEMENT OF PERSONNEL OF ALL LEVELS IN JOINT PROBLEM SOLVING
- ↗ LEADERSHIP SUPPORT

*NLMK Production System is a business management approach based on a combination of processes and optimization tools, which maximize the use of existing resources and eliminate losses.*

The key elements of NLMK Production System are lean tools, training systems, visual efficiency control and feedback loops. The core of the system are the Company's employees: their attitude, behaviour, perceptions and engagement in processes.

The development and rollout of NLMK Production System have quickly gone from strength to strength. Strategic goals have been defined, a set of effective tools established and a system of optimization programmes launched. Later, more lean tools were adopted, which the Company needed to apply to the fullest to tackle business challenges and capture maximum value.

### TECHNICAL MODEL

- Goal setting system, medium-term potential and short-term goals
- KPI system
- Production System tools: measurement, analysis, standardization and improvement tools.

### MANAGEMENT SYSTEMS

Efficiency management through visual control systems and feedback loops.

### EMPLOYEE POTENTIAL

Training and coaching for swift and sustainable introduction of new working practices that enable employees to improve performance.

### EMPLOYEE MINDSET AND BEHAVIOUR

- Development of discipline and culture in the workplace by establishing and supporting behaviour which promotes and safeguards transformation results;
- Management engagement: leader role model, "tone at the top".

### SOLID PERFORMANCE

- Financial: creating more value, profitability increase
- Operational: higher output with lower operational costs
- Cultural: "zero failure" culture aimed at bridging gaps and eliminating defects, customized training and shared best practices, appropriate behaviour.

## KEY FACTS AND FIGURES

### NLMK Production System (PS)

Systematic use of a suite of tools and practices for increasing production efficiency and engaging personnel in the continuous improvement process.

### Initial stage of PS implementation complete

Strategic goals are established and a set of efficient tools created based on best global practices; a system of optimization programmes is being implemented.

### New stage of the Production System

NLMK Production System began a new development stage, which aims to involve each and every employee of the Company in the process of continuous improvement. It kicked off with a pilot project at NLMK Kaluga, which has already yielded results.

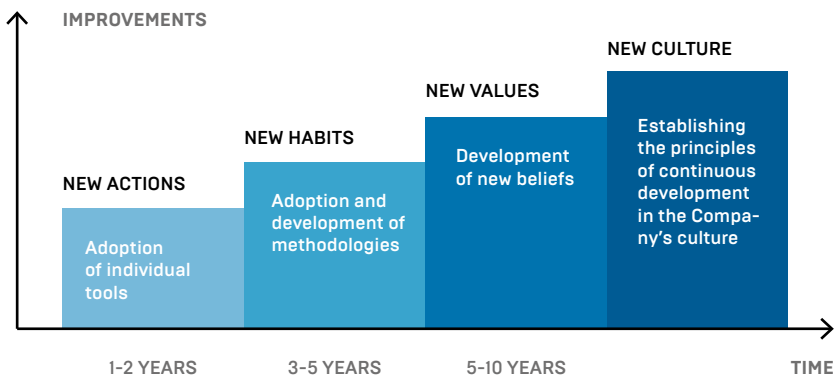
## Development in 2017

Key principles of the new stage of NLMK Production System development

1. There is always room for improvement. Even if a lot has already been done in terms of operational efficiency, there is always something in the processes that can be improved
2. Openness. This is a value of ours that enables us to maintain our position in the market. Knowing about the problems allows us to address them quickly and to benefit from the result

3. Employees share the principles of NLMK PS. Each employee needs to share our vision of the management system and the Production System

4. Engagement and responsibility. Each employee has the right to know about the goals and the main priorities of the Company. Each employee knows what impact their day-to-day effort has on the Company’s overall performance, and has their own area of responsibility for solving issues.



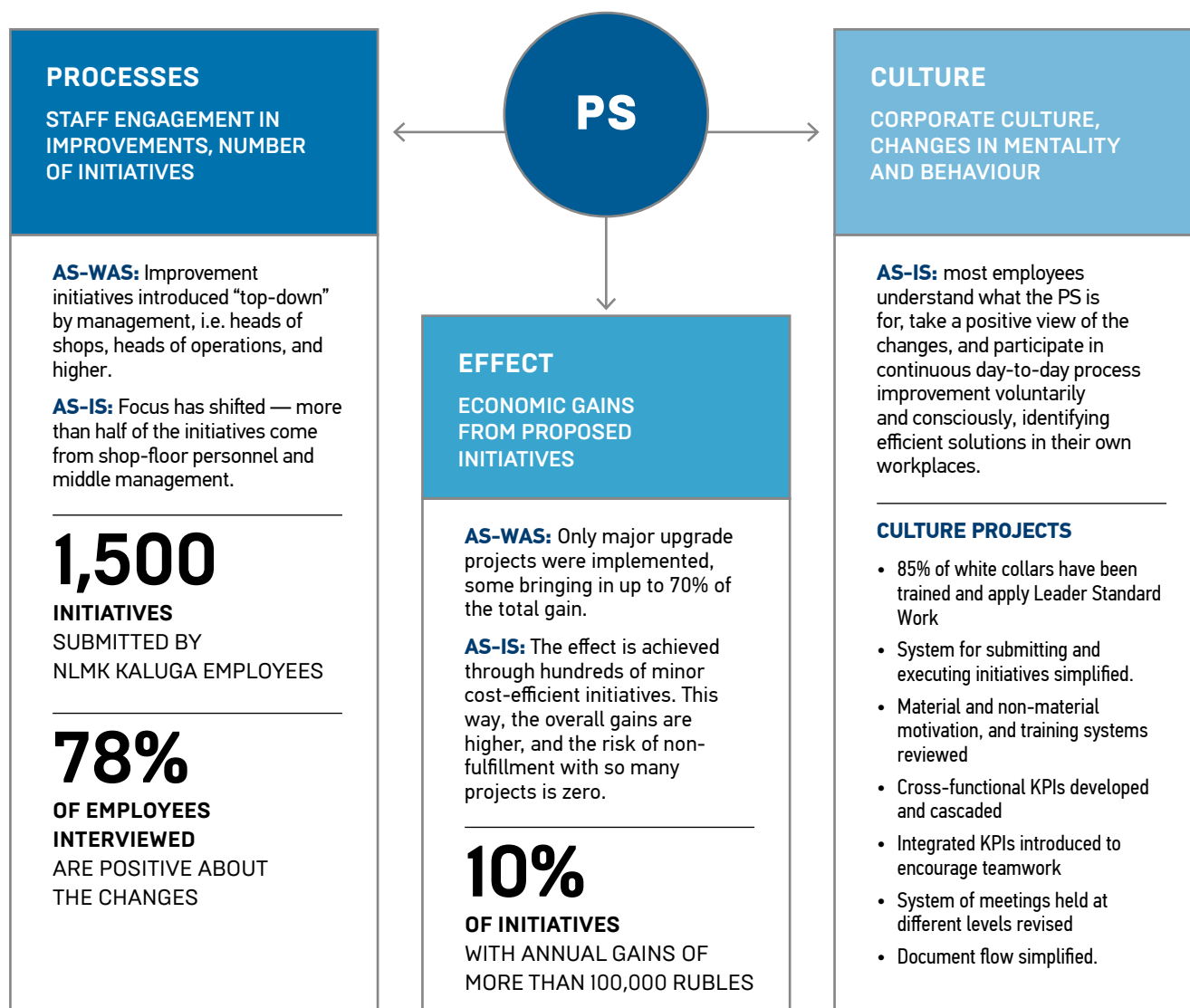
*“It is important for us not just to achieve a financial impact, but also to establish a teamwork-based system at our sites and to build a partnership between production sites and the operational efficiency team. This is the only way for the Production System to stop being a collection of projects and start being a real system. Our objective for the next strategic cycle is to engage people in active participation; every employee should have at least one idea. So, in five years’ time, we should see a completely different company with a radically transformed production culture.”*

**TATIANA AVERCHENKOVA,**  
Vice President, Operational Efficiency

In the reporting year, NLMK Production System entered a new development stage, which aims to involve each and every employee of the Company in the process of continuous improvement. It kicked off with a pilot project at NLMK Kaluga in collaboration with DuPont, a leader in the hi-tech

marketplace, covering a wide range of activities: processes, repairs, logistics, occupational health and safety. 2017 saw the first results: more than 1,500 initiatives (with a total of 1,218 people working at the plant) were adopted at NLMK Kaluga thanks to the Production System.

# NLMK KALUGA PRODUCTION SYSTEM DEVELOPMENT



In 2017, NLMK Production System moved to a new transformation stage in the Sinter Plants at NLMK Lipetsk and at Stoilensky. At the technical diagnostics stage, NLMK Lipetsk project team worked out more than 200 measures with a full-year economic gain of over 2 billion rubles. At 2017 year-end, 29 initiatives were implemented; the rest will be put into practice in 2018.

Another project is planned for kick-off for steelmaking operations.

## Plans for 2018

In 2018, the third wave of the NLMK Production System development project kicks off at NLMK Ural, NLMK Metalware and NLMK Ural Service.

Consistent development of NLMK Production System will cover all NLMK Group companies, creating a culture of engagement and teamwork, and taking the Company to a new level of development. This will be a team of like-minded people, ready and willing to tackle any challenge.

We strive to forge the underlying principles of the NLMK Production System into



the framework of our corporate culture. This is the key factor that will secure the Company's competitive edge, and consolidate our market position. This will not

only unlock the internal potential of the Company, but also create value for all our stakeholders: our employees will be engaged in achieving high performance results and continuous

development, local communities and municipalities will stand assured of the sustainability of our business, and our shareholders will receive stable return in the form of dividends.

## STAGE 3 MILESTONES



### PROJECT PARTICIPANTS

More than 3,000 employees from NLMK Ural, NLMK Metalware and NLMK Ural Service



### AREAS

Culture, processes, logistics, energy, maintenance, OHS



### GEOGRAPHY

Nizhniye Sergi, Revda, Beryozovsky



### PROJECT TEAM

More than 60 employees from NLMK Ural, NLMK Metalware, NLMK Ural Service, and VIZ-Steel

### TEAM TRAINING

MID-JULY



TEAM  
TRAINING

**43**  
PEOPLE

### PRIORITY SETTING

[TECHNICAL AND CULTURAL DIAGNOSTICS]

JULY-AUGUST



BEHAVIOURAL  
INTERVIEWS ON THE  
CULTURE OF  
PRODUCTION

**220**  
PEOPLE



KICK-OFF MEETINGS

**1,380**  
PEOPLE



SURVEY ON THE CULTURE  
OF PRODUCTION

**1,900**  
PEOPLE

AUGUST-SEPTEMBER



'MIRROR SESSIONS',  
FIRST RESULTS

**1,380**  
PEOPLE



BRAINSTORMING IDEAS  
FOR IMPROVEMENT

**2,600**  
PEOPLE

### INTEGRATION OF NLMK PS INTO DAY-TO-DAY ACTIVITIES

OCTOBER-FEBRUARY



MENTORSHIP  
AND LINE ROUNDS



ENGAGEMENT  
IN IDENTIFICATION  
AND ELIMINATION OF LOSSES



FEEDBACK FOR COLLEAGUES  
AND SUBORDINATES

**1,200**  
PEOPLE

# RESEARCH AND DEVELOPMENT



*“Steel companies used to put emphasis on production volumes, but now it is vital to shift focus to consumer requirements. A number of global steel companies have realized this over the last few decades after undergoing significant changes. The competition between steel producers has become acute. It is only possible to get ahead by producing higher quality products and focusing on consumer requirements.”*

*Research demands are constantly changing together with the market. R&D is not just building a beautiful modern building somewhere in Lipetsk or Belgium simply so you can proudly show it to guests. The R&D department has to be an organic part of NLMK and make a real contribution to its financial success.*

*We must offer steel products that will further the success of our customers' businesses. This is the traditional approach of NLMK.”*

**DR. BRUNO CHARLES DE COOMAN,**  
Vice President, Research and Development

*NLMK has a comprehensive approach to innovation management. We are consistently developing our product mix, optimizing our production and auxiliary processes to increase operational efficiency, and mastering new technologies to boost equipment productivity. We rely on advanced digital solutions for cost optimization.*

**C**onventional metallurgy developed a standard approach to research. Emphasis was on production and key technologies: blast furnaces, steel smelting, rolling, etc. This approach has been the driving force behind advancements in the steel industry for decades. At the same time another area has emerged — new materials production. We need innovation if NLMK Group is to continue creating optimal solutions that cover a wide range of applications. Developing and improving existing solutions is not enough — we need something entirely new. We need materials that will be the cornerstone of a new industrial revolution. We need to develop new products with unique properties, to improve processes, and to introduce efficient digital solutions.

## R&D

In 2017, NLMK Group established a new line of Research and Development that will support the Group in corporate R&D projects. Dr. Bruno Charles De Cooman was

appointed Vice President for Research and Development.

Priority areas for research and development:

- High-tech zinc-aluminium-manganese (ZAM) coatings. These alloys have incredible corrosion resistance, they can be used in the construction and automotive industries
- New high-strength steel grades for the automotive industry.

## BIG DATA

In 2017, the company established its Data Analysis and Modelling Department. Its main task is to reduce production costs and to improve the efficiency of the company's production and business processes using modern analytical methods, machine learning and optimization algorithms.

In order to solve tasks, accurate data on various production processes is needed. A typical task requires terabytes of data collected over

the course of several years. The total volume of data that has to be accumulated and processed throughout the entire Group can be counted in petabytes.

Around ten Big Data projects are planned for implementation in the near future. Expected economic gains of these projects are estimated at close to 3 billion rubles.

Andzhey Arshavskiy was appointed to the role of Director for Data Analysis and Modelling.

## INNOVATION IN TECHNOLOGY CASE STUDIES

NLMK is implementing innovative solutions developed either internally or by bringing in the expertise of third party R&D contractors.

### NLMK AND SAP CO-INNOVATION LAB CASE STUDY

NLMK Group created a Co-Innovation Lab, the first of its kind in the Russian steel sector, in partnership with SAP.

NLMK Group's specialists work with SAP developers and researchers to develop new solutions in the area of the Internet of Things, machine learning, predictive analytics and production planning systems

In the context of this cooperation, a pilot 3D positioning system for shop-floor employees of hot-dip galvanizing line No.1 has been developed at NLMK Group's

Lipetsk site. The system enables real-time tracking and analysis of equipment operating mode changes and employee positioning. The tracking information, amassed in a database, is later analyzed to enhance Operational Health and Safety (OHS), Human Resource and contractor management practices. The system will notify about OHS risks and eliminate them in advance. Now the system is being prepared for full-scale industrial operations.

### HIGH PRESSURE GRINDING ROLLER (HPGR) TECHNOLOGY AT STOILENSKY

Stoilensky was the first among Russian mining companies to introduce the high-pressure grinding rollers (HPGR) technology.

The project was launched in December 2013. Two press rolls with a total capacity of 650 t/h were installed on each of the four crushing and beneficiation sections downstream of the fine crushing stage. The commissioning work was completed in Q4 2017 and the equipment was put into operation.

The modernization process is based on the introduction of an additional grinding stage into the current crushing and processing flow. The HPGRs were installed to supplement the existing cone crushers and ball mills in the sections of the beneficiation plant. This enabled a boost in energy efficiency, a reduction in the size of crushed

ore, and an increase in the productivity of the ball mills.

Operating evidence showed that the technology is very promising. It enabled a 13% increase in the production capacity of each upgraded section of the facility without additional investment costs associated with the construction of new production buildings:

- Labour efficiency has increased by 30%
- The project created 80 new jobs
- Iron ore concentrate production capacity increased by 2.0 million tonnes per year; quartzite production capacity grew by 5 million tonnes per year
- Savings on electricity total ~\$1 million per year
- The project paid off in less than 3 years.

# STRATEGY 2017

## STRATEGY 2017 TARGETS:

- NET GAINS OF \$1.0 BN  
PA VS. 2013 EBITDA
- STRUCTURAL  
REDUCTION OF ANNUAL  
CAPEX
- CONSERVATIVE  
LEVERAGE: NET DEBT/  
EBITDA OF 1.0X
- STABLE POSITIVE FREE  
CASH FLOW
- DIVIDEND PAYMENTS  
IN ACCORDANCE WITH  
A REVISED DIVIDEND  
POLICY

*Strategy 2017 has a modular structure and includes projects designed to improve the Group's operating efficiency and business processes, as well as to increase self-sufficiency in strategic resources and secure leadership in strategic markets.*

## KEY ELEMENTS OF STRATEGY 2017:

### 1 LEADERSHIP IN OPERATIONAL EFFICIENCY

Increased productivity delivered by an investment programme and development of the NLMK Production System.

*Target net gain from leadership in efficiency: \$330 million per year vs. 2013*

### 2 WORLD-CLASS RESOURCE BASE

Increased self-sufficiency in key raw materials and lower consumption of expensive resources.

*Target net gain from world-class resource base: \$480 million per year vs. 2013*

### 3 LEADING POSITIONS IN STRATEGIC MARKETS

An increase in the share of HVA products in sales mix and in NLMK Group's sales on its 'home' markets, and greater presence in lucrative segments.

*Target net gain from leadership in strategic markets: \$190 million per year vs. 2013*

### 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

Ongoing initiatives to boost environmental performance through fine-tuning production processes and compliance with the very highest occupational health and safety standards, industry leadership in labour productivity and occupational training for personnel.

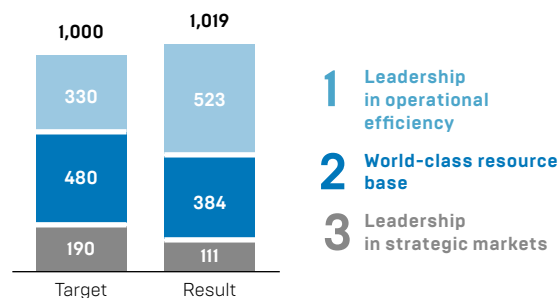


#### RELATED DOCUMENTS:

- [Strategy 2017 announcement, February 2014 presentation](#)
- [Strategy page, website](#)
- [Strategy 2017 results release](#)

## STRATEGY 2017 EBITDA GAINS,

\$ m



# STRATEGY 2017 RESULTS

REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S PRIORITY DEVELOPMENT AREAS

*“NLMK Group has successfully completed this strategic cycle. Over these past years, we have consolidated NLMK's leadership as one of the most efficient steel companies in the world.”*

“Last year's results showed net gains from Strategy 2017 projects exceed \$1 billion, with over 70% generated by operational improvement initiatives. This was not driven by the markets or pricing, this came about through the Group's structural transformation. Over the last five years, we implemented over 100 investment projects and over 3,000 operational efficiency projects.

“We've grown steel output to an all-time high, while boosting profitability. Decreased leverage and structural increase in profitability enabled higher dividends. This would not have been possible without concerted effort of NLMK Group's employees, all of our 55,000 people, working towards a common goal across 12 time zones. One of the most important outcomes of Strategy 2017 is clearly a step forward in developing NLMK as a single and committed team.

“NLMK has regained its leadership among Russian peers in terms of market value, and I am grateful to our shareholders for their trust.

“2018 sees the beginning of a new five-year strategic cycle. NLMK's technology, the quality of our team, the scale of our business and, most importantly, the unique potential for growth and efficiency our company enjoys within the industry will open up many new opportunities.”

**OLEG BAGRIN**  
President and CEO of NLMK Group  
(Chairman of the Management Board)

## KEY ACHIEVEMENTS OF STRATEGY 2017

**STRATEGY 2017 TARGET OF  
\$1 BILLION ANNUAL EBITDA GAINS  
HAS BEEN ACHIEVED\*:**

**STRUCTURAL ANNUAL EBITDA\*\*  
GAIN AMOUNTED TO \$1,019 MILLION**

**OPERATING EFFICIENCY  
PROGRAMMES CONTRIBUTED  
AROUND \$740 MILLION (OVER 70%)  
TO THE RESULT.**

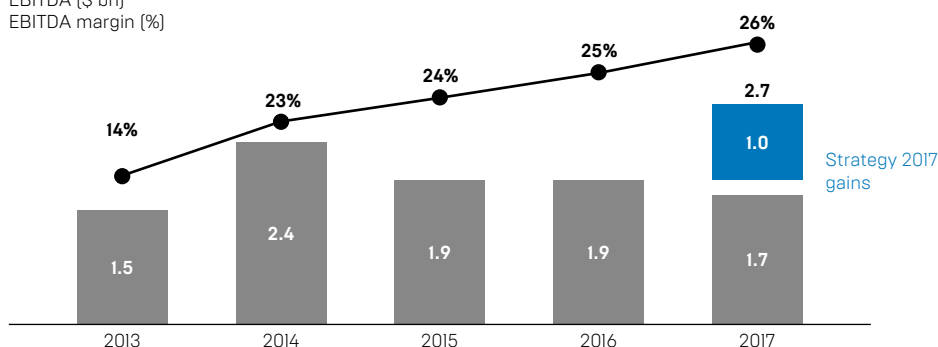
**ADDITIONAL GAINS OF AROUND  
\$160 MILLION IN 2018 EXPECTED TO  
COME FROM RECENTLY COMPLETED  
INVESTMENT PROJECTS.**

**FULL SELF-SUFFICIENCY IN IRON  
ORE AND PELLETS HAS BEEN  
ACHIEVED WITH POSITIVE NPV OF  
THE INVESTMENTS.**

**NLMK SALES GREW FASTER THAN  
RESPECTIVE MARKETS ACROSS ALL  
THE GROUP'S DIVISIONS.**

## STRUCTURAL PROFITABILITY GROWTH

EBITDA (\$ bn)  
EBITDA margin (%)



NLMK 2017

\* NLMK Group results are presented with NBH for the 2014-2017 period

\*\* See the Glossary on p. 46

# 1 GLOBAL LEADERSHIP IN EFFICIENCY

## TARGET: COST REDUCTION AND GROWTH IN PRODUCTIVITY

Enhancing operational efficiency is an ongoing process, which encompasses all of the Group's operations and stages of production. Over the past four years, we have implemented more than 3,000 efficiency enhancement initiatives, which required zero or minimal capex.

Structural EBITDA gain of \$523 million per year, or 158% of the declared target. This has led to a reduction in the production costs and an increase in productivity:

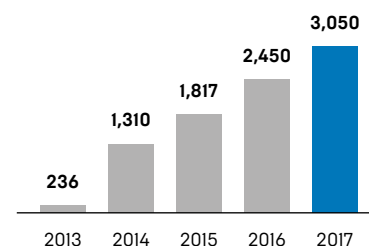
- Maintained cost leadership: 2017 cash cost per tonne of steel decreased by 12% from 2013 level (at constant prices). This secured

NLMK's global cost leadership in the sector with cost advantage vs. industry average widening from 25% in 2013 to 36% in 2017

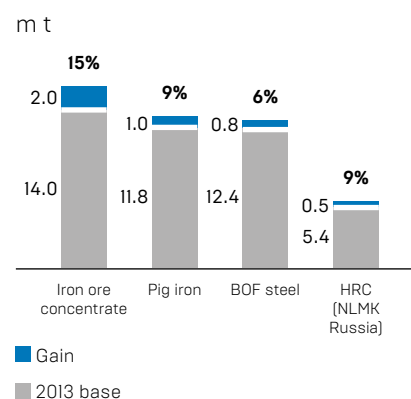
- Increased productivity: NLMK increased steel output by 0.8 million tonnes (+6%), HRC output grew by 0.5 million tonnes (+9%) per year from the 2013 levels through the use of best practices
- Increased efficiency of auxiliary operations (energy, logistics, procurement) driven by the rollout of NLMK Production System resulted in additional gains of \$228 million.

**STRUCTURAL EBITDA GAIN OF \$523 MILLION PER YEAR, OR 158% OF THE ANNOUNCED TARGET**

## OPERATIONAL EFFICIENCY PROJECTS



## NLMK GROUP EQUIPMENT PRODUCTIVITY GROWTH IN 2013-2017



## CASE STUDY

# 90%

OF NLMK BLAST FURNACE CAPACITY COVERED BY RESOURCE-SAVING PCI



## 90% OF NLMK BLAST FURNACE CAPACITY COVERED BY RESOURCE-SAVING PCI

This technology involves co-injecting natural gas and fine coal particles into the blast furnace, resulting in reduced coke consumption. Replacing expensive raw materials with cheaper alternatives, such as switching from coking coal to steam coal, reduces the cost of pig iron production by approximately 5%. This will enable a 30% decrease in the consumption of expensive coke; and a 50% reduction in the consumption of natural gas.

The PCI project was executed at Blast Furnace Shop No. 2 in two stages. Starting from May 2017, the technology was tested at Blast Furnace No. 6, and then at Blast Furnace No. 7 starting from June. Guarantee tests confirmed that both blast furnaces have reached a PCI level of 160 kg/t of pig iron. Previously, this resource-saving technology was introduced at Blast Furnace No. 5 (2.7 million tonnes per year) and Blast Furnace No. 4 (1.8 million tonnes per year).



## 2 WORLD-CLASS RESOURCE BASE

### TARGET: GREATER SELF-SUFFICIENCY IN KEY RAW MATERIALS AND LOWER CONSUMPTION OF EXPENSIVE RESOURCES

Structural EBITDA gain of \$384 million per year:

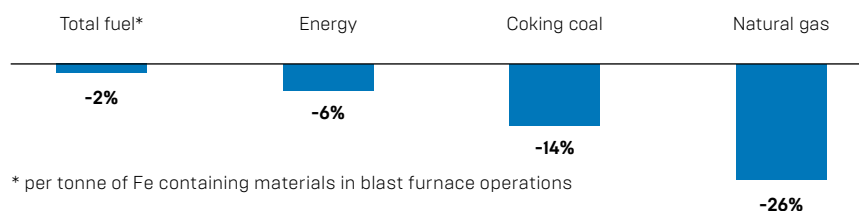
- Over 50% of this result was delivered by the new pelletizing plant reaching its design capacity (commissioned in November 2016) and an increase of iron ore concentrate output at Stoilensky
- Reduced consumption of expensive resources through new technologies introduced at NLMK Lipetsk: total energy consumption reduced by 6%, coking coal consumption – by 14%, and natural gas consumption – by 26%.

Additional carry-over effects from Strategy 2017 resource projects of \$160 million are expected in 2018. In particular:

- NLMK will increase output of iron ore concentrate to 17.5 million tonnes per year
- Coke consumption is set to decrease further with the ramp-up of PCI systems at NLMK Lipetsk.

**STRUCTURAL EBITDA GAIN  
OF \$384 MILLION PER YEAR  
IN 2014-2017**

### RESOURCE CONSUMPTION AT NLMK LIPETSK, 2017 VS. 2013



#### CASE STUDY

#### INTRODUCTION OF HIGH PRESSURE GRINDING ROLLS (HPGR) TECHNOLOGY,

**\$9** MILLION PER  
YEAR IN CURRENT  
PRICES

### NLMK GROUP INCREASES IRON ORE CONCENTRATE OUTPUT BY 0.8 MILLION TONNES

NLMK Group has commissioned four more high-pressure grinding roll (HPGR\*) units, boosting productivity of Stoilensky's Beneficiation Plant by 0.8 million tonnes of iron ore concentrate to 17.4 million tonner per year. As a result, Stoilensky has now covered 100% of the Group's blast furnace needs in iron ore concentrate with a Fe content of over 65%. Investment amounted to RUB 4.5 billion.

NLMK began implementing HPGR technology, unparalleled in Russia, in 2016. This project to implement HPGR's at the four sections of the Beneficiation Plant will add a total of about 1.8 million tonnes of capacity, and together with our other initiatives will enable NLMK to bring concentrate output up to 17.4 million tonnes per year by 2018.

## 3 LEADERSHIP IN STRATEGIC MARKETS

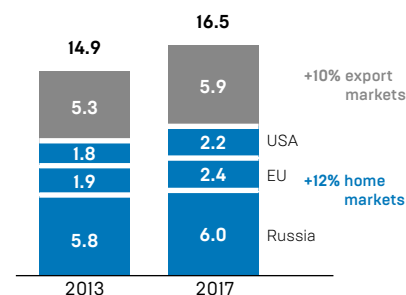
Structural gain of \$111 million per year, or 58% of the target level. Gains fell short of the target level due to the slump in the Russian steel market in 2014-2016, which was partly offset by:

- Sales hitting an all-time high of 16.5 million tonnes in 2017, climbing for the fourth year running (+11% vs. 2013)
- Sales in NLMK Group's home markets of Russia, the EU, and the USA grew by 12% vs. 2013 to 10.7 million tonnes. Sales growth by the Group's divisions significantly outperformed steel consumption

growth in its home markets. The share of home markets in total sales grew to 65% in 2017

- Sales of finished products increased by 17%, from 10.9 million tonnes in 2013 to 12.8 million tonnes in 2017.

### BREAKDOWN OF STEEL PRODUCT SALES



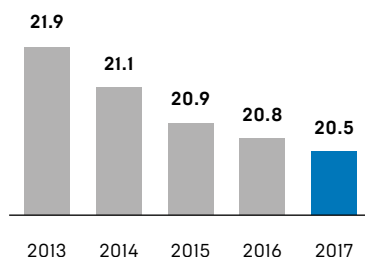
**STRUCTURAL EBITDA  
GAIN OF \$111 MILLION  
PER YEAR**

## 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

Leadership in sustainability and safety is a priority area for NLMK Group.

- Lost Time Frequency Rate (LTIFR\*) declined by 53% to 0.97 vs. 2013 for the Group, and by 41% to 0.51 for the Russian operations
- Specific air emissions were reduced by 6% to 20.5 kg/t vs. the 2013 level
- Employee productivity grew by 29% vs. 2013, driven by process automation and increased output.

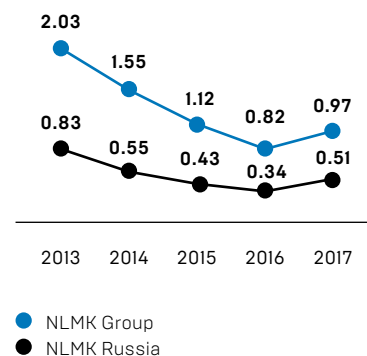
### REDUCTION OF SPECIFIC AIR EMISSIONS (NLMK's Russian operations)



### NLMK GROUP LABOUR PRODUCTIVITY



### NLMK LTIFR\*



\* See the Glossary on p. 46



## KEY FACTS AND FIGURES:

### Strategy 2017 gains

Strategy 2017 delivered structural annual EBITDA gain of \$1,019 million. Operational efficiency programmes contributed around \$740 million (over 70%) to the result.

### Strategy effects in 2018

The Company expects additional gains of around \$160 million in 2018 generated by recently completed investment projects.

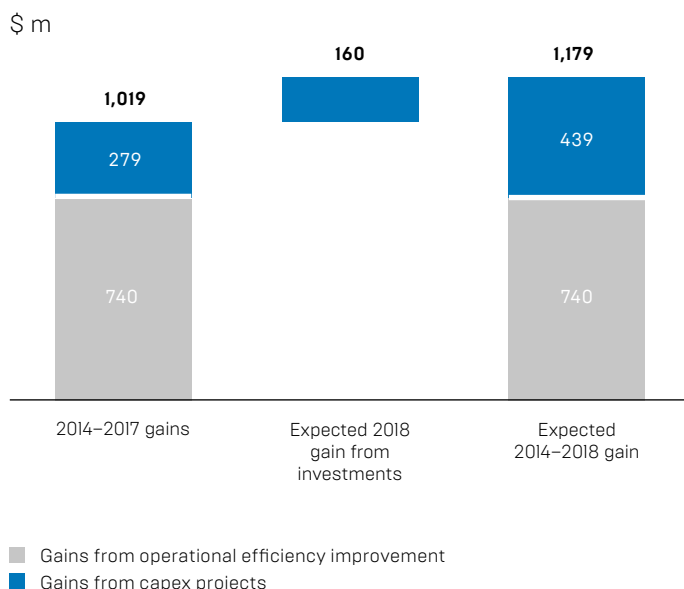
### Key objectives of Strategy 2022 defined

A balanced combination of long-term growth projects, further enhancement of operational efficiency and integration of innovative solutions.

## STRATEGY 2017 RESULTS IN 2018

The Company expects additional gains of around \$160 million in 2018 generated by recently completed investment projects.

### EXPECTED GAINS OF STRATEGY 2017



## KEY ELEMENTS OF STRATEGY 2022

*Strategy 2022, the next phase in the development of the Company that is currently being developed, will be announced in 2018.*

This new phase of NLMK's strategy will involve a balanced combination of long-term growth projects, further enhancement of operational efficiency and integration of innovative solutions. The Company remains dedicated to excellence in safety and sustainability.

A new important element of the new strategic cycle is digital innovation. At the same time, digitalization is not a goal in itself, but rather a tool for achieving the Company's strategic objectives. The Company has set up several Centers of Excellence: the Big Data Lab and the SAP Co-Innovation Lab.

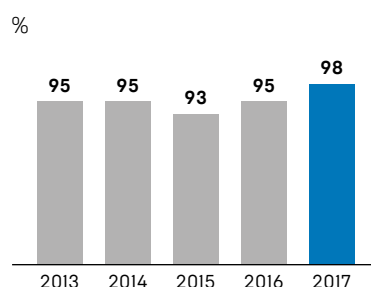
Strategy 2022 aims to maintain a balance between investment in growth projects, a conservative financial policy and high returns to NLMK shareholders. The Company will maintain the current level of dividend payments at a conservative debt leverage of Net debt/EBITDA in the range of 1.0-1.5x.

# KEY PERFORMANCE INDICATORS

## BUSINESS MODEL EFFICIENCY

### STEELMAKING CAPACITY UTILIZATION

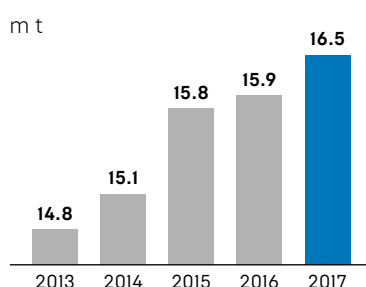
*Utilization rate of crude steel production capacities*



2017 targets met

### STEEL PRODUCT SALES

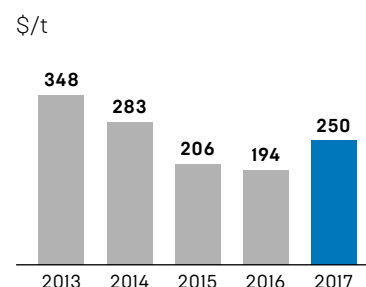
*Total sales of steel products to external consumers of all NLMK Group facilities*



Steel product sales growth secured

### SLAB CASH COST

*Consolidated cash cost for slab production at NLMK Lipetsk*



Leadership in cash cost sustained and reinforced

## 2017 COMMENTS

Thanks to efficient sales portfolio management and an advantage of low-cost production, NLMK managed to ensure high utilization rate of steelmaking capacities

Sales reached a record 16.5 million tonnes (+3%) in 2017, driven by recovering demand in NLMK's home markets of Russia, Europe and the USA, and growing demand in export markets

Slab cash cost at NLMK Lipetsk grew by 29% to \$250 per tonne in 2017 due to a surge in prices for main raw materials. NLMK was able to retain its cost leadership despite the growth of raw material prices

## 2018 TRENDS

**UTILIZATION RATE OF STEELMAKING CAPACITIES AT ALL NLMK GROUP'S FACILITIES WILL REMAIN HIGH, WITH PRODUCTION LEVEL MAINTAINED**

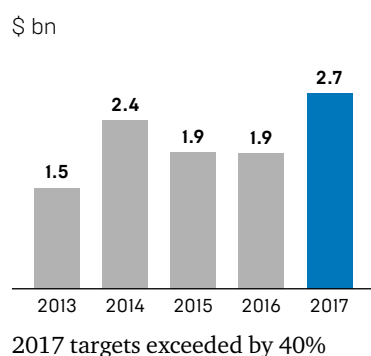
**NLMK GROUP PLANS TO KEEP ITS SALES VOLUME AT THE 2017 LEVEL**

**HIGHER SELF-SUFFICIENCY IN IRON ORE WILL HAVE A POSITIVE IMPACT ON THE CASH COST OF STEEL**

## FINANCIAL PERFORMANCE

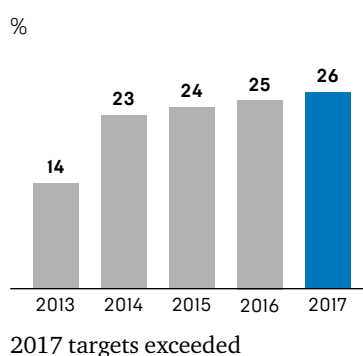
### EBITDA

*Profit before taxes, interest and depreciation received from NLMK Group's core businesses*



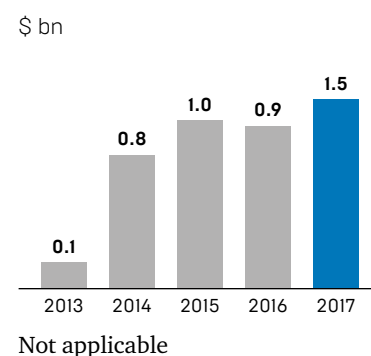
### EBITDA MARGIN

*Profitability of the Company's operations before interest, taxes and depreciation*



### NET PROFIT

*NLMK Group's profit after income and expense. One of the elements used to determine dividend payments*



## 2017 COMMENTS

Strong profit in 2017 was largely driven by higher sales margins and Strategy 2017 gains

An increase in EBITDA margin was supported by wider price spreads and structural gains from operational efficiency improvement programme

A 55% increase in net profit was driven by higher profitability of core businesses

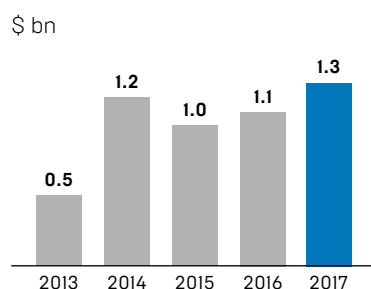
## 2018 TRENDS

**IN 2018, WE EXPECT TO RETAIN THE HIGH LEVEL OF FINANCIAL PERFORMANCE ACHIEVED IN 2017**

# FINANCIAL PERFORMANCE

## FREE CASH FLOW

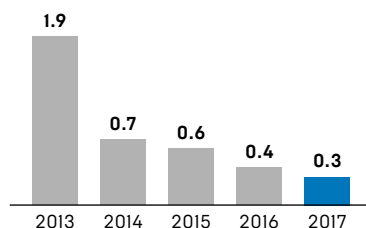
Net cash flow after investment and interest payments refers to cash that the Company can use to strengthen liquidity, repay liabilities, pay dividends, or for other corporate needs



Target – positive cash flow – achieved

## NET DEBT / EBITDA

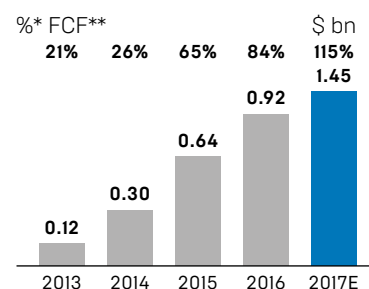
The Company's financial debt adjusted for the value of liquid assets, and then divided by EBITDA, characterizes the Company's debt leverage. Used as a trigger to determine the share of dividends to be paid. NLMK Group's target indicator stands at 1.0x



Debt leverage does not exceed target values

## DIVIDENDS

Cash paid to shareholders according to the Company's dividend policy and based on its financial situation and prospects for development



In line with NLMK's dividend policy

## 2017 COMMENTS

Consistently high free cash flow is secured by substantial profit, conservative capex policy and low cost of debt servicing

Thanks to a substantial free cash flow, net debt/EBITDA ratio is maintained below the target set out in Strategy 2017

Thanks to a stable financial position and the growth of free cash flow, dividend payments increased by ca. 58% to \$1.45 billion

## 2018 TRENDS

**STRUCTURAL PROFITABILITY GROWTH, STABLE CAPEX LEVEL CREATE CONDITIONS FOR A POSITIVE FREE CASH FLOW**

**THE LEVEL OF DEBT LEVERAGE IS EXPECTED TO REMAIN BELOW 1.0-1.5X TARGET**

**THE COMPANY WILL ADHERE TO ITS DIVIDEND POLICY, EXCESS LIQUIDITY WILL BE RETURNED TO SHAREHOLDERS IN THE FORM OF QUARTERLY DIVIDENDS**

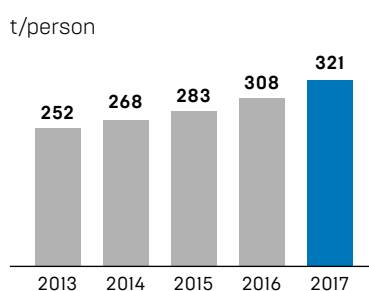
\* Share of free cash flow (FCF)

\*\* FCF = free cash flow

# SUSTAINABILITY PERFORMANCE

## LABOUR PRODUCTIVITY

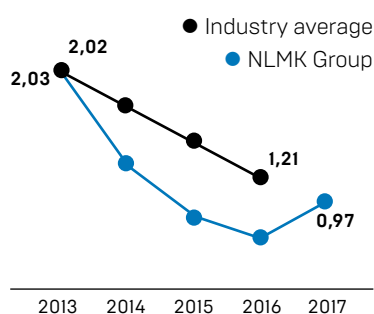
*Tonnes of crude steel per employee*



Labour productivity continues to grow

## LTIFR\*

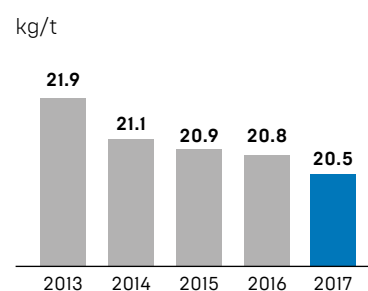
*Lost time injury frequency rate across NLMK Group*



Rates below global industry average

## SPECIFIC AIR EMISSIONS

*All types of air emissions (gases, dust, etc.) per tonne of crude steel*



Emission level lower than last year

## 2017 COMMENTS

Growth in labour productivity in 2017 was driven by increased operational efficiency

Group LTIFR was maintained at below the industry average thanks to management's operational safety improvement initiatives

Consistent reduction of air emissions thanks to environmental initiatives, and investments in environmental projects and better environmental safety standards

## 2018 TRENDS

**OPERATIONAL EFFICIENCY IMPROVEMENT PROGRAMME AND FACILITY UPGRADES WILL ENSURE PRODUCTIVITY GROWTH**

**THE COMPANY TARGETS A REDUCTION IN GROUP LTIFR TO 0.85 OR LOWER**

**REDUCTION OF SPECIFIC EMISSIONS BY 0.1 KG/T OF STEEL VS. 2017**

# MARKET REVIEW

*Global steel production grew by 5% in 2017 to 1.69 billion tonnes; global average capacity utilization was 71.8%, according to Worldsteel Association.*

## GLOBAL STEEL MARKET WAS ON THE RISE IN 2017 AFTER A SLOWDOWN IN CONSUMPTION IN 2015-2016

Steel production in China (50% of global steel output) increased by 5% up to 845 million tonnes. Global apparent steel consumption grew by 5% yoy to 1,587 billion, and by 8% yoy to 737 million tonnes in China. Steel consumption in developed countries grew by 2.8%. At the same time, export from China reduced by

31% yoy to 76 million tonnes, driven by the recovery of domestic demand for steel in China and a nationwide campaign to close inefficient steelmaking capacity. As a result, as much as 115 million tonnes of steelmaking capacity was closed in China in 2016–2017.

### US MARKET

Steel production in the US increased by 4% to 82 million tonnes in 2017, capacity utilization was 74%.

Steel consumption increased by 6% in 2017 to 98 million tonnes, driven by growing demand from the construction, automotive, and oil and gas sectors. Import of steel products increased by 15% to 34 million tonnes, while exports increased by 7% to 9 million tonnes.

### EU MARKET

Steel production increased by 4% to 168 million tonnes.

Apparent consumption of steel in the EU in 2017 grew by 3% yoy to 162 million tonnes, driven by stronger demand from the construction, machine building and pipe sectors. Import of flat and long steel reduced by 1% to 26 million tonnes; export reduced by 3% to 23 million tonnes. An uptick in demand was also seen among “green energy” customers, i.e. manufacturers of windmills and power equipment.

### RUSSIAN MARKET

Apparent consumption of finished steel grew by 5% in 2017, against a backdrop of economic recovery.

Steel output in Russia in 2017 increased by 1% to 70.6 million tonnes, while imports of rolled steel grew by 47% to 6.3 million tonnes and exports by 5% to 14.4 million tonnes.



## KEY FACTS AND FIGURES

### Global steel production

Production increased to 1.69 billion tonnes (+5%) (above the 2014 peak value of 1.66 billion tonnes). Global steelmaking capacity utilization increased to 71.8%. Continued growth of protectionism.

### Regional trends

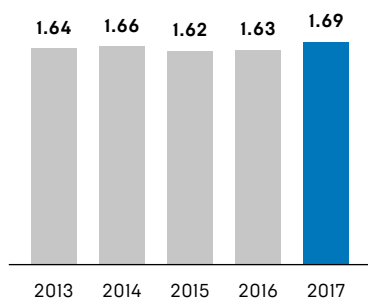
Demand in the Group's home markets (Russia, the US and the EU) continued to increase, supported by economic growth.

### Slowdown of exports from China and price trends

Growth of domestic demand, trade restrictions and closure of excess capacity led to a downturn in exports. Prices for steel and raw materials continued to grow in 2017.

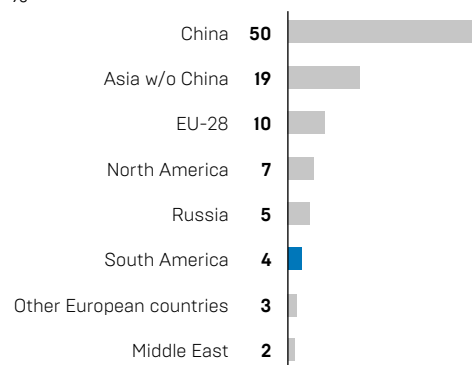
### GLOBAL STEEL PRODUCTION

bn t



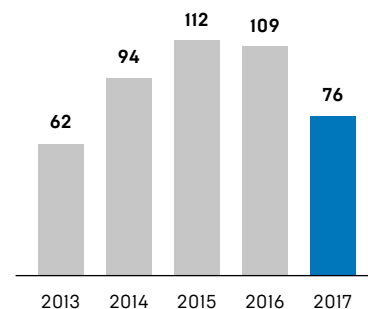
### REGIONAL BREAKDOWN OF STEEL PRODUCTION

%



### CHINESE EXPORTS

m t



Source: Bloomberg

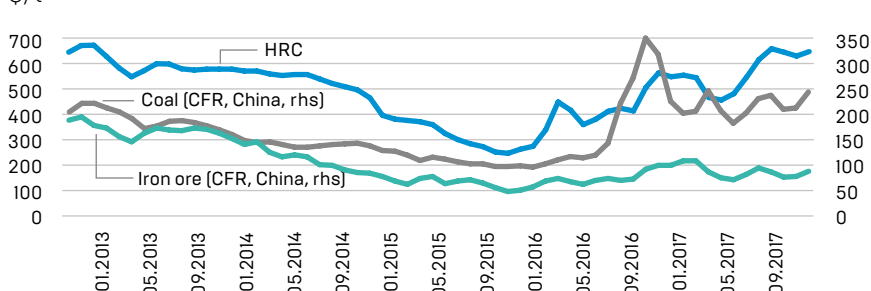
## PRICE TRENDS

Global average prices for coal and ore grew by 26% yoy and by 22% yoy, respectively, driven by the growth of global demand for steel and supply balance recovery. Average steel product prices grew by 15–35% vs. 2016, amid the reduction in export supplies from China.

### GLOBAL PRICES

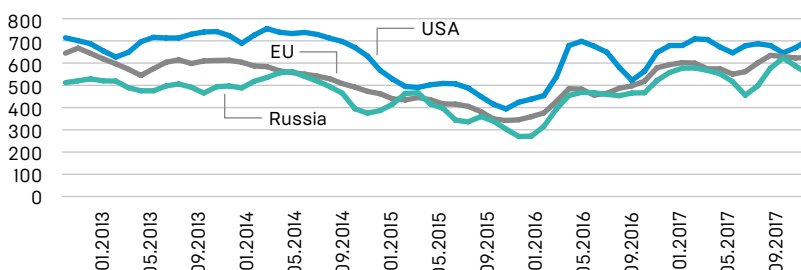
Source: Metal Bulletin, SBB

\$/t



### HRC 'DOMESTIC' PRICES

\$/t w/o VAT



2017 HIGHLIGHTS	CEO STATEMENT	COMPANY PROFILE	WHERE WE MAKE AND MARKET STEEL	WHAT WE MAKE AND MARKET	NLMK GROUP BUSINESS MODEL	NLMK'S INTEGRATED PROCESS ENVIRONMENT	NLMK PRODUCTION SYSTEM
2	4	6	8	10	14	18	24

# 2017 FINANCIAL AND OPERATING REVIEW



## KEY FACTS AND FIGURES

### Record operational performance

All-time high output and sales thanks to a unique business model and quality of facilities.

### Sustainable profitability growth

Cost leadership, growing vertical integration and implementation of optimization programmes enable profitability growth despite a weak market.

### Financial flexibility

Increase in profitability and low leverage enable great financial flexibility and deliver high returns for shareholders.



*"In 2017, NLMK Group continued to consistently improve its operating and financial performance."*

*"Successful execution of Strategy 2017 was the key driver behind improved financials, with net gains from strategy projects exceeding \$1 bn. Non-capital intensive operational efficiency projects accounted for more than half of Strategy 2017 gains."*

*"NLMK Group's high credit-worthiness and the success of its business model received high acclaim from international rating agencies: NLMK's credit ratings have been upgraded by S&P and Moody's over the last 18 months. NLMK currently has investment grade ratings from all three international rating agencies."*

*"High level of free cash flow, low leverage and conservative capex enable the company to increase its dividend payments. 9M 2017 dividends totalled about \$1.1 bn."*

**SERGEY KARATAEV,**  
NLMK Group acting CFO

## OPERATING PERFORMANCE

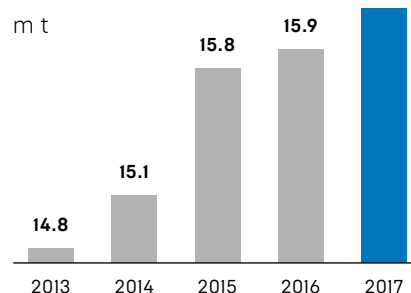
**G**rowth of steel output\*: +3% yoy due to the growth in productivity at NLMK Lipetsk and the increase in capacity utilization rates at NLMK Russia Long Products and NLMK USA divisions. Group steelmaking capacity utilization rate grew by 3 p.p. to 98%\*\*.

Growth of sales\*\*\*: +3% yoy, due to the growth in sales in home and export markets.

Sales breakdown: growth of finished product sales by +5% yoy, accounted for mainly by HRC and HDG. The share of finished products in total sales increased to 65% (+1 p.p. yoy). Sales of semi-finished products remained flat yoy.

Sales breakdown by region: sales in Russia and the US grew by 1% yoy (to 6 m t) and by 23% yoy (to 2.8 m t), respectively, driven by the growth of demand. Sales in the Middle East (incl. Turkey) grew by 40% yoy, which is practically in line with sales volumes to the US market.

### CONTINUOUS GROWTH OF SALES VOLUMES



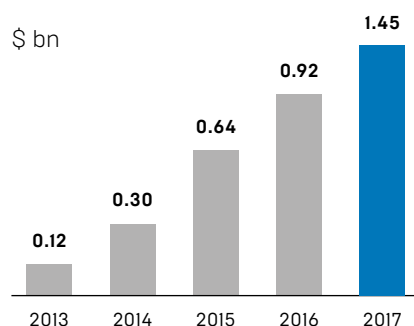
\* Steel output with NBH

\*\* Without production capacities that are undergoing planned maintenance

\*\*\* Consolidated sales without NBH

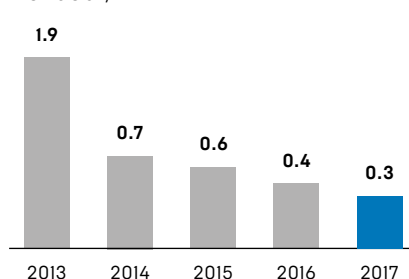
## HIGHER DIVIDENDS

\$ bn



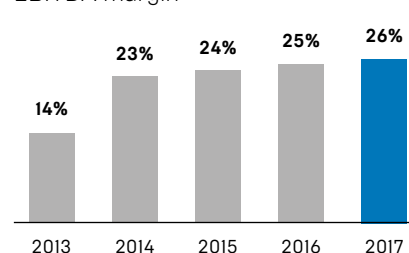
## LOWER DEBT

Net debt/EBITDA



## CONSISTENT GROWTH OF PROFITABILITY

EBITDA margin



Sales in home markets grew by 4% to an all-time high of 10.7 m t, driven by stronger demand from key consumers in Russia and the US. Sales in the EU decreased by 3% yoy, as a result of competition with imports. Home markets accounted for 65% of total sales (flat yoy).

Sales in export markets grew to 5.7 m t (+3% yoy) due to the growth in the export of semis.

## FINANCIAL REVIEW

### REVENUE

Revenue grew to \$10.1 bn (+32% yoy), driven by the growth of sales volumes and average sales prices.

The share of revenue from finished product sales remained flat yoy at 67%.

The share of NLMK Group's revenue (with NBH) from sales to home markets remained flat (69%).

### OPERATING PROFIT\*

Operating profit grew by 37% yoy to \$2 bn, driven by the growth of steel

product sales volumes and prices, and Strategy 2017 gains.

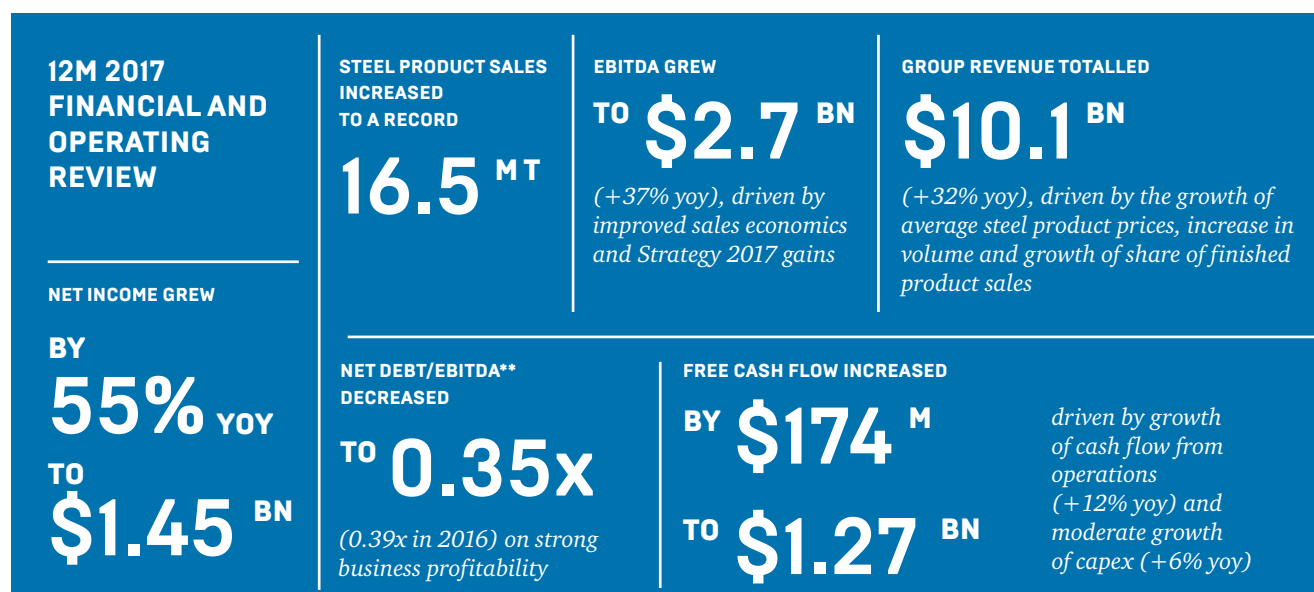
### NET PROFIT

Growth of net profit in 12M 2017 by 55% yoy and in Q4 by 20% yoy was driven by the growth of profit from core operations.

### FREE CASH FLOW

Free cash flow grew by 16% to \$1.3 bn due to the growth of inflow from operations.

Growth of operating cash flow by 12% yoy to \$1.9 bn was driven by the increase in sales margins.



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

\*\* See the Glossary on p. 46

Outflow of cash funds due to increase in working capital totalled \$380 m (vs. a release of \$37 m in 2016):

- Growth of prices: increase in the cost of raw materials and WIP, resulting in an increase of \$221 m
- Growth of accounts receivable due to the growth of sales volumes
- Growth of slab inventories at the European and US sites to support the growth in demand
- The above-mentioned factors were partially offset by the decrease in raw material stocks, the decrease in stocks of finished products at NLMK Russia Long Products due to sales being shifted to export, and the growth of accounts payable.

## INVESTMENT

NLMK Group 2017 investment grew by 6% to \$592 m, due to the launch of the BF-6 overhaul project at NLMK Lipetsk, and the growth in payments to contractors under the Pelletizing Plant construction project at Stoilensky.

## DIVIDENDS

In 2017, dividend payments totalled \$1,283 m.

NLMK Group's Board of Directors recommended NLMK shareholders approve Q4'17 dividends of RUB 3.36 per share. Q4'17 dividend yield\* will total 9.1%.

Taking into account declared dividends for Q1-Q3'17, 12M'17 accrued dividends could total RUB 14.04 per share, which is equivalent to 100% of NLMK Group's 2017 net profit.

## DEBT LEVERAGE

Total debt grew by 1% yoy to \$2.3 bn, with debt structure changing towards an increased share of LT debt to 83% in 2017 (vs. 79% in 2016). In September, NLMK Group bought back Eurobonds for a total of \$317 m, using proceeds from a new 7-year Eurobond placement for a total of \$500 m. In October 2017, NLMK repaid ruble bonds for a total of 10 bn rubles.

Net debt grew by 21% yoy to \$923 m due to the decrease in cash and cash equivalents on the balance sheet, used for dividend payments. Net debt/ EBITDA decreased to 0.35x compared to 0.39x in 2016 due to the increase in profitability.

Financial guarantees for NBH liabilities totalled \$304 m (+19% yoy), including due to the strengthening of the EUR/ US\$ FX rate.

Decrease of financial costs by 17% yoy to \$87 m was associated with the reduction in the average debt portfolio rate (from 4.2% to 3.8% at the end of 2017).

## SEGMENTAL ANALYSIS

### Russian Flat Products

EBITDA climbed by 28% yoy to \$1.7 bn, driven by the widening of spreads between prices for steel and main raw materials, and Strategy 2017 gains. EBITDA margin was 22% (-2 p.p. yoy), triggered by the outstripping growth of raw material prices (primarily coking coal) and the strengthening of the ruble FX rate.

### Russian Long Products

EBITDA increased by 10% to \$152 m. Lower growth rates compared to revenue were associated with the narrowing of spreads triggered by the late start of the construction season in Russia and growth of scrap prices. Growth of scrap prices outstripped the decrease in the EBITDA margin by 3 p.p. to 8%.

### Mining Segment

EBITDA doubled yoy to \$0.64 bn, supported by growth of average prices and increase in the share of pellet supplies.

### NLMK USA

EBITDA was \$0.2 bn (+11% yoy), supported by the growth of sales, partially offset by the narrowing of spreads.

### NLMK DanSteel and plate distribution network

EBITDA grew to \$2 m due to the widening of the price spread between thick plate and slabs.

### Joint venture (NBH)

EBITDA was -\$24 m, due mainly to the narrowing of price spreads between finished steel and slabs.



#### RELATED DOCUMENTS:

- [2017 IFRS financial press release](#)
- [5-year highlights](#)

\* Dividend yield is calculated as the sum of dividends for the period converted at the exchange rate at the end of the reporting period, annualized by multiplying the amount for the quarter by 4 and divided by the total market capitalization of the company on the last day of the relevant period

# GLOSSARY

## HIGH-PRESSURE GRINDING ROLLERS (HPGR) TECHNOLOGY

An iron ore crushing technology employed in the production of concentrate. HPGR has a superior ore crushing capacity to conventional methods. Feed is subjected to high pressure by the rolls, which not only crush the ore but cause micro-cracks that disrupt its mineral-crystalline structure. The resulting supply of iron ore for onward processing at Stoilensky requires less additional fine grinding, which delivers significant savings in resources.

## PULVERIZED COAL INJECTION (PCI) TECHNOLOGY

This technology involves feeding natural gas and fine coal granules into the blast furnace, which enables a reduction in the consumption of expensive raw materials. Replacing expensive raw materials with cheaper alternatives, such as switching from natural gas and coal to a mix of power-generating coal, reduces the cost of pig iron and steel production without affecting quality.

## IRON ORE PELLETS

An enriched form of iron ore moulded into small circular pellets that are used in the steelmaking processes. Has an iron (Fe) content of around 65%. A pelletizing plant was launched in November 2016 at Stoilensky to produce pellets for NLMK operations.

## EBITDA

Profit before taxes, interest and depreciation received from NLMK Group's core businesses. EBITDA is calculated as operating profit before equity share in net losses of associated and other companies accounted for using the equity method, impairment and write-off of assets, adjusted to depreciation.

## NET PROFIT

NLMK Group's profit after income and expense. One of the elements used to determine dividend payments. Net profit is calculated as profit for the period attributable to NLMK shareholders.

## FREE CASH FLOW

Net cash flow after investment and interest payments refers to cash that the Company can use to strengthen liquidity,

repay liabilities, pay dividends or for other corporate needs. Free cash flow is calculated as net cash from operating activities plus interest received net of interest paid and capital investments.

## NET DEBT

Net debt is calculated as the sum of long-term and short-term credits and loans less cash and cash equivalents, as well as short-term deposits at period end.

## NET DEBT/EBITDA

The Company's financial debt adjusted for the value of liquid assets, divided by EBITDA, characterizes the Company's debt leverage. Used as a trigger to determine the share of dividends to be paid. NLMK Group's target indicator stands at 1.0x. Net debt / EBITDA ratio is calculated based on net debt as at the end of the reporting period and EBITDA for the last 12 months.

## OPERATIONAL EFFICIENCY GAINS

Structural increase in EBITDA generated by the implementation of initiatives to increase productivity and/or reduce cash cost, mainly as a result of improvements to business processes, optimization of technologies etc., which require zero or minimal investment.

## INVESTMENT PROJECTS GAINS

Structural increase in EBITDA generated by the implementation of investment projects, such as the effect of cost reduction following the launch of the Stoilensky pelletizing plant.

## HOME MARKETS

Markets where production of steel products is located, for instance, the Russian market is the home market for NLMK Russia, North America is the home market for NLMK USA, EU countries are the home market for NLMK Europe.

## LTIFR

Lost Time Injury Frequency Rate per 1,000,000 man-hours worked.



# 10-YEAR HIGHLIGHTS

## FINANCIAL PERFORMANCE\*, \$ m

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales revenue	11,699	6,140	8,351	11,729	12,157	10,818	10,396	8,008	7,636	10,065
Net income**	2,279	215	1,255	1,358	596	145	773	967	935	1,450
EBITDA	4,689	1,414	2,322	2,254	1,900	1,480	2,381	1,943	1,943	2,655
EBITDA margin, %	40%	23%	28%	19%	16%	14%	23%	24%	25%	26%
Operating cash flow	2,781	1,394	1,431	1,315	1,825	1,333	1,806	1,622	1,699	1,899
Investments	1,934	1,121	1,463	2,048	1,453	756	563	595	559	592
Net debt	850	1,241	1,471	3,356	3,631	2,843	1,666	1,161	761	923
Free cash flow	846	273	-32	-243	371	536	1,153	992	1,092	1,266
Dividend per share, \$	0.0786	0.0071	0.0632	0.0627	0.0193	0.0192	0.0507	0.1076	0.1535	—

## OPERATING PERFORMANCE, '000 t

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Steel production	10,955	10,614	11,544	12,112	14,923	15,429	15,921	15,866	16,438	16,850
Steel production with NBH	10,955	10,614	11,544	12,112	14,923	15,469	16,108	16,060	16,641	17,076
Total steel sales	10,261	10,600	11,730	12,840	15,184	14,831	15,147	15,829	15,925	16,469
Finished product sales	5,995	6,324	7,051	8,664	10,607	10,929	10,223	9,793	10,211	10,759
Sales to home markets	4,246	3,485	4,644	6,012	8,684	9,535	10,605	10,140	10,225	10,650

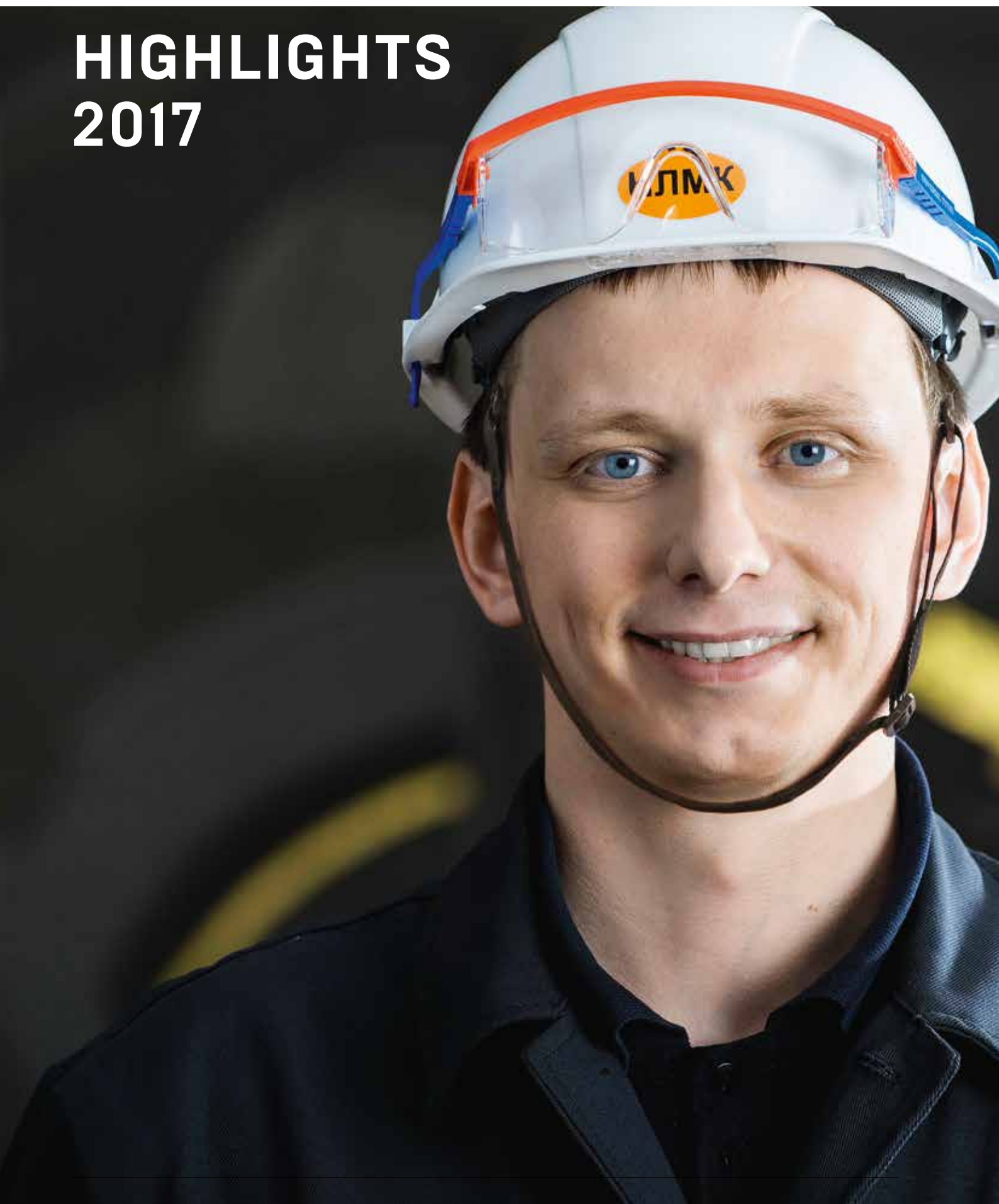
## SUSTAINABLE DEVELOPMENT INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NLMK Group headcount, '000 people	70.1	62.8	59.4	60	62.5	62.1	60.1	56.7	54	53.2
Labour productivity, t of steel /person, Lipetsk site	249	269	308	329	406	420	437	463	482	502
LTIFR for NLMK Group's Russian assets	n/a	n/a	n/a	0.87	0.87	0.86	0.55	0.43	0.34	0.51
Specific air emissions, kg/t of steel	30.5	30.4	28.5	26.1	22.6	21.9	21.1	20.9	20.8	20.5

\* Financial statements starting from 2013 are prepared based on IFRS; prior to 2013 financials are US GAAP-based (for reference purposes)

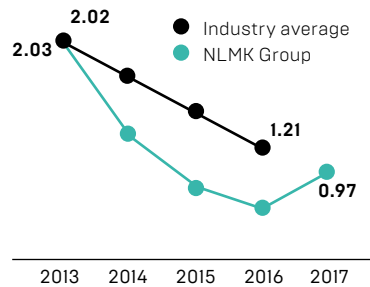
\*\* Income for the period, attributable to NLMK shareholders

# HIGHLIGHTS 2017



## OCCUPATIONAL HEALTH AND SAFETY

LOST TIME INJURY FREQUENCY  
RATE (LTIFR) IS BETTER THAN  
THE GLOBAL INDUSTRY AVERAGE

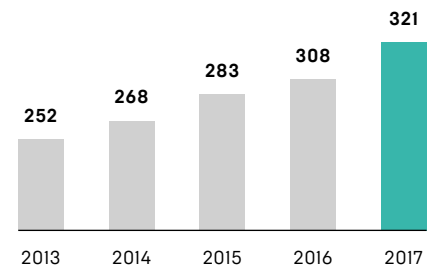


Almost all OHS targets were met. Safety of production remains one of the key priorities for NLMK Group. The Company continued to implement its Risk Management Programme.

## INCREASED LABOUR PRODUCTIVITY

CONTINUED LABOUR  
PRODUCTIVITY GROWTH  
ACROSS THE GROUP

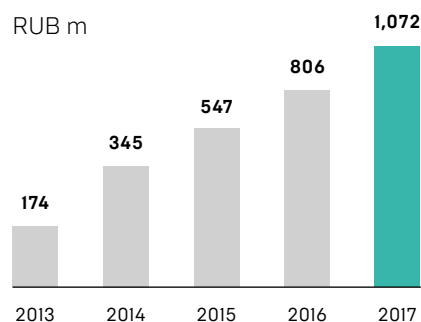
tonnes of steel/person



NLMK's efforts to consistently enhance the efficiency of its business and drive employee engagement supported the high growth rate in labour productivity, delivering an increase across NLMK Group of 27% vs. the 2013 level.

## PROFESSIONAL DEVELOPMENT OF OUR EMPLOYEES

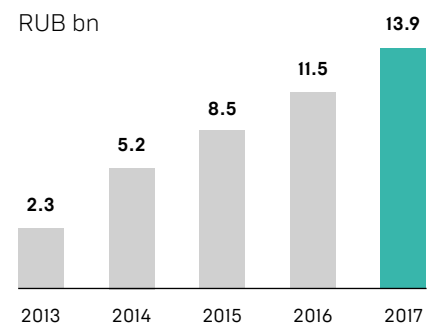
INVESTMENT IN TRAINING  
(CUMULATIVE)



In 2017, NLMK Group focused on the professional development of its employees. Personnel development is a prerequisite to the Company's leadership in the industry.

## FOCUS ON LOCAL COMMUNITIES

NLMK GROUP'S SOCIAL  
INVESTMENT AT ITS RUSSIAN  
OPERATIONS (CUMULATIVE)



In 2017, the Company contributed RUB 2.4 billion to the development of the regions where it operates in Russia. This investment was used to promote sport, health, education, culture, children and youth outreach, and charitable activities.

# NLMK VALUES



*“A well-balanced development strategy, highly efficient operations, and the professionalism and engagement of our employees in business processes enable NLMK Group to look to the future with confidence.*

*We’re proud of what we have achieved and fully recognize that our achievements were made possible thanks to the contribution of our international team, united by the common goal of leadership for NLMK Group.”*

## OLEG BAGRIN,

President and CEO of NLMK Group  
(Chairman of the Management Board)\*

## RESPONSIBLE LEADERSHIP

*Responsible leadership is at the heart of NLMK Group’s values. We are a team of professionals sharing these values and using them as guidelines in what we do.*

*We understand the concept of responsible leadership as:*

### Continuous improvement of processes

Continuous improvement of processes and technologies to ensure efficient production of steel products that help improve the quality of life.

### Protecting the health and safety of our employees

Unwavering commitment to protecting health and safety of our employees and contractors and ensuring favourable working conditions that allow our employees to fulfil their potential for professional and personal growth.

### Efficient use of resources

Efficient use of resources and pursuit of the best available environmental and energy efficiency standards, with which we also expect our partners to comply.

### Helping customers secure leadership

Production of unique premium quality steel products and development of engineering solutions that help keep our customers on the cutting edge of innovation and lead in their markets.

### Ensuring equal opportunities for employees

Ensuring equal opportunities for professional and personal growth of our employees, motivating initiative and innovation.

### Active approach to social responsibility

Active approach to social responsibility and care for cultural legacy in the regions where we operate.

\* Oleg Bagrin held the position of President (Chairman of the Management Board) until 12 March 2018

# HUMAN RIGHTS PROTECTION

*NLMK Group makes the greatest possible effort to ensure the protection of human rights.*

NLMK ensures a socially responsible attitude towards its more than 53,000 employees across three continents. The Company guarantees that the labour of its employees is not forced or compulsory and that each employee receives commensurate

compensation. NLMK Group does not tolerate any form or manifestation of human rights violations in its operational, financial or other activities, including interaction with stakeholders. Our corporate policy calls for all employees of the Group to comply with internationally recognized principles and norms, as well as international agreements of the Russian Federation and other countries where NLMK Group operates, as applicable under the

labour laws of any country and irrespective of its business practices.

Our approach to human rights protection is derived from established UN guidelines, including UN Human Rights Norms for Business, UN Global Compact and ILO Conventions, and from ISO 26000 Guidance on Social Responsibility and prevailing legislation in the countries where NLMK Group operates.

## NLMK'S FUNDAMENTAL PRINCIPLES OF HUMAN RIGHTS PROTECTION:

### ➤ PROHIBITION OF FORCED LABOUR:

The Company prohibits forced labour, prison labour and military labour, slavery, and human trafficking. All types of labour in the Company are purely voluntary.

### ➤ PROHIBITION OF CHILD LABOUR:

The Company only signs employment contracts with people who satisfy the minimum age requirements set out in the prevailing legislation. The Company would not resort to using child labour.

### ➤ RESPECT FOR THE RIGHT TO A MINIMUM WAGE:

The Company sets remunerations in accordance with the applicable statutory provisions on remuneration, in particular those that establish the minimum wage, acceptable working hours and compensation for overtime.

### ➤ PROHIBITION OF DISCRIMINATION:

The Company's employees are free from any form of harassment and unlawful discrimination, irrespective of their race, colour, religion, ethnicity, gender, age, family status, or any other status

protected by the legislation of the countries where the Company operates.

### ➤ PROMOTING FREEDOM OF ASSOCIATION AND THE RIGHT FOR COLLECTIVE BARGAINING:

The Company does not limit the freedom of its employees for establishing associations to promote their interests among shareholders. The Company builds its relations with the employees on social partnership principles, direct dialogue being an integral part of this.

# SUSTAINABLE DEVELOPMENT PRIORITIES

## NLMK'S SUSTAINABLE DEVELOPMENT PRIORITIES:

- INCREASING OPERATIONAL EFFICIENCY
- OCCUPATIONAL HEALTH AND SAFETY
- MINIMIZING ENVIRONMENTAL FOOTPRINT
- ENERGY EFFICIENCY
- PERSONNEL DEVELOPMENT
- DEVELOPING LOCAL COMMUNITIES

*NLMK views its social mission as the achievement of sustainable development goals as this meets the long-term economic interests of the business, contributes to community welfare and conservation of the environment, and observance of human rights in the regions of its operation.*

## SUSTAINABLE DEVELOPMENT AS THE BEDROCK FOR BUSINESS SUCCESS

### Increasing operational efficiency

is an important part of Strategy 2017 and means, among other things, a reduction in the consumption of particular resources through the introduction of advanced technologies and advanced recycling.

### Occupational health and safety

The Company operates production facilities which are potentially hazardous, and takes responsibility for the welfare of its employees. The Company is striving to achieve global leadership in occupational health and safety among steel companies through the use of advanced OHS practices, efficient risk management and by motivating and actively involving its employees in OHS programmes.

### Minimizing environmental footprint

is one of the keys to the success of Strategy 2017. Minimizing the negative impact NLMK Group facilities have on the environment is achieved through planned environmental and technological initiatives that are both part of and beyond NLMK Group's investment programme.

### Increasing energy efficiency

is one of NLMK Group's strategic priorities, aimed at decreasing the amount of energy resources purchased and growing captive energy generation through utilizing by-product gases.





## Personnel development

NLMK sees investment into the development of its employees as a prerequisite for the Company's long-term competitiveness, dynamic development, the increased potential of human capital, and, ultimately, an increased fundamental value of the Group as a whole. High-quality professional training provides the standard of employee qualification necessary to overcome professional challenges. It also increases employee loyalty, forms a favourable social and psychological climate in the workplace, and has a direct impact on the development of NLMK's corporate culture.

## Improving the quality of life

for people that live in the regions in which the Company operates is one of NLMK's key social responsibility goals. The Company works with local communities, and the authorities at different levels, to strive to create new opportunities for using cutting-edge mechanisms for development of the regions where NLMK operates and resolve pressing social issues.


## Safety

in the broadest sense is one of the key values of NLMK corporate culture:

- We provide safe working conditions and improve occupational safety
- We take care of the health of employees and residents of the regions where we operate
- We increase the environmental safety of our operations
- We monitor the quality of our products to ensure our customers' safety
- We do our best to protect human rights
- We increase social security and create confidence in the future.

# DIALOGUE WITH STAKEHOLDERS





**SUSTAINABLE  
DEVELOPMENT, WHICH  
IS ONE OF THE KEY  
STRATEGIC GOALS  
OF THE COMPANY, IS  
IMPOSSIBLE WITHOUT A  
REGULAR MULTILATERAL  
DIALOGUE BETWEEN  
THE COMPANY AND ITS  
STAKEHOLDERS**

## STAKEHOLDER ENGAGEMENT

**A**ctive stakeholder engagement is a key factor in the sustainable development and long-term industry leadership of NLMK Group. Mutual trust, respect, transparency, responsibility, partnership and predictability are the underlying principles of efficient dialogue between the Company and its stakeholders.

The Company strives to build stable partnerships with all stakeholders based on respect for human rights, compliance with Russian laws and regulations, international and industry-specific rules and guidelines, and contractual obligations.

General guidelines on the Company's relations with stakeholders are laid out in its [Corporate Governance Code](#), [Corporate Ethics Code](#), [Anticorruption Policy](#), [Supplier Code of Conduct](#) and [other corporate documents](#).

In developing its stakeholder management system, the Company is guided by its own strategic and current operational, environmental and social priorities, and on the provisions and principles of international standards.

In 2017, NLMK Group continued to actively engage its stakeholders through various formats of interaction.

## STAKEHOLDER EXPECTATIONS

## INTERACTION FORMATS

## SHAREHOLDERS

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Operational and financial performance</li> <li>• Development strategy</li> <li>• Market capitalization</li> <li>• Business stability</li> </ul> | <ul style="list-style-type: none"> <li>• General Shareholders' Meetings</li> <li>• Capital Markets Day</li> <li>• Participation of NLMK's top managers in industry conferences and meetings with the investment community</li> <li>• Corporate reporting</li> <li>• Media publications, Company's website</li> </ul> |
|--|--|

## INVESTMENT COMMUNITY

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Information availability and transparency</li> <li>• Investment appeal</li> </ul> | <ul style="list-style-type: none"> <li>• Information disclosure through various communication channels</li> <li>• Participation in Russian and international investment conferences</li> <li>• Site visits for investors/potential investors</li> <li>• One-on-one and group business meetings</li> <li>• Capital Markets Day with the Company's top management</li> </ul> |
|--|--|

## EMPLOYEES

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Employment and safe working conditions</li> <li>• Lucrative compensation</li> <li>• Professional and career growth</li> <li>• Social programmes</li> </ul> | <ul style="list-style-type: none"> <li>• Regular safety trainings and programmes to improve working conditions</li> <li>• Social support for workers and their families, retirees (former employees)</li> <li>• Professional skills improvement programmes, personnel training and development</li> <li>• Personnel engagement monitoring</li> <li>• Regular meetings with management of different levels</li> <li>• Processing of inquiries submitted via the hotline, the corporate portal, by SMS</li> </ul> |
|---|---|

## TRADE UNIONS

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Compliance with labour regulations</li> <li>• Compliance with the Sectoral Tariff Agreement</li> <li>• Compliance with collective agreements</li> <li>• Protection of employee interests</li> </ul> | <ul style="list-style-type: none"> <li>• Collective bargaining</li> <li>• Signing of collective agreements and joint resolutions</li> <li>• Joint work in various commissions and committees</li> <li>• Conferences of workers' associations</li> </ul> |
|--|---|

## STAKEHOLDER EXPECTATIONS

## INTERACTION FORMATS

## CONSUMERS

- Fulfilment of contractual obligations
- Stable product quality and wide product mix
- Competitive pricing
- On-time and in-full deliveries
- Advanced technologies
- Efficient feedback and claim settlement system
- Risk management and anti-corruption compliance

- Business meetings with clients, participation in conferences, industry-specific communities and associations
- Surveys of consumer expectations
- Long-term contracts
- Corporate reporting
- Media publications, Company's website

## SUPPLIERS AND CONTRACTORS, OTHER MARKET PARTICIPANTS

- Transparent tender procedures for the procurement of goods and services
- Business stability
- Long-term cooperation
- Fulfilment of contractual obligations
- Efficient feedback and claim settlement system
- Risk management and anti-corruption compliance

- Supplier checks to verify their reliability, supplier status, and availability of production capacity
- Pre-qualification of suppliers
- Development of tender procedures for the procurement of goods and services
- Negotiations with potential suppliers
- Business meetings with suppliers, participation in conferences, industry-specific communities and associations
- Contractors performing work at NLMK facilities are required to comply with environmental and OHS requirements

## GOVERNMENT AUTHORITIES

- Legislative compliance
- Tax payments
- Maintaining employment level
- Reduced environmental footprint
- Social programmes in regions where the Company operates
- Investment activity

- Meetings with heads of regions and cities where the Company operates
- Social programmes and programmes to support and develop social infrastructure
- Active participation in the work of advisory bodies and dedicated expert (working) groups, public hearings, etc.
- Investment in production
- Annual [disclosure](#) of information on payments to state budgets

## LOCAL COMMUNITIES

## (LOCAL RESIDENTS, NON-PROFIT ORGANIZATIONS, MUNICIPAL INSTITUTIONS)

- Company's activities taking into account the interests of local communities
- Company involvement in addressing the needs of local communities

- Dialogues with representatives of local communities to raise awareness about the Company's activities in the regions where it operates
- Corporate reporting
- Media publications, Company's website
- Organization of industry-specific conferences and events



With regard to the mutual influence of the Company and its stakeholders, NLMK is guided by top management expert opinions that make up a stakeholder map:

The Company conducts regular research into the opinions of key stakeholders through polls and consultations, engages them in discussions, working group meetings, and standing committees to review specific issues, etc.

By developing a framework for stakeholder engagement, the Company seeks to improve its current approaches to dialogue with a view to identifying problems and developing optimal solutions more quickly.

## ACTIVE DIALOGUE WITH KEY STAKEHOLDERS\*

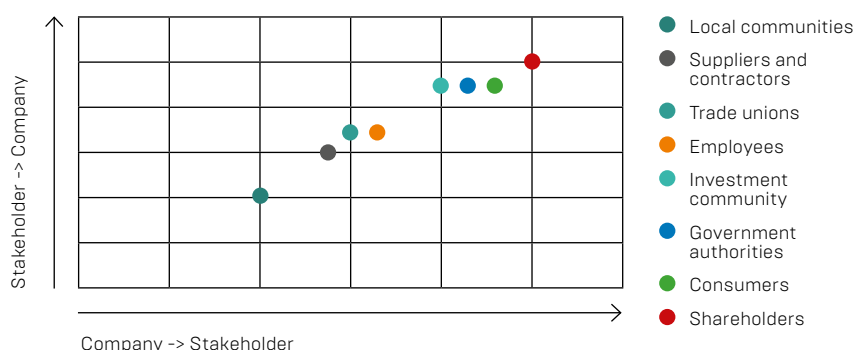
### CORPORATE COMMUNICATIONS

NLMK Group employs 53,000 people in dozens of companies in seven countries around the world. One of the Company's most important tasks is to unite them around common values and goals and to engage them in joint projects. This is facilitated by efficient tools of internal communication.

All NLMK Group companies are covered by an extensive internal communications network, including an Intranet portal, newspapers, corporate magazine, stands, mailings, and visual campaigns. These channels are used to inform every employee about the activities and projects of the Group and its companies, to talk about opportunities for professional and career development, to share experience, and, ultimately, to bring our sites and people closer together.

In 2017, a new communication channel was added as all NLMK Group's Russian sites were

### STAKEHOLDER MAP



equipped with TV screens connected into a single NLMK-TV system. More than 130 next-generation screens were installed in production shops and plant management offices, in canteens and in lobbies, in health centres and gyms, frequently visited by NLMK Group employees. Previously, NLMK-TV videos were only published on the Group's corporate portal and social media. The new format offers targeted content addressing the employees of the unit where the TV screen is installed: now employees have access to both corporate and site-specific news, and to additional information and announcements relating directly to their shop or team. NLMK-TV screens broadcast daily updates on operating and other KPIs of the shops and teams, and their benchmarking against the established standards and past performances. Employees are now able to monitor their performance, including OHS results, directly affecting their bonuses.

Another channel of internal communication, feedback on the corporate Intranet portal, is becoming increasingly popular. In 2017, about 400 employees reached out via the feedback form; the Company's top managers received more than 60 personal questions from employees via the "Management Feedback" function. The editorial team of the corporate portal received more than 150 letters with questions and

requests from employees. More than 3,000 comments were posted to news items published on the portal. No question or comment was left without a detailed answer from the managers and employees of dedicated units. NLMK Group's Intranet portal and its online functionality were recognized by the professional community at the 'Best Intranet Russia Awards 2017' XII Annual National Competition. The portal is accessible not only in the office, but also on the shop floor and from mobile devices.

Team-building campaigns facilitated greater employee engagement, promotion of corporate values and fostering team spirit. The most popular project for the second year running was the #teamNLMK international video greeting competition. More than 2,000 NLMK Group employees from Lipetsk, Stary Oskol, Kaluga, the Urals, Altai, Europe, and the US participated in the competition in 2017. Colleagues from Stagdok, Dolomit and Vtorchermet Volga also joined the competition. More than 130 photos and videos were submitted. The project was a huge success: the competition brought together entire teams, united, aside their work, by common values, sports and creativity. The competition culminated in a grand award ceremony, and the winners were awarded trips to NLMK Group companies in the USA, Belgium, and Altai.

\* A stakeholder is an interested party, an individual or an organization, whose actions, behaviour, or decisions can affect the company's profits and processes.



Works entered into the competition by NLMK employees received high acclaim from their colleagues and from professional judges: 'My City is a Small Country', a video by the Altai-Koks Youth Union, which received the Grand Prix of the #teamNLMK competition, won the 'Best Sound Engineering' and 'Best Script' awards at the 14<sup>th</sup> Annual Metal-Vision'2017 contest. The song of the same name, composed and performed by NLMK employees who made the video, topped Altai radio charts.

The 'Steel Tree' environmental initiative programme is a great example of internal communication tools reaching beyond the Company and bringing together employees

and local residents for a common cause. It was launched at the Lipetsk site in early 2017. Thanks to broad media coverage, it became popular among Company employees and local residents alike. It enabled NLMK Lipetsk employees to execute twelve community-oriented environmental initiatives of their own with the financial support of NLMK's 'Miloserdie' charity fund. They include amelioration of the Matyr reservoir, cleaning of the Nizhny Park drainage system, installation of solar batteries on a multi-apartment residential building, creation of a graffiti art object, green belt clean-up and tree planting, revival of the recreational area at Syrskoye village, organization of an eco-quest, and an eco-festival of intellectual games.

Local authorities also participated in the 'Steel Tree' programme as honorary judges, selecting the winners and providing organizational support.

In 2018, NLMK Group expanded the scope of the 'Steel Tree' environmental initiative, making grants available not only to its employees, but also to local residents and NGOs of the Lipetsk region, Stary Oskol (the Belgorod region), and Zarinsk (Altai Territory), where key NLMK Group facilities are located.

Viktor Togobetsky, NLMK Group Vice President for Occupational Health, Safety and the Environment, said: "The idea of the 'Steel Tree' is to engage proactive and motivated individuals



**MAKSIM SCHETININ**

Leading Specialist, Maintenance  
Department



**SERGEY TAFINTSEV**

Shopfloor Supervisor



**DMITRY PRONYAEV**

Process Engineer

### A SERIES OF EDUTAINMENT EVENTS FOR KIDS



### FAMILY TREE ALLEY



### SETTING UP AN ECO-TRAIL IN A NATURAL RESERVE





by offering them the opportunity to execute their environmental ideas for the benefit of the community. NLMK Group and 'Miloserdie' Charity Fund have only launched the programme last year, and its participants have already executed more than ten important environmental projects. That means the ideas are there, the proactive people are there, so all we need to do is provide support. And that's precisely what we do as a socially responsible business."

#### NLMK'S DIALOGUE WITH INVESTORS AND ANALYSTS

Openness and transparency are at the core of NLMK's information policy. This approach helps us maintain a high level of trust between NLMK and all its stakeholders.

#### Capital Markets Day

NLMK Group held a Capital Markets Day on 6 March 2017 in London. The Company announced the results of its Strategy 2017 and held a Q&A session with investors. <https://nlmk.com/en/ir/cmd/cmd2017/>

#### Disclosure of operating and financial performance

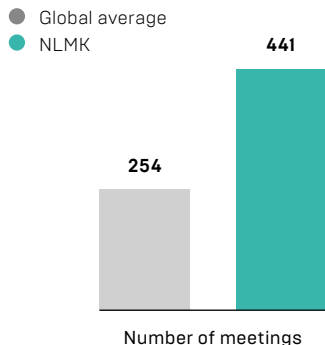
In the interests of keeping its investors continuously informed, NLMK publishes its operating and financial performance data each quarter.

Reports on the Company's operating results include overviews of industry trends, the current situation in the steel and mineral markets, and forecasts for the near future.

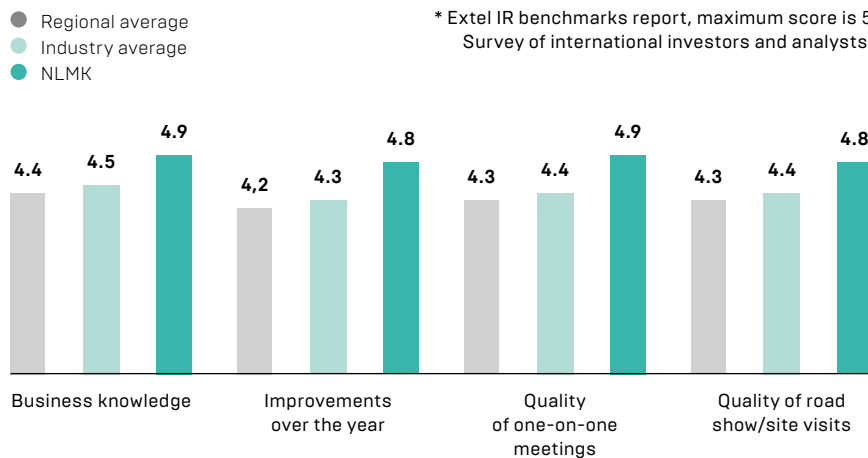
The Group discloses its consolidated financial results and reports under IFRS.

<http://nlmk.com/en/investor-relations/reporting-center/>

## MEETINGS WITH INVESTORS



## NLMK'S IR PERCEPTION\*



## Sustainable development disclosure

NLMK regularly discloses data on sustainable development and social responsibility. In 2017, NLMK Group was named one of the best companies in the field of sustainability disclosure among public companies in Europe.  
<https://nlmk.com/en/ir/for-ESG-investors/?from=ru>

## Visits to production sites

For those who wish to get a deeper insight into our business model and steel production process, we annually organize visits to production sites where guests can see the key production facilities and talk with the management.

For the schedule of upcoming tours, please contact our Investor Relations team (ir@nlmk.com).

“NLMK differentiates itself from its peers by being very open, transparent, and accessible to investors. NLMK has good corporate governance, strong Management team, very strong cost maintenance, reasonable capex policy. NLMK is attractive, because they have got good cost management, good balance sheet, strong cash generation. Investor Relations at NLMK is excellent. Whenever we have questions, we get quick and efficient answers.”

A quote from Annual NLMK Investor Perception Study

## AWARDS

**THE EUROPEAN INVESTMENT COMMUNITY RECOGNIZED NLMK GROUP AS A LEADING EXPONENT OF INVESTOR RELATIONS AMONG EUROPEAN STEEL COMPANIES\*.**

Ratings were compiled by IR Magazine based on an independent perception study among over 600 members of the European investment community, including portfolio managers and analysts.

NLMK Group was the only Russian company to be included in the list of top companies in the 'Materials sector' and was ranked No. 2 among top three 'Best in country' in IR among Russian companies.

\* Results are published in Investor Perception Study – Europe 2017.

# OUR EMPLOYEES





## KEY HIGHLIGHTS

### Our people are our greatest asset

Professionalism and employee engagement allows the Company to achieve a leading position in the industry.

### HR policy is a key element of NLMK's Production System

The main objective of NLMK's HR policy is to develop and support the team, capable of delivering success and consistent growth.

### NLMK's HR Strategy in place since 2015

An action plan was developed to achieve Strategy goals, with execution of plan and progress toward goals monitored annually.

*Teamwork, cooperation, openness and trust allow achieving unique results and retaining leadership positions in the industry.*

*Higher efficiency and personnel engagement in achieving the Company's goals are the main objectives of NLMK's HR policy.*

## NLMK's HR POLICY

The Company's success depends on the efficient performance, knowledge, and experience of its employees.

The main goal of NLMK's HR policy is to develop and manage talent effectively, building a cohesive team capable of delivering success and consistent growth.

NLMK aims to align the financial performance of the Company with the financial interests of its employees, to guarantee competitive performance-based remuneration for each employee in accordance with their professional qualifications.

In 2017, the HR service merged with the social policies department. This transformation will facilitate the execution of social projects, and make the Company more responsive to the needs and demands of its employees.

In 2017, we gave a new impetus to our long-established initiatives.

The traditional format of events for promising young employees has taken on a new form.

### HR policy KPIs

NLMK Group's HR policy was approved in 2015; it sets out the following goals for the HR department of NLMK Group:

- Build a management team for the purpose of transitioning to a divisional process-based management structure
- Introduce uniform quality standards for HR procedures across the Group
- Follow up on operational efficiency projects both within the HR service itself and in other functional areas, including business processes optimization.

An action plan was developed in order to achieve these goals, performance of which is monitored every year.

## 2017 PROJECTS - KEY ELEMENTS:

### 1 MOTIVATION PROJECT:

- Aligning remuneration principles across the Group
- The underlying idea is “Applying a unified approach to compensation and benefits across NLMK Group”

### 2 HR IT PROJECT:

- Personnel management system powered by SAP HCM
- The underlying idea is “Developing a SAP ERP module, an integrated solution for efficient personnel management”

### 3 STRUCTURE AND PROCESS OPTIMIZATION PROJECT:

- Aligning processes and rolling out organizational design principles across the Group, transformation support
- The underlying idea is “Maintaining headcount while increasing production output”

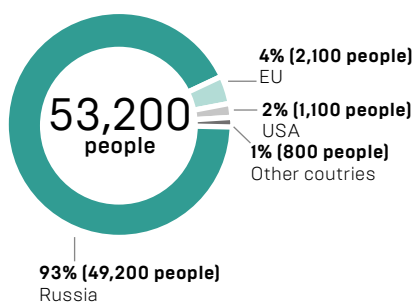
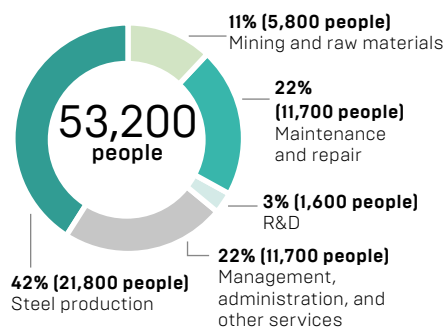
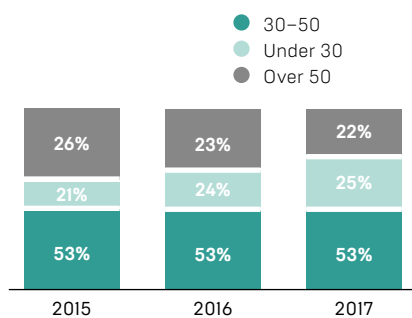
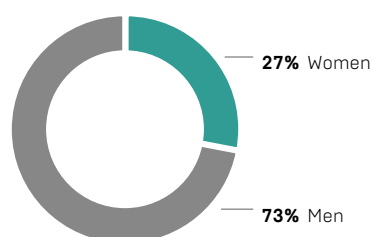
### Main HR policy objectives for 2018:

- Identification, development, and promotion of talented employees
- Establishment of a performance-based incentive system
- Corporate university as the main tool for creating and disseminating knowledge unique to NLMK Group
- Organizational efficiency enhancement through business process and organizational structure re-engineering, in particular, as part of functional areas centralization
- High-quality HR support for the heads of functional areas and development of HR support for production managers.

*All the targets set for 2017 for HR service development and personnel management have been met. Below is a list of the most important ones:*

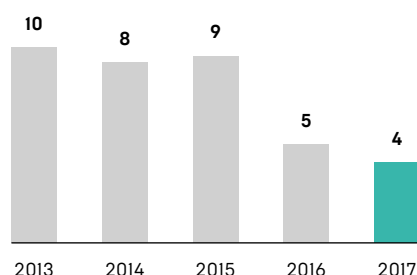
AREA	2017		2018
	TARGET	STATUS	TARGET
Employee motivation	New principles for payroll growth developed and approved for implementation in 2018	Achieved	Implementation across NLMK Group
	MBO* system to cover all employees down to the 6 <sup>th</sup> level of management	Achieved	Expansion of MBO coverage
Automation of HR processes	Implementation of basic SAP HCM** modules and expanded SF functionality	Achieved	Process stabilization. Expanded functionality
	Full-scale operation of SAP HCM		
Outsourcing of transactions	HR service formed: transactional part fully outsourced to Shared Services Centre (SSC)	Achieved	–
Process re-engineering	Aligning processes across the Group	Achieved	BPM*** implementation
	Transformation support	Achieved	Development of BSSC and outsourcing management standard
Organizational design and headcount management	Roll-out of organizational design principles across the Group	Achieved	Strategic headcount management



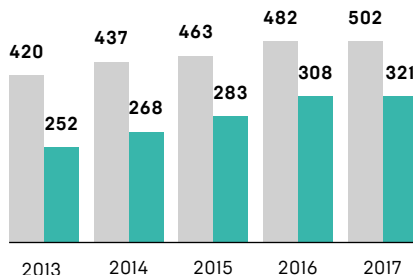
PERSONNEL BREAKDOWN BY  
ASSET GEOGRAPHYPERSONNEL BREAKDOWN  
BY FUNCTIONPERSONNEL BREAKDOWN  
BY AGEPERSONNEL BREAKDOWN  
BY GENDER

**EMPLOYEE TURNOVER**

%

**LABOUR PRODUCTIVITY**

tonnes of steel per employee

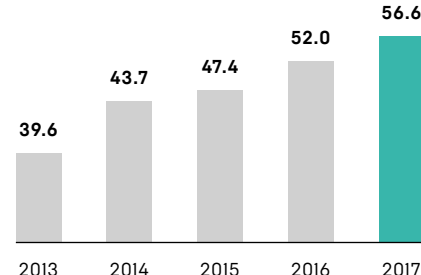


■ NLMK Lipetsk

■ NLMK Group

**AVERAGE MONTHLY SALARY  
AT NLMK'S RUSSIAN COMPANIES**

'000 rubles per employee



- Development of a single integrated HR system across NLMK Group, providing advanced analytics and enabling utmost efficiency of human potential development
- Gradual introduction of advanced technologies, including mobile services and robotization, to improve the quality and accessibility of HR services, and enhance the performance of the HR service.

divisions, 1,100 people were employed at NLMK USA, and around 800 people were employed in other countries where NLMK Group assets are located.

Over 53% of NLMK Group personnel are directly involved in the mining and steelmaking operations, whilst 22% are involved in repair and maintenance; and approximately 3% are involved in technical functions and investment activity. The remaining 22% are administrative and management personnel, including services.

The key goal of NLMK Group's HR policy is to develop and retain skilled professionals in the Group's companies. The significant efforts the Group makes in this area mean its companies are preferred employers in the markets where they operate, which has a positive impact on turnover rates: our employees have become increasingly loyal, while working for NLMK has become increasingly prestigious. In 2017, the turnover rate for NLMK Group fell to an all-time low of 4%.

**Our employees**

NLMK Group headcount during 2017 was 53,200 people, of which 49,200 people were employed at NLMK's Russian sites, 2,100 people were employed at NLMK's European

NLMK Group is continuously improving its team, using the best selection practices at all management levels. One of the priorities of NLMK Group is to attract professionals with unique expertise in advanced developing areas.

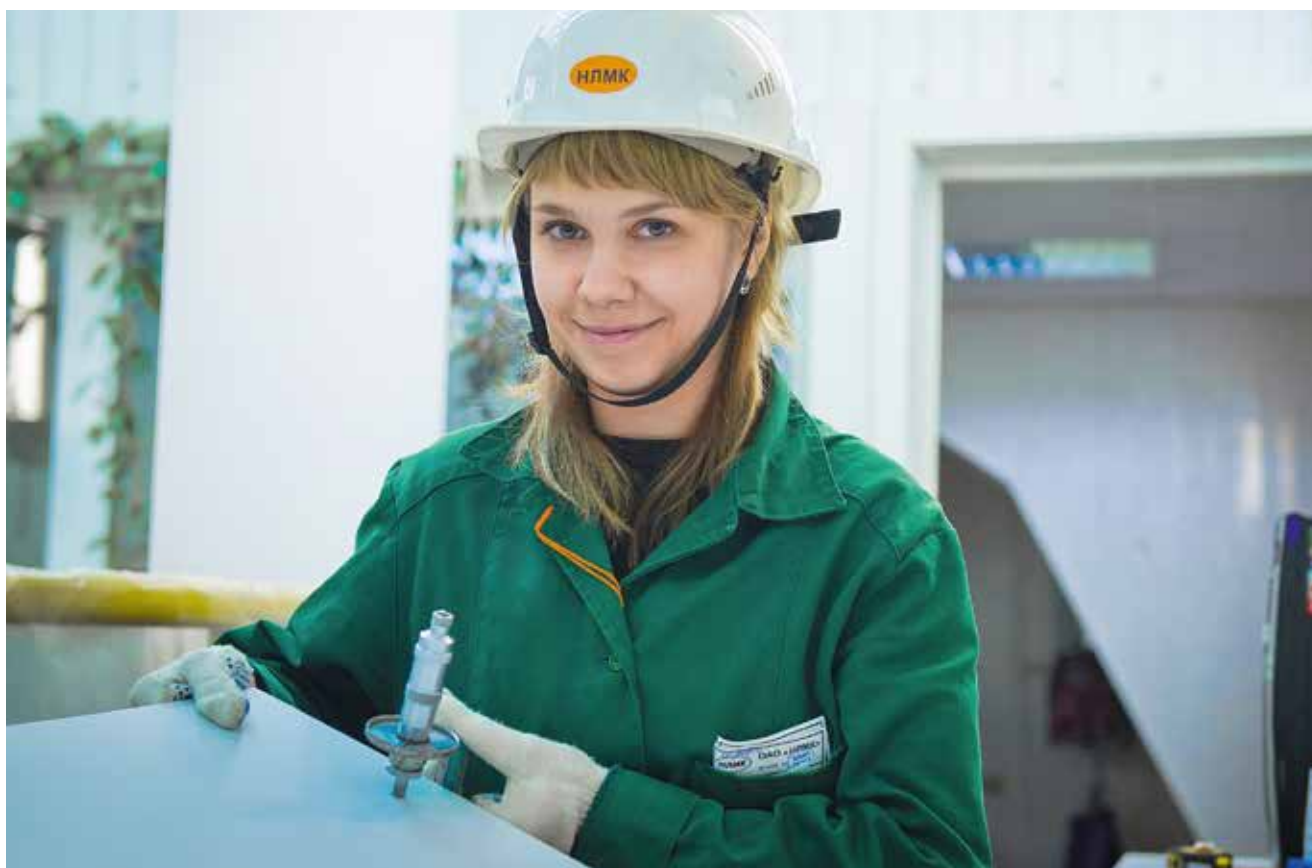
NLMK has an active HR policy aimed at attracting prospective young workers. Young professionals have access to specialized internships and undergraduate training programmes. The Group promotes ongoing cooperation with the leading national universities and is seeking to attract and develop young professionals in the industry.

NLMK Group has no gender limitations.

**Labour productivity**

NLMK consistently enhances the efficiency of its business by increasing the level of motivation and professionalism of its employees, through equipment upgrades, by implementing new technologies, and rationalizing production processes.

NLMK continues to develop: the strategic target for the next few years is to further increase labour productivity through, first of all, the development of NLMK Production System and process optimization initiatives with active involvement of personnel in the process and the Management by Objectives system. Continuous



development and efficiency improvement has become the cornerstone of NLMK's corporate culture.

### Structure and functionality optimization

In 2017, NLMK Group's headcount was reduced by ca. 500 full-time employees (-0.9%) through a number of initiatives aimed at boosting labour efficiency and streamlining business processes. At the same time, more than 300 new jobs were created, of which over 65% are linked to output growth and the launch of new production facilities. The remaining 35% are associated with the development of auxiliary services.

In 2017, NLMK created more than 300 jobs through:

- The launch of a briquetting plant, a new turbine generator in the Recovery Cogeneration Plant, commissioning of a new crushing and sorting facility, expansion of the magnesium storage, de-mothballing of GO rolling units (the Lipetsk site)
- The development of the southern bank of the Stoilensky deposit and boosting of iron ore production (Stoilensky)
- The launch of additional production lines at NLMK Russia Long Products facilities and VIZ-Steel.

IN 2017, MORE  
THAN 2,400  
NLMK GROUP  
EMPLOYEES  
RECEIVED  
AWARDS,  
INCLUDING:

**25**  
STATE AWARDS

**47**  
INDUSTRY AWARDS

**79** REGIONAL  
AND CITY  
AWARDS

**2,288**  
CORPORATE AWARDS



## SAP SUCCESS FACTORS

A new generation cloud-based talent management system powered by SAP, which includes an entire suite of automated HR solutions, was introduced in 2017 to streamline HR management processes.

SAP Success Factors enables us to implement flexible, integrated performance management models, training and evaluation tools. All personnel covered by the Management by Objectives system were trained in the MBO Success Factors module and the entire MBO-2017 cycle was performed on an automated platform. This has significantly increased the efficiency of the process and improved the quality of interaction between employees and managers.

## Personnel motivation

Personnel motivation is one of the topmost priorities stated in NLMK Group's HR policy.

Our motivation system helps us improve the quality of work and encourage every employee to contribute more to the common cause. NLMK Group uses several motivation systems based on fair financial motivation for high performance.

Result-oriented motivation remains the most effective system currently employed by NLMK Group. Clearly defined objectives and a fair assessment of their achievement is fundamental for the motivation system in place. NLMK Group follows the principle of cascading performance indicators down the administrative and functional verticals to individual KPIs of employees: the KPIs of departments and employees are aligned with the goals of the Company and its management, while taking into account individual development plans. This principle serves as the basis for the management by objectives (MBO) system. At year-end 2017, the MBO system covered almost 3,000 employees of NLMK Group.



All NLMK Group's companies adjust wages and salaries to the inflation over the period on a quarterly basis, in line with their social commitments.

NLMK also offers a number of non-financial incentives: badges or certificates of appreciation for employees who performed exceptionally well, stories about the best employees in the corporate newspaper, their portraits on the Recognition Board, and management talent pool opportunities for successful and talented employees.

Alongside the principle of fair pay, NLMK uses a number of non-financial



incentives: motivation, ample opportunities for career development and self-fulfilment, various incentives for outstanding results and initiatives, and other tools.

Professional contests and competitions are important elements of the incentive system. They help increase employee commitment to professional development and provide ample career growth opportunities. In 2017, the Company held 26 'Best in Profession' skills competitions with 1,384 participants from 34 structural divisions of the plant. 101 participants won prizes and 87 received extra payments for skills mastery; the winners also received cash prizes.

In 2017, 808 employees applied to the 'Young Leader' competition. This year the competition was dedicated to environmental issues.





Alongside the competitions, a project-based approach was introduced at NLMK Lipetsk during the reporting period. To this end, 11 community-oriented environmental initiatives were implemented as part of the 'Steel Tree' programme with the financial support of NLMK's 'Miloserdie' charity fund.

## Social package

As a responsible employer, NLMK continuously supports its employees by providing benefits.

These benefits represent a set of indirect material and non-material incentives for employees, and constitute a significant part of the corporate staff motivation system.

All NLMK Group employees have access to the following social benefits outlined in collective agreements:

- Healthcare for employees and their children, including private health insurance programmes
- Hot meals
- Event-related material assistance to employees and members of their families; a system of compensatory payments

- Cultural and sports events, creative competitions
- Corporate transport to and from work
- Housing programme (at some NLMK Group companies)
- Non-state pension programmes (at some NLMK Group companies)
- Comprehensive former employees support programme (pensioners).

Our female employees enjoy additional benefits beyond those required by law: flexible working hours for women with small children and professional training and development programmes following maternity leave.



In addition to formalized social support measures, the Company actively engages in partner projects with regional retail businesses to develop corporate discount programmes for NLMK Group's employees. All of these projects are presented and systematized on the corporate portal, and are openly accessible to NLMK employees.

## Health and welfare

The health and welfare of its employees is a priority for NLMK Group, which focuses close attention on developing a strong corporate

health culture, establishing the conditions for a healthier lifestyle and improving mental and physical health.

NLMK Group runs 3 medical units and 25 first aid facilities to provide medical support. NLMK employees have the opportunity to make visits to health resorts and spas, both locally at 10 NLMK health resorts and spas, and in other regions of the country.

Healthy lifestyle programmes are aimed at involving as many employees as possible in sports activities, and at popularizing healthy life choices. Employees have the opportunity to use gyms located at NLMK facilities, to get discounts on memberships to swimming pools and fitness centres.

The Company organizes regular sports and cultural events.

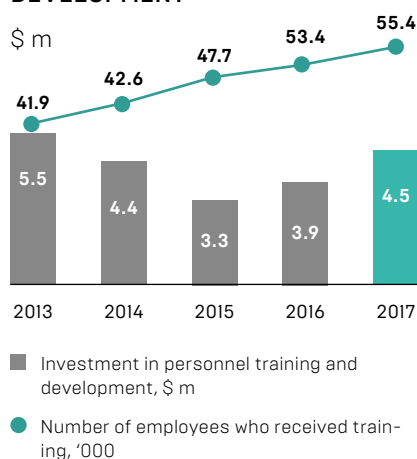
## Talent development

NLMK sees investment into personnel development as a prerequisite for the Company's long-term competitiveness, dynamic development, an increased potential of its human capital, and, ultimately, the increased fundamental value of the Company as a whole. Professional





### INVESTMENT IN PERSONNEL DEVELOPMENT



development of personnel and relevant procedures is a key element of NLMK's Production System and Strategy 2017.

Professional training provides the level of employee qualification necessary for solving professional challenges. It also increases employee loyalty, forms a favourable social and psychological climate in the workplace and has a direct impact on the development of NLMK's corporate culture.

The primary direction of our talent development efforts focuses on our talent pool of promising employees, performance reviews of managers and line personnel, mandatory knowledge tests for workers (knowledge checks), induction, coaching, leadership initiatives, and skills competitions.

In 2017, the Company established its Corporate University, a division that forms and develops a common leadership vision on issues of HR management and the Group's strategy execution.

Alongside training sessions, NLMK Group develops other forms of training, including promotion of self-education. The Company has a library and is developing an e-learning system encompassing both general courses and company-specific trainings.

Compulsory education, required to carry out operations at the workplace in line with the regulatory requirements, remains one of the key priorities.





### NLMK GROUP LEADERS 2025

In 2017, the Group continued the implementation of its unique 'NLMK Group Leaders 2025' programme. This is the first and so far the only corporate educational programme aimed at the development of young leadership talent for NLMK Group's key companies. The structure of the programme is similar to e-MBA programmes offered by business schools. In the course of the programme, promising

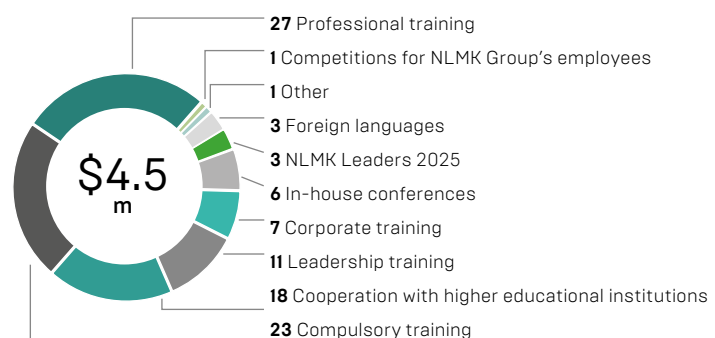
employees from all NLMK Group's companies receive trainings by world-renowned professors and executives from global companies. The programme opens up new career and personal development horizons, motivating employees to reach what could have seemed unattainable. More than 50% of the programme participants have been promoted since its launch, including to vice president level.

In 2017, NLMK Group spent \$4.5 million on professional development of its employees. Starting from 2016–2017, investment breakdown by areas of education was aligned with the budget for staff training and development. The following items were added to the 2016–2017 costs breakdown vs. 2012–2015:

- Cooperation with colleges and universities, including payments to students and professors
- Vocational guidance
- In-house conferences
- Competitions for NLMK Group employees.

### INVESTMENT INTO PROFESSIONAL DEVELOPMENT BY AREA

%



# OCCUPATIONAL HEALTH AND SAFETY

The Company continues to improve its Occupational Health and Safety (OHS) performance, with \$98 m spent in 2017 on OHS initiatives.



## KEY HIGHLIGHTS

**Occupational health and safety** is an important element of NLMK's Production System. We strive for leadership in OHS and consider it a key part of our strategy.

**A number of initiatives were implemented in 2017 to improve occupational safety**

All of year-end targets used to assess the effectiveness of the Company's occupational safety efforts have been met.

**A significant reduction in industrial injuries**

The Lost Time Injury Frequency Rate (LTIFR) has declined more than two-fold since 2013.

# OCCUPATIONAL HEALTH AND SAFETY IS REGARDED AS THE CORNERSTONE OF NLMK PRODUCTION SYSTEM, A KEY ELEMENT OF STRATEGY 2017

**T**he Company aims to be a world leader in occupational health and safety (OHS) among steel companies through the application of the best available OHS practices, efficient risk management, provision of incentives and active involvement of employees in the occupational safety programme.

## NLMK GROUP'S KEY PRINCIPLES:

- Employees are NLMK's key value; their health and well-being are key to the success of our operation
- Occupational health and safety is an integral part of our business and the basis for decisions on developing and improving our business processes
- All accidents, incidents and professional illnesses can and must be prevented
- Safe operations are the responsibility of each and every employee.

To achieve these goals and implement the OHS principles, NLMK assumes the responsibility to ensure:

- Efficient management of potential risks to the health and safety of our employees, contractors and third parties
- Strict adherence to Russian and international occupational health and safety requirements
- Continuous improvement of employee skills in the area of occupational health and safety
- Transparency of OHS indicators.

Occupational health and safety is regarded as the cornerstone of NLMK Production System, a key the element of Strategy 2017.

NLMK Group's two Russian companies (NLMK Lipetsk and VIZ-Steel) were certified for compliance with the requirements of the OHSAS\* 18001:2007 international standard.

## Key OHS initiatives in 2017

**Organizational changes** that have increased the efficiency of occupational safety efforts:

- The Company revised its relations with contractors performing work or rendering services on the premises of NLMK Group companies (including OHS qualification and selection requirements up to step-by-step management of their activities)
- Leaders and professionals with a high level of commitment to safe production practices were selected and trained as in-house OHS trainers.

**Risk management.** NLMK Group's divisions continued their efforts to implement the risk management programme, aimed at identifying hazardous production factors, their elimination and efficient management of residual risks. In 2017, close to 53,000 risks of potential occupational trauma and material damage to the Company's property were eliminated.

**Personnel engagement.** OHS awareness campaigns were carried out together with the PR team via corporate communication channels. At the end of the year, two videos were filmed based on true stories of fatalities in steelmaking operations to prevent occupational accidents.

**Manager training.** Together with the Corporate University (see the 'Talent Development' section for more details), training programmes aimed at developing a safety culture and OHS management skills among senior and middle managers have been developed and implemented.

## OHS costs

OHS costs in 2017 increased by 51% yoy, driven by increasing costs for ensuring industrial safety, which amounted to \$60 million (73% yoy) and a stronger ruble.

## NLMK Group's occupational injury statistics

Occupational accidents and incidents are reported on and investigated in line with the prevailing laws of the country where the Company operates. Statistics on occupational injuries at NLMK Group is collected using common industry-specific methods adopted by the Worldsteel Association.

Lost Time Injury Frequency Rate (LTIFR\*\*) per 1,000,000 person-hours worked:

- NLMK Group: 0.97
- NLMK's Russian companies: 0.51.

There was a total of 90 accidents with employees across the Group in 2017, of which:

- 44 at NLMK's Russian companies
- 46 at NLMK's international companies.

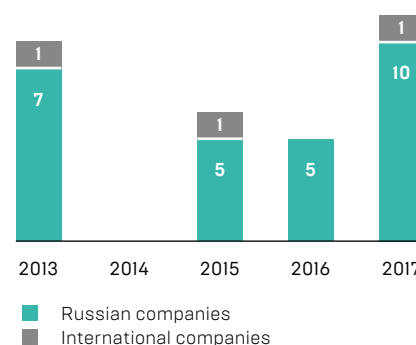
There was a total of 31 accidents with contractors across the Group in 2017, of which:

- 16 at NLMK's Russian companies
- 15 at NLMK's international companies.

Regrettably, we were not able to avoid 11 work-related fatalities in 2017. The Group has revised its relations with contractors (see the 'Key 2017 Initiatives' section).

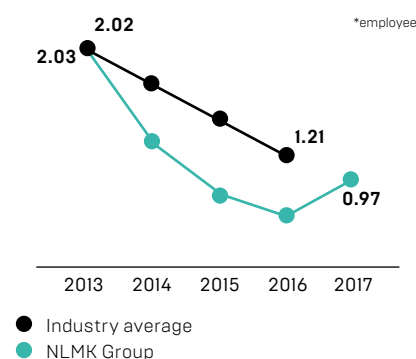
## WORK-RELATED FATALITIES IN NLMK GROUP\*

\*Employees and contractors



## NLMK GROUP'S LTIFR\*

\*employees



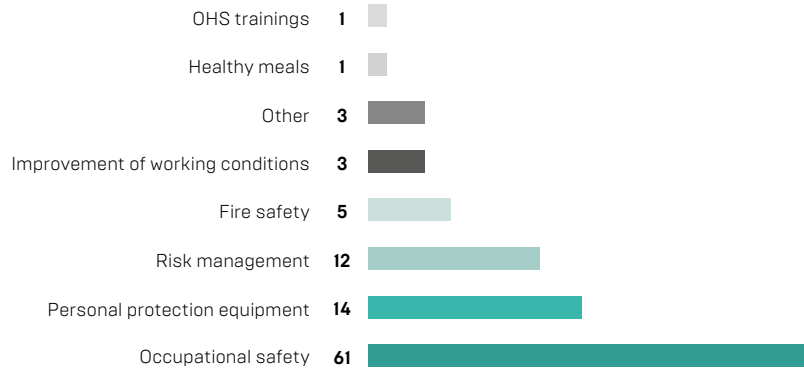
\* OHSAS — Occupational Health and Safety Assessment Series  
\*\* LTIFR — Lost Time Injury Frequency Rate



## BREAKDOWN OF OCCUPATIONAL HEALTH AND SAFETY COSTS (\$98 M IN 2017\*)

%

\* Russian companies



### TARGET OHS KPIs

#### Occupational health and safety

2017 TARGETS	2017 PERFORMANCE	PROGRESS	2018 TARGETS
Keeping lost time injury frequency rate (LTIFR) for employees at NLMK Group's Russian companies below or equal to 0.60	The lost time injury frequency rate (LTIFR) for employees at NLMK Group's Russian companies was 0.51	Target exceeded by 15%	Keeping lost time injury frequency rate (LTIFR) for employees and contractors at NLMK Group below or equal to 0.85
Reducing lost time injury frequency rate (LTIFR) for employees at NLMK Group's international companies by 10% vs. 2016	The lost time injury frequency rate (LTIFR) for employees at NLMK Group's international companies was 7.13, which is 7% lower than in 2016, when it was 7.71	Not achieved (7% reduction vs. targeted 10%)	As part of the Risk Management Programme: <ul style="list-style-type: none"> <li>Identify TOP 3 risk categories for each department/company</li> <li>Assess operational risks as per TOP 3 risk categories</li> <li>Develop company sub-programmes for TOP 3 risk categories for inclusion into the corporate OHS function's Maintenance and Overhaul Programme 2019–2023</li> <li>At least 90% of OHS projects implemented / timeliness and budget execution of the Maintenance and Overhaul Programme until the end of 2018.</li> </ul>
Ensure that NLMK Group's LTIFR for employees does not exceed 1.00	The lost time injury frequency rate (LTIFR) for employees at NLMK Group was 0.97	Target achieved	
Eliminating or reducing no less than 50% of unacceptable risks identified in 2017 and those carried over from 2016	63.3% of identified unacceptable risks eliminated or reduced	Target exceeded by 27%	
Eliminating or reducing no less than 50% of conditionally acceptable risks identified in 2017 and those carried over from 2016	95.5% of identified conditionally acceptable risks eliminated or reduced	Target exceeded by 91%	
Implementation of best OHS practices	Over the course of the year the Company was implementing best OHS practices, incl. prevention of injuries and other initiatives	Target achieved	
			Continue the implementation of best OHS practices



*Long-term stability of business depends on social and economic stability of the regions where the Company operates, that's why social investment is a priority for NLMK.*

## STRATEGY 2017 TARGET INDICATORS

➤ SOCIAL RESPONSIBILITY MISSION AND STRATEGIC OBJECTIVES

➤ IMPROVING THE SOCIAL ENVIRONMENT

➤ NLMK GROUP'S INVESTMENTS IN THE REGIONS WHERE IT OPERATES

➤ PROMOTION OF SPORT AND CULTURE

➤ PROMOTION OF EDUCATION AND SCIENCE

➤ WORK WITH CHILDREN AND YOUNG PEOPLE

➤ CHARITABLE ACTIVITIES

# COMMUNITY DEVELOPMENT

## Social responsibility mission and strategic objectives

As a socially responsible company, NLMK Group assumes its duty to ensure the observance of international and national law, as well as to satisfy the social needs of its workers, the local communities in the regions where the Company operates, and of society as a whole.

The Company sees its social mission as achieving sustainability goals that meet the long-term economic interests of the business, contribute to community welfare, along with conservation of the environment and the observance of human rights within the territories of operation.

## NLMK's KEY SOCIAL GOALS:

- Build relationships with employees based on the best practices of social partnership, ensuring equal social guarantees and creating equal opportunities for high-performance work, professional growth and unlocking each employee's creative potential
- Support the efforts of state authorities, local governments, and civil society aimed at social and economic development of the region; as well as to initiate the Company's own social programmes and projects, participate in the



## KEY HIGHLIGHTS

**As a socially responsible business, NLMK invests in the development of the local communities in the regions where it operates**

Improving the quality of life for the people living in the regions where the Company operates is one of NLMK's key social responsibility goals.

**NLMK consistently finances and implements programmes promoting education, healthcare, culture and sport**

NLMK Group's investment in social development of the regions of its Russian facilities totalled \$41 million in 2017.

**NLMK is also involved in charity work in the regions where it operates**

NLMK finances several charitable programmes, both through charitable organizations established by the Company and direct financial contributions.

development and implementation of social programmes and projects within the scope of public-private or community-private partnerships

- Improve the quality of management in the Company's social sphere, to enhance the efficiency of the Company's social activities that will enable sustainable use of resources to ensure the economic and social well-being of the Company, the regions where the Company operates and the country as a whole.

### Improving the social environment

Improving the quality of life for people who live in the regions in which the Company operates is one of NLMK's key social responsibility goals. The Company works with local communities and the authorities at

different levels to strive to create new opportunities for using cutting-edge mechanisms for development of the regions where NLMK operates and to resolve the most burning social issues. The Company makes ongoing investments into programmes that support science and education, culture and sports.

The Company makes significant efforts to support fruitful cooperation with state and local authorities, civil society institutions for the benefit of wide spectrum social and economic development and a favourable business climate across the territories of its operation.

NLMK supports charters and other initiatives developed by external parties that do not contradict the principles of business conduct. It actively cooperates with business and public organizations, such as the Russian Union of Industrialists and

Entrepreneurs and the Association of Russian Steelmakers (AMROS).

### NLMK Group's investments in the regions where it operates

NLMK consistently finances programmes aimed at promoting education, healthcare, and culture to form the economic and social well-being of the Company and the regions where it operates.

KEY ASPECTS OF CORPORATE RESPONSIBILITY	2017 TARGETS	2017 PERFORMANCE	PROGRESS	2018 TARGETS
Engagement with local communities  Development of regions where NLMK operates	Initiatives promoting sustainable development of the regions where the Company operates and maintaining social and economic stability in local communities	Investment in social needs and the development of the regions where the Company operates totalled RUB 3.3 billion, whilst ca. RUB 300 million was allocated to charity	Target achieved  NLMK Group actively participated in the development of the regions where it operates	Further implementation of initiatives promoting sustainable development of the regions where the Company operates  Formalize the Company's social policy



#### KEY AREAS OF SOCIAL INVESTMENT:

- Promotion of culture, mass and youth sport
- Promotion of education and science
- Work with children and young people
- Charitable activities.

In 2017, NLMK Group's social investment at its Russian sites totalled

**RUB 2.4 billion** (\$41 million)

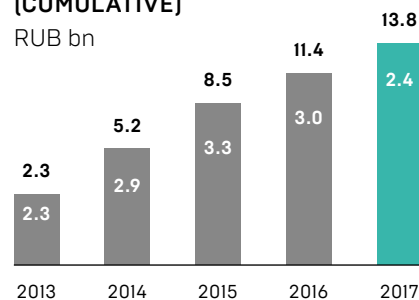
#### Promotion of sport and culture

The Company sees the promotion of welfare and a healthy lifestyle for its employees and people in the regions where it operates as a priority of its social responsibility. Special focus is placed on involving children and young people in regular sports activities. NLMK provides assistance to sports groups and schools for children and young people, as well as to sports clubs and athletes. Funds are allocated for the maintenance of sports facilities and buildings (stadiums, sports complexes, sports halls), and the purchase of sports equipment.

NLMK finances the 'Lipetsk Metallurg' sports club that is successfully promoting sport in Lipetsk and creates the conditions for NLMK Lipetsk employees and the members of their families, as well as all other Lipetsk dwellers, to practice sports.

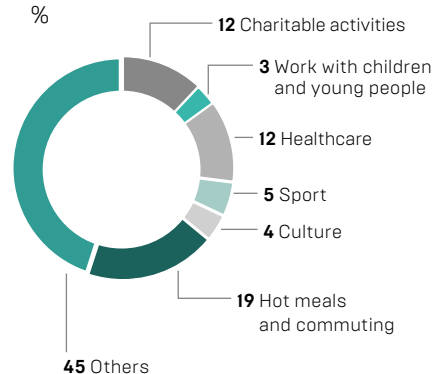
#### NLMK'S SOCIAL INVESTMENT (CUMULATIVE)

RUB bn



#### BREAKDOWN OF 2017 SOCIAL INVESTMENT

%





More than 20,000 residents of Lipetsk visit NLMK sports complexes every year. More than 2,000 schoolchildren participate annually in the sports competitions organized by NLMK. The 'Lipetsk Metallurg' sport club fully funded the establishment of the Children's and Youth Sports School of Olympic Reserve No. 13, where 300 young athletes are trained in clay target and rifle and pistol shooting. As a result, half of the Russian national shooting team are alumni of 'Lipetsk Metallurg' sport club. Over its lifetime, Youth Sports School No. 13 trained 10 international masters of sports, 35 masters of sports, more than 60 candidate masters and more than 350 athletes. 20 athletes from Lipetsk are members of the Russian national sports teams.

**MORE THAN 20,000 RESIDENTS  
OF LIPETSK VISIT NLMK SPORTS  
COMPLEXES EVERY YEAR**

Support for culture and art is one of the most important areas of social policy. The Company supports cultural, historical and educational organizations, allocates funds for the protection and proper maintenance of monuments of cultural, historical, and architectural heritage in the regions where it operates.

## Promotion of education and science

NLMK has a comprehensive programme to support the younger generation receiving quality technical education and develop scientific potential of educational institutions by creating its own talent pool of driven and technically qualified experts. This includes:

- Earmarked financing of scientific and educational activities of basic educational institutions



- Development and expansion of science and technology infrastructure of scientific centres in the metals and mining industry
- Arrangement and funding of science related conferences, R&D creative competitions among students of basic educational institutions
- Arrangement of Doors Open Days and site visits to production facilities for schoolchildren, on-the-job training at the Group's facilities for students of specialized vocational education institutions
- Establishing the conditions necessary for training and motivating students to obtain quality vocational education, for example by implementing scholarship programmes.

In 2017, the Company allocated close to RUB 54 million to support educational institutions in the regions where it operates.

## Work with children and young people

NLMK invests a lot of effort into organizing healthy recreational activities for children. During the summer vacation, the Company arranges trips for the children of its employees to summer camps, which are also open to children from low-income families and orphans.

Through sponsorship and charitable assistance, NLMK invests in improving the material and technical infrastructure of preschools, schools, colleges, professional schools, children's creative centres, children's homes, and boarding schools.

Special emphasis is placed on patriotic education. Together with organizations of war veterans and trade unions, NLMK organizes meetings with veterans and visits to war memorials, as well as lessons on courage in schools and colleges.





## Charitable activities

NLMK contributes to charities through its own charitable organizations as well as through direct contributions to other charities.

Priority areas include support for orphans, low-income households, pensioners and differently-abled persons; support for victims of natural, environmental, industrial or other disasters; promotion of family values in society; environmental and animal protection.

The 'Miloserdie' ('Mercy') social protection fund, founded by NLMK in 1999, runs 11 programmes that cover all aspects of social support. Priority areas include support for orphans, low-income households, pensioners and differently-abled persons, as well as people that have found themselves in challenging life situations.

Over 30,000 people from the Lipetsk region, who require additional social support, receive help annually. Funds are allocated to pay for long-term medical treatment, medicine, technical rehab means, trips to resorts and children's camps and preparation for the beginning of the academic year, as well as other social projects.

The 'Zabota, pomoshch, miloserdie' ('Care, help, mercy') charity fund in Sverdlovsk Region helps promote sports and protect cultural heritage, also supporting veterans and pensioners.



PROJECT 'STEEL TREE'

### THE MOST MEMORABLE PROJECT IN 2017 WAS THE 'STEEL TREE' ENVIRONMENTAL INITIATIVES PROGRAMME

This programme was part of the 'Young Leader' corporate competition. Young employees were invited to lead project teams and implement their projects aimed at improving the environment in the city of Lipetsk.

More than RUB 2 million were allocated to the project in 2017, which allowed supporting the following initiatives:

- Melioration of the Matyr reservoir to prevent overgrowth
- Cleaning of the Nizhny Park drainage system in Lipetsk
- Revival of the recreational area at Syrskoye village in the area of the old riverbed of the Voronezh river
- Creation of an educational eco-trail in the Pine Forest site
- 'Eco-yard, eco-city, eco-world!' residential care

- 'From a clean slate': planting of a Family Alley in a new city district
- 'Ecology of the Future' edutainment platform aimed at fostering environmental consciousness in the younger generation
- 'Green is not just a colour. It is a philosophy': a graffiti art object aimed at fostering an environmentally literate and engaged younger generation
- 'NLMK for a clean forest'

- 'Steel Owl' festival of intellectual games

- Installation of solar batteries on a multi-apartment residential building.

The 'Steel Tree' project, well-loved by the local residents, attracted public attention and was highly appreciated by the municipal authorities. In 2018, NLMK Group plans to expand the project and make it citywide.

# KEY INDICATORS

## PERSONNEL

	2013	2014	2015	2016	2017
Number of employees, '000 people	61.7	60.1	56.7	54.0	53.2
Staff turnover, %	10.0	8.4	8.8	4.7	4.0
Number of female employees, %	27.3	27.2	27.0	28.0	27.0
Salary growth, %	10.0	12.0	8.0	10.0	8.8
Investments in employee training, \$ m	5.5	4.4	3.3	3.9	4.5

## OCCUPATIONAL HEALTH AND SAFETY

	2013	2014	2015	2016	2017
Accidents, total	217	177	123	90	121
<i>Employees</i>	194	151	102	73	90
<i>Contractors</i>	23	26	21	17	31
Fatalities, total	8	0	6	5	11
<i>Employees</i>	8	0	5	2	5
<i>Contractors</i>	0	0	1	3	6
Lost time injury frequency rate (LTIFR), NLMK Group	2.03	1.55	1.12	0.82	0.97
Lost time injury frequency rate (LTIFR), Russian assets	0.86	0.55	0.43	0.34	0.51
Investments in OHS, \$ m	34.07	39.48	24.57	65.04	98.04

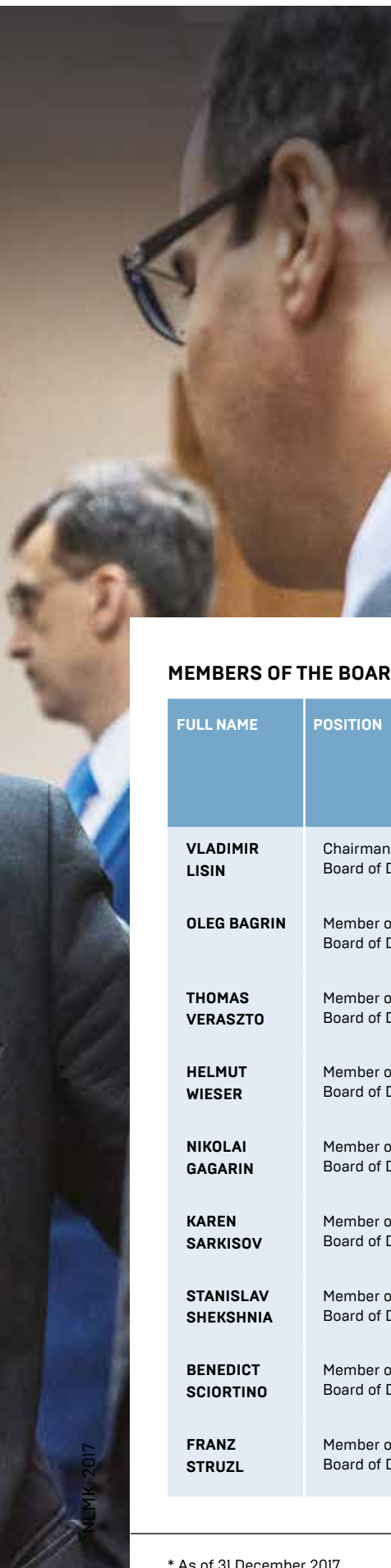
## LOCAL COMMUNITIES

	2013	2014	2015	2016	2017
Social investments, \$ m	73	75	54	44	41
Social investments, RUB bn	2.30	2.91	3.28	2.95	2.40

# LEADERSHIP







## BOARD OF DIRECTORS

NLMK's Board of Directors was elected on 2 June 2017. There are five independent directors on the Board.

### MAIN FUNCTIONS OF THE BOARD OF DIRECTORS:

- To develop and implement the corporate strategy
- To approve priority business areas for the Company
- To assess risks
- To approve budgets and business plans
- To set target indicators

- To assess the performance of the Company and its bodies
- To control large-scale capital expenses, asset acquisition, and sale transactions, etc.

### RELATED CORPORATE DOCUMENTS:

- [Charter](#)
- [Corporate Governance Code](#)
- [Regulations on the Board of Directors](#)
- [Regulations on remuneration and compensation to members of the Board of Directors](#)

### MEMBERS OF THE BOARD OF DIRECTORS\*

FULL NAME	POSITION	YEARS ON THE BOARD	INDEPENDENT	PARTICIPATION IN THE STRATEGIC PLANNING COMMITTEE	PARTICIPATION IN THE AUDIT COMMITTEE	PARTICIPATION IN THE HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICIES COMMITTEE
VLADIMIR LISIN	Chairman of the Board of Directors	21		Chairman**		<input checked="" type="checkbox"/>
OLEG BAGRIN	Member of the Board of Directors	13		<input checked="" type="checkbox"/>		
THOMAS VERASZTO	Member of the Board of Directors	2	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
HELMUT WIESER	Member of the Board of Directors	7	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
NIKOLAI GAGARIN	Member of the Board of Directors	16			<input checked="" type="checkbox"/>	
KAREN SARKISOV	Member of the Board of Directors	8		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
STANISLAV SHEKSHNIA	Member of the Board of Directors	3	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	Chairman
BENEDICT SCIORTINO	Member of the Board of Directors	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chairman	
FRANZ STRUZL	Member of the Board of Directors	7	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	

\* As of 31 December 2017

\*\* For further information, please refer to "Events after the reporting date"

## BOARD OF DIRECTORS BIOGRAPHIES

**VLADIMIR LISIN**

Year of birth: 1956

Board member since 1996, Chairman of the Board since 1998

Chairman of the Strategic Planning Committee and member of the Human Resources, Remuneration and Social Policies Committee\*

Graduate of Ordzhonikidze Siberian Metallurgic Institute, majored in Ferrous and Non-Ferrous Foundries.

In 1990, Mr. Lisin graduated from the Higher School of Commerce with the All-Russian Foreign Trade Academy. In 1992, he graduated from the Academy of National Economy majoring in Economics and Management. Ph.D., Tech.; Ph.D., Ec.; Professor, Winner, USSR Council of Ministers prize for Science and Technology. Honorary Metallurgist of the RF. Knight of the Order of Honour. Knight of the Order of Alexander Nevsky.

Vladimir Lisin started his career in 1975 as an electrical fitter. He worked at Tulachermet, rising through the ranks from assistant steelmaker to deputy shop manager. From 1986, he worked in Kazakhstan, first as Deputy Chief Engineer, and later as Deputy CEO of the Karaganda Steel Plant. Member of Boards of Directors of several leading Russian steel companies since 1993.

**OLEG BAGRIN**

Year of birth: 1974

President (Chairman of the Management Board) of NLMK since 2012, Board member since 2004\*

Member of the Strategic Planning Committee

Mr. Bagrin holds a graduate degree in Operations Research and a postgraduate degree in Economics from the State University of Management, Moscow, and a degree in Business Administration from the University of Cambridge, UK.

Board member of a number of NLMK subsidiary and affiliate companies; Chairman of the Board of Directors of management company Libra Capital, investment company Libra Capital, Moscow.

**BENEDICT SCIORTINO**

Year of birth: 1950

Board member since 2012 (independent director)

Chairman of the Audit Committee and member of the Strategic Planning Committee

Mr. Sciortino graduated from Queens College, New York, with a BA degree and received JD and LLM degrees from New England School of Law (Boston, MA) and New York University Law School, New York.

From 1977 to 1995, Benedict Sciortino worked as an attorney-at-law and a partner with Baker & McKenzie, New York. He joined Duferco in 1995. Now he serves as a member of the Board of Directors of Duferco S.A. responsible for Duferco Group North American and South African business as well as trading operations, finance and legal matters, mergers and acquisitions. Mr. Sciortino serves as a director of several operating companies.

\* For further information, please refer to "Events after the reporting date"



### **THOMAS VERASZTO**

Year of birth: 1962

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Board member since 2016  
(independent director)

Member of the Strategic Planning  
Committee

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Thomas Veraszto received a Dr. jur. in Law and Mag. phil. in Slavic languages in 1984 and 1985, respectively, both from the University of Graz, Austria. In 1988, he also received a Diploma from the Bologna Center of the School of Advanced International Studies, Johns Hopkins University, USA.

Thomas Veraszto was a Partner and Managing Director with the Boston Consulting Group (BCG) in 2014-2015, serving primarily clients in the industrial goods sector on strategy, organizational development and operational improvement. He continues to be a Senior Advisor of BCG in this area.

Mr. Veraszto has held senior management positions in large industrial and consulting companies such as McKinsey & Company, where he spent 15 years, serving clients in various industries.



### **NIKOLAI GAGARIN**

Year of birth: 1950

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Board member since 2001

Member of the Audit Committee

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Graduate of Lomonosov Moscow State University, majored in Law.

In 2003 – being Managing Partner – he was appointed Chairman of the Board at Reznik, Gagarin, Abushakhmin and Partners Law Offices. Chairman of the Board, Managing Partner at Reznik, Gagarin and Partners Law Offices, Moscow, since 2009.



### **KAREN SARKISOV**

Year of birth: 1963

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Board member since 2010

Member of the Strategic Planning  
Committee and the Audit Committee

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Graduate of Tashkent State University, majored in Oriental Studies.

He serves as an Aide to the Chairman of the Board of Directors on External Economic Relations. He is also a member of the Board of Managing Directors at NLMK International B.V.

From 2006 to 2007, Mr. Sarkisov served as the Chairman of the Board of Directors of VIZ-Steel. From the early 1990's to 2008, he worked at steel trading companies holding various executive positions at a number of international trading entities.



### FRANZ STRUZL

Year of birth: 1942

Board member since 2011  
(independent director)

Member of the Strategic Planning  
Committee and the Audit Committee

Franz Struzl graduated from the  
University of Economics, Vienna, in  
1964.

In 1967, Franz Struzl joined Alpine  
Steel group, later renamed  
Voestalpine AG, based in Linz,  
Austria, serving the Company for  
over four decades. During his career  
at Voestalpine, Franz Struzl held  
various positions in a number of  
fields including strategic planning,  
commercial and technical areas.

In 1981, he was appointed Chief  
Financial Officer before becoming  
Chief Executive Officer of Voestalpine  
Long Products Group and a member  
of the Executive Board in 1991.

From 1995 until 2001, he served as  
Vice Chief Executive Officer of the  
Group. In 2001, Franz Struzl was  
appointed as Voestalpine Group Chief  
Executive Officer and Chairman. He  
held the position until 2004, when he  
moved to become Chief Executive  
Officer of Voestalpine, Brazil – Villares  
Metals, remaining there until 2010.  
From 2011 to 2016, he was General  
Director of RHI AG.



### STANISLAV SHEKSHNIA

Year of birth: 1964

Board member since 2015  
(independent director)

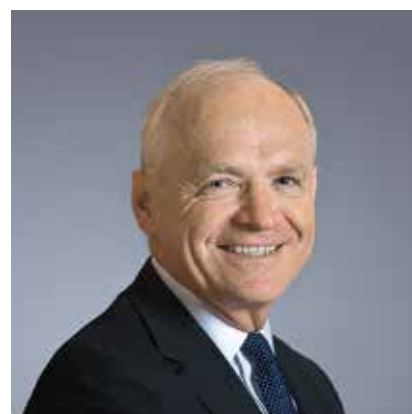
Chairman of the Human Resources,  
Remuneration and Social Policies  
Committee and member of the Audit  
Committee

Stanislav Shekshnia has a Master's  
Degree in Economics, a Ph.D. from  
Moscow State University, and an  
MBA from Northeastern University in  
Boston.

Dr. Shekshnia has held senior  
executive positions at Russian and  
international corporations, including  
HR Director of Otis Elevator, COO at  
VimpelCom, and CEO of Alfa-Telecom.  
He has served as Chairman of SUEK  
and Vimpelcom-R. Mr. Shekshnia  
co-founded Zest Leadership  
International Consultancy.

Currently Mr. Shekshnia is a Senior  
Partner of Howell Zest, Talent Equity  
Consulting Company.

Dr. Shekshnia is an Affiliate Professor  
of Entrepreneurship at INSEAD. He  
has over 15 years of graduate level  
teaching experience in Russia, France  
and the United States.\*



### HELMUT WIESER

Year of birth: 1953

Board member since 2011  
(independent director)

Member of the Strategic Planning  
Committee and member of the Human  
Resources, Remuneration and Social  
Policies Committee

Helmut Wieser received a Master's  
degree in Mechanical Engineering and  
Economics in 1981 from the University of  
Graz, Austria.

Helmut Wieser was an Executive Vice  
President of Alcoa and Group President  
responsible for Alcoa's global mill  
products and rigid packaging businesses  
until November 2011. Mr. Wieser was a  
member of the Alcoa Executive Council,  
the senior leadership group that provides  
strategic direction for the company.

Before joining Alcoa, Helmut Wieser  
worked for Austria Metal Group  
(AMAG) for 10 years, holding a series  
of management positions in its rolled  
products unit, culminating in 1997 as  
an executive member of the board and  
COO. Earlier, he held several senior  
management positions with Voest Alpine  
in Austria and Venezuela, including  
President of Voest Alpine Venezuela.

In March 2014, he became a member of  
Management Board of Austria Metall AG.  
In April 2014, he became the company's  
Chairman of the Management Board  
(President & CEO). Since 2014, he is  
a member of the board (Independent  
director) of Rain Carbon Inc.\*

\* For a more detailed bio please visit  
[www.nlmk.com](http://www.nlmk.com)

\* For a more detailed bio please visit  
[www.nlmk.com](http://www.nlmk.com)

# MANAGEMENT BOARD

The NLMK Group Management Board as of 31 December 2017 consisted of eight members. The Management Board holds regular meetings. Members of the Management Board are in charge of the Group's day-to-day operations. They also establish liaison protocol with legal entities, shares or stakes of which are directly or indirectly managed by NLMK.

## CORPORATE DOCUMENTS REGULATING THE ACTIVITIES OF NLMK'S MANAGEMENT BOARD:

- [Charter](#)
- [Corporate Governance Code](#)
- [Regulations on the Management Board](#)



## COMPOSITION OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2017

The NLMK Group Management Board as of 31 December 2017 consisted of eight members.

FULL NAME	POSITION
<b>OLEG BAGRIN</b>	Member of the Board of Directors President (Chairman of the Management Board)*
<b>TATYANA AVERCHENKOVA</b>	Vice President, Operational Efficiency
<b>ILYA GUSCHIN</b>	Vice President, Sales
<b>BAREND DE VOS</b>	Vice President, International Operations
<b>SERGEY LIKHAREV</b>	Vice President, Logistics
<b>GRIGORY FEDORISHIN</b>	Senior Vice President, Deputy Chairman of the Management Board**
<b>SERGEY FILATOV</b>	Managing Director
<b>STANISLAV TSYRLIN</b>	Vice President, HR & Management System***

\* For further information, please refer to "Events after the reporting date"

\*\* Appointed Senior Vice President, Deputy Chairman of the Management Board on 13 March 2017

\*\*\* Vice President, HR & Management System until 29 December 2017

## COMPOSITION OF THE MANAGEMENT BOARD UNTIL 03 MARCH 2017

FULL NAME	POSITION
<b>OLEG BAGRIN</b>	Member of the Board of Directors President (Chairman of the Management Board)
<b>BRIJESH KUMAR GARG</b>	Vice President, Procurement
<b>ILYA GUSCHIN</b>	Vice President, Sales
<b>BAREND DE VOS</b>	Vice President, International Operations
<b>SERGEY LIKHAREV</b>	Vice President, Logistics
<b>GRIGORY FEDORISHIN</b>	Vice President, Finance
<b>SERGEY FILATOV</b>	Managing Director
<b>STANISLAV TSYRLIN</b>	Vice President, HR & Management System***
<b>YURI LARIN</b>	Advisor to the President (Chairman of the Management Board) on Development Programmes



## MEMBERS OF THE MANAGEMENT BOARD BIOGRAPHIES

**OLEG BAGRIN**

Year of birth: 1974

Member of NLMK Group's Board of Directors since 2004, President (Chairman of the Management Board) of NLMK since 2012\*

Member of the Strategic Planning Committee\*

Mr. Bagrin holds a graduate degree in Operations Research and a postgraduate degree in Economics from the State University of Management, Moscow, and a degree in Business Administration from the University of Cambridge, UK.

Board member of a number of NLMK subsidiary and affiliate companies. Chairman of the Board of Directors of management company Libra Capital, investment company Libra Capital, Moscow.

**TATYANA AVERCHENKOVA**

Year of birth: 1979

Vice President, Operational Efficiency

Member of the Management Board since 2017

Ms. Averchenkova graduated from Lipetsk State Technical University, majoring in Economics & Management.

Tatyana Averchenkova has been with NLMK since 2001. She served as Director for Controlling and held various senior management positions in the Strategy Department. In 2016, she was appointed Vice President, Operational Efficiency.

**ILYA GUSCHIN**

Year of birth: 1976

Vice President, Sales

Member of the Management Board since 2014

Graduate of the Faculty of Economics, Lomonosov Moscow State University. Holds a Ph.D. in Economics.

Mr. Guschin joined NLMK in 2013. From 2009 to 2013, he worked for SIBUR Group, including as head of SIBUR International, the group's export division.

From 2008 to 2009, he served as Financial Director at Skolkovo School of Management, Moscow. From 2002 to 2007, he held various positions at Microsoft.

\* For further information, please refer to "Events after the reporting date"





### **BAREND DE VOS**

Year of birth: 1967

Vice President, International Operations

Member of the Management Board since 2016

Holds a B.Eng. (Hons) Electrical and M.Eng (industrial) from the University of Pretoria.

From 2011 onwards, Director of NLMK Belgium Holdings, as well as of a number of subsidiaries. He is CEO, Chairman of the Management Board of NLMK International B.V., leading the turnaround and operating efficiency programmes.

Mr. De Vos joined Duferco La Louvière in Belgium in 2004 and served as a management board member of the NLMK/Duferco JV between 2007 and 2011.

After starting his career as production and development engineer in 1990, he held various management positions at Iscor and Saldanha Steel (now ArcelorMittal South Africa) between 1995 and 2003, ending with export sales.



### **SERGEY LIKHAREV**

Year of birth: 1964

Vice President, Logistics

Member of the Management Board since 2014

Sergey Likharev holds a Ph.D. in Physics and Mathematics and a Masters of Business Administration from Cornell University, USA. From 1990 to 1993, he worked as a researcher at Lomonosov Moscow State University.

Sergey Likharev joined NLMK in October 2013. From 2012 to 2013, he was Aviation Business Director at Russian Machines Group and Chairman of the Board of Directors of the Aviacor aviation plant.

After serving as CEO of Aviacor Aviation Plant in Samara from 2004 to 2007, he became CEO of the Basel Aero airport group, a position he held from 2008 to 2012.

From 1993 to 2004, he held senior positions at Interros, Ostankino Meat Processing Plant, Golden Telecom, Cannon Associates and Coopers & Lybrand.



### **GRIGORY FEDORISHIN**

Year of birth: 1979

Senior Vice President, Deputy Chairman of the Management Board\*

Member of the Management Board since 2012

Grigory Fedorishin graduated from the State Finance Academy, Moscow. He holds a master's degree in Business Administration from INSEAD business school, France & Singapore. Member of Certified Financial Analysts (CFA) association.

Senior Vice President, Deputy Chairman of the Management Board from March 2017 to March 2018. Vice President for Finance (CFO) from 2013 until 2017. In 2016, he headed NLMK Group's Long Products Division in Russia.

From 2011 to 2013, he served as NLMK Director of Strategy and Business Development.

From 2009 to 2011, he served as an investment manager at Libra Capital, a Moscow-based investment management company.

From 2001 to 2009, he worked for PricewaterhouseCoopers consulting company, where he held positions up to director for business restructuring practice.

\* For further information, please refer to "Events after the reporting date"



### SERGEY FILATOV

Year of birth: 1959

Managing Director

Member of the Management Board  
since 2013

Mr. Filatov graduated from Moscow Institute of Steel and Alloys. He holds a Ph.D., Tech., and is an Honorary Metallurgist of Russia.

Mr. Filatov has been with NLMK since October 2012, serving as Deputy Senior Vice President - General Director for Production and Technology. On 25 January 2013, Sergey Filatov was appointed to the position of NLMK's Managing Director.

From 2009 to 2012, he served as Chief Engineer at NTMK. From 2007 to 2009, he was Project Manager at NTMK Project Management Department.



### STANISLAV TSYRLIN

Year of birth: 1968

Vice President, HR & Management  
System (until 29 December 2017)

Member of the Management Board  
since 2005

Mr. Tsyrlin graduated from Moscow Institute of Physics and Technology and from Stanford University.

From 2004 to 2006, he served as Director for Strategy and Management Systems at NLMK, having previously worked for Rumelco (from 2003 to 2004). Prior to that, he worked for Boston Consulting Group from 1996 to 2003, serving initially as a consultant, then as a project manager before being appointed Deputy Director.

Vice President, HR & Management  
System, until 29 December 2017.

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# CORPORATE GOVERNANCE

## GENERAL INFORMATION ABOUT NLMK'S CORPORATE GOVERNANCE

As a public company, NLMK is constantly optimizing its corporate governance practices. In its activities, NLMK adheres to best international practices and the highest standards of corporate governance.

NLMK corporate governance system is based on the principles of sustainable development, as well as long-term growth of return on equity investments. The Company maintains a policy of maximum openness, transparency and easy access to information. These principles and mechanisms in place allow our shareholders and investors to have all the necessary information provided in a timely manner so that they can make day-to-day and strategic decisions regarding the Company's securities.

*In 2017, the Company continued to actively improve its corporate governance practices as part of the corporate governance reform.*

All documents regulating corporate governance practices and principles are available on NLMK Group's official website.

## CORPORATE GOVERNANCE SYSTEM

The corporate governance system, the established practices and approaches that determine strategic and operational

decision-making processes, the efficiency of the Board of Directors, the remuneration, risk management and internal audit systems, policies regulating disclosures on operational activities, and plans for the future development of the Company are important factors, which are taken into account by shareholders, investors, and other stakeholders when making business decisions. In this regard, transparency and high-quality of information on key areas of corporate governance are critical factors for enhancing the credibility of the Company.

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### THE CORPORATE GOVERNANCE SYSTEM ADDRESSES THREE PRIMARY TASKS THE COMPANY FACES:

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- Ensuring maximum efficiency
- Attracting investment
- Meeting its legal and social obligations.

NLMK's corporate governance system is built on best global practices and is fully compliant with the requirements of the prevailing Russian legislation, principles provided by the Organization for Economic Co-operation and Development, and provisions of the Corporate Governance Code approved by the Central Bank of Russia, and fully meets the existing legislation of the countries where the Company operates.

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### KEY PRINCIPLES OF OUR CORPORATE GOVERNANCE:

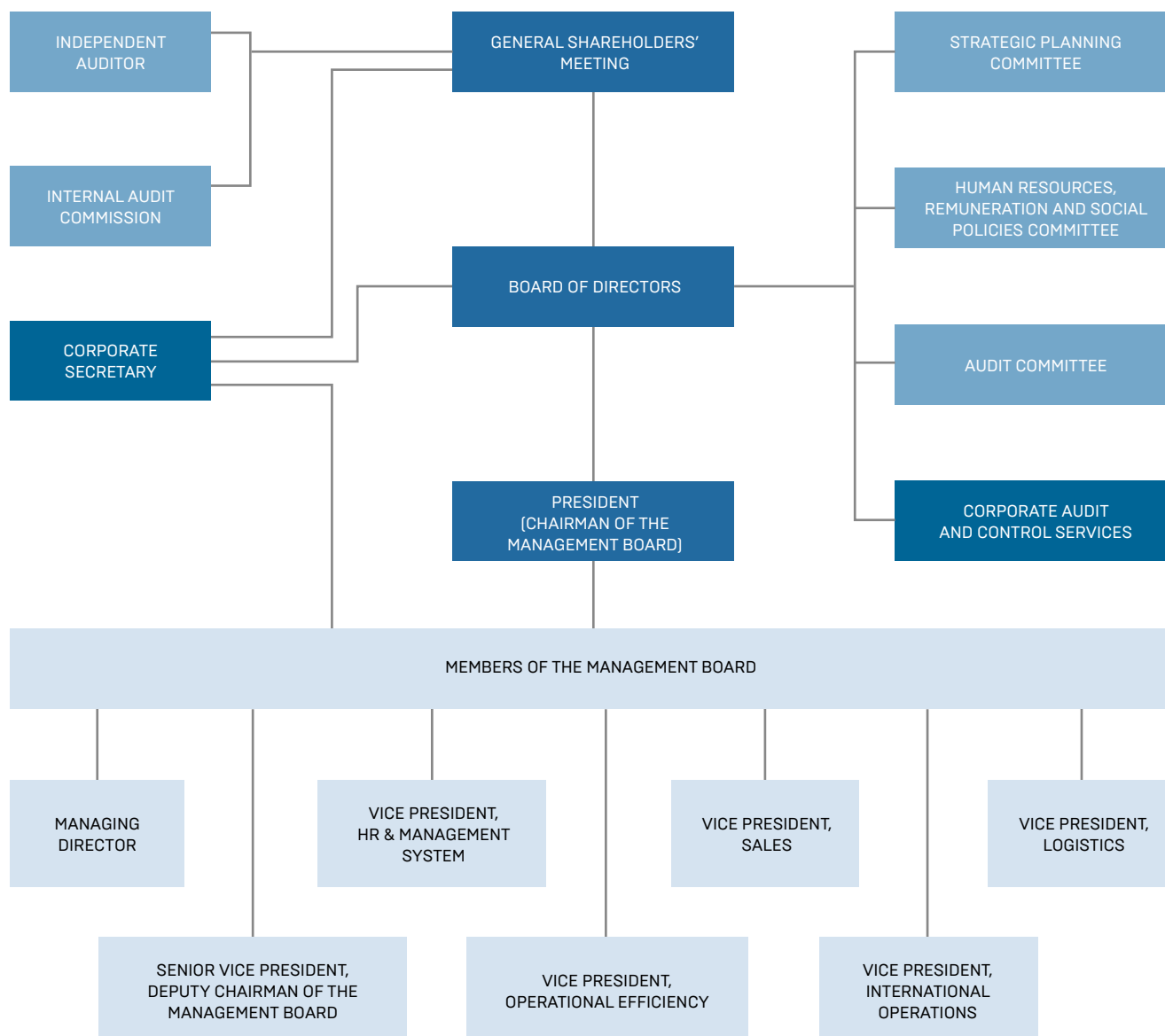
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- Ensure equal and fair treatment of all shareholders when they use their right to be involved in

management processes, receive dividends from the Company, participate in meetings, vote on issues on the agenda and get up-to-date information on the Company's activities and its governing bodies

- Ensure equal treatment of all shareholders, including foreigners and minority shareholders
- Ensure reliable and effective registration of title to shares and guarantee the opportunity to alienate them freely and without encumbrances
- Ensure compliance with the existing laws, principles of the Corporate Governance Code and international corporate governance standards
- Strictly observe the rights of third parties, including their creditors and employees, as required by the law, the Charter, and other regulatory documents
- Pursue a common corporate policy in respect of subsidiary companies, affiliates, and other legal entities in which NLMK is the founder, a participant, or a member
- Maintain a policy of open and transparent communications, including by disclosing full and up-to-date information about the Company to give shareholders and investors an opportunity to make informed decisions, as well as by providing documents (information) related to the Company upon shareholders' request

## NLMK'S CORPORATE GOVERNANCE STRUCTURE\*



→ For further information, please refer to "Events after the reporting date"

\* As of 31 December 2017

- Promote a policy of complying with business ethics in conducting its operations.

### NLMK'S CORPORATE GOVERNANCE STRUCTURE

According to acting corporate documents, NLMK's corporate governance structure includes:

- General Shareholders' Meeting, which is the supreme governing body of the Company that makes decisions on the key business issues
- The Board of Directors, which is responsible for the strategic management of NLMK, controls executive bodies, determines the principles of and approaches to organization of the Company's risk management system and

internal control, develops NLMK's executive compensation policy, controls corporate governance practices, and plays the key role in the Company's significant corporate events

- Board of Directors Committees, established to perform the preliminary review for key matters of NLMK Group's business, which provide assistance to the Board

of Directors in devising and reaching decisions within their areas of expertise, as well as providing preliminary and more detailed examination of matters to be brought before the Board of Directors for consideration

- The executive bodies of the Company including the President (Chairman of the Management Board) and the Management Board that manage day-to-day activities of the Company and ensure its efficient operation, while implementing the objectives set by the Board of Directors
- The Corporate Secretary, who ensures interaction with shareholders, coordinates the Company's activities aimed at protection of shareholders' rights and interests and supports the Board of Directors and the Management Board
- An independent auditor, the Internal Audit Commission, the Audit Committee, and Audit Department that oversee financial and economic activities.

## IMPROVING CORPORATE GOVERNANCE PRACTICES IN 2017

During 2017, the Company continued to actively enhance its corporate governance practices. For the purposes of ensuring the most favourable conditions for participating in the General Shareholders' Meeting, the Board of Directors can resolve to offer its shareholders the option of voting online on the Company's website.

By resolution of the Company's Board of Directors, the Annual General Shareholders' Meeting on the results of 2016 was video broadcast online. Live video broadcasts are another step towards better transparency of the Company.

Aiming to improve the quality of corporate governance, and taking the to the prevailing legislation into consideration, NLMK approved its corporate documents. In particular, the General Shareholders' Meeting held in December 2017 adopted revised versions of NLMK Charter, Regulations on the General Shareholders' Meeting, and Regulations on the Board of Directors, in full compliance with the prevailing Russian legislation.

In November 2017, NLMK Group received the 'Active Corporate Policy on Information Disclosure' award established by news agencies. This award is testimony to the Company's efficient approach to information transparency. Its success recognized once again, NLMK will continue improving the quality of information disclosure and refining its balanced approach to information transparency.

Based on an annual assessment of corporate governance practices performed by several research institutes, NLMK Group was ranked among the leaders in terms of the quality of its corporate governance. This index assesses the corporate governance maturity level, which determines the degree of conformity to the principles of the national Corporate Governance Code.

Based on the results of the annual study conducted by a research centre with the support of the Moscow Stock Exchange, the Company was ranked among TOP 10 companies with the best corporate governance disclosure practices.

## GENERAL SHAREHOLDERS' MEETING

### Rights and responsibilities of shareholders

NLMK's shareholders enjoy a collection of rights that they can exercise themselves or through their proxies by

participating in General Shareholders' Meetings with the right to vote on all issues within its remit.

The Company provides objective and exhaustive information to shareholders in a regular and timely manner on items included into the agenda of a General Shareholders' Meetings and on the Company's operations, sufficient to make informed decisions regarding their shares. The convocation, preparation and holding of the General Shareholders' Meeting are governed by the Regulations on the General Shareholders' Meeting.

The Company offers its shareholders an efficient procedure for submitting proposals on the agenda items for the General Shareholders' Meeting and for nominating candidates to its governing bodies. The Company has established an extended period for the submission of proposals on the agenda items and for the nomination of candidates compared to the one set by the Russian legislation.

Participation of the maximum possible number of shareholders in the decision-making process at the General Shareholders' Meeting serves the interests of the Company.

## NLMK's corporate governance in action

The General Shareholders' Meeting, NLMK's supreme governing body, is held upon the resolution of the Board of Directors at its own discretion, upon the request of the Internal Audit Commission, the Auditor, or shareholder(s) holding no less than 10 per cent of the Company's voting shares at the date of the request to convene the General Shareholders' Meeting.

The information (materials) provided to persons entitled to participate in the General Shareholders' Meeting is published on NLMK's website ([www.nlmk.com](http://www.nlmk.com)) according to the procedure and within the timeframe

established by the Company's Charter and the laws of the Russian Federation.

In addition to the information that the notice of the General Shareholders' Meeting is required to contain by law, it also specifies:

- The exact location of the General Shareholders' Meeting, including information on the venue where the meeting is going to be held
- Information on documents required for admission to the premises where the General Shareholders' Meeting is to be held
- Information on how to access the General Shareholders' Meeting remotely, if a respective decision is made by the Company's Board of Directors.

Besides obligatory materials required by law, the Company shall provide its shareholders with additional information and materials pertaining to the agenda items of the General Shareholders' Meeting in line with the recommendations of the Corporate Governance Code. The Company shall also post a map of how to get to the GSM, an approximate form of a power of attorney that may be issued by a shareholder to their representative for participation in the GSM, and information on certifying such a power of attorney.

The Company also publishes all the information specified in this item in English to ensure equal treatment of all shareholders, including foreigners.

The Company invites the following persons to the General Shareholders' Meeting: members of the Board of Directors and Internal Audit Commission, members of the Management Board and President (Chairman of the Management Board), the Company's auditors,

the person responsible for the Company's accounting, nominees to the Company's governing bodies to be voted on at the General Shareholders' Meeting, and other persons.

Persons entitled to participate in the General Shareholders' Meeting have the right to put forward questions to members of the governing bodies, the person responsible for the Company's accounting, the Company's auditors, and nominees to the Company's governing bodies.

Participants of the General Shareholders' Meeting are entitled to freely contact and consult each other on issues on the meeting's agenda without violating the meeting procedure (regulations).

By resolution of the Board of Directors, the General Shareholders' Meeting can be video broadcast live on the Company's official website.

As a rule, the Chairman of the Board of Directors presides at the General Shareholders' Meeting (or one of the members of the Board of Directors on his behalf).

Voting at the General Shareholders' Meeting is carried out by voting ballots. Each shareholder is sent the voting ballots within the timeframe established by the Russian legislation and the Charter.

For the purposes of ensuring the most favourable conditions for participating in the General Shareholders' Meeting, the Board of Directors can resolve to offer its shareholders the option of voting online on the Company's website.

The independent registrar of the Company functions as the counting commission of the General Shareholders' Meeting.

The voting results and resolutions passed by the General Shareholders'

Meeting are disclosed in accordance with the requirements of the Russian legislation.

## Activity in 2017

Three General Shareholders' Meetings were held in 2017.

### GENERAL SHAREHOLDERS' MEETING BY STATUS (FORMAT)

Annual meeting (in person)	1
Extraordinary meeting (absentee voting)	2

NLMK's 2016 Annual General Shareholders' Meeting was held on 2 June 2017. Shareholders and shareholder representatives holding a total of 90.76% of NLMK's shareholder capital were present, meeting the quorum requirements. During the meeting, the following issues were reviewed and decisions taken:

*Resolution 1:* Approve NLMK's 2016 Annual Report.

*Resolution 2:* Approve NLMK's 2016 annual financial statements, including profit and loss statement.

*Resolution 3:* Approve NLMK's FY2016 profit distribution:

- Pay (declare) 2016 dividends in the amount of 9.22 rubles per common share, including out of previous profits. Taking into account interim dividends paid in the amount of 5.84 rubles per common share, the amount of dividends payable is 3.38 rubles per common share. Set the date upon which the persons entitled to dividends are determined as 14 June 2017.

*Resolution 4:* Pay (declare) Q1 2017 dividends in the amount of 2.35 rubles per common share. Set the date upon which the persons entitled to dividends are determined as 14 June 2017.



*Resolution 5:* Elect NLMK's Board of Directors as follows:

- Oleg Bagrin
- Thomas Veraszto
- Helmut Wieser
- Nikolai Gagarin
- Vladimir Lisin
- Karen Sarkisov
- Stanislav Shekshnia
- Benedict Sciortino
- Franz Struzl.

*Resolution 6:* Elect Oleg Bagrin as NLMK's President (Chairman of the Management Board).

*Resolution 7:* Elect NLMK's Internal Audit Commission as follows:

- Yulia Kunikhina
- Mikhail Makeev
- Natalia Savina
- Elena Skladchikova
- Sergey Ushkov.

*Resolution 8:* Approve the resolution on the payment of remuneration to the members of NLMK's Board of Directors.

*Resolution 9.1:* Approve PricewaterhouseCoopers Audit /OGRN 1027700148431/ as the Auditor of NLMK's 2017 RAS Accounting (Financial) Statements.

*Resolution 9.2:* Engage PricewaterhouseCoopers Audit /OGRN 1027700148431/ to carry out an audit of NLMK's 2017 IFRS Consolidated Financial Statements.

NLMK's Extraordinary General Shareholders' Meetings were held by absentee ballot:

DATE	PERCENTAGE OF SHAREHOLDERS PARTICIPATING IN THE MEETING
29.09.2017	90.92%
22.12.2017	90.82%

At NLMK's Extraordinary General Shareholders' Meeting held on 29 September 2017, shareholders passed the resolution to pay (declare) H1 2017 dividends in the amount of 3.20 rubles per common share.

At NLMK's Extraordinary General Shareholders' Meeting held on 22 December 2017, shareholders passed the following resolutions:

- Pay (declare) 9M 2017 dividends in the amount of 5.13 rubles per common share
- Approve the revised version of the Company's Charter
- Approve the revised version of the Company's Regulations on the General Shareholders' Meeting
- Approve the revised version of NLMK's Regulations on the Board of Directors.

## BOARD OF DIRECTORS

### NLMK's corporate governance in action

A key element of the Company's corporate governance responsible for the strategic management of the Company, the Board of Directors determines the principles of and approaches to the risk management and internal control system, controls the activity of executive bodies,

and has other key functions in the Company.

NLMK's Board of Directors reports to the Company's shareholders.

NLMK's Regulations on the Board of Directors govern the procedures of the Board of Directors and, in particular, include the procedure for arranging and holding meetings of the Board of Directors, which allows the members of the Board of Directors to prepare for the meetings properly.

According to the current corporate documents, the Board of Directors, acting within its powers:

- Ensures execution of resolutions passed by the General Shareholders' Meeting
- Assesses political, financial, and other risks impacting the Company's operations as well as operations of its subsidiaries, associates, and other legal entities in which NLMK is a founder, participant, or member
- Determines approaches to investment and participation in other organizations
- Assesses the performance of the Company and its bodies
- Determines the terms of dividend payment
- Develops remuneration incentive methods and systems for Company's employees
- Ensures the disclosure of information about the Company
- Supervises activities of the Company's executive bodies
- Ensures the Company's compliance with the applicable legislation

- Defines materiality criteria for the subsidiaries, associates and other legal entities in which NLMK is a founder, participant or member, for decision-making concerning the issues that fall within the powers of the Management Board
- Ensures compliance with corporate governance principles.

Meetings of the Board of Directors are held on a regular basis at least 6 times a year in accordance with the approved schedule.

The format of NLMK's Board of Director's meetings is determined based on the importance of the issues on the agenda. The most important issues are resolved at meetings of NLMK's Board of Directors held in

person (convening and holding the Annual General Shareholders' Meeting, including recommendations on the distribution of profits and payment of dividends, preliminary approval of the Company's annual reports, financial statements and budget, etc.).

As a rule, the most critical matters on the agenda of the Board of Directors are first reviewed by the Board committees, facilitating their all-round consideration and developing recommendations for the Board of Directors on the decisions to be made.

Information on the activities of NLMK's Board of Directors, including information on its member-list, its committees, meetings held, and resolutions passed is published on the Company's official website.

## Chairman of the Board of Directors

The Chairman of the Board of Directors ensures the efficient functioning of the Board of Directors.

The Chairman of the Board of Directors arranges for the Board's schedule to be developed, supervises the execution of resolutions passed by the Board, forms the agenda and makes sure that the most efficient decisions on the agenda items are made.

The Chairman of the Board of Directors ensures that the Committees of the Board of Directors function efficiently, including through the nomination of members of the Board of Directors to the Board Committees based on their professional and personal qualities, and taking into account the proposals



received from the Board members on setting up the Committees.

The Chairman of the Board of Directors is elected by its members among themselves by a majority vote of the total number of the members.

The Chairman of the Board of Directors has the most extensive experience, professional expertise, and authority among the Company's shareholders, members of governing bodies, and employees.

### Independent Board members

The main principle behind the composition of the Board of Directors in terms of its independence and professional competence is the principle of balance. Independent directors on the Company's Board contribute to the formation of an objective, balanced approach by the Board of Directors to items discussed, improve management efficiency, and have a positive impact on the Company's image.

Thanks to their extensive experience in governance, independent directors serve to assist in solving such issues as devising the Company's development strategy, assessing the conformity of the activities of executive bodies with the Company's chosen strategy and ensuring there are effective systems of internal control and risk management, providing an objective assessment of the quality of work undertaken by the executive bodies, and establishing an efficient motivation system, ensuring that the interests of Company's shareholders are observed.

The Corporate Secretary on behalf of the Company regularly conducts a preliminary analysis and assessment of the Board members' compliance with the Independence Criteria.

Independent directors, who make up the majority of the Company's Board, fully meet the independence criteria stipulated by the Corporate

### SHARES OWNED BY MEMBERS OF NLMK BOARD OF DIRECTORS\*

FULL NAME	POSITION	SHARE OF THE AUTHORIZED CAPITAL STOCK OF NLMK
<b>VLADIMIR LISIN</b>	Chairman of the Board of Directors	Not an NLMK shareholder
<b>OLEG BAGRIN</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>THOMAS VERASZTO</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>HELMUT WIESER</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>NIKOLAI GAGARIN</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>KAREN SARKISOV</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>STANISLAV SHEKSHNIA</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>BENEDICT SCIORTINO</b>	Member of the Board of Directors	Not an NLMK shareholder
<b>FRANZ STRUZL</b>	Member of the Board of Directors	Not an NLMK shareholder

\* [More information on the structure of the share capital is available in the "Information for Shareholders" section.](#)

Governance Code recommended by the Bank of Russia.

### Evaluation of the Board of Directors

In line with the recommendations of the Corporate Governance Code and the best international practices, the Company has been conducting an annual performance evaluation of the Board of Directors since 2016.

The formal evaluation procedure does not only cover the Board of Directors as a whole, but also assesses the work of the Board committees and each member of the Board, including its Chairman.

The main purpose of the Board's performance evaluation is to determine the efficiency of its performance as a collective governing body and enhance the Board's role in achieving the Company's goal of successful development.

The key goals of the annual evaluation of the Board's performance include:

- Clarification of the goals and priorities of the Board of Directors
- Balance of independence and qualification in the Board of Directors
- Optimization of each member's contribution to the Board's activities
- Improvement of the work of the Board and communication with the management
- Identification of areas for training and development of Board members.

Board performance evaluation ensures:

- An opportunity to make timely adjustments to the plans and the working methods of the Board of Directors and of its members, which creates the conditions necessary for supporting the efficient functioning of the Board

- Greater shareholder confidence in the Board of Directors
- An increase in the Company's investment appeal, as the evaluation demonstrates the Company's committed approach to corporate governance
- The possibility of using the results of the evaluation as grounds when electing a new Board of Directors at the Annual Shareholders' Meeting.

The methodology used to evaluate the Board of Directors includes an online survey of the members of the Board of Directors, as approved by NLMK's Human Resources, Remuneration and Social Policies Committee.

In line with the formal procedure, an evaluation (self-assessment) of the Board's performance was held in January 2017.

The results of the Board members' self-assessment were discussed at an in-person meeting of the Board of Directors in March 2017. The Board of Directors decided to hold the next regular evaluation in February 2018 and another evaluation involving an independent organization (consultant) in February 2019.

### Induction for newly elected members of NLMK's Board of Directors

An induction programme for newly elected members of NLMK's Board of Directors was developed and approved by the Human Resources, Remuneration and Social Policies Committee, in compliance with the best corporate governance practices, to ensure the efficient functioning of the Board of Directors.

The main goal of the Programme is to ensure that the newly elected

members of the Board of Directors are promptly and efficiently introduced to NLMK Group's key operational and financial indicators, its systems of risk management, internal control and corporate governance.

Meetings with the President (Chairman of the Management Board), members of the Board of Directors, members of the Management Board, and top managers of the Company are organized as part of the Programme. Newcomers also have an opportunity to get acquainted with the Company's core facilities, technology and products.

### Composition of the Board of Directors

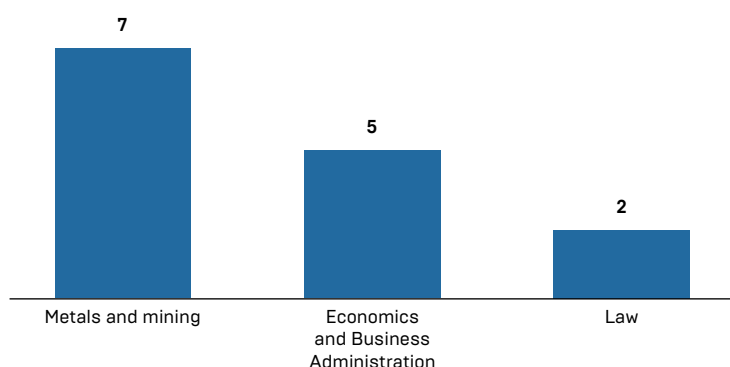
The composition of the Company's Board of Directors is balanced in terms of qualification, experience, knowledge, and business acumen. The members of the Board of

## COMPOSITION OF THE BOARD OF DIRECTORS OF NLMK AS OF 31 DECEMBER 2017

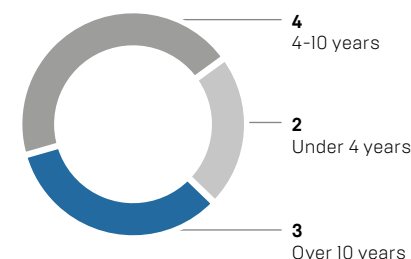
FULL NAME	POSITION	YEARS ON THE BOARD	INDEPENDENT	PARTICIPATION IN THE STRATEGIC PLANNING COMMITTEE	PARTICIPATION IN THE AUDIT COMMITTEE	PARTICIPATION IN THE HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICIES COMMITTEE
<b>VLADIMIR LISIN</b>	Chairman of the Board of Directors	21		Chairman*		<input checked="" type="checkbox"/>
<b>OLEG BAGRIN</b>	Member of the Board of Directors	13		<input checked="" type="checkbox"/>		
<b>THOMAS VERASZTO</b>	Member of the Board of Directors	2	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
<b>HELMUT WIESER</b>	Member of the Board of Directors	7	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
<b>NIKOLAI GAGARIN</b>	Member of the Board of Directors	16			<input checked="" type="checkbox"/>	
<b>KAREN SARKISOV</b>	Member of the Board of Directors	8		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>STANISLAV SHEKSHNIA</b>	Member of the Board of Directors	3	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	Chairman
<b>BENEDICT SCIORTINO</b>	Member of the Board of Directors	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chairman	
<b>FRANZ STRUZL</b>	Member of the Board of Directors	7	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	

\* For further information, please refer to "Events after the reporting date"

## DIRECTORS' EXPERTISE AND PROFESSIONAL BACKGROUND

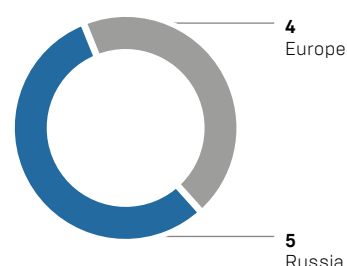


## DIRECTORS' LENGTH OF TENURE\*

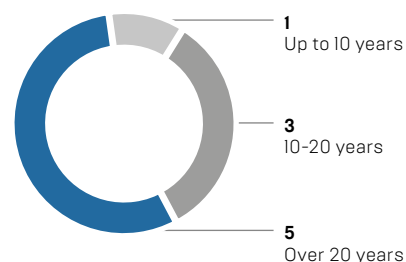


\* As of 31 December 2017

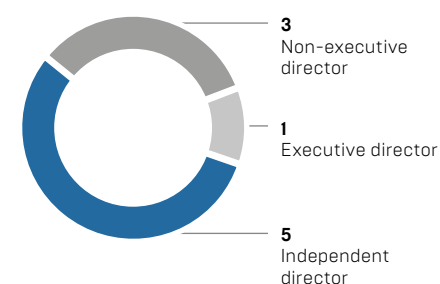
## DIRECTORS' LOCATION



## DIRECTORS' EXPERTISE IN THE STEEL SECTOR



## COMPOSITION OF THE BOARD OF DIRECTORS BY DIRECTOR STATUS



Directors have impeccable business reputation, knowledge, skills and experience in steelmaking, mining, science, economics, business management, and law.

As of 31 December 2017, the Board of Directors, elected at the Annual General Shareholders' Meeting on 2 June 2017, consisted of nine members, including five independent directors. There were no changes to the composition of the Board of Directors in 2017.

**Information on transactions performed by members of the Board of Directors with NLMK shares.** In 2017, members of the Board of Directors did not participate in any transactions with NLMK shares.

**Information on the conflict of interests of members of the Board of Directors.** There was no conflict of interests between NLMK Board of Directors members in 2017.

## Activity of the Board of Directors in 2017

In 2017, there were six meetings of the Board of Directors of NLMK, three of which were held by absentee ballot.

The following are the main issues that were examined by the Group's Board of Directors in 2017:

- Reviewing proposals on the agenda of the General Shareholders'

Meeting and proposals on nomination of candidates to NLMK's governing bodies

- Convocation of the Annual General Shareholders' Meeting
- Approving the Company's annual financial statements, including the 2016 profit and loss statement, as well as the NLMK's IFRS 2016 annual consolidated financial statements
- Providing recommendations to NLMK's Annual General Shareholders' Meeting regarding the distribution of profits
- Evaluating the performance of NLMK's Board of Directors

- Reports on the performance of the Committees of NLMK's Board of Directors

- Approving the 2016 NLMK report on interested-party transactions

- Approving the composition of the NLMK Management Board

- Providing recommendations to NLMK's Annual General Shareholders' Meeting regarding payment/declaration of Q1 2017 dividends

- Approving the Company's 2016 draft annual report

- Providing recommendations to the Annual General Shareholders' Meeting regarding the payment of remuneration to members of NLMK's Board of Directors

- Providing recommendations to the Annual General Shareholders' Meeting regarding the approval of NLMK's Auditor

- Approving the agenda, draft documents and measures necessary for preparing for and holding the Annual General Shareholders' Meeting

- NLMK's interest in other companies

- Election of the Chairman of NLMK's Board of Directors

- Forming Committees of NLMK's Board of Directors

- Approving the meeting schedule for NLMK's Board of Directors

- Providing recommendations to the Extraordinary General Shareholders' Meeting regarding the payment

(declaration) of 6M and 9M 2017 dividends

- Convocation of the EGM
- Approval of remuneration to be paid for the services of NLMK's Auditor
- Including the item on internal documents approval into the EGM agenda
- Approving the consolidated budget of the Group for 2018.

## COMMITTEES OF THE BOARD OF DIRECTORS

Committees of the Board of Directors are the advisory bodies of the Board of Directors. Their function is to ensure preliminary examination and study of the most essential matters in the area of expertise of the Board of Directors. The composition of the Committees facilitates a comprehensive examination of the issues at hand, taking into account various opinions.

Members of the Committees have professional qualifications, knowledge and experience in the Committee's area as well as other specific expertise, ability and time required to serve and fulfil their functions as Committee members.

The status, goals, objectives and functions of the committees as well as their composition, establishment and operation are set out in regulations on committees approved by the Company's Board of Directors.

In order to balance approaches to problem solving in relation to risk management and the protection of shareholders' interests, independent directors were appointed as chairs of two out of three committees of the Board of Directors in 2017.

## Strategic Planning Committee

### COMMITTEE'S ACTIVITIES AND POWERS

The Strategic Planning Committee, headed by the Chairman of the Board of Directors, provides support to the Board of Directors in reviewing matters connected to increasing the efficiency of the Company's activity in the long-term, promoting asset growth, profitability and a stronger investment case.

The Strategic Planning Committee is fully accountable to the Board of Directors of NLMK and is an advisory body.

### COMMITTEE COMPOSITION AS OF 31 DECEMBER 2017

The Committee includes:

- Vladimir Lisin (Chairman of the Committee)\*
- Oleg Bagrin
- Benedict Sciortino (independent director)
- Thomas Veraszto (independent director)
- Helmut Wieser (independent director)
- Franz Struzl (independent director)
- Karen Sarkisov
- Karl Doering.

\* For further information, please refer to "Events after the reporting date"

Secretary of the Committee:  
Grigory Fedorishin, previously



## PARTICIPATION OF THE COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2017

FULL NAME	POSITION	PARTICIPATION IN COMMITTEE MEETINGS IN 2017
VLADIMIR LISIN	Chairman of the Committee*	4
OLEG BAGRIN	Member of the Committee	4
BENEDICT SCIORTINO	Member of the Committee	3 [I**]
THOMAS VERASZTO	Member of the Committee	4
HELMUT WIESER	Member of the Committee	2
FRANZ STRUZL	Member of the Committee	3
KAREN SARKISOV	Member of the Committee	4
KARL DOERING	Member of the Committee	4

\* For further information, please refer to "Events after the reporting date"

\*\* Participated via teleconference

Vice President, Finance (CFO), and later Senior Vice President, Deputy Chairman of the Management Board, was Secretary of the Committee until 06 March 2018. Starting from 06 March 2018, Konstantin Arshakuni, NLMK Director for Strategic Development, was appointed Secretary of the Committee.

The composition of the Committee did not change in 2017.

## COMMITTEE'S ACTIVITY IN 2017

In 2017, the Strategic Planning Committee held four meetings.

The Committee reviewed and passed resolutions on the following key issues:

- Main areas for key investment projects

- Status update on NLMK Group's investment programme.

The Committee reviewed key projects for the development of hot-end operations at the Lipetsk site and an extensive set of questions related to Stoilensky. The Committee also looked into concepts for flat steel production development at the Lipetsk site and at the European facilities, as well as development strategies for long products, electrical steels, and plate production in Europe.

In 2018, the Committee plans to work actively on development programmes for NLMK USA and Group functional areas, including energy, sales, and logistics, as well as on its consolidated Strategy 2022.

## Audit Committee

### COMMITTEE'S ACTIVITIES AND POWERS

The Audit Committee, chaired by an independent director, develops and submits recommendations to the Board of Directors on efficient supervision of the Company's

## PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN BOD AND BOD COMMITTEE MEETINGS

MEMBER OF THE BOARD OF DIRECTORS IN THE REPORTING YEAR	INDEPENDENT DIRECTOR	PARTICIPATION IN BOD (6) MEETINGS	AUDIT COMMITTEE (4) MEETINGS	HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICIES COMMITTEE (5) MEETINGS	STRATEGIC PLANNING COMMITTEE (4) MEETINGS
OLEG BAGRIN		6			4
THOMAS VERASZTO	☑	6			4
HELMUT WIESER	☑	6		5	2
NIKOLAI GAGARIN		6	4		
VLADIMIR LISIN		6		5	4
KAREN SARKISOV		6	4		4
STANISLAV SHEKSHNIA	☑	6	4	5	
BENEDICT SCIORTINO	☑	6	4		3 [I*]
FRANZ STRUZL	☑	6	4		3

\* Participated via teleconference

financial and business activities, including annual independent audits of financial statements, the quality of services provided by the auditor, and compliance with the requirements for auditor independence.

The Audit Committee is fully accountable to the Board of Directors of NLMK and is an advisory body.

In order to submit reliable and independent recommendations to the Board of Directors, the Committee exercises the following functions in risk management, internal control and corporate governance, in line with its assigned duties:

- Control over the reliability and efficient functioning of the risk management, internal control and corporate governance systems, including the efficiency evaluation of risk management and internal control procedures established in the Company, corporate governance practices, and development of proposals on their improvement
- Analysis and assessment of risk management and internal control policy performance
- Control of procedures governing the Company's compliance with legislative requirements, as well as the code of ethics, the Company's rules and procedures, and stock exchange requirements
- Analysis and assessment of execution of the conflict-of-interest management policy.

Most of the Committee members are independent directors. The Audit Committee also includes an independent director with a background in the preparation, analysis, evaluation, and audit of accounting (financial) statements.

### THE COMPOSITION OF THE COMMITTEE AS OF 31 DECEMBER 2017:

The Committee includes:

- Benedict Sciortino (Chairman of the Committee, independent director)
- Karen Sarkisov
- Nikolai Gagarin
- Stanislav Shekshnia (independent director)
- Franz Struzl (independent director).

Secretary of the Committee: Andrey Dozhdikov, Head of Consolidated Financial Statements Department, was the Secretary of the Committee until 20 April 2017. Starting from 20 April 2018, Mikhail Makeev, Audit Director, was appointed Secretary of the Committee.

The composition of the Committee did not change in 2017.

### COMMITTEE'S ACTIVITY IN 2017

In 2017, there were four meetings of the Audit Committee.

### PARTICIPATION OF COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2017

FULL NAME	POSITION	NUMBER OF COMMITTEE MEETINGS ATTENDED IN 2017
BENEDICT SCIORTINO	Chairman of the Committee	4
KAREN SARKISOV	Member of the Committee	4
NIKOLAI GAGARIN	Member of the Committee	4
STANISLAV SHEKSHNIA	Member of the Committee	4
FRANZ STRUZL	Member of the Committee	4

The Committee passed resolutions on the following key issues:

- Review of the results of the audit of NLMK's 2016 IFRS Consolidated Financial Statements
- Review of the results of the audit of NLMK's 2016 RAS (Russian Accounting Standards) Accounting (Financial) Statements
- Review of draft interim abridged IFRS Consolidated Financial Statements for Q1, H1, and 9M 2017
- Review of the Auditor's Opinion Evaluation, issued by PricewaterhouseCoopers Audit, on NLMK 2016 RAS accounting (financial) statements
- Review and approval of the candidate for the position of the Secretary of the Audit Committee of NLMK's Board of Directors
- Review of the report on anti-corruption activities
- Review of the report on the performance of NLMK's Internal Audit Department in FY2016, Q1 and Q2 2017
- Approval of the Audit Committee meeting plan for 2017.

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## FINANCIAL REPORTING

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NLMK's Audit Committee reviews the Group's IFRS consolidated financial statements and NLMK's annual stand-alone statutory RAS financials on a quarterly basis. The Committee pays special attention to significant financial reporting judgements, comments to the statements and accounting policies. Along with the quarterly IFRS financials, the Committee reviews and discusses NLMK Group's financial standing, results, and cash flows with the senior management and external auditors of the Company, and seeks explanations on the key changes in the Group's operating and financial performance, whenever necessary.

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## RISK MANAGEMENT AND INTERNAL CONTROL

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NLMK's Audit Committee exercises control over the reliability and efficient functioning of the risk management, internal control and corporate governance systems, including the efficiency evaluation of the risk management and internal control procedures established in the Company, its corporate governance practices, and development of proposals on their improvement. In fulfilling its oversight responsibilities, the Committee reviews reports and the Group's updated risk map developed by the Vice President for Risk Management Department, internal audit and the external auditor reports, and holds regular meetings with the Audit Director and the external auditor's team.

In 2016, the Committee charged the Audit Director with the task of carrying out an external quality

assessment of NLMK Group's internal audit service. In the appraiser's (Deloitte) opinion, the Company's internal audit activities in 2016–2017 generally conformed with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and the Code of Ethics.

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## INTERNAL AUDIT

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NLMK's Audit Committee is responsible for monitoring and evaluating the efficiency of the internal audit function. This is done via discussions with the Audit Director and approval of the annual internal audit plan. Progress reports, key findings, and issued recommendations are submitted to the Committee throughout the year to ensure that the actions taken by the executive management are efficient.

To ensure independence, the Audit Director reports directly to the Board of Directors. The Audit Director has the right to raise any matter he deems important, and the obligation to report to the Committee, including on the results of audits above a certain threshold of materiality, and/or in line with obligatory disclosure requirements, and meets with the external auditors as required.

The Internal Audit Department performs annual self-assessments of its compliance with the International Standards for the Professional Practice of Internal Auditors and the Code of Ethics, as well as an independent external quality assessment every five years. The results of these assessments are submitted for consideration to the Audit Committee.

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## EXTERNAL AUDIT

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PricewaterhouseCoopers Audit (PwC) has been the auditor of the Group since 2003.

NLMK Group companies engage PwC from time to time to provide non-audit services. NLMK management is sure that these services do not impair the auditor's independence and are not related to financial reporting. In 2017, the share of non-audit services in the total amount of services provided by PwC was at an acceptable level, not exceeding 10%. PwC regularly rotates the key staff in its audit team (at least once every 7 years) to ensure compliance with independence requirements.

PwC reports to the Committee quarterly, and the Committee members review and discuss key matters of audit with external auditors. In particular, the Committee paid specific attention to the following significant items:

- Impairment considerations for fixed assets, goodwill, intangible assets, and investments
- New requirements for the disclosure of the expected effect from the application of new IFRS standards
- Reducing financial close/reporting cycle times
- Transition from the current SAP ERP system to SAP S/4HANA.

As a result of these reviews, the Committee concluded that the external audit process was efficient.

## Human Resources, Remuneration and Social Policies Committee

### COMMITTEE'S ACTIVITIES AND POWERS

The Human Resources, Remuneration and Social Policies Committee, headed by an independent director, assists the Board of Directors with reviewing issues related to the development of efficient and transparent practices of remuneration paid to the Board of Directors, executive bodies, and other managers of the Company, human resource planning, and enhancing the Board's areas of expertise and performance.

The majority of members of the Human Resources, Remuneration and Social Policies Committee are independent directors. The Committee includes an independent director, competent in matters of motivational management and personnel administration.

### THE COMPOSITION OF THE COMMITTEE AS OF 31 DECEMBER 2017

The Committee includes:

- Stanislav Shekshnia (Chairman of the Committee, independent director)
- Vladimir Lisin
- Helmut Wieser (independent director).

Secretary of the Committee: Irina Bevz, Director for Personnel Training and Development, was the Secretary of the Committee until 3 March 2017. Starting from 3 March 2017, Valery Loskutov, Corporate Secretary of NLMK, was appointed to the position.

The composition of the Committee did not change in 2017.

### COMMITTEE'S ACTIVITY IN 2017

In 2017, the Human Resources, Remuneration and Social Policies Committee held five meetings including three in-person meetings, and two meetings in the form of absentee voting.

The Committee passed resolutions on the following issues:

- Results of Stage 1 of the Long-Term Incentive Programme for NLMK Group's Management
- Review and approval of the results of performance evaluation of NLMK's Board members in 2016
- Review and approval of the results of the Human Resources, Remuneration and Social Policies Committee performance in 2016
- Approval of the appointment of the Secretary of the Human Resources, Remuneration and Social Policies Committee of NLMK's Board of Directors
- Compliance with independent director status of candidates to NLMK's Board of Directors, to be voted on at the Annual General Shareholders' Meeting on the results of 2016

- Professional qualification of candidates to NLMK's Board of Directors to be voted on at the Annual General Shareholders' Meeting on the results of 2016

- Recommendations to NLMK's Board of Directors on the amount of remuneration to NLMK Board members

- Succession system

- Composition of the Board of Directors and update on the search for independent directors

- Achievement of NLMK Group's key performance indicators, target quantitative and project KPIs and payment of bonuses to top managers for 2016

- Execution and update of NLMK Group's HR strategy.

In 2017, the Human Resources, Remuneration and Social Policies Committee continued to exercise its functions to ensure the interests of the Company, following the recommendations of the Corporate Governance Code and best global practices.

A regular performance evaluation of the Board of Directors was organized, including an online survey of the members of the Board of Directors, in a format approved by the Committee, followed by an interview of each Board member by the Chairman

### PARTICIPATION OF COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2017

FULL NAME	POSITION	NUMBER OF COMMITTEE MEETINGS ATTENDED IN 2017
STANISLAV SHEKSHNIA	Chairman of the Committee	5
VLADIMIR LISIN	Member of the Committee	5
HELMUT WIESER	Member of the Committee	5

of the Committee. The next stage in the development of the Board performance evaluation will be an evaluation with the participation of an external organization (consultant) in February 2019.

In addition, the Committee reviewed the results of Stage 1 of the Long-Term Motivation Programme of NLMK Group management, and approved the achievement of NLMK top management's quantitative and project KPIs for 2016.

The Committee also approved new approaches to NLMK Group's succession system and reviewed the implementation status of NLMK Group's HR strategy and its new priorities.

## CORPORATE SECRETARY

The Company's Corporate Secretary represents a link to the system of corporate governance ensuring efficient day-to-day interaction with shareholders, coordination of the Company's activities aimed at the protection of shareholders' rights and interests, and supporting the efficient operation of the Board of Directors.

NLMK's Corporate Secretary acts as a guarantor that the Company's executives and governing bodies comply with the procedural requirements ensuring that the legitimate rights and interests of shareholders are observed.

In addition to supporting the activities of the Board of Directors, NLMK's Corporate Secretary also supports the Management Board. The combination of these functions provides for an enhancement in the effectiveness of interaction between the Company's management and its Board of Directors.

NLMK Corporate Secretary's support for the Company's corporate

procedures both as required by law and as laid out in the Corporate Governance Code recommended by the Bank of Russia, provides for the establishment of a dynamic and balanced system of corporate governance, ensuring effective interaction between the Company's shareholders, Board of Directors, and Management.

Functionally reporting to the Board of Directors and administratively reporting to NLMK's President (Chairman of the Management Board), the Corporate Secretary is appointed and dismissed by the President (Chairman of the Management Board) following a resolution of the Board of Directors.

The Corporate Secretary oversees the Corporate Secretary Office.

Valery Loskutov has been the Company's Corporate Secretary since 2005.

## MANAGEMENT BOARD

### NLMK's corporate governance in action

The Management Board is in charge of managing the day-to-day operations of the Company, implementing the approved strategy and specific resolutions of the Board of Directors.

The main objective of the Management Board is to ensure that the Company is operating efficiently. In order to reach its objective, the Management Board is guided by the following principles:

- Efficient and objective decision-making that favours the interests of the Company and its shareholders
- Fair, timely, and efficient execution of the decisions of the General

Shareholders' Meeting and the Board of Directors

- Cooperation with trade unions of the Company's employees with the purpose of taking into account the employees' interests
- Cooperation with government agencies and local authorities on the most important issues.

The key issues that the Management Board is responsible for addressing are as follows:

- Devising and conceptualizing the developmental steps, long-term plans and core areas of activity for the Company and its subsidiaries and affiliates; and submitting them to the Board of Directors for approval
- Developing modes of interaction between the Company and legal entities in which NLMK holds shares or interest (directly or indirectly) or of which NLMK is a founder, participant, or member
- Approving proposals concerning the agenda of the General Shareholders' Meetings/participants as well as the list of candidates to the governing bodies, which supervise the legal entities in which NLMK holds shares or interest (directly or indirectly) or of which NLMK is a founder, participant, or member
- Approving the Company's representatives for participation in the General Shareholders' Meetings/participants of legal entities in which NLMK holds shares or interest (directly or indirectly) or of which NLMK is a founder, participant, or member as well as approving guidelines for voting on agenda items for those representatives
- Giving recommendations and opinions on issues concerning



the approval of budgets, key development trends, governance structure, and other critical issues, which are considered by the governing bodies of legal entities in which NLMK holds shares or interest (directly or indirectly) or of which NLMK is a founder, participant, or member

- Advising the Board of Directors on major and/or related party transactions submitted for review by the Board of Directors in accordance with its powers
- Approving transactions involving the Company's assets in cases where the value of the deal or property in question exceeds 10% of the Company's asset book value as of the last reporting date (with the exception of transactions in the ordinary course of business)

- Deciding on Company participation or termination of participation in other organizations in cases where the value of the acquired (disposed) property is less than 2% of the Company's asset book value as of the last reporting date (with the exception of organizations resolutions on which the Charter refers to the competence of the General Shareholders' Meeting or the Board of Directors)
- Setting up and dissolving Company's branches and representative offices, as well as approving, revising and amending regulations on branches and representative offices.

The make-up and structure of the Management Board is approved by the Board of Directors with consideration of the opinion of the President (Chairman of the Management Board).

The composition of the Management Board is approved by the Board of Directors based on recommendations from the President (Chairman of the Management Board).

## President (Chairman of the Management Board)

The President (Chairman of the Management Board) manages the day-to-day activities of the Company, arranges for the execution of the resolutions passed by the General Shareholders' Meeting and the Board of Directors, organizes the work of the Management Board, and ensures the timely adoption of resolutions by the Management Board.

The rights and obligations of the President (Chairman of the Management Board) are determined by the prevailing legislation of the Russian Federation, as well as

## COMPOSITION OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2017

NLMK Group Management Board as of 31 December 2017 consisted of eight members.

FULL NAME	POSITION
<b>OLEG BAGRIN</b>	Member of the Board of Directors President (Chairman of the Management Board)*
<b>TATYANA AVERCHENKOVA</b>	Vice President, Operational Efficiency
<b>ILYA GUSCHIN</b>	Vice President, Sales
<b>BAREND DE VOS</b>	Vice President, International Operations
<b>SERGEY LIKHAREV</b>	Vice President, Logistics
<b>GRIGORY FEDORISHIN</b>	Senior Vice President, Deputy Chairman of the Management Board **
<b>SERGEY FILATOV</b>	Managing Director
<b>STANISLAV TSYRLIN</b>	Vice President, HR & Management System ***

\* For further information, please refer to "Events after the reporting date"

\*\* Appointed Senior Vice President, Deputy Chairman of the Management Board on 13 March 2017

\*\*\* Vice President, HR & Management System until 29 December 2017

## COMPOSITION OF THE MANAGEMENT BOARD UNTIL 03 MARCH 2017

FULL NAME	POSITION
<b>OLEG BAGRIN</b>	Member of the Board of Directors President (Chairman of the Management Board)*
<b>BRIJESH KUMAR GARG</b>	Vice President, Procurement
<b>ILYA GUSCHIN</b>	Vice President, Sales
<b>BAREND DE VOS</b>	Vice President, International Operations
<b>SERGEY LIKHAREV</b>	Vice President, Logistics
<b>GRIGORY FEDORISHIN</b>	Vice President, Finance
<b>SERGEY FILATOV</b>	Managing Director
<b>STANISLAV TSYRLIN</b>	Vice President, HR & Management System ***
<b>YURI LARIN</b>	Advisor to the President (Chairman of the Management Board) on Development Programmes

## PARTICIPATION OF MEMBERS OF THE MANAGEMENT BOARD IN MANAGEMENT BOARD MEETINGS IN 2017

MEMBER OF THE MANAGEMENT BOARD	PARTICIPATION IN MEETINGS
OLEG BAGRIN	40
TATYANA AVERCHENKOVA	34 <sup>1</sup>
BRIJESH KUMAR GARG	3 <sup>2</sup>
ILYA GUSCHIN	40
BAREND DE VOS	40
YURI LARIN	6 <sup>3</sup>
SERGEY LIKHAREV	40
GRIGORY FEDORISHIN	40
SERGEY FILATOV	40
STANISLAV TSYRLIN	40

<sup>1</sup> Tatyana Averchenkova was appointed member of the Management Board at the meeting of the Board of Directors held on 3 March 2017.

<sup>2</sup> Brijesh Kumar Garg was a member of the Management Board until 3 March 2017.

<sup>3</sup> Yuri Larin was a member of the Management Board until 3 March 2017.

## SHARES OWNED BY MEMBERS OF THE MANAGEMENT BOARD

FULL NAME	POSITION	SHARE OF THE AUTHORIZED CAPITAL STOCK OF NLMK, %
OLEG BAGRIN	Member of the Board of Directors President (Chairman of the Management Board)*	Not an NLMK shareholder
TATYANA AVERCHENKOVA	Vice President, Operational Efficiency	Not an NLMK shareholder
BRIJESH KUMAR GARG **	Vice President, Procurement	Not an NLMK shareholder
ILYA GUSCHIN	Vice President, Sales	Not an NLMK shareholder
BAREND DE VOS	Vice President, International Operations	Not an NLMK shareholder
SERGEY LIKHAREV	Vice President, Logistics	Not an NLMK shareholder
GRIGORY FEDORISHIN	Senior Vice President, Deputy Chairman of the Management Board*	Not an NLMK shareholder
SERGEY FILATOV	Managing Director	Not an NLMK shareholder
STANISLAV TSYRLIN	Vice President, HR & Management System***	Not an NLMK shareholder
YURI LARIN**	Advisor to the President (Chairman of the Management Board) on Development Programmes	0,00083

\* For further information, please refer to "Events after the reporting date"

\*\* Members of the Board of Directors until 3 March 2017

\*\*\* Vice President, HR & Management System until 29 December 2017

the President's contract with the Company.

According to the prevailing corporate documents, the President (Chairman of the Management Board) cannot simultaneously be the Chairman of the Board of Directors of the Company.

The President (Chairman of the Management Board) is elected by the General Shareholders' Meeting for a period lasting until the next Annual Meeting, unless otherwise stipulated by the General Shareholders' Meeting.

Oleg Bagrin has been the President (Chairman of the Management Board) since 2012 and is also a member of the Board of Directors. He was last reelected on 2 June 2017\*.

\* For further information, please refer to "Events after the reporting date"

## Activity of the Management Board in 2017

In 2017, there were 40 meetings of the Management Board, including 17 meetings that were held by ballot. The following issues were considered at these meetings:

- Progress against NLMK Group's target performance indicators in occupational health & safety
- NLMK Group's consolidated budget execution
- Working capital report
- Progress against NLMK Group's key performance indicators and execution of its companies' optimization programmes
- Participation/withdrawing participation of the Group in other companies
- Approval of draft resolutions on matters within the competence of the General Shareholders' Meetings of companies in which the Group is the sole participant/shareholder
- Development programmes for NLMK's divisions (functional areas), operations, including within the scope of Strategy 2022
- Divisional operational efficiency programmes
- Recommendations to the Company's Board of Directors (with regard to approval of related party transactions, dividend payments and NLMK's draft annual report for 2016)
- Recommendations to the governing bodies of subsidiaries and affiliates
- Approval of transactions

- Efficiency of sales portfolio management
- Risk management system
- Approval of the Management Board's meeting schedule for 2018.

## Information on any conflicts of interest of members of the Management Board

There was no conflict of interests between NLMK Management Board members in 2017.

## Events after the reporting date

NLMK Group's Board of Directors resolved to elect Mr. Oleg Bagrin as Chairman of the Strategic Planning Committee at the meeting held on 13 February 2018.

At the Extraordinary General Meeting held on 12 March 2018, NLMK Group shareholders voted to elect Mr. Grigory Fedorishin, previously Senior Vice President of the Company, as the Group's President and Chief Executive

Officer (Chairman of the Management Board).

At the meeting held on 5 March 2018, NLMK Group's Board of Directors recommended the Company's shareholders to approve the payment of 2017 dividends of RUB 14.04 per share (taking into account the interim dividends in the amount of RUB 10.68 per common share, the outstanding amount to be paid in dividends is RUB 3.36 per common share).

## REPORT ON REMUNERATION TO GOVERNING BODIES

### Remuneration and compensation of members of the Board of Directors

The levels of remuneration are sufficient to attract, motivate and retain competent and qualified executives. Remuneration is paid to members of NLMK's Board of Directors in accordance with the approved Regulations on Remuneration.

The Regulations of Remuneration contain transparent criteria

for determining the amount of remuneration paid to the Board members, and govern all types of compensation and benefits offered to them.

## REMUNERATIONS

The remuneration system for members of the Board of Directors serves to align their financial interests with the long-term financial interests of shareholders.

The levels of remuneration and compensation paid to members of NLMK's Board of Directors are determined on the basis of Regulations on Remuneration of Members of the Board of Directors, approved by the General Shareholders' Meeting on 5 June 2015. The Regulations are published on the Company's official website ([www.nlmk.com](http://www.nlmk.com)).

Remuneration is paid to members of the Board of Directors for reasonable and faithful exercise of their rights and their duties in the interests of NLMK. Remuneration to members of the Board of Directors consists of base remuneration and a bonus.

The amount of base remuneration is determined on the basis of a resolution by the General Shareholders' Meeting. The Annual General Shareholders' Meeting based on the results of 2016, held on 2 June 2017, passed the resolution to pay remuneration to members of NLMK Board of Directors in the amount of \$2.192 million.

A member of the Board of Directors may receive a bonus that shall not exceed two base remunerations. The amount of the bonus is determined on the basis of the member's contribution to the work of the Board of Directors and its

## REMUNERATION PAID TO BOARD MEMBERS IN 2016–2017, '000 RUBLES

	2017	2016**
Payments to Board members, incl.:	126,113	125,701
Remuneration*	123,956	123,930
Salary	0	0
Bonuses	0	0
Commission	0	0
Benefits	0	0
Refunded expenses	2,157	1,771
Other types of remuneration	0	0

\* Remunerations to members of the Board of Directors for 2017 are determined on the basis of a preliminary calculation in accordance with the Regulations on Remuneration to Members of NLMK's Board of Directors

\*\* Any variance from the data published in the 2016 annual report is related to the adjustments made based on actual payments in 2017

**INDIVIDUAL AMOUNT  
OF REMUNERATION AND  
COMPENSATION OF EXPENSES  
OF BOARD MEMBERS PAID IN 2017**

BOARD MEMBER	TOTAL REMUNERATION, '000 RUBLES
VLADIMIR LISIN	19,449
OLEG BAGRIN	11,308
THOMAS VERASZTO	11,308
HELMUT WIESER	13,569
NIKOLAI GAGARIN	11,308
KAREN SARKISOV	13,569
STANISLAV SHEKSHNIA	14,925
BENEDICT SCIORTINO	14,925
FRANZ STRUZL	13,569

Committees and recommendations given by the Human Resources, Remuneration and Social Policies Committee.

NLMK's General Shareholders' Meeting passes the resolution on remuneration payments.

Regulations on Remuneration of Members of the Board of Directors of NLMK set the rules for reimbursing Board members' work-related expenses. The following expenses are considered reimbursable:

- Transportation costs of the members of the Board of Directors incurred while travelling to meetings
- Accommodation costs incurred while attending meetings
- Representation expenses
- Costs associated with obtaining the professional advice of experts on issues under consideration

at the meetings of the Board of Directors.

The maximum amount of a Board member's expenses reimbursed by NLMK during the reporting period is determined by a resolution of the General Shareholders' Meeting and shall not exceed 30% of the base remuneration. The compensation shall be paid only if the member of the Board of Directors participated in more than a half of meetings held by the Board of Directors.

Since the Company does not have any stock option programmes, the right to sell NLMK shares is not linked to performance.

The resolution of the payment of remuneration to members of the Board of Directors based on the results of 2017 will be passed at the Annual General Shareholders' Meeting on 8 June 2018.

**Remuneration and  
compensation of members  
of the Management Board**

The efficiency of members of the Management Board, who are in charge of the day-to-day management of the Company's activities, ensuring profitability, competitiveness, financial and economic stability of the business, is of critical importance for the Company. In this regard, the Company has introduced a Management Board motivation system, which is aimed at ensuring their material interest in achieving strategic goals and increasing the economic efficiency of management.

In accordance with the Regulations on the Management Board, members of the Board shall receive remuneration and compensation for expenses that relate to the execution of their duties as members of the Board throughout their period of service. The rights, obligations, and

responsibilities of the parties, and the social guarantees for members of the Management Board are determined by NLMK's internal documents and the contracts concluded between the Company and the members of the Management Board.

The material interest of the members of the Management Board in achieving the Company's strategic goals is provided for through short-term and long-term motivation systems.

Short-term motivation is based on the existing system of key performance indicators (KPIs). The amount paid to the members of the Board in bonuses depends on their KPIs. The KPIs used to determine rewards for top management are related to NLMK's financial and operating performance and are intrinsically linked to the creation of shareholder value.

The Company has introduced a long-term motivation systems for members of the executive bodies and other top managers of the Company.

The following principles outline the mechanism for determining the amount of compensation that is awarded to NLMK top management:

- Honest and efficient performance of their duties by members of the Management Board
- Rational use of the rights that are granted to them
- Bonuses awarded to members of the Management Board are dependent on their progress against their key performance indicators (KPIs) and on the Company's overall results during the reporting period
- Active involvement by members of the Management Board in the work of the Group's executive bodies.



#### REMUNERATION PAID TO MANAGEMENT BOARD MEMBERS IN 2016-2017, '000 RUBLES.

	2017	2016**
Payments to Management Board members, incl.:	1,278,053	1,579,467
Salary	256,517	166,429
Bonuses*	997,132	1,406,203
Commission	-	-
Benefits	-	-
Refunded expenses	1,381	6,724
Other types of remuneration	23,023	111

\* Bonuses to members of the Management Board for 2017 include payment liabilities based on a preliminary reporting year-end calculation, and an estimated liability for achieving the Company's strategic goals in 2017-2018 in line with the long-term motivation programme. Bonuses for 2016 include remuneration for the long-term motivation programme for achieving the Company's strategic goals in 2014-2016, paid in 2017

\*\* Any variance from the data published in the 2016 annual report is related to the adjustments made based on actual payments in 2017 and the inclusion of remuneration of the long-term motivation programme for achieving the Company's strategic goals in 2014-2016, paid in 2017



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# OPERATIONAL CONTROL AND RISK MANAGEMENT

## SUPERVISION OVER THE FINANCIAL AND BUSINESS ACTIVITIES

### Independent Auditor

PricewaterhouseCoopers Audit (PwC) has been the auditor of the Group since 2003. Last year, the Group carried out a tender procedure with all Big 4 firms, where the current auditor became the winner. The Committee was satisfied with the quality of provided services and recommended to re-appoint PwC as the Group's auditor for 2017–2018.

PwC rotates key engagement personal on a regular basis (at least once in 7 years) to ensure its compliance with independence requirements. In line with this policy, in 2017, rotation of the auditing partner took place, and Alexei Ivanov headed the auditing of consolidated financial statements and signed the auditor's opinion for 2017, replacing Richard Pollard, who signed the auditor's opinion for 2016.

NLMK Group engages PwC and other PricewaterhouseCoopers companies (hereinafter jointly referred to as PwC) to provide consulting (non-audit) services. The management of NLMK has conducted the necessary procedures, and is sure that these services do not affect the independence of the auditor and are not related to financial reporting. The share of consulting (non-audit) services provided by PwC for NLMK Group companies in 2017 did not exceed 10% of the total amount of services performed.

NLMK's Board of Directors has determined the value of remuneration for the provision of audit services (audit) of the interim and annual IFRS consolidated financial statements of NLMK for 2017, as well as for the audit of the 2017 RAS statements in the amount of 66,095,814 rubles (VAT excluded).

### Audit Committee

The Audit Committee, chaired by an independent director, contributes to effective performance of functions related to supervision of the Company's financial and business activities by the Board of Directors.

The Audit Committee is fully accountable to the Board of Directors of NLMK and is an advisory body.

The areas of expertise and responsibilities of the Committee extend to priority areas in accounting (financial) reporting and consolidated financial reporting, risk management, internal control and corporate governance, internal and external audit, as well as countering wrongdoings.

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### KEY ACTIVITIES IN 2017

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#### Accounting (financial) statements and consolidated financial statements

NLMK's Audit Committee reviews the Group's IFRS consolidated

financial statements, and NLMK's annual stand-alone RAS financials on a quarterly basis. The Committee pays special attention to significant financial reporting judgements, comments to the statements, and accounting policies. Along with the quarterly IFRS financials, the Committee reviews and discusses NLMK Group's financial standing, its performance and cash flows with the senior management and external auditors, and seeks explanations on the key changes in the Group's operating and financial performance, whenever necessary.

### Risk management and internal control

NLMK's Audit Committee exercises control over the reliability and efficient functioning of the risk management, internal control and corporate governance systems, including the efficiency evaluation of risk management and internal control procedures established in the Company, its practices of corporate governance, and development of proposals on their improvement. In fulfilling its oversight responsibilities, the Committee reviews reports and the Group's updated risk map, developed by the Vice President for Risk Management Department, internal audit and the external auditor reports, and holds regular meetings with the Audit Director and the external auditor's team.

In 2016, the Committee charged the Audit Director with the task of carrying out an external quality

assessment of NLMK Group's internal audit service. In the appraiser's (Deloitte) opinion, the Company's internal audit activities in 2016–2017 generally conformed with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and the Code of Ethics.

### Internal audit

NLMK's Audit Committee is responsible for monitoring and evaluating the efficiency of the internal audit function. This is done via discussions with the Audit Director and approval of the annual internal audit plan. Progress reports, key findings and issued recommendations are submitted to the Committee throughout the year to ensure that the actions taken by the executive management are efficient.

To ensure independence, the Audit Director reports directly to the Board of Directors. The Audit Director has the right to raise any matter he deems important and the obligation to report to the Committee on the findings of the audits above a certain threshold of materiality, and/or in line with obligatory disclosure requirements, and meets with the external auditors as required.

The Internal Audit Department performs annual self-assessments of its compliance with the International Standards for the Professional Practice of Internal Auditors and the Code of Ethics, as well as independent external quality assessment every five years. The results of these assessments are submitted for consideration to the Audit Committee.

### External audit

PricewaterhouseCoopers Audit (PwC) has been the auditor of the Group since 2003.

NLMK Group companies engage PwC from time to time to provide non-audit services. NLMK management is sure that these services do not impair the auditor's independence and are not related to financial reporting. In 2017, the share of non-audit services in the total amount of services provided by PwC was at an acceptable level, not exceeding 10%. PwC regularly rotates the key staff in its audit team (at least once every 7 years) to ensure compliance with independence requirements.

In order to ensure the effectiveness of the external audit process, PwC presented an annual audit plan with PwC top-down, risk-based audit approach and critical success factors for review by members of the Audit Committee. PwC reports to the Committee on a quarterly basis, and the Committee members review and discuss key matters of audit with external auditors. In particular, the Committee paid specific attention to the following significant items:

- Impairment considerations for fixed assets and goodwill, intangible assets and investments
- Determining the book value of investments in NLMK Belgium Holdings
- New requirements for the disclosure of the expected effect from the application of new IFRS standards
- Reducing financial close/reporting cycle times
- Transition from the current SAP ERP system to SAP S/4HANA.

As a result of these reviews, the Committee concluded that the external audit process was efficient.

## Internal Audit Commission

### CORPORATE GOVERNANCE IN ACTION

The Internal Audit Commission is a full-time internal control authority exercising continuous supervision over the financial and business activities of the Company. The Internal Audit Commission operates under the Charter and the Internal Audit Commission Regulations. It audits the financial and business activities of NLMK Group in order to obtain adequate assurance that the Company reports and accounts contain no material misstatements.

The General Shareholders' Meeting elects the Internal Audit Commission for a term until the next Annual General Shareholders' Meeting.

The Internal Audit Commission was elected on 2 June 2017 at the Annual General Shareholders' Meeting. As of 31 December 2017, the Internal Audit Commission had the following composition:

- Yulia Kunikhina
- Mikhail Makeev
- Elena Skladchikova
- Sergey Ushkov
- Natalia Savina.

### ACTIVITIES OF THE INTERNAL AUDIT COMMISSION IN 2017

The Internal Audit Commission in the said composition held one meeting to discuss its operation in 2017, elect its chair, and approve an audit plan and programme.

On the basis of the audit of the Company's financial and economic activities in 2016, the Internal Audit

## REMUNERATION PAID TO INTERNAL AUDIT COMMISSION MEMBERS IN 2016-2017

	2017 '000 rubles	2016* '000 rubles
Payments to Commission members, incl.	17,932	30,979
Salary	12,281	7,918
Bonuses	5,613	23,061
Remuneration for participation in the Commission's activities	-	-
Refunded expenses	-	-
Other types of remuneration	38	-

\* 2016 data in actual amounts

Commission as it was composed until 2 June 2017, submitted a Statement on the reliability of data contained in the reports and other financial documents for the Company's Annual Report.

### REMUNERATION

Remuneration to members of the Internal Audit Commission is paid in accordance with the Regulations on NLMK Group's Internal Audit Commission. According to the Regulations, the main criterion for determining the remuneration is participation in audits of the Company's financial and business operations. The remuneration paid to members of the Internal Audit Commission shall be equal to the amount of base remuneration, which is determined by the Regulations.

### Internal Audit Department

#### CORPORATE GOVERNANCE IN ACTION

Internal auditing is performed in order to provide members of the Board of Directors (Audit Committee), the President (Chairman of the Management Board) with independent and objective guarantees and consultation aimed at improving

NLMK Group's performance, through a systematic and consistent approach to assessing and increasing the efficiency of risk management, control and corporate governance processes. Internal auditing activity in NLMK Group is performed by the Internal Audit Department.

The key functions of the Internal Audit Department are as follows:

- Assess efficiency of the internal control system
- Assess efficiency of the risk management system
- Assess efficiency of corporate governance
- Consulting.

#### ACTIVITY OF THE INTERNAL AUDIT DEPARTMENT IN 2017

The goal of 2017 internal auditing activities was to maintain or increase the value of the Company through a set of objective internal audits based on a risk-oriented approach, providing recommendations and exchanging knowledge.

In 2017, Internal Audit experts performed the following activities:

- Audit activities to assess the management of critical risks and business processes risks
- Internal control assessment activities, including quality assurance of control procedures aimed at minimizing the risks of business processes
- Consulting services provided to business units of the Company's Lipetsk site and other NLMK Group's companies on specific issues relating to financial and business activities; auditors participated in meetings held by commissions and work groups and shared their opinions on the relevant subject matter.

In 2017, an independent external performance evaluation of the Company's Internal Audit Service was performed. Following this evaluation, an opinion was issued that the activities of the Internal Audit Department generally comply with the International Standards for the Professional Practice of Internal Auditors and the Code of Ethics.

### RISK MANAGEMENT

NLMK's risk management and internal control systems are aimed at ensuring the implementation of the Company's strategy. They are integrated into business- and decision-making processes.

#### Risk management system

NLMK's risk management system presupposes the division of responsibility into several levels of protection.

The procedure for risk management is a continuous, cyclical process that ensures the effectiveness of

management and responsiveness identified threats.

## Development of the Corporate Risk Management System in 2017

In 2017, the emphasis in the development of the risk management system was made on the transition to quantitative risk assessments. NLMK Group is constantly searching for and researching the most advanced methods of risk analysis and assessment. In particular, scenario analysis and stress testing models were developed for assessing currency and price risks, as well as risk assessment models for investment projects. More than 70% of critical and significant risks are quantified (in line with best practices), which enables the Company to determine risk management activities more accurately and efficiently.

NLMK Group also focused on the development of risk management processes, both in terms of preventing undesirable events and team efforts in case various factors occur. Ensuring business continuity and safe working conditions is a priority in the development of risk technologies. In 2017, medium-term Maintenance Programme and the Environmental Programme were developed.

The Group is actively working on ways to automate risk management using advanced information systems:

- An IT project to automate the Group's maintenance programme development was completed. The aim of the project was to reduce the time required for collecting investment initiatives as part of Maintenance and Capex programmes
- An IT project for credit management was launched. NLMK plans to

implement limit control and stop shipment functions in line with the Credit Policy.

## Key risks

**Production risks** include business continuity risks and equipment productivity reduction risks, and low quality product risks. Key mitigation measures: maintenance and repair programmes, a system for controlling incoming raw materials and supplies, operational efficiency programme. The impact of business continuity risk declined in 2017, due to the implementation of measures aimed at improving the efficiency and sustainability of the production process.

**Commercial risks** include price risks on raw material markets, credit risk, risks of inefficient inventory management. Key mitigation measures: continuous monitoring of price spreads, development of a purchasing strategy by category of material, credit security, accounts receivable insurance, limits on certain types of credit, and concentration risk management.

**Financial risks** are mainly represented by currency risks. NLMK monitors an open currency position and maintains a set of tools to balance it on an ongoing basis.

**Operational risks** are managed through a variety of tools, such as implementation of the latest environmental technologies as part of a comprehensive environmental investment programme, the Company's committed efforts to enhance operational and labour safety, and promotion of the Company's Anti-Corruption Policy and Code of Ethics principles. As a result of the implementation of NLMK Group's Environmental Programme, the impact of the key operational risk was reduced in 2017.

**Investment risks** are mitigated through the application of project management principles, assessment of risks related to each project, root cause analysis for key risks and the development of preventive measures.

## Internal control

The risk management functional area, together with dedicated managers and experts implemented a number of initiatives in 2017 aimed at further improving the reliability of the internal control system, including:

- Implementation of the Governance Risk & Compliance SAP module, which controls the segregation of the most critical duties in the main ERP system of the Group, as well as regular automated monitoring of significant deviations in business processes
- Assessment of the internal control system was performed for critical business processes at NLMK Lipetsk, including Procurement, Maintenance, Investment, and Sales. The Risk Management Committee approved plans to improve internal control processes and monitors their implementation.

## Anti-corruption compliance

NLMK Group is guided by high ethical standards and principles of business transparency.

Assessment of corruption risks was carried out for business processes at NLMK's Russian subsidiaries, as well as its European sales office. Business processes were selected for analysis based on their criticality in terms of the corruption risk for the business unit, coverage in previous periods and historical data on deviations in the processes.



In line with the principles stipulated by the Code of Ethics and the Anti-Corruption Policy, the focus of the 2017 corruption risks analysis was on the following areas:

- Strengthening control over intermediaries (dealers, distributors, and traders) when supplying materials and equipment, including analysis of the counterparties' value added in the supply chain, selection

transparency, and supplier relations

- Transparency and efficiency of the rejected product sales to Russian customers
- Extensive training of employees on how to identify and resolve conflicts of interest. Scheduled training on anti-corruption measures and preventing conflicts of interests

was organized on the platform of NLMK's Corporate University for several thousand managers and specialists

- Formalization of the process of exchange of business gifts and tokens of business hospitality.

Corruption risk assessment is typically reviewed by the Risk Management Committee as part of the Group's corporate risk reporting.



# INFORMATION FOR SHAREHOLDERS

## ORDINARY SHARES

The Group's share capital is divided into 5,993,227,240 shares with a nominal value of RUB 1 each. NLMK's shares are traded on the MICEX and RTS trading platforms of the Moscow Stock Exchange, as well as in the form of Global Depositary Shares (GDS) (1 GDS = 10 ordinary shares) on the London Stock Exchange (LSE).

## NLMK TICKERS

LSE (London) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
Bloomberg Ticker Code	NLMK LI for GDS traded on the LSE NLMK RX for shares traded on the MICEX platform of the Moscow Exchange
Reuters Ticker Code	NLMKq.L for GDS traded on the LSE NLMK.MM for shares traded on the MICEX platform of the Moscow Stock Exchange

## Indices that include NLMK shares

- RTS Index (NLMK's share as at 20.03.18 – 1.44%)
- MOEX Russia Index (former MICEX Index) (NLMK's share as at 20.03.18 – 1.44%)
- MICEX Metals & Mining Industrial Index (NLMK's share as at 20.03.18 – 13.56%)
- FTSE Russia IOB index
- MSCI Russia and MSCI Emerging Markets indices.

## Global Depositary Shares (GDS)

The ratio of Global Depositary Shares to ordinary shares is 1:10. The volume of Global Depositary Shares issued by NLMK and traded on the London Stock Exchange amounted to 7.43% of share capital as of 31 December 2017. The Company's depositary bank is Deutsche Bank Trust Company Americas.

## Market capitalization

In 2017, average market capitalization of the Company on the London Stock Exchange was US\$12.5 billion (+57% year-on-year). At the end of 2017, NLMK share price was US\$2.55, or US\$25.52 per GDS, consistent with capitalization of US\$15.29 billion (+37% year-on-year).

## Taxation

### LEGAL ENTITIES

Tax treatment of organizations' revenues received as dividends on shares is governed by Chapter 25 'Tax on Organizations' Profit' of the Russian Tax Code. Dividends paid to organizations that are Russian

## SHARE PRICE

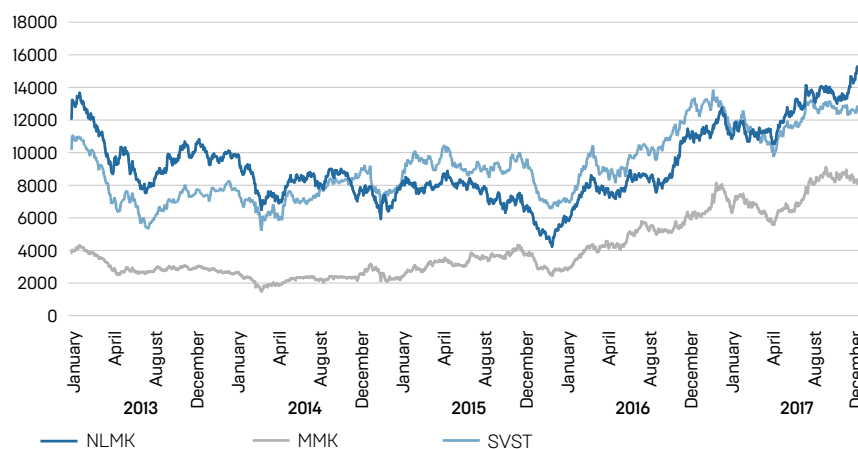
### NLMK GLOBAL DEPOSITARY SHARES ON THE LONDON STOCK EXCHANGE

PRICE OF GDS (US\$)	2017	2016	%
Maximum	25.68	19.20	34
Minimum	17.60	6.92	154
Mean	20.80	13.29	57
End of year	25.52	18.60	37

### ORDINARY NLMK SHARES ON THE MOSCOW STOCK EXCHANGE

SHARE PRICE (RUB)	2017	2016	%
Maximum	148.25	123.06	20
Minimum	100.70	57.20	76
Mean	122.09	88.18	38
End of year	147.22	114.98	28

## NLMK MARKET CAPITALIZATION ON THE LONDON STOCK EXCHANGE (LSE) (US\$ M)



taxpayers are subject to a 0% or 13% income tax (Items 3.1 and 3.2, Article 284 of the Russian Tax Code); foreign organizations are subject to a 15% income tax (Item 3.3, Article 284 of the Russian Tax Code).

### INDIVIDUALS

The personal income tax rate is 13% for Russian residents (Item 1, Article 224 of the Russian Tax Code) and 15% for non-residents (Item 3.2, Article 224 of the Russian Tax Code).

Note: information on taxation is provided for reference only. Potential and existing investors should consult with their own advisors regarding the tax consequences of investing in the Company's shares, including Global Depositary Shares (GDS).

## DIVIDENDS

### Dividend Policy

According to the current dividend policy, dividends are determined as follows:

- If Net Debt/EBITDA is 1.0 or less: 50% of net income and 50% of free

cash flow calculated based on US GAAP/IFRS consolidated financial statements

- If Net Debt/EBITDA exceeds 1.0x: 30% of net profit and 30% of free cash flow calculated on US GAAP/IFRS consolidated financial statements.

Dividends are paid annually. If conditions for financial stability are maintained, NLMK will strive to pay interim dividends on a quarterly basis.

The amount to be paid as a dividend for a specific period is approved by

Company shareholders in line with the Board's recommendations.

### Dividends on GDS

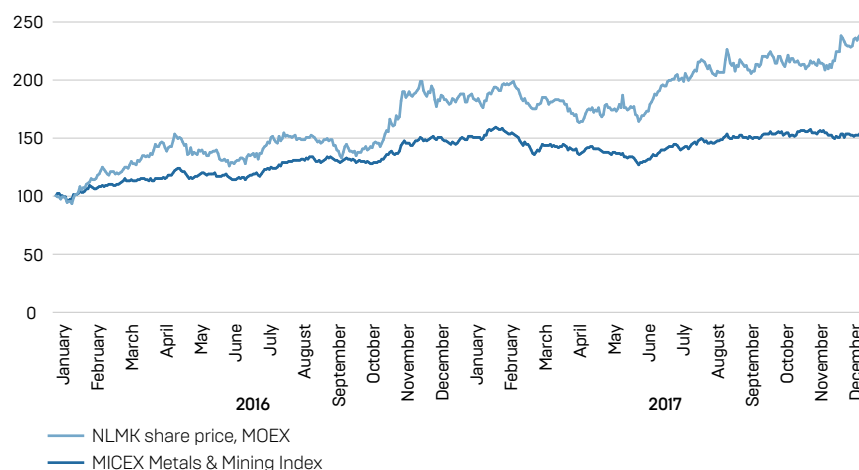
Any dividends paid on shares certified by GDS will be declared and paid to the Depositary in rubles or foreign currency, converted into US dollars by the Depositary (in the case of dividend payment in a currency other than US dollars), and distributed to the holders of GDS, net of fees and Depositary expenses.

The Board of Directors recommends that NLMK's Annual General Shareholders' Meeting pay 2017 dividends for ordinary shares in the amount of RUB 14.04 in cash one ordinary share (taking into account the interim dividends in the amount of RUB 10.68 per ordinary share, the outstanding amount to be paid in dividends is RUB 3.36 per ordinary share), which is equivalent to 100% of NLMK Group's 2017 net profit.

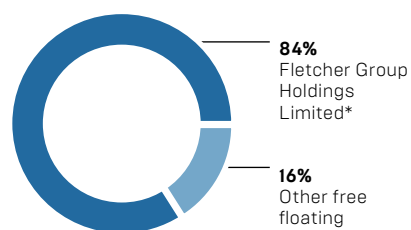
### Corporate documents

The Group's corporate documents, including the Company Charter, are available at [www.nlmk.com](http://www.nlmk.com).

## NLMK SHARE PRICE ON THE MOSCOW STOCK EXCHANGE (INDEX, 01.01.2016=100)



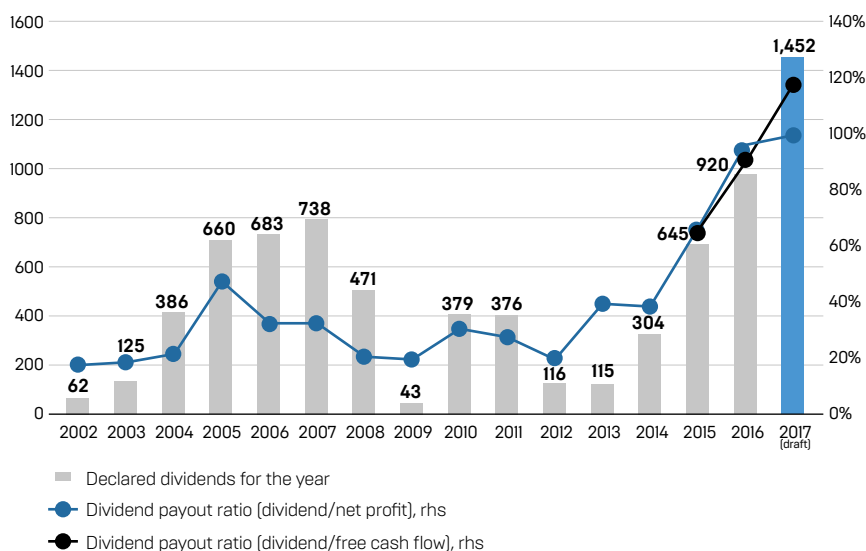
## STRUCTURE OF SHARE CAPITAL AS OF 31 DECEMBER 2017



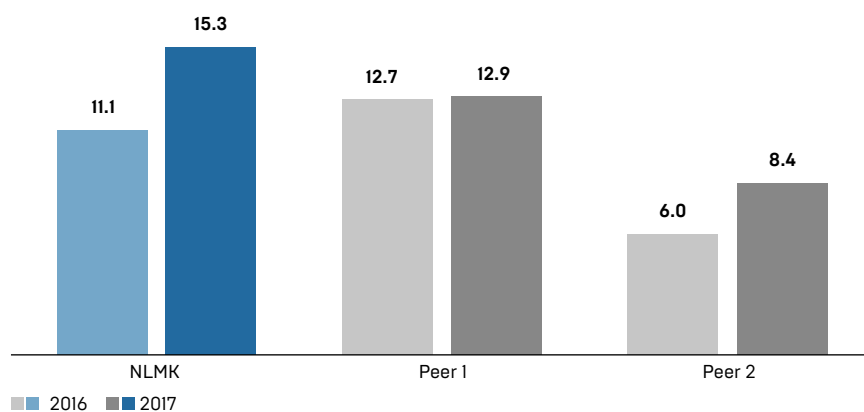
\* The Company's beneficiary is Vladimir Lisin, according to the definition of 'beneficiary' in the Russian legislation

\*\* Including global depositary shares traded on the London Stock Exchange (Deutsche Bank Trust Company Americas is NLMK's depositary bank) and shares traded on the Moscow Exchange

## DIVIDEND HISTORY, \$ M



## REGIONAL MARKET CAP LEADERSHIP\*, \$ BN



\* Capitalization at year-end

## Financial reporting and disclosure

The Group posts announcements of financial results on the London Stock Exchange website via the regulatory news service (RNS) and then publishes them on the Group website in the form of press releases, and distributes them to the media. The Company publishes its financial results on a quarterly basis. The annual report is published in electronic form on the Group website, [www.nlmk.com](http://www.nlmk.com), on the day of its official publication. The Company announces its publication in a special press release. A hard copy of the annual report is available on request in the office of the Register of Shareholders and NLMK PR Consultants' office in London.

## FINANCIAL CALENDAR FOR 2018

DATE	EVENT
17 JANUARY	Q4 and 12M 2017 Trading Update
20 FEBRUARY	12M 2017 IFRS Consolidated Financial Results. Strategy 2017 results. Conference call
20 FEBRUARY	RAS (Russian Accounting Standards) 2017 Financial Results for the Group's Major Companies
5 MARCH	Meeting of the Board of Directors. Q4 2017 Dividend Recommendation by the Board
13 APRIL	Q1 2018 Trading Update
24 APRIL	Q1 2018 IFRS Financial Results. Conference call
27 APRIL	Meeting of the Board of Directors. Q1 2018 Dividend Recommendation by the Board
8 JUNE	Annual General Shareholders' Meeting (Q4 2017 and Q1 2018 Dividend Declaration)
13 JULY	Q2 2018 Trading Update
30 JULY – 3 AUGUST	Q2 2018 IFRS Financial Results. Conference call
30 JULY – 3 AUGUST	Meeting of the Board of Directors. Q2 2018 Dividend Recommendation by the Board
24-28 SEPTEMBER	Extraordinary General Shareholders' Meeting (Q2 2018 Dividend Declaration)
24-28 SEPTEMBER	Capital Markets Day - Strategy 2022 presentation
15 OCTOBER	Q3 2018 Trading Update
22-26 OCTOBER	Meeting of the Board of Directors Q3 2018 Dividends Recommendation by the Board
22-26 OCTOBER	Q3 2018 Interim IFRS Financial Results. Conference call
17-21 DECEMBER	Extraordinary General Shareholders' Meeting (Q3 2018 Dividend Declaration)

## CONTACTS FOR SHAREHOLDERS

### Registrar

The register of holders of NLMK securities is maintained by the Regional Independent Registrar Agency (RIR Agency).

Registered address: 10 B, 9 Maya St., Lipetsk, 398017, Russia

Telephone: +7 (4742) 44-30-95

E-mail: [info@a-rnr.ru](mailto:info@a-rnr.ru)

### Depository bank

Deutsche Bank Trust Company Americas

#### *Office in New York*

60 Wall St., New York, NY, 10005  
USA

#### *Office in London*

Winchester House  
1 Great Winchester St.  
London EC2N 2DQ  
United Kingdom

#### **Contacts:**

London +44 20 7547 6500

New York: +1 212 250 91 00

Moscow: +7 495 642-06-16

E-mail: [adr@db.com](mailto:adr@db.com)

### Valery Loskutov

Corporate Secretary

Telephone: +7 (4742) 44 49 89

E-mail: [loskutov\\_va@nlmk.com](mailto:loskutov_va@nlmk.com)

### Investor Relations

Telephone: +7 (495) 504 05 04

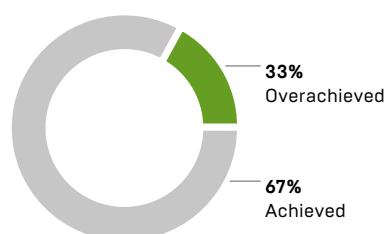
E-mail: [ir@nlmk.com](mailto:ir@nlmk.com)

# 2017 ENVIRONMENTAL HIGHLIGHTS

*NLMK Group improved the environmental performance of its operations in 2017*

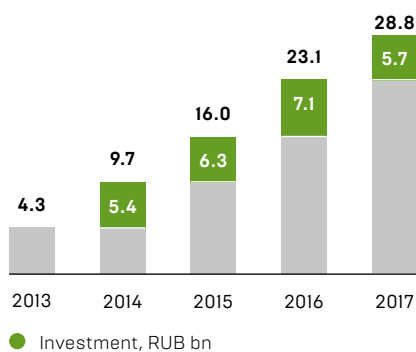
## TARGET INDICATORS SUCCESSFULLY ACHIEVED

### NLMK GROUP'S 2017 ENVIRONMENTAL TARGETS ACHIEVED



## MAJOR ENVIRONMENTAL INVESTMENTS

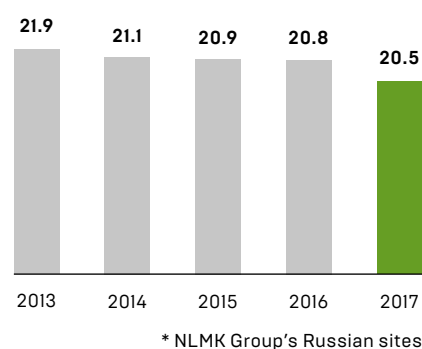
### SUPPORT OF MAJOR INVESTMENTS TO ENSURE ENVIRONMENTAL SAFETY OF OPERATIONS



## REDUCED AIR EMISSIONS

### REDUCTION OF SPECIFIC EMISSIONS\*

kg / per tonne of steel



**100%**  
OF NLMK GROUP'S  
TARGETS ACHIEVED

The Company continues to invest in environmental projects. The Company's environmental investment increased  
by **34%** since 2013

Group's air emission rate reduced to a record low of  
**20.5** kg per tonne of steel

→ For more details, please refer to page 9



## KEY FACTS AND FIGURES

### Successful implementation of environmental initiatives

The Group achieved all the 2017 targets, including a reduction of specific emission rates.

### Efficient use of natural resources

Ongoing reduction of water consumption and high recycling rates lower cash cost and environmental impact.

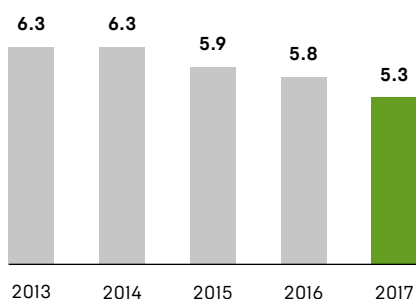
### Significant improvement in energy efficiency

Specific energy consumption has been sequentially declining since 2014.

## EFFICIENT USE OF WATER RESOURCES

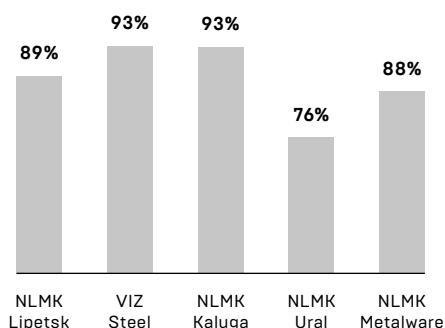
### CONSISTENT REDUCTION OF SPECIFIC WATER CONSUMPTION

m<sup>3</sup>/t



## EFFICIENT WASTE MANAGEMENT

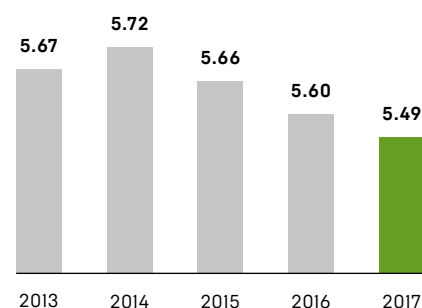
### HIGH WASTE RECYCLING RATE



## ENERGY EFFICIENCY

### REDUCTION OF SPECIFIC ENERGY INTENSITY [THE LIPETSK SITE]

GCal/t



# 97%

the share of recycled water in NLMK Group's total water consumption

# 86.9%

waste recycling rate across NLMK Group in 2017 (excluding low-hazard mining waste)

# 84.1%

the share of in-house energy generation using secondary fuel gases in 2017

# NLMK GROUP'S ENVIRONMENTAL ACTIVITIES



## KEY FACTS AND FIGURES

### Environmental protection is a priority for NLMK Group

Total investment in the Group's environmental activities since 2013 amounted to RUB 29 billion.

### NLMK Group has an active Environmental Policy

The Group's key targets are environmental safety and process efficiency, in line with the best global practices.

### An environmentally responsible approach enables business success

Adherence to high environmental standards allows for efficient production of high-quality products with minimal environmental footprint in regions of operation.

*Reduction of environmental footprint and sustainable use of natural resources are NLMK's key environmental priorities.*



*"Leadership in sustainable development was one of the four key goals of Strategy 2017 that we've executed since 2014. Investment in environmental projects and initiatives over the past five years totalled approximately RUB 29 billion. As a result, we were able to cut our specific emissions by 6%, to decrease our specific water consumption by 16%, and to decrease waste production by 15%, whilst increasing steel output by 11%. Our goal is to minimize our environmental footprint. We will continue to implement the best available technologies."*

**GALINA KHRISTOFOROVA,**  
NLMK Group Director  
for the Environment

NLMK uses annual analytical reports from Roshydromet and Rospotrebnadzor, among others, for an independent and comprehensive assessment of NLMK Group's environmental impact in the regions where it operates. According to these reports, in 2014, Lipetsk, home to the Group's largest production site accounting for over 80% of its crude steel output (13 million tonnes, or 23% of Russia's total steel output), was recognized as the cleanest steelmaking city in Russia with a record low Integrated Air Pollution Index (IAPI).

The 'Year of the Environment' was an opportunity for us to share our experience with a wider audience. NLMK signed a four-way agreement with the Ministry of Natural Resources and the Environment of the Russian Federation, the Federal Service for Supervision of Natural Resources, and the Administration of the Lipetsk region. Several projects were executed as part of the agreement with a total investment of over RUB 5 billion.

## IN 2017, NLMK COMMISSIONED NEW DEDUSTING UNITS THAT ARE IN LINE WITH THE BEST AVAILABLE TECHNOLOGIES AT 6 SECTIONS AT THE LIPETSK SITE

SITE	FACILITY	PROJECT
Lipetsk site	Sinter operations	Revamping of dedusting units (DU) of the lime feeding duct and car dumpers Nos. 1 and 2 with the construction of a dedusting system for lime receiving hoppers
Lipetsk site	Refractory Shop	Construction of a central gas cleaning system downstream of shaft furnaces Nos. 1–3
Lipetsk site	Refractory Shop	Revamping of dedusting unit No. 20
Lipetsk site	Refractory Shop	Revamping of dedusting units Nos. 1, 2, 3, 7, 8 of the bulk materials discharging and feeding duct, at station No. 3 with replacement for bag filters
Lipetsk site	Refractory Shop	Upgrade of dust collectors for rotary kiln No. 3 with the replacement of electric filters
Lipetsk site	BF Shop No. 1	Construction of a modular dedusting system at BF-4

IN 2017, THE GROUP GREW ITS STEEL OUTPUT

by **2.2%** yoy

WHILE FRESH WATER CONSUMPTION REDUCED

by **5.6** million m<sup>3</sup> (-6% yoy)

THE AMOUNT OF DISCHARGES INTO WATER BODIES REDUCED BY

**0.239** million tonnes (-1% yoy)

AND WASTE GENERATION REDUCED

by **2.8** million tonnes (-5% yoy)

AS A RESULT, SPECIFIC ENVIRONMENTAL IMPACT OF STEEL PRODUCTION DECREASED

These process solutions can be applied at any plant, and are not limited to the steel sector, so these projects were widely discussed at various public events.

NLMK Group achieved an all-time low level of specific air emissions of 20.5 kg per tonne of steel, while maintaining a high level of recycling and a high share a circulated water.

In 2017, the 'Year of the Environment', NLMK launched its 'Steel Tree' initiative aimed at engaging the local communities in the regions where it operates into addressing important environmental issues. 12 Lipetsk natives received grants and were able to execute 12 environmental, educational, and social projects in Lipetsk and the Lipetsk region with the support of NLMK's 'Miloserdiye' charity fund. 4,000 volunteers participated in these initiatives cleaning up over 20 ha, collecting over 300 m<sup>3</sup> of waste, and planting around 400 trees and bushes. Innovative and energy-efficient technologies were used for these projects.

Broad and comprehensive coverage of the project helped to communicate the importance of environmental protection to 200,000 residents of the city.

## Brief description of NLMK operations and coverage

*NLMK Group is a vertically integrated company, which includes:*

- Mining facilities
- Production of raw materials for further processing (sintering and pelletizing, as well as lime and coke, and chemical operations)
- Steelmaking facilities that manufacture commodity and conversion pig iron, crude steel, and slabs that are sold as commodity or processed downstream
- Rolling facilities
- Auxiliary facilities that collect and process scrap, and manufacture steel products and metalware.

The Environmental Report includes information on NLMK Group's Russian companies:

NLMK Lipetsk, Stoilensky, Altai-Koks, NLMK Kaluga, STAGDOK, Dolomit, VIZ-Steel, VIZ, NLMK Ural, NLMK

## RECYCLED WATER IN NLMK GROUP'S TOTAL WATER CONSUMPTION, %

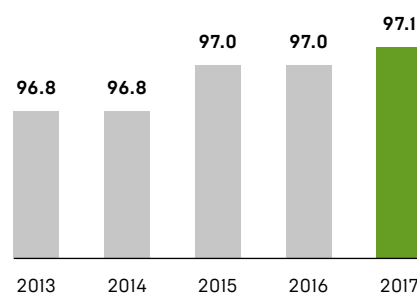






Photo: Inhabitants of NLMK's Swan Lake Park, an eco-project located on Lipetsk site grounds

Metalware, and Vtorchermet NLMK companies.

The report is prepared in line with the Global Reporting Initiative (GRI) sustainability reporting standards, related to environmental topics (GRI 303, GRI 304, GRI 305, GRI 306, GRI 307, GRI 308).

### Systematic approach to sustainability and NLMK Group's Environmental Policy

NLMK Group aims to make products that meet the requirements of its consumers whilst constantly improving its processes, ensuring safe working conditions, reducing its environmental impact, rationally using resources, and adhering to generally recognized social responsibility practices.

NLMK Group believes that a safe environment and rational use of natural resources are key to sustainable economic and social development in the long term. The Company assumes the responsibility of maintaining a favourable environment for the communities in the regions where it operates by improving the efficiency of resource use and utilizing environmentally friendly and safe production technologies.

#### *These ideas are laid out in NLMK Group's Environmental Policy goals:*

- Ensure environmental efficiency of production processes
- Compliance with the best global practices concerning effects on the environment and resource management

- Be a leader in specific environmental impact indicators.

NLMK Group's Environmental Policy was used as the basis for Strategy 2013–2017, as well as the 2018–2022 Environmental Programme.

**NLMK GROUP'S ENVIRONMENTAL POLICY IS A KEY ELEMENT OF THE COMPANY'S STRATEGIC CYCLES. ENVIRONMENTAL POLICY GOALS WILL BE USED AS THE BASIS FOR STRATEGY 2022.**

Achievement of environmental objectives is ensured by the Environmental Management System that complies with the international ISO 14001 standard, which has been annually confirmed by independent auditors since 2002.

## NLMK GROUP'S ENVIRONMENTAL MANAGEMENT SYSTEMS (EMS) ARE CERTIFIED FOR COMPLIANCE WITH THE INTERNATIONAL STANDARD ISO 14001:2015 IN THE FOLLOWING AREAS

ITEM NO.	COMPANY	YEAR OF CERTIFICATION	COVERAGE
1	NLMK Lipetsk	2002	Production of sinter, coke and coking by-products, pig iron, slabs, HR and CR carbon and LA steel flats, incl. galvanized and polymer coated steel flats, electrical NGO and GO steel coils and sheets, as well as auxiliary operations supporting the production of the specified products
2	Stoilensky	2007	Production and shipment of iron sinter ore, iron ore sinter concentrate, iron ore pellets, crushed ferrous magnetite quartzites, chalk, rubble, sand
3	VIZ-Steel	2012	Production of cold-rolled GO and NGO electrical steel
4	NLMK Kaluga	2016	Production of continuously cast billets, long products and sections
5	Altai-Koks	2016	Production of coke and chemical products of coking
6	Stagdok	2011	Production and shipment of calcareous limestone, technological limestone, crushed flux limestone for construction works, rubble for public roads
7	Dolomit	2011	Production and shipment of crude metallurgical dolomite and dolomite powder
8	NLMK Metalware	2015	Development, production, and shipment of metalware for industrial applications and fixing hardware for general machine-building applications
9	NLMK Ural	2015	Development and production of continuously cast billets, long products and sections



## NLMK's environmental strategic objectives for 2013–2017

The 5-year strategic cycle ended in 2017, and all environmental goals have been successfully achieved.

Environmental targets for the next 5 years will be determined in line with the Environmental Policy during the development of NLMK Group's Strategy 2022.

## NLMK'S ENVIRONMENTAL STRATEGIC OBJECTIVES FOR 2013–2017

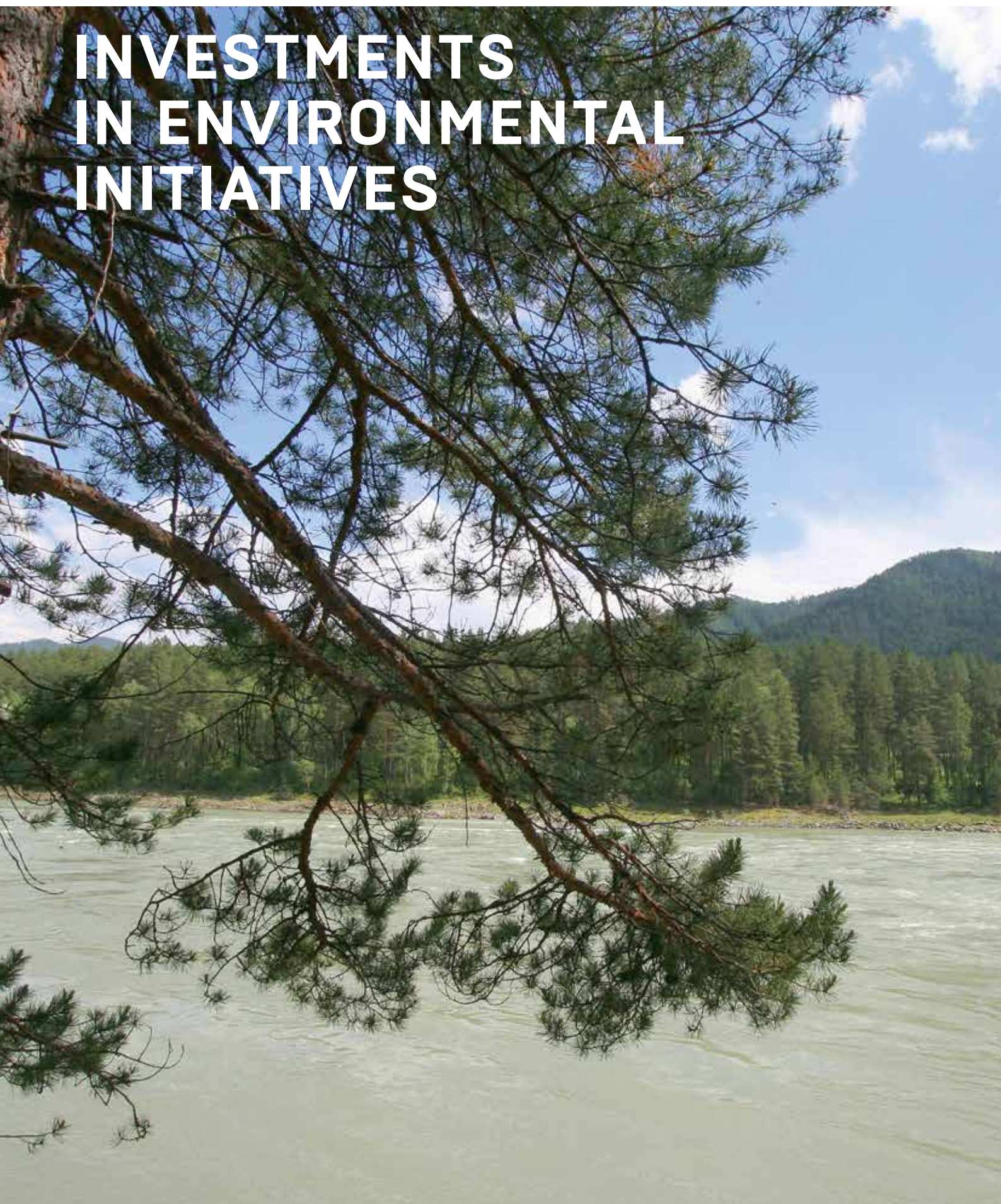
INDICATOR	2013	2014	2015	2016	2017	BAT*
Steel output, m t	14.6	15.2	15.4	15.9	16.2	
Air emissions, '000 t	319.7	321.6	322.0	330.9	332.0	
Specific air emissions, kg/t of steel	21.9	21.1	20.9	20.8	20.5	18.9
Specific water consumption, m³/t	6.3	6.3	5.9	5.8	5.3	7.0
Recycled water in total water consumption, %	96.8%	96.8%	97.0%	97.0%	97.1%	100%
Specific waste production, t/t of steel	4.1	4.1	4.1	3.8	3.5	-
Waste disposal (w/o stripping waste and beneficiation tailings), %	95.9%	93.7%	95.9%	93.6%	86.9%	-

## 2017 ENVIRONMENTAL KPIs

CORPORATE RESPONSIBILITY: KEY ASPECTS	2017 TARGETS	2017 PERFORMANCE	2017 TARGETS ACHIEVED	2018 TARGETS
Management of potential risks to reduce or minimize environmental impact	NLMK Group's Environmental Programme for 2018–2022	The Group's Environmental Programme was adopted by the Investment Committee on 17 November 2017	Target achieved	Implementation of NLMK Group's Environmental Programme 2018–2022 projects
Minimization of environmental impact of NLMK Group's operations	Reduction of specific emissions by 0.1 kg/t steel vs. 2016	Reduction by 0.3 kg/t	Target achieved	Reduction of specific emissions by 0.1 kg/t steel vs. 2017
	Reduction of specific water consumption by 0.05 m³/t steel vs. 2016	Reduction by 0.5 m³/t	Target achieved	At or below BAT* level
	Increase NLMK Group's overall recycling rate by 15% (total)	Increased by 15 % (total) vs. 2016	Target achieved	Maintain the recycling rate at the 2017 level
Compliance with the best practices in technical upgrade and operation	Change-over of the filter material with residual dust content up to 10 mg/m³ for bag filters according to the approved schedule	The filter material with residual dust content up to 10 mg/m³ was replaced in bag filters according to the approved schedule	Target achieved	Continue the change-over of the filter material with residual dust content up to 10 mg/m³ for bag filters according to the approved schedule
	Transfer of marketable waste into by-products (steel slag, coke breeze)	Target achieved	Reduced waste by 0.3 kg/t per unit of product	—



# INVESTMENTS IN ENVIRONMENTAL INITIATIVES







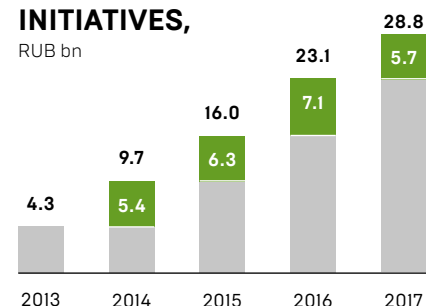
**M**inimization of negative environmental footprint is achieved through NLMK Group's comprehensive capex programme, as well as through planned environmental and technological initiatives outside the scope of the investment process.

Investment in environmental projects and initiatives over the Strategy 2017 cycle totalled RUB 28,814 million. NLMK Group spent around RUB 5.7 billion on environmental projects and initiatives in 2017. The majority of investments in 2017 went towards projects and initiatives to improve air quality. For instance, NLMK Lipetsk upgraded its dedusting systems in line with the BAT, at six sections at the refractory, sintering and blast furnace shops. NLMK

Group's other facilities executed projects aimed at the reclamation of former landfill sites, construction of sewage treatment plants and reduction of noise pollution, among others.

#### NLMK GROUP'S INVESTMENTS IN ENVIRONMENTAL INITIATIVES,

RUB bn



TYPES OF COSTS	2013	2014	2015	2016	2017
Environmental spending, net of revenues from sales of by-products (waste), RUB m, including:	4,279	5,434	6,318	7,058	5,726
Investment projects aimed at reducing and preventing negative environmental footprint, RUB m	1,238	1,843	2,973	3,157	1,767
Operating costs, capital repairs and maintenance costs of environmental assets and payment for environmental services, RUB m	3,201	3,352	3,344	4,089	4,295
Payments for negative environmental footprint under the Russian legislation, RUB m	135	193	194	109	109

# ENVIRONMENTAL PROTECTION





## GRI 303: Water

### *Disclosure 303-1 Water withdrawal by source*

a. NLMK Group uses surface water (rivers, ponds), ground water (wells, water dump sites, drainage waters of mines), and rainwater for industrial water supply. Stoilensky, Stagdok, Dolomit, NLMK Metalware, and Vtorchermet NLMK use ground water. NLMK Group's companies do not use wastewater from other organizations or water from municipal water supply systems for production. The volume of water withdrawal by source is given in Table 303-1-1:

**TABLE 303-1-1. VOLUMES OF WATER WITHDRAWAL FOR NLMK GROUP OPERATIONS, '000 M<sup>3</sup>**

SOURCE	2013	2014	2015	2016	2017
Surface water	34,666	36,211	33,238	31,814	30,802
Ground water	57,995	59,851	57,317	59,759	55,233
Rainwater	0	210	106	71	32
<b>Total</b>	<b>92,660</b>	<b>96,272</b>	<b>90,661</b>	<b>91,645</b>	<b>86,066</b>
Specific water consumption, m <sup>3</sup> /t of steel	6.3	6.3	5.9	5.8	5.3

Photo: NLMK's Swan Lake has been thriving for almost four decades.



NLMK Group companies withdraw water for potable water supply. The withdrawal volumes are given in Table 303-1-2.

NLMK Group collects water in accordance with the permits (water use agreements, licenses, permits) and fulfils all the requirements set forth in these documents.

b. This section uses data provided in 2-TP state statistical observation form (water management) (Rosstat's order No. 230 of 19 October 2009). 98% of the consumption data are obtained from measuring tools that were properly calibrated. The measurement error does not exceed 1%. 2% of the consumption data have been calculated.

**Disclosure 303-2 Water sources significantly affected by withdrawal of water**

a. NLMK Group's water withdrawal does not affect significantly any water

**TABLE 303-1-2. WATER WITHDRAWAL FOR POTABLE WATER SUPPLY OF NLMK GROUP'S COMPANIES, '000 M<sup>3</sup>**

	2013	2014	2015	2016	2017
Potable water withdrawal	12,648	12,528	12,716	11,963	10,726

sources, which is confirmed by the data in Table 303-2-1.

The companies' water withdrawal accounts for less than 5% of the average annual volume of the water bodies. The water bodies from which NLMK Group companies withdraw water are not particularly sensitive due to their relative size, function, or status as a rare, threatened, or endangered system. The Group's companies do not withdraw water from any wetland listed in the Ramsar Convention\* or any other nationally or internationally proclaimed conservation area. Consequently, NLMK Group's water

withdrawal does not affect water sources significantly. To exclude potential fish kills, all water-inlets have protection structures (protective nets).

b. Information from the water use agreements was used as data on the average annual flow of rivers and the annual watercourse of reservoirs. The annual volume of the watercourse of a reservoir is defined as the sum of the volume of the reservoir at the highest retaining level and 50% of the annual run-off volume\*\*. Data on the companies' water withdrawal are determined using state-registered

**TABLE 303-2-1. WATER SOURCES SIGNIFICANTLY AFFECTED BY NLMK GROUP'S WITHDRAWAL OF WATER**

COMPANY	WATER SOURCE			ANNUAL AVERAGE WATER WITHDRAWAL OVER FIVE YEARS, '000 M <sup>3</sup>	IMPACT OF THE COMPANY'S WATER WITHDRAWAL ON THE WATER SOURCE, %
	NAME	AVERAGE ANNUAL WATER CONSUMPTION, M <sup>3</sup> /S	ANNUAL VOLUME OF THE WATERCOURSE, '000 M <sup>3</sup>		
NLMK Lipetsk	The Voronezh River	51.8	1,633,655	21,974	1.3
Altai-Koks	The Chumysh River	111	3,500,496	6,254	0.2
NLMK Kaluga	The Protva River	11.9	375,378	1,382	0.4
NLMK Ural	Revdinsky Reservoir		177,900	1,108	0.6
Revda					
Nizhniye Sergi	Nizhneserginsky Reservoir		140,600	1,706	1.2
VIZ Steel	Verkh-Isetsy Reservoir		83,500	921	1.1

\* Ramsar Convention on Wetlands of International Importance. For more information, please follow the link

\*\* Average annual run-off volume

metering devices that were properly calibrated.

#### **Disclosure 303-3 Water recycled and reused**

a. For the purpose of preserving water resources, NLMK Group uses water-recycling systems. NLMK Group's companies (NLMK Lipetsk, Altai-Koks, VIZ-Steel, NLMK Kaluga, Stoilensky) have water recycling schemes both locally, in individual sections, and closed loop water systems for the entire plants resulting in zero-discharge into surface water bodies.

In exceptional cases (the formation of residual water), discharge into surface water bodies is possible after purification at treatment facilities.

b. The share of recycled water in NLMK Group's total water consumption for industrial needs has been at a very high level of 97% over the last three years.

c. This section uses data provided in 2-TP state statistical observation form (water management) (Rosstat's order No. 230 of 19 October 2009). 98% of the volume data are obtained from measuring tools that were properly calibrated. The measurement error does not exceed 1%. 2% of the volume data have been calculated.

**TABLE 303-3-1. TOTAL VOLUME OF WATER RECYCLED AND REUSED BY NLMK GROUP, '000 M<sup>3</sup>**

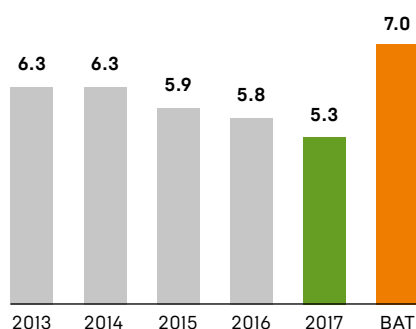
WATER USED	2013	2014	2015	2016	2017
Recycled	2,809,876	2,905,103	2,896,021	2,922,971	2,879,928
Reused	80,700	78,873	74,506	67,674	70,598

**TABLE 303-3-2. THE SHARE OF RECYCLED WATER IN NLMK GROUP'S TOTAL WATER CONSUMPTION, %**

	2013	2014	2015	2016	2017
Recycled water	96.8	96.8	97.0	97.0	97.1

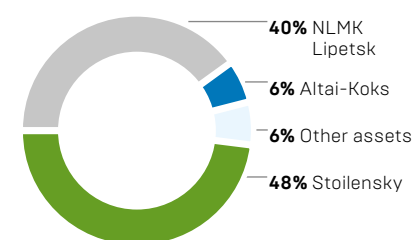
#### **NLMK GROUP'S SPECIFIC WATER CONSUMPTION**

m<sup>3</sup>/t

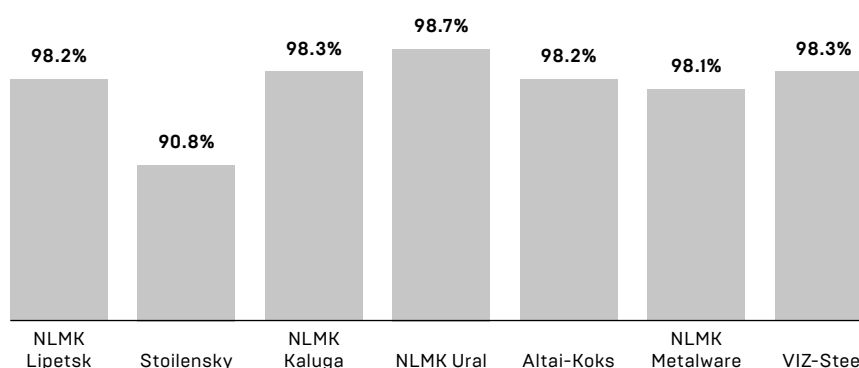


● Best available technologies in the industry

#### **NLMK GROUP'S SPECIFIC WATER CONSUMPTION BY SITE**



#### **THE SHARE OF CIRCULATED WATER IN NLMK GROUP'S TOTAL WATER CONSUMPTION IN 2017**



## GRI 304: Biodiversity

### *Disclosure 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas*

NLMK Group's operations are located on industrial lands and in residential areas.

The production sites of NLMK Group are located in regions of intensive economic activity, such as the Central European part of Russia (NLMK Kaluga, NLMK Lipetsk, Stoilensky), in the Ural Region (NLMK Ural, VIZ-Steel, VIZ, NLMK Metalware), and in Siberia (Altai-Koks in Altai Territory).

Economic development of the territories where the Group's steelmaking business is located (the Urals, the Lipetsk region) dates back to the Petrine times, to the beginning of the 18<sup>th</sup> century.

NLMK Group has no operational sites, owned or leased, which are located in protected areas and areas of high biodiversity value outside protected areas.

### *Disclosure 304-2 Significant impacts of activities, products, and services on biodiversity*

NLMK Group's activity, products, and services do not have a significant impact on biodiversity.

### *Disclosure 304-3 Habitats protected or restored*

Since NLMK Group does not have a significant impact on biodiversity, its companies are not required to protect or restore habitats. However, NLMK Group's companies regularly restore lands disturbed by the mining activities of the Group (Stagdok, Dolomit). They carry out stage-by-stage reclamation (in the course of deposit development) to restore the landscape

and vegetation cover, thus returning these lands into economic turnover. The Company allocated over RUB 461 million to this cause in 2017.

### *Disclosure 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations*

NLMK Group's operations do not affect endangered animals and plants.

## GRI 305: Emissions

### *Disclosure 305-6 Emissions of ozone-depleting substances (ODS)*

NLMK Group does 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.

### *Disclosure 305-7 Nitrogen oxides (NO<sub>x</sub>), sulfur oxides (SO<sub>x</sub>), and other significant air emissions*

a. While the Group stepped up its steel output by 2.2%, and Stoilensky's pelletizing plant reached its design capacity in 2017, NLMK Group's 2017 total air emissions increased by only 0.3%. Specific emissions decreased to 20.5 kg per tonne of steel. Data on air emissions are given in Table 305-7-1.

b. This section uses data provided in 2-TP state statistical observation form (air) (Rosstat's order No. 387 of 4 August 2016). NLMK Group's air emissions are covered by emission permits for hazardous substances in accordance with the established MPE\* standards.

**TABLE 305-7-1. EMISSIONS**

EMISSIONS	2013	2014	2015	2016	2017
Total, t	319,668	321,553	321,973	330,903	331,993
Specific, kg/t	21.9	21.1	20.9	20.8	20.5
CO, t	250,708	248,547	244,567	249,228	245,651
NO <sub>x</sub> , t	16,589	17,496	21,165	23,828	25,329
SO <sub>x</sub> , t	26,040	28,115	27,598	28,893	31,723
Solid, t	25,204	25,352	25,385	25,168	25,630
Volatile organic compounds (VOC), t	1,996	2,059	2,345	2,467	2,415
Hazard class 1 substances, t	2	2	2	1	1

\* Maximum permissible emissions

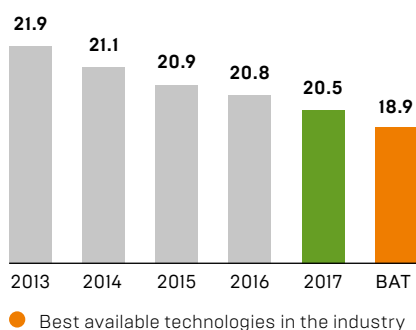
## GRI 306: Effluents and waste

### Disclosure 306-1 Water discharge by quality and destination

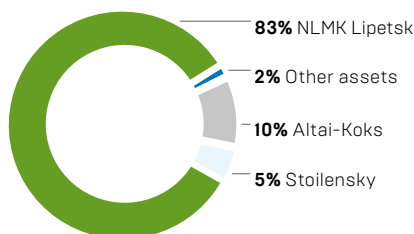
a. With a zero-discharge system, typical for most of the Group's facilities, the volume of water discharge to water bodies is mainly generated by domestic sewage (73% of the water discharge

### NLMK GROUP'S SPECIFIC AIR EMISSIONS

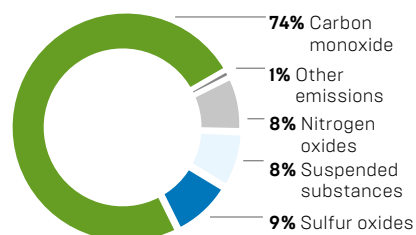
kg/t of steel



### NLMK GROUP'S EMISSIONS BY SITE



### NLMK GROUP'S EMISSIONS BY TYPE, %



volume) or industrial effluents and rainwater (27% of the water discharge volume).

NLMK Group's discharge of these effluents is given in Table 306-1-1.

With the enactment of federal law No. 416-FZ "On water supply and sanitation", NLMK Lipetsk stopped handing over sewage to the Lipetsk water sanitation authorities (LISA MUE) and took over responsibility for the discharge of industrial and domestic sewage through local sewage treatment facilities, resulting in a change in the overall pollutants discharge balance and its structure within the Group. NLMK Group companies do not transfer industrial wastewater for reuse to other organizations. RUB 200 million were spent in 2017 to ensure compliance of the wastewater quality with the regulatory guidelines.

b. This section uses data provided in 2-TP state statistical observation form (water management) (Rosstat's order No. 230 of 19 October 2009). All NLMK Group's discharges are carried out in accordance with the permitting documentation, taking into account regulatory guidelines. The volume of discharges calculated using measuring

instruments that were properly calibrated.

### Disclosure 306-2 Waste by type and disposal method

a.b. Data on waste generation and use are given in Table 306-2-1.

Specific multi-tonnage steelmaking waste includes slag, sludge (product of wet waste gas cleaning systems), dust (product of dry waste gas cleaning systems), scale (oily and oil-free), and spent refractory materials. Mining operations lead to the formation of stripping waste and beneficiation tailings.

According to the national environmental hazard classification, these wastes are classified as hazard class IV and/or V (oily scale with more than 15% oil content is hazard class III; the amount of such waste is less than 0.1% of the total volume). According to the international classification these wastes are no hazard (hazard class V) or low hazard (hazard class IV) requiring no special treatment.

Waste of hazard class V (i.e. practically non-hazardous) accounts for 97.1% of the total volume of waste generated by NLMK Group.

TABLE 306-1-1. WATER DISCHARGE

	2013	2014	2015	2016	2017
Water discharge in surface water bodies, '000 m <sup>3</sup>	14,139	11,144	13,189	14,715	15,076
including the discharge of insufficiently purified domestic sewage from treatment facilities (mechanical, biological treatment and disinfection), '000 m <sup>3</sup>	12,468	10,286	11,655	12,333	11,014
Pollutants discharge, t	2,936	197	16,399	16,112	15,873

120

Handling of mining waste is complicated by the fact that it cannot be marketed and can only be used on-site to form dams and embankments and for technical reclamation of disturbed lands.

In 2017, some types of waste were reclassified as products resulting in lower waste generation. NLMK Group's parent company accounts for the

122

biggest share of this reduction. In 2017, specific waste generation was reduced to 3.5 tonnes per tonne of steel.

Without taking into account the mining waste (overburden and host rocks, beneficiation tailings), the Group has a rather high percentage of waste recycling. The waste is recycled either at the Group's companies or at licensed companies.

128

c. Due to the mineral composition of steelmaking waste, such disposal technologies as composting and incineration (mass burn) are not applicable; and because of its solid state, deep well injection technology is excluded, as well as the possibility of placing in the worked out cavities in case of open-pit mining of iron ores. NLMK Group's companies make steel products that, with the

TABLE 306-2-1. WASTE GENERATION AND USE

	2013	2014	2015	2016	2017
<b>Waste generation, t</b>	<b>59,305,165</b>	<b>62,783,801</b>	<b>63,045,353</b>	<b>59,590,326</b>	<b>56,762,093</b>
Including Hazard class I, t	159	55	140	38	227
% of total generated volume	<0.001	<0.001	<0.001	<0.001	<0.001
including Hazard class II, t	1,462	1,684	885	399	263
% of total generated volume	0.002	0.003	0.001	<0.001	<0.001
including Hazard class III, t	60,040	59,114	57,470	58,358	55,250
% of total generated volume	0.10	0.09	0.01	0.10	0.10
including Hazard class IV, t	4,146,300	4,209,281	3,608,312	3,039,867	1,566,513
% of total generated volume	7.0	7.1	5.7	5.1	2.8
including Hazard class V, t	55,097,425	58,513,384	59,385,515	56,491,665	55,139,839
% of total generated volume	92.9	92.9	94.3	94.8	97.1
of which: overburden, t	37,504,794	40,186,258	40,635,292	37,769,761	35,719,247
of which: beneficiation tailings, t	16,299,407	16,983,899	17,433,812	17,567,324	18,188,756
<b>Specific waste generation, t/t</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>3.8</b>	<b>3.5</b>
Total weight of disposed (recycled and decontaminated) waste, t	9,438,511	9,645,744	8,852,834	8,664,412	7,300,661
including by the Group's companies, t	9,079,889	9,279,248	8,516,465	8,334,925	6,695,152
including by third parties, t	358,621	366,496	336,367	329,487	605,509
<b>Waste disposal, %</b>	<b>15.9</b>	<b>15.4</b>	<b>14.0</b>	<b>14.5</b>	<b>12.9</b>
<b>Waste disposal without mining waste, %</b>	<b>95.9</b>	<b>93.7</b>	<b>95.9</b>	<b>93.6</b>	<b>86.9</b>



loss of consumer properties, fully assimilate in the environment. Ferrous metal products, which have lost their consumer properties, are valuable feedstock for steelmakers (steelmaking companies purchase scrap in volumes determined by their steel smelting process and production scale). 100% of NLMK Group's products can be recycled. About 25% of the steel is produced from ferrous scrap. NLMK Group's operations are part of the closed-loop economy.

This section uses data provided in 2-TP state statistical observation form (waste) (Rosstat's order No. 529 of 10 August 2017). NLMK Group's waste management is carried out in line with permitting documentation.

#### **Disclosure 306-3 Significant spills**

There were no significant spills in 2017. Nonetheless, the procedure for eliminating such incidents and their consequences has been developed as part of an integrated management system.

#### **Disclosure 306-4 Transport of hazardous waste**

NLMK Group 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. Waste recycling (disposal) volumes are given in Table 306-2-1.

#### **Disclosure 306-5 Water bodies affected by water discharges and/or runoff**

NLMK Group's water discharges do not significantly affect water bodies, because they make up much less than 5% of the annual average volume of the water bodies. The information is given in sections 303-2 and 306-1.

### **GRI 307: Environmental Compliance**

For the purpose of environmental compliance assessment, NLMK Group companies use the certification procedure and external audit of compliance with the requirements of the international standard ISO 14001 "Environmental Management Systems. Requirements with guidance for use", as well as internal audits.

Legal requirement compliance is a basic requirement of the ISO 14001:2015 standard (and its previous versions) and an integral procedure of the environmental management system (EMS). Such self-evaluation reduces compliance risks.

The EMS also provides for an independent third party (auditor) evaluation. Every year, NLMK Group's companies confirm the compliance of their Environmental Management Systems with the requirements of ISO 14001 in supervisory and recertification audits. The certification body is BSI (British Standards Institute), UK. The Company's systematic approach to environmental management is evidence of its adherence to environmental principles and responsibility to the community for the state of the environment.

Mining and steelmaking companies are subject to regular scheduled and unscheduled inspections by the supervisory authorities.

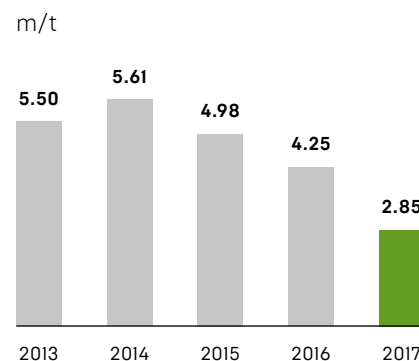
In 2017, 59 audits, mainly by the territorial bodies of Rosprirodnadzor (more than 50% of cases), the Interregional Nature Protection Prosecutor's Office, the territorial bodies of Rospotrebnadzor, and the Prosecutor's Office, were held at the Group's companies. These audits identified 34 deficiencies. Most of the findings were eliminated during the audits. The compliance progress was reported to the controlling bodies in a timely manner. No recommendations

remain unimplemented. No significant penalties and non-financial sanctions were brought against NLMK Group companies.

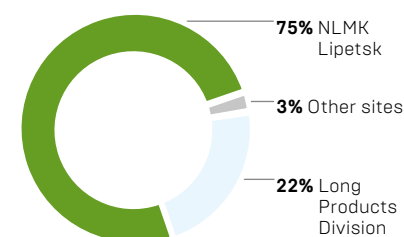
#### **Environmental Risk Management System**

Throughout the life cycle of a production facility, NLMK Group assesses environmental risks, from

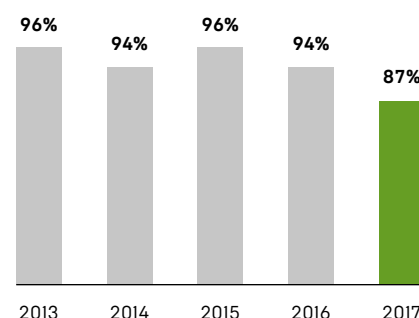
### **NLMK GROUP'S WASTE PRODUCTION**



### **WASTE PRODUCTION BREAKDOWN**



### **NLMK GROUP'S RECYCLING**



the stage of the business concept and design to its operation and liquidation. In order to avoid situations when the companies' activities are restricted for environmental reasons, NLMK Group has introduced Regulations on identification and assessment of environmental risks across its companies, which effectively prevents possible negative consequences for the environment, as well as financial losses associated with the elimination of environmental damage.

### GRI 308: Supplier Environmental Assessment

#### *Disclosure 308-1 New suppliers that were screened using environmental criteria*

NLMK Group has introduced a qualification procedure for all suppliers, including their compliance with environmental requirements.

Environmental criteria for the evaluation of suppliers are set out in NLMK Group's regulatory documents. A key environmental criterion for evaluating suppliers of NLMK Group is their compliance with the requirements of the Russian environmental legislation. All NLMK Group's suppliers of raw materials, materials and equipment, and service providers (contractors) are evaluated for compliance with the requirements of the Russian environmental legislation during qualifications and audits. Based on the results of qualifications and audits, counterparties that were found to be non-compliant with the established criteria, are not allowed to supply raw materials, materials and equipment, and to perform services for NLMK Group companies. 100% of new service providers were evaluated by environmental criteria in 2016–2017.

For contractors, the evaluation is based on the internal corporate document 'Standard requirements to contractor organizations for environmental protection, approved on 8 April 2016'.

#### *Disclosure 308-2 Significant actual and potential negative environmental impacts in the supply chain and actions taken*

NLMK Group conducts supplier audits to assess the compliance of qualified suppliers with the requirements of the Russian environmental legislation.

All products are delivered to NLMK Group's facilities with safety data sheets, which regulate possible hazards when handling products, and the necessary precautions.

Based on the results of the audits of all qualified suppliers, their activities comply with the environmental criteria used by NLMK Group. Their environmental impact is not significant for issuing non-conformity resolutions and for terminating the relationship with them.

### Public appraisal

NLMK Group's environmental achievements were recognized by multiple awards.

In March, NLMK Lipetsk was nominated for 'Development Award 2017', a prestigious national competition aimed at creating a favourable investment climate in Russia. The panel of judges recognized NLMK's noise pollution reduction initiatives as the best environmental and green tech project.

In May, NLMK was awarded the gold medal in the '100 Best Companies in Russia. Ecology and Environmental Management' national competition. Viktor Togobetsky, NLMK Vice President for Occupational Health and Safety and the Environment, was awarded the 'Environmentalist of the Year 2017' honorary badge for achievements in the field of rational environmental management.

In November, a team of experts from NLMK, NLMK Engineering and Ecotech received a gold medal at

**TABLE 308-2-1. NUMBER OF RAW MATERIAL, MATERIAL AND EQUIPMENT SUPPLIERS ASSESSED FOR ENVIRONMENTAL IMPACTS DURING AUDITS**

	2016	2017
New suppliers	4	9
Audits of suppliers	21	36

**TABLE 308-2-2. SHARE OF SUPPLIERS WITH WHOM IMPROVEMENTS HAVE BEEN AGREED BASED ON THE RESULTS OF THE AUDITS**

	2016	2017
Share of suppliers with environmental compliance improvement activities based on findings in audits of the total number of audits conducted	30	69



the 'Metal-Expo exhibition 2017' for the development and execution of an integrated dust emission control project at the Lipetsk site.

In December, NLMK Lipetsk was awarded a certificate for its active environmental policy during the 'Year of the Environment'. The award was presented by Artem Sidorov, head of Rosprirodnadzor, at the meeting of the Federal Environmental Council, held at the V National Congress on Environmental Protection at Ecotech exhibition and forum.

In 2017, the Lipetsk Rosprirodnadzor and the Regional Department of the Environment and Natural Resources awarded NLMK a diploma for its environmental projects and its active environmental policy during the 'Year of the Environment'.

In 2017, VIZ-Steel was recognized at the '100 Best Companies in Russia. Ecology and Environmental Management' national competition in the category 'For Rational Nature Management and Environmental Protection'. S. Olkov, Executive Director, was awarded the 'Environmentalism of the Year 2017' / 'For achievements in the field of rational environmental management' honorary badge.

VIZ-Steel was awarded a special prize 'The Golden Bough of the Planet' for its balanced environment.

VIZ-Steel's IEC laboratory was recognized at the '100 Best Companies in Russia. Ecology and Environmental Management' national competition in the 'Best Environmental Service' category.

NLMK Kaluga was awarded a letter of appreciation from the Ministry of Natural Resources and the Environment of the Kaluga region on the World Environment Day. It also came first in the 'Eco-organization 2017' competition in the 'Implementation of the most efficient environmental and resource-saving technologies among large companies' category.

At the III International Environmental Forum NLMK Kaluga was awarded a diploma for its significant achievements in the field of environmentally responsible approach to the organization of production and for ensuring environmental safety and preservation of a favourable environment, as well as a letter of appreciation and an 'Environmental Hero' title as a participant in the nationwide 'Recycling' environmental marathon.



## Disclosure of environmental information

As a public company, NLMK Group annually discloses operating information, including non-financial reporting data (information on environmental activities).

Environmental reports are available on the Company's website at [www.nlmk.com](http://www.nlmk.com), as well as on corporate social media platforms at <http://vk.com/nlmk.ru>, [www.twitter.com/nlmk](http://www.twitter.com/nlmk), and [www.facebook.com/nlmk](http://www.facebook.com/nlmk). Each company of the Group has its local website: <https://lipetsk.nlmk.com>, [www.sgok.ru](http://www.sgok.ru), [www.altai-koks.ru](http://www.altai-koks.ru), [www.nlmk-sort.ru](http://www.nlmk-sort.ru), [www.viz-steel.ru](http://www.viz-steel.ru), [www.rudnik.ru](http://www.rudnik.ru).

There is a corporate portal for the Company's employees at <http://home.nlmk.ru>.

*In order to increase public awareness, NLMK Lipetsk, the flagship company of the Group, additionally publishes the following information on its website:*

- Forms of state environmental statistical reporting (annually)
- Air monitoring data at the border of the sanitary protection area (monthly).

For immediate notification, the current (daily) information on the state of atmospheric air at the boundary of the sanitary area is shared with the Department of the Environment and Natural Resources of the Lipetsk Region for publication on its website at <http://ekolip.ru>.

Information is also available in the corporate periodicals: NLMK

Magazine, Our Plant, Verkh-Isetsky Worker, NLMK Sort, Coke Engineer of Altai, and Big Ore newspapers, and in the annually published Environmental Protection booklet.

Stakeholders are invited to contact the Company using the contacts published on the corporate or local websites with all inquiries related to environmental issues. Employees can also anonymously call the 06 Help Line. All information will be received and registered by NLMK's Environmental Department. Inquiries are considered on the day of the inquiry, and the reply is sent to the address indicated by the stakeholder or posted on the local website in case of an anonymous inquiry. 13 inquiries were filed in 2017. All of them were examined in terms of the causes of the deficiencies and appropriate measures to eliminate them.





**NLMK Group believes the following persons to be its stakeholders\* in terms of receiving environmental information:**

- Shareholders, investors, partners
- Executive agencies:
  - ✓ Territorial bodies of federal supervision (Rosprirodnadzor, Rospotrebnadzor, Rosvodresursy, Rosleskhoz, Rosnedra, Rosrybolovstvo, Roshydromet)
  - ✓ Prosecutor's supervision bodies (Interdistrict Prosecutor's office for Environmental Protection)
  - ✓ Regional environmental management bodies (administration of the constituent territories)

- Public business organizations:
  - ✓ Russian Union of Industrialists and Entrepreneurs
  - ✓ Chambers of commerce and industry (regional)
- Public environmental organizations:
  - ✓ Public Chamber (regional offices)
  - ✓ All-Russian Society for Nature Conservation
  - ✓ Forest patrol
  - ✓ Public environmental associations (clubs)

- Local communities
- Employees.

*\* For further information, please refer to the Dialogue with stakeholders section*



# ENERGY EFFICIENCY

The goal of reducing energy costs is achieved both through optimization measures and by increasing the share of in-house power generation.



## KEY FACTS AND FIGURES

### Systematic improvement of energy efficiency a key priority area for the Group

The main objective is to ensure a reliable supply of energy resources and reduce costs.

### An increase in the share of captive power generation

The share of power generated in-house from the recovery of by-product fuel gases increased to 84% in 2017.

### Growth of power generation capacity

Following the installation of a new turbine generator unit No. 5 at the Lipetsk Cogeneration Plant in 2017, the share of in-house power generation will increase to 59%.

## INCREASED CAPTIVE POWER GENERATION AND LOWER ENERGY CONSUMPTION BOOST EFFICIENCY AND MINIMIZE THE COMPANY'S ENVIRONMENTAL FOOTPRINT

**S**ustainable energy use and systematic efforts to enhance energy efficiency are among the key activities for NLMK Group's businesses.

NLMK Group's main energy procurement goals are to ensure stable supply of energy resources and cost reduction (energy costs account for about 10% of the production cost) through enhancing energy efficiency.

NLMK Group has an energy policy, which defines the Company's mission, objectives, and principles of sustainable energy use.

### POLICY GOALS:

- Achieve the optimal level of energy intensity
- Leadership in application of advanced energy efficient technologies, including introduction and continuous improvement of Energy management systems.

The goal of reducing energy costs is achieved both through optimization measures and by increasing the share of in-house power generation.

## Development of in-house power generation

The development of captive generating capacities is an important element of securing power supply and energy efficiency of the Company.

### CASE STUDY

#### NEW TURBINE GENERATOR UNIT NO. 5

In 2017, installation of a new turbine generator unit No. 5 with a 60 MW capacity at the Lipetsk Cogeneration Plant continued. The new turbine generator replaces a unit with a similar capacity launched in 1958, which has come to the end of its life cycle. The outgoing turbine generator was equipped with a hydrogen cooling system, whereas the replacement is cooled using cold air, which makes it safer to operate and more reliable. The project was launched in Q2 2016. NLMK Engineering, one of the leading design institutes in the Russian steel sector, is the general designer of the project. The total investment in the project exceeded RUB 1.8 billion.

Sergey Chebotarev, NLMK Vice President for Energy said: "This project enhances the safety and stability of the Cogeneration Plant, and reduces the operating costs for electricity and heat generation. This will enable us to increase the efficiency of our energy-generating facilities, and increase the share of in-house power generation from 53% to a record 59%."

### NLMK Lipetsk's captive power generation:

- Ensures business continuity
- Reduces cost: the cost of captive power generation at the Lipetsk site is 29% lower than the cost of purchased electricity
- Reduces environmental footprint.

Power generating capacities: the total installed in-house generation capacity is 522 MW. Electricity is produced at Cogeneration Plant, Recovery Cogeneration Plant, and two top-pressure recovery turbines.

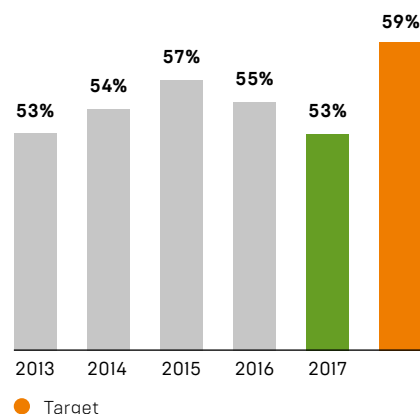
Generation resources: more than 84% of electricity at the Lipetsk site is generated from the recovery of by-product gases from coke and chemical and blast furnace operations.

The main fuels for NLMK's Cogeneration Plant and Recovery Cogeneration Plant are blast-furnace and coke-oven gases; top-pressure recovery turbines are used to generate electrical power through the efficient use of blast furnace gas overpressure. There is a 200 MW power plant at Altai-Koks that operates on coke oven gas and completely covers the company's electricity needs.

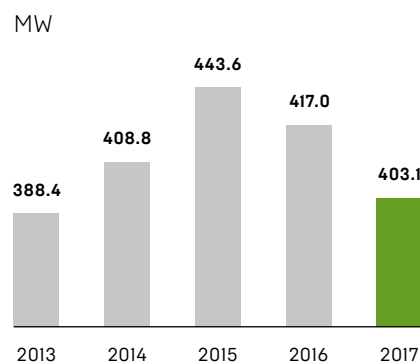
### In-house generation development capex projects in 2014-2017:

- 2014: capital improvement of 50 MW capacity turbine generator unit No. 4 at the Cogeneration Plant
- 2015: launch of the Blast Furnace No. 7 top-pressure recovery turbine
- 2016: capital improvement of the Blast Furnace No. 6 top-pressure recovery turbine with 20 MW capacity generators
- 2015–2016: a range of optimization measures was implemented at NLMK's Cogeneration Plant and

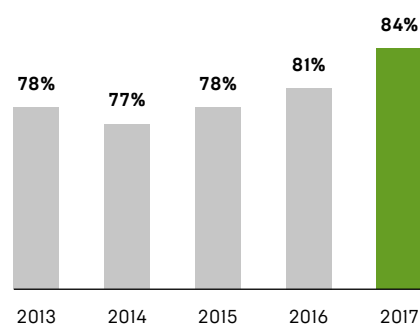
### IN-HOUSE POWER GENERATION IN TOTAL ENERGY CONSUMPTION



### IN-HOUSE ENERGY GENERATION



### IN-HOUSE POWER GENERATION FROM SECONDARY FUEL GASES



Recovery Cogeneration Plant, including those aimed at reducing the repair time of generators, selecting efficient turbine loading regimes, and optimizing the water cycle operation of turbine generator units



## CASE STUDY

## GREEN ENERGY AND NLMK

NLMK steel production is becoming increasingly effective in terms of green energy. Electric power at NLMK is produced not only by burning blast furnace gas, but also thanks to excess pressure of blast furnace gas using top-pressure recovering turbines (TRTs). Turbines that use blast furnace gas are installed at BF-7 and BF-6.

Moreover, NLMK's products are widely used in green energy. For instance, NLMK DanSteel A/S, part of NLMK Europe Plate, supplies plates with special dimensions made from high-strength steel for the construction of offshore wind turbines.

In 2017, NLMK Group supplied transformer steel to the Siemens Transformers plant based in the city of Voronezh, Central Russia. The steel product will be used to make a transformer for Burnoye Solar-2 solar power park, which is currently under construction in Kazakhstan. Burnoye Solar is a successful case of developing sources of renewable energy. Burnoye Solar-1, stage I of the solar park project with a capacity of 50 MW, was constructed in 2015. Construction of Burnoye Solar-2, which will have the same capacity as Burnoye Solar-1, will be completed in 2018. The two solar parks will combine to form one of the largest solar generators in Eastern Europe and the biggest in Central Asia.

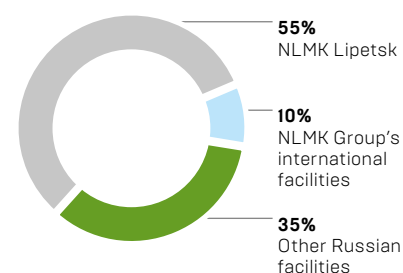
Photo: DanSteel is one of the leading suppliers of steel for green energy facilities in Europe

- 2016–2017: a new 60 MW capacity turbine generator No. 5 at NLMK's Cogeneration Plant; capital overhaul of turbine generators Nos. 1, 2 and 3 and steam generating units Nos. 1, 2, 3 of the Recovery Cogeneration Plant. As a result, the share of captive power generation will increase to 59%.

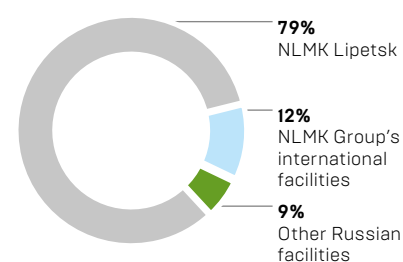
The decrease in the share of captive power generation in 2017 was due to the fact that turbine generator No. 5 at NLMK's Cogeneration Plant was taken down for overhaul, and turbine generators Nos. 1, 2 and 3 and steam generating units Nos. 1, 2, 3 of the Recovery Cogeneration Plant were under repair. This was partially offset by the increase in the efficiency of other installed turbine generator units and a scale up of TRT energy output.

In 2017, 84% of electricity generated at the plant resulted from the recovery of by-product gas.

## NLMK GROUP'S POWER CONSUMPTION IN 2017



## NLMK GROUP'S NATURAL GAS CONSUMPTION IN 2017







## Energy Consumption and Optimization Activities

### *Electric power*

In 2017, total electricity consumption by all NLMK Group production facilities amounted to 12.1 billion kWh (+2.6% yoy), of which 55% was consumed by NLMK Lipetsk. Facilities using electric arc furnaces for steel production (20% of production) accounted for 20.7% of the consumed electricity.

### *Natural gas*

Total natural gas consumption by all NLMK Group's production facilities amounted to 2.7 billion m<sup>3</sup> (-7.5% yoy), of which 79% was consumed by NLMK Lipetsk, where natural gas is widely used in blast furnace

operations, in reheating furnaces and heat treatment units and, in part, in electricity generation.

### *2017 optimization activities*

Activities: more than 200 optimization measures aimed at improving energy efficiency across the Group's facilities in Russia and abroad.

Total gains: ca. RUB 800 million (\$13.7 million), which enabled a 286 million m<sup>3</sup> reduction in the consumption of purchased natural gas (10.5% of total consumption).

### *In 2017, the following key areas were covered by optimization activities:*

- Efficiency improvement of secondary fuel gases utilization

- Boosting operational efficiency and distribution of air separation products
- Boosting captive energy generation
- Optimization of gas consuming facility operations
- Lighting upgrades
- Automation of energy consumption control, etc.

These optimization measures enabled a reduction in blast furnace gas losses from NLMK's gas supply system by 33.5% vs. 2015, from 4.6% to 2.8% of total blast furnace gas output.

Efforts to reduce oxygen losses in the process of its production, transportation and consumption by





metallurgical and steelmaking units continue. Over the last three years, oxygen losses have been reduced by 40%, from 11.5% in 2014 to 6.95% in 2017, driven by measures aimed at regulating oxygen-making capacity utilization and ensuring efficient interaction between the core and energy departments.

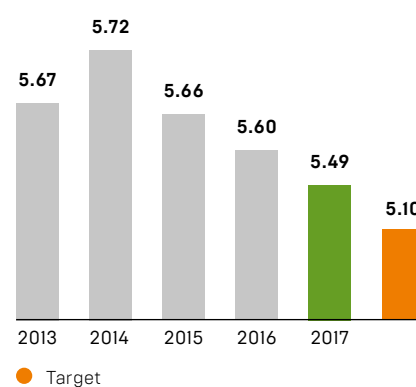
Optimization of generating capacity utilization and an increase in their operating time enabled an increase in the utilization rate of the Cogeneration Plant and Recovery Cogeneration Plant installed capacity to 93% and 89%, respectively.

In 2017, Altai-Koks saved more than RUB 17 million due to the rational use of energy resources in its processes. NLMK Kaluga upgraded its ceiling lighting in its EAF and rolling shops.

In 2016–2017, NLMK Ural implemented a set of measures that reduced energy consumption by 9% in the EAF shop. The company saved more than RUB 18 million due to equipment upgrades resulting in a 1.9 million kWh per year reduction in electricity consumption, while its automated information-measuring accounting system saved an additional 800,000 kWh per year. Equipment upgrade projects enabled a reduction in the specific energy intensity of production at the EAF shop from 0.76 to 0.69 Gcal per tonne, while specific energy intensity of the rolling operations at NLMK Metalware decreased from 0.50 to 0.47 Gcal per tonne.

#### SPECIFIC ENERGY INTENSITY AT THE LIPETSK SITE

Gcal/t



## CASE STUDY

**LIGHTING UPGRADES**

NLMK Group embarked on a large-scale upgrade of industrial lighting enabled by Philips in 2011. As part of this initiative in 2017, NLMK Kaluga implemented a project to upgrade ceiling lighting in the EAF and rolling shops, which brought tangible results. Capex amounted to ca. RUB 39 million. 2,117 incandescent lamps were replaced by energy saving lamps manufactured by Philips, which enabled a reduction in electricity consumption for lighting from 9.9 million kW/h per year to 2.8 million kW/h per year. This project not only enabled a reduction in electricity consumption for ceiling lighting and the costs of recycling mercury-containing lamps, but also ensured compliance with regulatory guidelines for workplace lighting.

**EnMS certification and energy surveys**

The cycle of recertification audits of the Energy Management Systems of NLMK Group's main production sites was completed. The ultimate goal of these audits was the transfer of the local EnMS to an "umbrella" system, with NLMK Lipetsk being the holder of the main certificate. NLMK was awarded the ENMS 598731 certificate.

In compliance with the requirements of the federal legislation on energy saving and energy efficiency improvement, energy passports for Altai-Koks, NLMK Ural, and VIZ-Steel were developed, approved, and entered into the register of energy auditors. In 2018, NLMK plans to continue the work on developing energy passports for its Russian facilities and on improving its existing Energy Management Systems.

**Growth of energy efficiency**

Consistent improvement of energy efficiency is possible through equipment upgrade and optimization efforts.

In 2017, specific energy intensity of the Lipetsk site reduced by 2% to 5.5 Gcal/t, while the best available technology (BAT) level for integrated production is 5.1 Gcal/t.

Other sites also demonstrated a positive trend, for example, energy intensity at NLMK Kaluga reduced by 2% year-on-year to 0.53 Gcal/t, at NLMK Ural by 4.6% to 0.69 Gcal/t.

**2018 objectives:**

- Increase in the efficiency of fuel gas utilization in power generation
- Optimization of energy transportation networks load and configuration across all companies
- Optimization of industrial gas equipment operation
- Reduction of heat energy losses during its transportation through stop valves sealing
- Use of energy-efficient pump and compressor equipment
- Launch of turbine generator unit No. 5 at NLMK's Cogeneration Plant after major overhaul, etc.

**Public appraisal**

Significant efforts to ensure sustainable use of energy are highly appreciated. In 2017, NLMK won the ENES-2017 nationwide competition among energy saving and energy efficiency projects, held under the auspices of the Ministry of Energy of the Russian Federation. NLMK submitted its project on electricity generation without fuel combustion in blast furnace operations.

# KEY HIGHLIGHTS\*

	2013	2014	2015	2016	2017
Steel output, m t	14.6	15.23	15.41	15.88	<b>16.23</b>
Air emissions, '000 t, incl:	319.4	321.5	322.0	330.5	<b>332.0</b>
NO <sub>x</sub>	16.6	17.5	21.0	24.0	<b>25.3</b>
SO <sub>2</sub>	26.0	28.2	27.6	28.9	<b>31.7</b>
CO	250.7	248.5	244.6	249.2	<b>245.7</b>
— per unit of product, kg/t	21.9	21.1	20.9	20.8	<b>20.5</b>
Water consumption for production purposes, m m <sup>3</sup>	92.7	96.1	90.6	91.6	<b>86.1</b>
- per unit of product, m <sup>3</sup> /t	6.35	6.31	5.88	5.77	<b>5.30</b>
Pollutants discharge, '000 t	2.9	0.2	16.4	16.1	<b>15.9</b>
— per unit of product, kg/t	0.2	0.0	1.1	1.0	<b>1.0</b>
Waste production, m t	5.50	5.61	4.98	4.25	<b>2.85</b>
Waste disposal, %	95.9%	93.7%	95.9%	93.6%	<b>86.9%</b>
Additional:					
— stripping waste, m t	37.5	40.2	40.6	37.8	<b>35.7</b>
— beneficiation tailings, m t	16.3	17.0	17.4	17.6	<b>18.2</b>
Total waste production, m t	59.3	62.8	63	59.6	<b>56.8</b>
Waste disposal including mining waste, %	15.9%	15.4%	14.0%	14.5%	<b>12.9%</b>
Environmental spendings**, \$ m	134.5	143.1	104.1	105.3	<b>98.1</b>
Capital costs, \$ m	38.9	48.5	49.1	50.9	<b>37.6</b>
Operating costs, \$ m	100.6	88.3	55.6	57.1	<b>66.3</b>
Total energy consumption, m kWh	39,383	40,015	39,379	39,244	<b>37,312</b>
Specific energy intensity***, Gcal/t	5.7	5.7	5.7	5.6	<b>5.5</b>
Energy consumption, m kWh	10,024	10,417	10,392	10,667	<b>10,853</b>
Fuel consumption – natural gas, m m <sup>3</sup>	2,713	2,730	2,729	2,616	<b>2,381</b>

\* NLMK Group's Russian facilities

\*\* Excluding revenue from by-products (waste) sales

\*\*\* Energy intensity calculations include coal, coke, heat, gas, electricity and other energy resources



# **Financial statements and appendix**



## RESPONSIBILITY STATEMENT

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

Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with IFRS, as of December 31, 2017 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 subsidiaries and dependent companies in the consolidated financial statements.

The completeness and correctness of the information submitted in the NLMK Group Annual Report for 2017, 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 2017 and main changes regarding the previous periods as well as give a comprehensive representation on the development of NLMK and its subsidiaries and dependent companies.

President (Chairman of the Management Board)



G. Fedorishin



**PJSC Novolipetsk Steel Internal Audit Commission**  
**FINAL REPORT**  
**on financial results and operational activities audit for FY2017**

Lipetsk

April 19, 2018

The Internal Audit Commission of the PJSC Novolipetsk Steel (hereinafter referred to as PJSC NLMK, Company) has conducted an audit of the financial results and operational activities for FY2017 to verify the accuracy of the data contained in the PJSC NLMK Annual Accounting (Financial) statements and PJSC NLMK Annual Report for the year 2017. As well as to verify the compliance of the data with the requirements of current legislation, internal organizational and administrative documents of the Company.

The Internal Audit Commission performed the audit in accordance with the current legislation, the Company's Charter, the Regulations on the Internal Audit Commission of the Company.

As a part of the audit, a sampling study of facts and circumstances that possibly could lead to distortion of information on business transactions reflected in the Company's accounting records was carried out.

The sampling study included an audit of documents and a study of evidence supporting the accounting data and notes disclosed in the Annual Accounting (Financial) statements and the PJSC NLMK Annual Report for the year 2017.

The Internal Audit Commission has not identified any significant errors, violations of the current legislation, orders and other administrative documents of the Company, serious violations of the established procedure of maintaining the accounting records of assets, liabilities and business transactions that could materially distort information about the Company's financial position and significantly affect the fairness of the Annual Accounting (Financial) statements and the Annual Report for the year 2017 of PJSC NLMK.

Members of the Internal Audit Commission have reasonable grounds to confirm the accuracy of the data contained in the PJSC NLMK Annual accounting (financial) statements and PJSC NLMK Annual Report for the year 2017 in all material aspects.

Chairman of the Internal Audit Commission  
PJSC NLMK



M. Makeev

**Information about Annual Report 2017 approval procedure**

<b>№</b>	<b>Stage</b>	<b>Document</b>
1	Preliminary approve NLMK's 2017 Annual Report by the Board of Directors.	MoM № 255 dd. 27.04.2018
2	Approval of NLMK's 2017 Annual Report by the General Shareholders' meeting.	MoM № 50 dd. 08.06.2018

**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 section, Analysis of NLMK's operations in 2017
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 2017 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 Directors on acquisition or disposal of the Company's shares	70.3.	In compliance	The information is presented in Corporate Governance booklet, Management Composition section, Report on the Management Board's Activity
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	70.3.	In compliance	The information is presented in Corporate Governance booklet, Management Composition section

	a joint-stock company			
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 subsidiaries and affiliates as of 31.12.2017.**

No	Company name	Address	Activity	Novolipetsk in Charter Capital (%)
1	2	3	4	5
<b>Subsidiary companies</b>				
1.	VIZ-Steel, Limited Liability Company	28 Kirova St., GSP-714, Ekaterinburg, 620219, Russia	Production and marketing of electrical steel.	100
2.	Vtorchermet NLMK, Limited Liability Company	3 Novinskaya St., Yekaterinburg, 620024, Russia,	Collection, processing and sales of ferrous and non-ferrous scrap	100
3.	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
4.	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
5.	Hotel Metallurg, Limited Liability Company	36 Lenina St., Lipetsk, 398020, Russia	Hotel services	100
6.	NLMK Information Technologies, Limited Liability Company	Lipetsk, Russia	IT, computing and telecom services.	100
7.	NLMK Kaluga, Limited Liability Company	6 estate, bld. 1, 20, Lyskina Str., village Vorsino, Borovsk district, Kaluga region, 249020, Russia	Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel	100
8.	NLMK-Metiz, Limited Liability Company	5, Koltsevaya Str, Beryozovsky 623704, Sverdlovsk Region, Russia	Production of pig iron, ferrous alloys, steel, hot and cold-rolled flat steel	100
9.	NLMK-Svyaz, Limited Liability Company	Lipetsk, Russia	Telecom services	100

10.	NLMK-Sort (NLMK Long Products), Limited Liability Company	3 Novinskaya Str., Ekaterinburg, 620024, Russia	Managing company, trading and procurement activities	100
11.	NLMK-Uchetniy Tsent (Accounting Centre), Limited Liability Company	Lipetsk, Russia	Book-keeping and tax accounting services for NLMK Group businesses	100
12.	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
13.	Novolipetskaya Metallobaza, Limited Liability Company	8 Almaznaya St., Lipetsk, Russia	Manufacturing of plastic and steel products	100
14.	Novolipetsky Pечатny Dom (Printing House), Limited Liability Company	Russia, Lipetsk	Printing services	100
15.	Novolipetsky Metallurg Resort, a subsidiary of Novolipetsk	25 Chekhova Lane, Morskoye Village, Sudak, Crimea, 298033, Russia	Rest and recreation services, health and rehabilitation facility.	100
16.	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
17.	NLMK Trade House, Limited Liability Company	Moscow, Russia	Consolidated purchases of raw materials and inputs, sale of NLMK Group by-products	100
18.	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
19.	Altai-Koks, Open Joint-Stock Company	2, Pritaezhnaya st, Zarinsk, Altaysky region 659107, Russia	Production and marketing of coke and by-products, generation and marketing of heat and electric power	100
20.	Dolomit, Open Joint-Stock Company	1 Sverdlova St., Dankov, Lipetsk Region, Russia,	Mining and processing of dolomite	100
21.	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
22.	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

23.	«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
24.	«NLMK-Engineering» Joint-Stock Company	1 Kalinina str. , Lipetsk, Russia	Design and survey operations	57,57
25.	Maxi-Group, Joint-Stock Company	18 3-rd Yamskova polya st., Moscow , Russia, 125040,	Consulting services, corporate financial management	50,00005
<b>Affiliated companies</b>				
26.	Neptune, Limited Liability Company	Office 35, 1C Adm. Makarova St., Lipetsk, 398005 Russia	Wellness services	25,00



**Usage of energy resources of NLMK (Novolipetsk) in 2016-2017.**

	Item	2017	2016	Change, %
Electro energy	mln kWth	3 184	3 075	4%
	mln of RUB with VAT	10 447	9 579	9%
Natural gas	mln m3.	2 143	2 429	-12%
	mln of RUB with VAT	11 185	12 179	-8%
Heating energy	GCal	122 725	147 256	-17%
	mln of RUB with VAT	200	233	-14%
Gas oil	'000 liters	23 432	24 394	-3,9
	mln of RUB with VAT	755	679	11,3
Benzine	t	552	650	-15,1
	mln of RUB with VAT	26	28	-5,4
Heating oil	t	1108	7304	-84,8
	mln of RUB with VAT	5,6	37	-84,9
Coking coal	'000 t	4 218	3 893	8,3%
	mln of RUB with VAT	45 643	28 122	62,3%

**List of transactions performed by NLMK in 2017,  
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 2017, 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 2017,  
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 2017, NLMK's General Shareholders' meeting did not pass any resolutions on the approval of interested-party transactions.

N o.	Material terms of the transaction	Management body that passed the resolution to approve the transaction	Party (parties) interested in the transaction
	<p>The transaction - Agreement on a Revolving Secured Credit Facility between Novolipetsk Steel (the Guarantor) and NLMK Indiana LLC, NLMK Pennsylvania LLC, Sharon Coating LLC, NLMK North America Plate LLC (the Borrowers).</p> <p>Coordinator and Book Runner: Bank of America Merrill Lynch International Limited.</p> <p>Mandated Lead Arrangers: Bank of America Merrill Lynch International Limited, JPMorgan Chase Bank, N.A. and Citibank, N.A.</p> <p>Facility Agent, Security Agent, Issuing Bank: Bank of America, N.A., Original Lenders: Bank of America, N.A., JPMorgan Chase Bank, N.A. and Citibank, N.A.</p> <p>The amount of the transaction: US\$ 250,000,000 (RUB 14,434,700,000 at the Russian Central Bank rate as of 15.02.2017, which is the transaction date).</p> <p>The transaction maturity is 48 months from the date of the agreement.</p>	<p>The transaction was not subject to approval.</p> <p><i>According to P. 1.1, Article 81 of Federal Law dd. 26 December 1995 No. 208-FZ 'On Joint-Stock Companies', the Issuer notified the authorized persons of the related-party transaction within the statutory period. There were no requests submitted for the approval of the transaction, as provided for by Article 83 of Federal Law dd. 26 December 1995 No. 208-FZ 'On Joint-Stock Companies'.</i></p>	<p>Member of NLMK's Board of Directors O. Bagrin</p>

**R E P O R T**  
**on compliance with the Corporate Governance Code principles and recommendations**

This report on compliance with the Corporate Governance Code principles and recommendations was considered by NLMK’s Board of Directors at a meeting on 27 of April, 2018 (MoM № 255).

The Board of Directors confirms that the data presented in this report contains complete and reliable information about the Company's compliance with the Corporate Governance Code principles and recommendations in 2017.

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	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
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 ensures the most favourable conditions for shareholders to participate in the AGM as well as conditions to elaborate a well-grounded stand with regard to the AGM agenda items, to coordinate their actions as well as a possibility to express their opinions in relation to the items under consideration.	<p>1. The Company's internal document approved by the AGM and regulating the AGM procedures is publicly available.</p> <p>2. The Company provides an accessible way of communication: a 'hot line', e-mail or a web-based message board, which allow shareholders to express their opinion and ask about the agenda in preparation to the Annual General Shareholders Meeting. The Company ensured the compliance with the above mentioned criteria shortly before the convocation of every General Meeting within the reporting period.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
1.1.2	The procedure of AGM holding and submission of materials for the AGM shall enable shareholders to get properly prepared for participation therein.	<p>1. A notice of the General Shareholders' Meeting is published on the Company's Internet website at least 30 days prior to the date of the meeting.</p> <p>2. The notice of the AGM specifies the venue of the meeting and the documents needed to get access to the venue.</p> <p>3. Shareholders have an access to the information who proposed the agenda items and who nominated the candidates for election to the BoD and Audit commission of the Company.</p> <p>1.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	



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 BoD questions and to communicate with each other freely and in a timely manner.	<p>1. In the reporting period shareholders were given a chance to ask members of executive bodies and of the Company's BoD shortly before the convocation and during the Annual General Shareholders' Meeting.</p> <p>2. The opinion of the BoD (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.</p> <p>1. 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.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<p>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.</p> <p>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.</p> <p>1.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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. 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.1.6	The rules of AGM 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.	<p>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.</p> <p>2. Candidates to management and supervision bodies of the Company were available to answer questions from shareholders in those meetings where their nominations were put to vote.</p> <p>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.</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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 understandable mechanism for determining the amount of dividends and their payment.	<p>1. The Dividend policy was developed by the Company, approved by the BoD and disclosed.</p> <p>2. 2. If the Company's Dividend Policy uses the Company's financial statements to determine the amount dividends to be distributed, the respective provisions of the Dividend Policy take into account the Company's consolidated financial statements.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 making 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 affiliated (related) persons with 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	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 management and supervisory bodies of the Company including conditions ensuring inadmissibility of abuse of minor shareholders by major shareholders.	1. During the reporting period the procedures for managing potential conflict of interest between major shareholders have been effective; the Board of Directors have paid due attention to conflicts between the shareholders.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 did not participate in voting within the reporting period.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 executive bodies of the Company, 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 those caused by 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.	<p>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.</p> <p>1. 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</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

2.1.2	The Board of Directors sets the key guidelines for the Company's long-term activities, evaluates and approves key business indicators and main business objectives of the Company, evaluates and approves strategy and business plans related to the 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 intermediate ones) of the Company's strategy and business plans execution.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 of the Company's risk management and internal control systems.  1. 2. The Board of Directors evaluated the Company's risk management and internal control systems within the reporting period	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 managers of the Company.	<p>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 managers of the Company.</p> <p>2. During the reporting period, the Board of Directors reviewed the issues related to the above mentioned policy (policies).</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<p>1. The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts.</p> <p>2. The Company established a system designed to identify transactions related to a conflict of interests and a set of measures aimed at the settlement of such conflicts</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<p>1. The Board of Directors approved the Regulations on Information Policy.</p> <p>1. 2. The Company appointed persons responsible for ensuring compliance with the Information Policy.</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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. 1. During the reporting period the Board of Directors reviewed the corporate governance practices of the Company.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.  1. 2. Annual report contains information on the key results of evaluation of the Board of Directors' activities performed during the reporting period.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

2.2.2	Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
2.3	The Board of Directors is an effective and professional management 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 effectiveness 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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. 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 the 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	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
2.3.3	The composition of the Board of Directors is well balanced, including In terms of qualifications, experience, knowledge and business qualities of its members; it 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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. 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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. 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<p>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.</p> <p>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.</p> <p>1. 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.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
2.4.3	At least one third of the elected members of the Board are independent directors.	1. 1. At least one third of members of the Board are independent directors.	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

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. 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	1. Non-compliance  A Board member who made a significant contribution to the Company's development and who has the most extensive expertise, professional competence and authority among shareholders, members of the governing bodies and employees of the Company was elected Chairman of the Board. At the same time, most Board members are independent directors, who thus play a key role in the work of the Board of Directors. Each of them has an option of face-to-face interaction with the Chairman of the Board. This way, the Company believes, the optimal structure of the Board of Directors is achieved, which contributes to the effective operation of the body. The Company monitors the situation and, if necessary, will take appropriate steps to review this structure.  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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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. 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<p>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.</p> <p>2. Internal documents of the Company state that a Board member must refrain from voting on any item they have a conflict of interest.</p> <p>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.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
2.6.2	The rights and obligations of the Board members are clearly worded and stated in the Company's internal documents.	1. 1. There is a published document in effect in the Company, which clearly defines the Board members' rights and obligations.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	



2.6.3	The Board members have enough time to perform their duties.	<p>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.</p> <p>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.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
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.	<p>1. 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.</p> <p>2. The Company has a formal induction procedure for newly elected members of the Board</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.7.3	The form of holding 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. 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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. 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.	<input type="checkbox"/> Compliance ensured  <input checked="" type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	<p>In accordance with the Charter, decisions on most of the issues that are in 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</p> <p>Considering the high attendance of meetings by the members of the Board of Directors of the Company and the preliminary study of the most important issues by independent directors in the framework of the Committees under the Board of Directors, the maximum consideration of the opinions of all members of the Board of Directors is ensured.</p>
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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.	<p>1. The Board of Directors has set up the Audit Committee consisting only of independent directors.</p> <p>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.</p> <p>3. At least one member of the Audit Committee who is an independent director has experience and knowledge about the compilation, analysis, evaluation and audit of accounting (financial) statements.</p> <p>4. Meetings of the Audit Committee were held at least once per quarter during the reporting period.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. Partially compliance</p> <p>When composing the Audit Committee, the Board of Directors 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 the 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 monitors the situation and will take reasonable steps to correct the specified structure if necessary.</p> <p>2. Compliance ensured</p> <p>3. Compliance ensured</p> <p>4. Compliance ensured</p>

2.8.2	For the pre-review 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.	<p>1. The Board of Directors has set up a Remuneration Committee that consists of independent directors only.</p> <p>2. The Chairman of the Remuneration Committee is an independent director who is not Chairman of the Board.</p> <p>1. 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.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. Partial compliance</p> <p>When the Board of Directors formed The Human Resources, Remuneration and Social Policies Committee, it was guided by the existence of professional experience, special knowledge and skills among the members of the Board of Directors that would enable them to make a significant contribution to the work of the Committee as well as by the status of 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.</p> <p>This structure of the committee in the opinion of the Company is optimal. The company monitors the situation and, in the event of prerequisites, takes available measures to correct this structure.</p> <p>2. Compliance ensured</p> <p>3. Compliance ensured</p>
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. 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.	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

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. 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's. Additional committees have either been formed or deemed unnecessary.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 (policies) 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.	<input type="checkbox"/> Compliance ensured  <input checked="" type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	1. Partial compliance Pursuant to the recommendations of the Corporate Governance Code, the Audit Committee and the HR, Remuneration and Social Policies Committee of the Company are chaired by independent directors. Besides these Committees, the Board of Directors has established a Strategic Planning Committee chaired by the Chairman of the Board, which the Company believes to ensure maximum efficiency of this Committee.  2. Compliance ensured



2.8.6	Committee chairmen regularly inform the Board of Directors and its Chairman of their respective Committees' performance.	1. Within the reporting period the committee chairmen regularly reported on the performance of the committees to the Board of Directors	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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. The results of self-evaluation or external evaluation of the Board of Directors were reviewed at the Board of Directors' meeting held in-person.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

2.9.2	Performance evaluation of the Board of Directors, its committees and Board members is carried out on a regular basis at least once a year. Independent performance evaluation of the Board of Directors is carried out at least once every three years by an independent auditor (consultant).	1. 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).	<input type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input checked="" type="checkbox"/> Non-compliance	<p>Within the framework of the formalized procedure, in January 2017 an evaluation (self-assessment) of the performance of the Board of Directors of the Company was conducted.</p> <p>The results of the self-assessment of the Board of Directors were considered at the internal meeting of the Board of Directors in March 2017.</p> <p>In March 2017, the Board of Directors of the Company decided to conduct another evaluation of the work of the Board of Directors in February 2018 and conduct an appraisal with the involvement of an independent organization (consultant) in February 2019.</p>
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.	<p>1. The Company has adopted and disclosed an internal document: Regulations on the Corporate Secretary.</p> <p>2. The CV of a Corporate Secretary with the same level of detail as for a Board member and the Company's executive management is available at the Company's website and in the Annual Report.</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 managers 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 managers is enough 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 pay a higher than necessary remuneration as well as to have an unreasonably large gap between remuneration of the executives and the Company's 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 managers, which expressly establishes approaches to remuneration paid to these persons.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 correspondent recommendations to the Board of Directors.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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 managers of the Company, and regulates all types of payments, benefits and privileges granted to the these persons.	1. 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 managers of the Company; and regulates (regulate) all types of payments, benefits and privileges granted to the these persons.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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 managers 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 managers of the Company.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

4.2	System of remuneration of the 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 the members of the Board of Directors.	1. 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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 the members of the Board of Directors do not participate in option programmes.	1. 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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. 1. Additional payments or compensations in case of early termination of the Board members' appointment in connection with the transfer of control over the Company or other circumstances are not foreseen in the Company.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

4.3	The Company's Remuneration system regarding members of executive bodies and other key managers 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 managers 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.	<p>1. Within the reporting period annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of the members of executive bodies and other key managers of the Company.</p> <p>2. During the last evaluation of the Company's remuneration system regarding members of executive bodies and other key managers, 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.</p> <p>3. The Company provides for a procedure that ensures that the Company's bonuses that have been illegally received by the members of executive bodies and other key managers of the Company are returned to the Company.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. Compliance ensured</p> <p>2. Compliance ensured</p> <p>3. Non-compliance</p> <p>The Company uses a clear mechanism for paying bonuses to members of executive bodies and other senior officials. The participation of the Board of Directors and the The Human Resources, Remuneration and Social Policies Committee in the approval process of the annual bonus to members of the executive bodies makes it impossible to illegale payments arise. Company is ensured that this system eliminates the need for an additional procedure for the return of bonuses. The Company monitoring the mechanism of payment of bonuses and, will take measures to correct the system if necessary.</p>
4.3.2	The Company has implemented a long-term incentive programme for the members of executive bodies and other key managers of the Company using the Company's shares (options or other derivative financial instruments based on the Company's shares ).	<p>The Company has implemented a long-term incentive programme for the members of executive bodies and other key managers of the Company using the Company's shares (financial instruments based on the Company's shares).</p> <p>2. The long-term incentive programme for the members of executive bodies and other key managers 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</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>The long-term motivation program with the use of shares price has been recognized as ineffective and does not apply, because of high volatility of shares prices due to market speculations.</p> <p>The company introduced a long-term motivation program for members of executive bodies and other key executives without using shares prices (or other stock-based financial instruments).</p>



4.3.3	The amount of compensation (golden parachute) paid by the Company to the members of executive bodies or other key managers 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 the annual remuneration.	1. 1. The amount of compensation (golden parachute) paid by the Company to the members of executive bodies or other key managers 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 the annual remuneration in the reporting period.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
5.1	There is an efficiently functioning system of risk management and internal control established in the Company, aimed at providing reasonable assurance that the Company will achieve its set targets.			
5.1.1	The Board of Directors defines the principles and approaches to the Company's risk management and internal control system.	1. 1. The Company's internal documents/correspondent policy approved by the Board of Directors explicitly defines the functions of the Company's various management bodies and subdivisions in the system of risk management and internal control.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

5.1.2	The Company's executive bodies ensure the establishment and maintenance of a functioning and efficient risk management and internal control system in the Company.	1. 1. The Company's executive bodies ensured the distribution of functions and authority regarding risk management and internal control between the managers (heads) of subdivisions and departments reporting to them.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
5.1.3	Risk management and internal control system in the Company provides for objective, fair and clear understanding of the Company's current condition and prospects, integrity and transparency of the Company's statements, reasonability and acceptability of risks assumed by it.	1. Anti-corruption policy has been approved in the Company.  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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
5.1.4	The Company's Board of Directors takes the necessary measures to ensure that the risk management and internal control system of the Company functions efficiently and corresponds to the principles and approaches determined by the Board of Directors.	1. 1. During the reporting period the Board of Directors or the Board's Audit Committee has evaluated the efficiency of Company's risk management and internal control system. Outcomes of this evaluation are included into the Company's annual report.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

5.2	For a systematic independent evaluation of reliability and efficiency of the risk management and internal control system and corporate governance practices the Company arranges internal audits.			
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 Division are separated. The Internal Audit Division is functionally reports to the Board of Directors.	1. A separate structural subdivision has been set up in the Company for internal audit which functionally reports to the Audit Committee and the Company's Board of Directors; or an independent auditor has been engaged under the same accountability principle.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
5.2.2	The Internal Audit Division evaluates the efficiency of the internal control, risk management and also 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 systems.  1. 2. The Company is guided by generally accepted approach to internal control and risk management.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

6.1	The Company and its activity are transparent for its shareholders, investors and other stakeholders.			
6.1.1	The information policy has been developed and implemented in the Company, which ensures efficient information interaction of the Company, shareholders, investors and other stakeholders.	<p>1. The Company's Board of Directors has approved the Company's Information Policy developed with regard to recommendations of the Code.</p> <p>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.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
6.1.2	The Company discloses information on the system and practice of corporate governance including detailed information on observance of the principles and recommendations of the Code.	<p>1. The Company discloses information on the corporate governance system in the Company and on the general principles of corporate governance used in the Company including on the Company's web-site in the Internet.</p> <p>2. The Company discloses information on the executive bodies and the Board of Directors, independence of the Board members and their membership in the Committees of the Board of Directors (in accordance with the definition of the Code).</p> <p>3. . If there is a person controlling the company the company publishes a memorandum of the controlling person regarding the plans of this person concerning corporate governance in the company.</p>	<input type="checkbox"/> Compliance ensured  <input checked="" type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	<p>1. Compliance</p> <p>2. Compliance ensured</p> <p>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. In case of receipt of statements from the controlling person regarding their plans for corporate governance, the Company undertakes to publish such statements on the website.</p>

6.2	The Company timely discloses complete, relevant and reliable information on its activities to enable shareholders and investors to make informed decisions.			
6.2.1	The Company timely discloses complete, relevant and reliable information on its activities enabling its shareholders and investors to make informed decisions.	<p>1. The Information Policy of the Company defines the approaches and criteria for determining information that can significantly impact the Company's valuation and the value of its securities; it also defines procedures ensuring timely disclosure of such information.</p> <p>2. If the securities of the Company 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.</p> <p>3. If foreign shareholders own a significant quantity of the Company's shares the information was disclosed not only in Russian but also in one of the most common foreign languages.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
6.2.2	The Company avoids a box-ticking approach while disclosing information; it discloses significant information on its activities even if such disclosure is not required by law.	<p>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.</p> <p>2. 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.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<p>1. The Company's Annual Report contains information on the key aspects of the Company's operations and its financial performance.</p> <p>2. The Company's Annual Report contains information on environmental and social aspects of the Company's activities.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<p>1. In the reporting year the Company didn't refuse to satisfy the shareholders' requests to provide information or such refusals were justified.</p> <p>1. 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.</p>	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> 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.	<p>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 the shareholders.</p> <p>1. 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.</p>	<input type="checkbox"/> Compliance ensured  <input checked="" type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	<p>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.</p> <p>In cases when such corporate actions are statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to the shareholders.</p> <p>The Company evaluates the advisability of including the term "material corporate events" in internal documents.</p>

7.1.2	The Board of Directors plays a key role in making decisions or recommendations regarding the material corporate events; the Board of Directors relies on the opinion of the Company's Independent Directors.	1. 1. The Company has a procedure ensuring that the independent directors declare their opinion on material corporate events before they are approved.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.  1. 2. During the reporting period all the material corporate actions underwent an approval procedure prior to their implementation.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> 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.  In the opinion of the Company, no further measures are required at present to protect the rights and legitimate interests of shareholders. The Company monitors the system for protecting the rights and legitimate interests of shareholders and, if necessary, will take appropriate steps to review it.  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. 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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.	<p>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.</p> <p>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.</p> <p>1. 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.</p>	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	<p>1. Partial compliance The Company engages an independent appraiser in cases set out in the legislation of the Russian Federation.</p> <p>2. Compliance ensured</p> <p>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.</p> <p>The Company monitors the system and, if necessary, will take appropriate steps to review it.</p>

## 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 31.12.2017	
							RUB.	As a % from declared
2017	9 month	5,13	22.12.2017	30 745 255 741,20	147	from 10.01.2018 to 13.02.2018 (including)	30 738 796 343,55***	99,98***
2017	6 month	3,20	29.09.2017	19 178 327 168	96	from 13.10.2017 to 17.11.2017 (including)	19 155 126 252,66	99,88
2017	3 month	2,35	02.06.2017	14 084 084 014	77	from 15.06.2017 to 19.07.2017 (included)	14 065 738 755,13	99,87
2016	year	9,22 (Taking into account payed interim dividends RUB3,38 per share to be paid)	02.06.2017	55 257 555 152,80 (Taking into account payed interim dividends RUB 20 257 108 071,20 to be payed.)	98	from 15.06.2017 to 19.07.2017 (including)	55 190 158 974,49	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)	21 728 690 673,11	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)	6 464 783 456,93	99,88
2016	3 month	1,13	03.06.2016	6 772 346 781,20	178	from 15.06.2016 to 19.07.2016 (included)	6 764 096 019,91	99,88
2015	year	6,95 (Taking into account payed	03.06.2016	41 652 929 318 (Taking into account payed	67	from 15.06.2016 to 19.07.2016 (including)	41 602 467 921,97	99,88

Year	Period	Dividend per share, RUB.	Declaration date	Amount, RUB.	As a % of Net Income*	Date of payment	Paid** as at 31.12.2017	
							RUB.	As a % from declared
		interim dividends RUB 2,43 py6 per share to be paid)		interim dividends RUB 14 563 542 193,20 to be payed)				
2015	9 month	1,95	21.12.2015	11 686 793 118	40	from 09.01.2016 to 12.02.2016 (including)	11 672 564 059,65	99,88
2015	6 month	0,93	30.09.2015	5 573 701 333,20	50	from 13.10.2015 to 17.11.2015 (including)	5 566 945 471,50	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)	9 816 972 011,98	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 payed)	36	from 17.06.2015 to 21.07.2015 (including)	14 605 946 646,81	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)	5 267 750 818,07	99,88
2013	year	0,67	06.06.2014	4 015 462 250,8	61	from 18.06.2014 to 22.07.2014 (including)	4 010 751 180,49	99,88
2012	year	0,62	07.06.2013	3 715 800 888,80	20	from 08.06.2013 to 07.08.2013	3 709 866 217,43	99,84

\* - 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, 2017 dividends payment deadline has not expired. The data is related to the expiry date of the dividend payout period the 9 months of 2017 - deadline expiring – February 13, 2018.

**FINANCIAL STATEMENTS**

- Part 1 – CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
- Part 2 – FINANCIAL STATEMENTS OF PAO “NLMK” (RAS)





**NOVOLIPETSK STEEL**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

**AS AT AND FOR THE YEAR ENDED  
31 DECEMBER 2017**

**(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

## CONTENTS

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



## *Independent auditor's report*

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

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### *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 2017, 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 2017;
  - profit or loss for the year ended 31 December 2017;
  - comprehensive income for the year ended 31 December 2017;
  - changes in equity for the year ended 31 December 2017;
  - cash flows for the year ended 31 December 2017; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### *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: 100 million US Dollars (USD), which represents 1% of the Group's consolidated revenue
- We conducted audit work at 12 components (entities or business activities, which prepare financial information that is included in the consolidated financial statements) in six countries
- The Group engagement team visited the Group companies in the Russian Federation and United States of America and also the joint venture located in Belgium
- Our audit scope covered 91% 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 – Accounting for the investment in NLMK Belgium Holdings S.A. (hereinafter – NBH)
- Key Audit Matter 3 – Determination of the carrying value of the investment in NBH

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made 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.

### 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 consolidated financial statements.

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

<b>Overall Group materiality</b>	USD 100 million (2016: USD 71 million)
<b>How we determined it</b>	1% of the Group's consolidated revenue
<b>Rationale for the materiality benchmark applied</b>	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 misstatements and/or possible misstatements into account 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 accompanying consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion on these consolidated financial statements and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p><b>1. Management's assessment of the carrying value of goodwill, intangible assets and property, plant and equipment</b></p> <p><i>Refer to Notes 8 and 9 to the consolidated financial statements</i></p> <p>The Group management performed an analysis of existence of indicators of impairment of the Group's property, plant and equipment (PP&amp;E), intangible assets and goodwill as at 30 September 2017, that revealed:</p> <ul style="list-style-type: none"> <li>• high volatility on the market of finished products and raw materials (coal and ore); and</li> <li>• continuing recovery of the US economy followed by strong prices on steel products.</li> </ul> <p>The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment or potential reversal of previously recognised impairment.</p> <p>The recoverable amount of PP&amp;E, intangible assets and goodwill for each CGU subject to testing was calculated by management as of 30 September 2017 and updated based on the</p>	<p>We obtained, understood and evaluated management's impairment models. We involved our valuation experts to assist in the evaluation of the methodology, mathematical accuracy and assumptions used in the models.</p> <p>Specific work performed over the impairment test included:</p> <ul style="list-style-type: none"> <li>• comparing the key assumptions used within the impairment models to the historic performance of the respective CGUs and approved estimates;</li> <li>• 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;</li> </ul>

Key audit matter	How our audit addressed the Key audit matter
<p>actual performance of the CGUs as of 31 December 2017.</p> <p>IFRS require management to assess the recoverable amount of each CGU subject to testing, as the higher of its value in use and its fair value less cost to sell. Management assessed the value in use for each such CGU using discounted cash flow models, and concluded that it is higher than fair value less cost to sell, as the assumptions of an average market participant for a similar company would generally be the same or, in some cases, even more conservative. Therefore the recoverable amount was determined as value in use.</p> <p>As a result of the testing performed, management concluded that no impairment or reversal of previously recognised impairment were required as of 31 December 2017.</p> <p>We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.</p>	<ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>validating the key assumptions used in the impairment models also as of 31 December 2017;</li> <li>assessing compliance with the requirements of IFRS of the related disclosures in the consolidated financial statements.</li> </ul> <p>As a result of performing the above procedures, we have not identified any circumstances that would lead to material adjustments to the carrying value of goodwill, intangible assets and PP&amp;E, recorded in the accompanying consolidated financial statements, or to the related disclosures.</p>

## 2. Accounting for the investment in NBH

*Refer to Notes 4 and 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), which is accounted for using the equity method. Its carrying value as of 31 December 2017 was USD 194 million. In selecting the method of accounting for this investment, management made a judgement as to the assessment of joint control over NBH.

We focused on this area because of its significance and the degree of judgement involved in classification of the investment in NBH. We also considered whether there were facts and circumstances which would trigger reassessment of the accounting treatment as required by IFRS.

Our audit work in respect of the management judgement as to existence of control / joint control / significant influence that impacts classification of the investment in NBH and the accounting method (consolidation or equity method), included:

- inquiries of management of different levels both in Russia and in Belgium;
- review of the shareholders' agreement and charter documents;
- review of minutes of meetings of NBH Board of directors and shareholders' meetings to corroborate the assertion on joint decision making.

As a result, we concurred with the management's assessment of existence of joint control and with the classification and the accounting treatment of the investment in NBH as of 31 December 2017 in the consolidated financial statements.

Key audit matter	How our audit addressed the Key audit matter
<p><b>3. Determination of the carrying value of the investment in NBH</b></p> <p><i>Refer to Note 4 and Note 26(d) to the Consolidated Financial Statements</i></p> <p>In December 2017, the Group contributed an additional USD 84 million into the share capital of NBH. This contribution was made to increase the net assets of NBH to the minimum level prescribed by the Belgium law and was in the form of conversion of a loan previously issued to NBH.</p> <p>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.</p> <p>Management performed an analysis of the business performance, industry outlook and operational plans and then assessed the recoverable value of the CGUs within NBH for the purpose of impairment testing of the investment in the share capital of NBH. As a result of this impairment testing performed by management, no additional impairment/reversal of previously recognized impairment was identified as of 31 December 2017.</p> <p>We focused on this area as the amount of contribution made and the judgement over impairment of the investment in NBH are significant for the consolidated financial statements taken as a whole.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• agreeing the amount of the Group's additional contribution into the share capital to supporting documentation;</li> <li>• obtaining evidence over SOGEPA's participation in NBH activities, including review of minutes of meetings of NBH Board of directors and Shareholders' meetings to confirm joint decision making;</li> <li>• testing management's impairment assessment of the investment in NBH. We performed audit procedures over the impairment models, including: <ul style="list-style-type: none"> <li>○ comparing the key assumptions used within the impairment models to historic performance and approved forecasts of the three CGUs within NBH;</li> <li>○ performing sensitivity analysis over key assumptions (for example, weighted average cost of capital, sales prices and volumes forecasts);</li> <li>○ involving our valuation experts to assess the appropriateness of management's impairment models;</li> <li>○ verifying accuracy of the carrying value of the investment in NBH.</li> </ul> </li> </ul> <p>For more details in respect of work performed over key assumptions refer to the Key audit matter 1 above.</p> <p>We compared the carrying value of the investment in the share capital of NBH as of 31 December 2017 to its recoverable amount and did not identify any material adjustments to the carrying value of investment in NBH in the accompanying consolidated financial statements.</p>





### **How we tailored our group audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic 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 companies are based out of Switzerland and Cyprus. Based on our continuing assessment, we included in our group audit scope the 12 components located in these regions.

The audits of the components were conducted by PwC network firms in the Russian Federation, USA, Denmark, Belgium, Switzerland and Cyprus 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.

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### ***Other information***

Management is responsible for the other information. The other information comprises information included in the Group Annual Report for 2017 and the Issuer's Report for the first quarter of 2018, 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 referred to 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.

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### ***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.

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### *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 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.

*AO PricewaterhouseCoopers Audit*

19 February 2018  
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

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

	Note	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	3	301	610	343
Short-term financial investments	5	1,284	970	1,243
Trade and other accounts receivable	6	1,228	955	921
Inventories	7	1,879	1,549	1,205
Other current assets		19	19	9
		<b>4,711</b>	<b>4,103</b>	<b>3,721</b>
<b>Non-current assets</b>				
Long-term financial investments	5	2	164	220
Investments in joint ventures	4	205	181	118
Property, plant and equipment	8	5,549	5,328	4,452
Goodwill	9	265	253	215
Other intangible assets	9	135	126	112
Deferred income tax assets	17	84	62	68
Other non-current assets		45	22	12
		<b>6,285</b>	<b>6,136</b>	<b>5,197</b>
<b>Total assets</b>		<b>10,996</b>	<b>10,239</b>	<b>8,918</b>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade and other accounts payable	10	1,029	888	565
Dividends payable		537	361	161
Short-term borrowings	11	380	468	560
Current income tax liability		53	12	28
		<b>1,999</b>	<b>1,729</b>	<b>1,314</b>
<b>Non-current liabilities</b>				
Long-term borrowings	11	1,901	1,801	2,116
Deferred income tax liability	17	417	386	339
Other long-term liabilities		33	13	12
		<b>2,351</b>	<b>2,200</b>	<b>2,467</b>
<b>Total liabilities</b>		<b>4,350</b>	<b>3,929</b>	<b>3,781</b>
<b>Equity attributable to Novolipetsk Steel shareholders</b>				
Common stock	12(a)	221	221	221
Additional paid-in capital	23(e)	10	10	10
Accumulated other comprehensive loss		(5,631)	(5,978)	(6,989)
Retained earnings		12,029	12,039	11,883
		<b>6,629</b>	<b>6,292</b>	<b>5,125</b>
Non-controlling interests		17	18	12
<b>Total equity</b>		<b>6,646</b>	<b>6,310</b>	<b>5,137</b>
<b>Total liabilities and equity</b>		<b>10,996</b>	<b>10,239</b>	<b>8,918</b>

The consolidated financial statements as set out on pages 11 to 69 were approved by the Group's management and authorised for issue on 19 February 2018.

	Note	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue	14	10,065	7,636	8,008
Cost of sales		(6,798)	(5,074)	(5,496)
<b>Gross profit</b>		<b>3,267</b>	<b>2,562</b>	<b>2,512</b>
General and administrative expenses		(364)	(316)	(261)
Selling expenses		(795)	(705)	(802)
Other operating income		3	16	14
Taxes, other than income tax	16	(80)	(70)	(76)
<b>Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment</b>		<b>2,031</b>	<b>1,487</b>	<b>1,387</b>
Loss on disposals of property, plant and equipment		(1)	(3)	(8)
Impairment of non-current assets	4, 8, 9	(17)	(14)	(85)
Share of results of joint ventures	4	(90)	(61)	(103)
(Losses)/gains on investments, net		(5)	(4)	80
Finance income	18	29	39	52
Finance costs	18	(87)	(105)	(95)
Foreign currency exchange gain/(loss), net	19	17	(129)	110
Other expenses, net		(54)	(38)	(17)
<b>Profit before income tax</b>		<b>1,823</b>	<b>1,172</b>	<b>1,321</b>
Income tax expense	17	(371)	(233)	(353)
<b>Profit for the year</b>		<b>1,452</b>	<b>939</b>	<b>968</b>
Profit is attributable to:				
<b>Novolipetsk Steel shareholders</b>		<b>1,450</b>	<b>935</b>	<b>967</b>
<b>Non-controlling interests</b>		<b>2</b>	<b>4</b>	<b>1</b>
<b>Earnings per share:</b>				
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	13	0.2419	0.1560	0.1613
Weighted-average number of shares outstanding: basic and diluted (in thousands)	12(a)	5,993,227	5,993,227	5,993,227

	<b>Note</b>	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2016</b>	<b>For the year ended 31 December 2015</b>
Profit for the year		1,452	939	968
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	348	1,013	(1,501)
<b>Total comprehensive income/(loss) for the year</b>		<b>1,800</b>	<b>1,952</b>	<b>(533)</b>
attributable to:				
Novolipetsk Steel shareholders		1,797	1,946	(530)
Non-controlling interests		3	6	(3)

	Note	Attributable to Novolipetsk Steel shareholders					Total equity
		Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	
<b>Balance at 1 January 2015</b>		<b>221</b>	<b>-</b>	<b>(5,492)</b>	<b>11,513</b>	<b>15</b>	<b>6,257</b>
Profit for the year		-	-	-	967	1	968
Cumulative translation adjustment	2(b)	-	-	(1,497)	-	(4)	(1,501)
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>(1,497)</b>	<b>967</b>	<b>(3)</b>	<b>(533)</b>
Disposal of assets to an entity under common control	23(e)	-	10	-	-	-	10
Dividends to shareholders	12(b)	-	-	-	(597)	-	(597)
<b>Balance at 31 December 2015</b>		<b>221</b>	<b>10</b>	<b>(6,989)</b>	<b>11,883</b>	<b>12</b>	<b>5,137</b>
Profit for the year		-	-	-	935	4	939
Cumulative translation adjustment	2(b)	-	-	1,011	-	2	1,013
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>1,011</b>	<b>935</b>	<b>6</b>	<b>1,952</b>
Dividends to shareholders	12(b)	-	-	-	(779)	-	(779)
<b>Balance at 31 December 2016</b>		<b>221</b>	<b>10</b>	<b>(5,978)</b>	<b>12,039</b>	<b>18</b>	<b>6,310</b>
Profit for the year		-	-	-	1,450	2	1,452
Cumulative translation adjustment	2(b)	-	-	347	-	1	348
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>347</b>	<b>1,450</b>	<b>3</b>	<b>1,800</b>
Acquisition of non-controlling interest		-	-	-	-	(1)	(1)
Dividends to shareholders	12(b)	-	-	-	(1,460)	(3)	(1,463)
<b>Balance at 31 December 2017</b>		<b>221</b>	<b>10</b>	<b>(5,631)</b>	<b>12,029</b>	<b>17</b>	<b>6,646</b>



	Note	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
<b>Cash flows from operating activities</b>				
<b>Profit for the year</b>		<b>1,452</b>	<b>939</b>	<b>968</b>
<b>Adjustments to reconcile profit for the year to net cash provided by operating activities:</b>				
Depreciation and amortisation		624	456	556
Loss on disposals of property, plant and equipment		1	3	8
Losses/(gains) on investments		5	4	(80)
Finance income		(29)	(39)	(52)
Finance costs		87	105	95
Share of results of joint ventures	4	90	61	103
Income tax expense	17	371	233	353
Impairment of non-current assets		17	14	85
Foreign currency exchange (gain)/loss, net		(17)	129	(110)
Change in impairment allowance for inventories and accounts receivable		13	14	14
<b>Changes in operating assets and liabilities</b>				
(Increase)/decrease in trade and other accounts receivable		(223)	3	(1)
(Increase)/decrease in inventories		(262)	(201)	75
Increase in other operating assets		-	(9)	(6)
Increase/(decrease) in trade and other accounts payable		105	244	(79)
<b>Cash provided by operations</b>		<b>2,234</b>	<b>1,956</b>	<b>1,929</b>
Income tax paid		(335)	(257)	(307)
<b>Net cash provided by operating activities</b>		<b>1,899</b>	<b>1,699</b>	<b>1,622</b>
<b>Cash flows from investing activities</b>				
Purchases and construction of property, plant and equipment		(592)	(559)	(595)
Proceeds from sale of property, plant and equipment		10	9	11
Purchases of investments and loans given, net		(44)	(79)	(199)
Placement of bank deposits		(1,264)	(989)	(1,595)
Withdrawal of bank deposits		1,105	1,261	954
Interest received		28	36	44
Contribution to share capital of joint venture		-	-	(22)
Acquisition of non-controlling interest	4	(1)	-	-
Disposal of assets to an entity under common control	23(e)	-	-	10
Cash received in the course of bankruptcy proceedings		-	11	17
<b>Net cash used in investing activities</b>		<b>(758)</b>	<b>(310)</b>	<b>(1,375)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		988	803	676
Repayment of borrowings		(1,093)	(1,256)	(579)
Interest paid		(69)	(84)	(79)
Dividends paid to Novolipetsk Steel shareholders		(1,283)	(583)	(395)
Dividends paid to non-controlling interests		(2)	-	-
<b>Net cash used in financing activities</b>		<b>(1,459)</b>	<b>(1,120)</b>	<b>(377)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(318)</b>	<b>269</b>	<b>(130)</b>
Effect of exchange rate changes on cash and cash equivalents		9	(2)	(76)
Cash and cash equivalents at the beginning of the year	3	610	343	549
<b>Cash and cash equivalents at the end of the year</b>	<b>3</b>	<b>301</b>	<b>610</b>	<b>343</b>
<b>Supplemental disclosures of cash flow information:</b>				
<b>Non-cash investing activities:</b>				
Conversion of debt to equity	4	84	139	110

## 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 2017, the Parent Company’s major shareholder with 84.035% ownership interest is Fletcher Group Holdings Ltd., which is beneficially owned by Mr. Vladimir Lisin.

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

Activity		Country of incorporation	Share at 31 December 2017	Share at 31 December 2016	Share at 31 December 2015
<b>Russian flat products</b>					
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%
Novex Trading (Swiss) S.A.	Trading	Switzerland	100.00%	100.00%	100.00%
Novexco (Cyprus) Ltd.	Trading	Cyprus	100.00%	100.00%	100.00%
<b>NLMK DanSteel and Plates Distribution Network</b>					
NLMK DanSteel A/S	Production of steel	Denmark	100.00%	100.00%	100.00%
<b>NLMK USA</b>					
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%
<b>Russian long products</b>					
JSC NLMK-Ural	Production of steel and long products	Russia	92.59%	92.59%	92.59%
LLC NLMK-Metalware	Production of metalware	Russia	100.00%	100.00%	100.00%
LLC NLMK-Kaluga	Production of long products	Russia	100.00%	100.00%	100.00%
LLC Vtorchermet NLMK	Processing of metal scrap	Russia	100.00%	100.00%	100.00%
<b>Mining</b>					
JSC Stoilensky GOK	Mining, processing and pelletising of iron-ore	Russia	100.00%	100.00%	100.00%

## 1 Background (continued)

Among joint ventures the major is:

Activity	Country of incorporation	Share at 31 December 2017	Share at 31 December 2016	Share at 31 December 2015
NLMK Belgium Holdings S.A. Holding company*	Belgium	51.00%	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. 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 for users' convenience unless otherwise stated (in prior years' consolidated financial statements, all amounts were rounded to the nearest million decimal). This adjustment did not result in significant changes in comparative data.

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 other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

## 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.

	2017	2016	2015
<b>Russian ruble to US dollar</b>			
For the year ended 31 December	58,3529	67,0349	60,9579
As at 31 December	57,6002	60,6569	72,8827
<b>Russian ruble to Euro</b>			
For the year ended 31 December	65,9014	74,2310	67,7767
As at 31 December	68,8668	63,8111	79,6972

## 3 Cash and cash equivalents

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Cash</b>			
Russian rubles	11	11	20
US dollars	63	89	99
Euros	70	52	41
Other currencies	4	2	2
<b>Deposits</b>			
Russian rubles	98	49	30
US dollars	19	394	140
Euros	24	1	-
Other currencies	-	1	11
<b>Other cash equivalents</b>	12	11	-
	<b>301</b>	<b>610</b>	<b>343</b>

The cash and cash equivalents as at 31 December 2017 and 2016 include \$12 and \$10, respectively, which are subject to regulatory restrictions and are therefore not available for general use by the entities within the Group.

## 4 Investments in joint ventures

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
NLMK Belgium Holdings S.A. ("NBH")	194	171	109
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	11	10	9
	<b>205</b>	<b>181</b>	<b>118</b>

#### 4 Investments in joint ventures (continued)

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

	2017	2016	2015
<b>As at 1 January</b>	<b>181</b>	<b>118</b>	<b>106</b>
Share of net loss	(61)	(61)	(103)
Conversion of debt to equity	84	139	110
The Group's contribution to the share capital	-	-	22
Disposal of 28.5% stake in NBH	-	-	(36)
Share of change in unrealised profit in inventory	(29)	(5)	30
Share of change in other comprehensive income	-	1	1
Translation adjustment	30	(11)	(12)
<b>As at 31 December</b>	<b>205</b>	<b>181</b>	<b>118</b>

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Current assets	940	736	734
Non-current assets	686	670	751
<b>Total assets</b>	<b>1,626</b>	<b>1,406</b>	<b>1,485</b>
Current liabilities	(864)	(560)	(658)
Non-current liabilities	(548)	(634)	(623)
<b>Total liabilities</b>	<b>(1,412)</b>	<b>(1,194)</b>	<b>(1,281)</b>
<b>Equity</b>	<b>214</b>	<b>212</b>	<b>204</b>
	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2016</b>	<b>For the year ended 31 December 2015</b>
Revenue	1,539	1,221	1,278
Net loss	(122)	(120)	(191)

NBH cash and cash equivalents as at 31 December 2017, 2016 and 2015 amounted to \$26, \$52 and \$60, respectively.

NBH financial liabilities excluding trade and other accounts payable as at 31 December 2017, 2016 and 2015 amounted to \$794, \$671 and \$715, respectively, and are included in current and non-current liabilities.

#### 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.

	2017	2016	2015
<b>Net assets as at 1 January</b>	<b>29</b>	<b>4</b>	<b>28</b>
Net loss for the year	(97)	(111)	(178)
Proportional contributions into share capital	-	-	43
Conversion of debt to equity	84	139	110
Other comprehensive income	-	1	1
Translation adjustment	3	(4)	-
<b>Net assets as at 31 December</b>	<b>19</b>	<b>29</b>	<b>4</b>
PP&E valuation difference	195	183	200
<b>Adjusted net assets as at 31 December</b>	<b>214</b>	<b>212</b>	<b>204</b>
<b>As at 31 December:</b>			
Share in net assets	109	108	104
Excess of fair value of investment in NBH as at the deconsolidation date	104	104	104
Accumulated share of the other investor in conversion of debt to equity	218	177	109
Accumulated impairment of investments	(240)	(240)	(240)
Share of unrealised profit in inventory	(34)	(5)	-
Cumulative translation adjustment	37	27	32
<b>Investments in NBH</b>	<b>194</b>	<b>171</b>	<b>109</b>

The other investor in NBH is SOGEPA, a Belgian state-owned company. In March 2015, the Group and SOGEPA signed an agreement providing for the increase of SOGEPA's stake in NBH from 20.5% to 49% and on further joint management of NBH's businesses. The Group reflected the disposal of its 28.5% stake in NBH (loss on the disposal amounting to \$21) and derecognition of certain financial instruments previously included in other long-term liabilities (gain amounting to \$76) in "(Losses)/gains on investments, net" line of the consolidated statement of profit or loss for the year ended 31 December 2015 in the net amount of \$55. In March 2015, in accordance with the agreement, the Group and SOGEPA made additional pro-rata contributions to the share capital of NBH of \$22 and \$21, respectively. The Group and SOGEPA also agreed to support NBH in obtaining financing of its working capital. In December 2017, the Group converted existing loans to NBH into share capital in the amount of \$84 (in June 2016: \$139; in December 2015: \$110). These contributions were also a part of the agreement signed in March 2015 and did not further change the Group's share in NBH.

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

## 5 Financial investments

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Short-term financial investments</b>			
Bank deposits (Note 22 (c))			
- Russian rubles	6	1	15
- US dollars	1,051	855	1,091
- Euros	-	42	66
Total bank deposits	1,057	898	1,172
Loans to related parties (Note 23)	222	66	65
Other short-term financial investments	5	6	6
	<u>1,284</u>	<u>970</u>	<u>1,243</u>
<b>Long-term financial investments</b>			
Loans to related parties (Note 23)	-	164	220
Bank deposits	2	-	-
	<u>2</u>	<u>164</u>	<u>220</u>
	<u>1,286</u>	<u>1,134</u>	<u>1,463</u>

The fair value of short-term financial investments equals their carrying amount. The fair values of long-term financial investments approximate their carrying amount.

## 6 Trade and other accounts receivable

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Financial assets</b>			
Trade accounts receivable	996	693	613
Allowance for impairment of trade accounts receivable	(23)	(24)	(16)
Other accounts receivable	29	25	40
Allowance for impairment of other accounts receivable	(20)	(18)	(15)
	<u>982</u>	<u>676</u>	<u>622</u>
<b>Non-financial assets</b>			
Advances given to suppliers	58	54	54
Allowance for impairment of advances given to suppliers	(3)	(2)	(4)
VAT and other taxes receivable	190	225	247
Accounts receivable from employees	1	2	2
	<u>246</u>	<u>279</u>	<u>299</u>
	<u>1,228</u>	<u>955</u>	<u>921</u>

Due to the short-term nature of trade and other accounts receivable, their carrying amount is considered to be the same as their fair value.

As at 31 December 2017, 2016 and 2015, accounts receivable of \$160, \$122 and \$74, respectively, served as collateral for certain borrowings (Note 11).



## 6 Trade and other accounts receivable (continued)

Movements in the allowance for impairment of financial receivables are as follows:

	2017	2016	2015
<b>As at 1 January</b>	<b>(42)</b>	<b>(31)</b>	<b>(49)</b>
Allowance for impairment recognised	(11)	(16)	(28)
Accounts receivable written-off	4	2	21
Allowance for impairment reversed	6	8	14
Disposal of subsidiary	3	-	-
Translation adjustment	(3)	(5)	11
<b>As at 31 December</b>	<b>(43)</b>	<b>(42)</b>	<b>(31)</b>

## 7 Inventories

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Raw materials	830	705	522
Work in process	603	460	400
Finished goods	514	443	341
	1,947	1,608	1,263
Impairment allowance	(68)	(59)	(58)
	<b>1,879</b>	<b>1,549</b>	<b>1,205</b>

As at 31 December 2017, 2016 and 2015 inventories of \$423, \$296 and \$304, 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 2017, 2016 and 2015 amounted to \$4,676, \$3,443 and \$3,488, respectively. Cost of fuel and energy resources in cost of sales for the years ended 31 December 2017, 2016 and 2015 amounted to \$651, \$552 and \$601, respectively.

## 8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Cost at 1 January 2015	131	1,712	1,435	6,434	270	906	10,888
Accumulated depreciation and impairment	-	(652)	(671)	(3,789)	(161)	-	(5,273)
<b>Net book value at 1 January 2015</b>	<b>131</b>	<b>1,060</b>	<b>764</b>	<b>2,645</b>	<b>109</b>	<b>906</b>	<b>5,615</b>
Additions	-	-	-	-	-	640	640
Disposals	(1)	(1)	(4)	(12)	(2)	(33)	(53)
Impairment	-	(14)	(7)	(27)	(11)	-	(59)
Transfers	1	30	38	225	15	(309)	-
Depreciation charge	-	(40)	(46)	(396)	(24)	-	(506)
Translation adjustment	(30)	(218)	(119)	(543)	(21)	(254)	(1,185)
Cost at 31 December 2015	101	1,378	1,687	4,687	219	950	9,022
Accumulated depreciation and impairment	-	(561)	(1,061)	(2,795)	(153)	-	(4,570)
<b>Net book value at 31 December 2015</b>	<b>101</b>	<b>817</b>	<b>626</b>	<b>1,892</b>	<b>66</b>	<b>950</b>	<b>4,452</b>
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)
<b>Net book value at 31 December 2016</b>	<b>121</b>	<b>1,097</b>	<b>812</b>	<b>2,358</b>	<b>82</b>	<b>858</b>	<b>5,328</b>

**8 Property, plant and equipment (continued)**

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
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)
<b>Net book value at 31 December 2017</b>	<b>128</b>	<b>1,274</b>	<b>886</b>	<b>2,315</b>	<b>91</b>	<b>855</b>	<b>5,549</b>

The amount of borrowing costs capitalised is \$37, \$37 and \$51 for the years ended 31 December 2017, 2016 and 2015, respectively. The capitalisation rate was 3.7%, 4.1% and 4.4% in 2017, 2016 and 2015, respectively.

## 8 Property, plant and equipment (continued)

The Group management made an analysis of impairment indicators of the Group's assets as at 30 September 2017. High volatility on the market of finished products and main raw materials (coal and ore) triggered impairment assessment of some of the Group's assets, while positive trends on the steel market in the second half of 2017 caused by increases in metal prices, particularly in Russia and the USA, represented triggers for potential reversal of previously recognised impairment losses, which required the reassessment of the recoverable amounts of certain assets using the income approach based primarily on Level 3 inputs as at 31 December 2017. Goodwill was also tested for impairment as of the same date. Testing for impairment in the comparative periods was caused by a deterioration in the steel market and was conducted as of 31 October 2016 and 31 December 2015.

For the purpose of the impairment test, the Group management used a forecast of cash flows for six years due to the relatively long useful lives of steel making equipment, 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 2017, major assumptions and their sensitivity used in the impairment models. Sales price in this estimate is an average annual growth rate, over the 6-year (31 October 2016: 7-year; 31 December 2015: 7-year) forecast period based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is an average annual growth rate over the 6-year (31 October 2016: 7-year; 31 December 2015: 7-year) 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 2017 testing showed neither impairment, nor reversal of previously recognised impairment loss.

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

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

## 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%
NLMK Indiana LLC	Property, plant and equipment	10%	Flat products	582	-1%	-7%
NLMK Indiana LLC	Goodwill	10%	Flat products	582	-1%	-6%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	15%	Metal scrap	237	-0.05%	-0.2%
JSC NLMK-Ural	Property, plant and equipment	15%	Long products and semi-finished goods	452	-1%	-2%
LLC NLMK-Kaluga	Property, plant and equipment	14%	Long-products and semi-finished goods	429	-0.04%	-0.4%
NLMK DanSteel A/S	Property, plant and equipment	9%	Plate	685	-0.3%	-2%

\* Weighted average prices based on the forecast product mix, averaged for the period from November 2017 to 2023

## 8 Property, plant and equipment (continued)

The table below summarises CGUs and types of assets, subject to impairment test as of 31 December 2015, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined 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 2015 impairment testing showed that recoverable amount of property, plant and equipment (value in use) of scrap collecting assets in Russian long products segment and JSC NLMK-Ural was below its carrying amount by \$24 and \$35, respectively. Impairment testing also showed impairment of goodwill in NLMK Indiana LLC by \$14.

CGU	Asset type	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change	
					Price	Sales volume
JSC Stoilensky GOK	Property, plant and equipment and intangible assets	15%	Iron ore	44	-43%	-56%
JSC Stoilensky GOK	Goodwill	15%	Iron ore	44	-36%	-47%
NLMK Pennsylvania LLC	Property, plant and equipment	10%	Flat products	646	-3%	-22%
NLMK Indiana LLC	Property, plant and equipment	10%	Flat products	540	-0.4%	-3%
NLMK Indiana LLC	Goodwill	10%	Flat products	540	+0.3%	+2%
JSC Altai-Koks	Property, plant and equipment	16%	Coke, chemical products	172	-15%	-40%
JSC Altai-Koks	Goodwill	16%	Coke, chemical products	172	-13%	-35%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	14%	Metal scrap	171	+3%	-
JSC NLMK-Ural	Property, plant and equipment	14%	Long products and semi-finished goods	344	+1%	+2%
LLC NLMK-Kaluga	Property, plant and equipment	14%	Long-products and semi-finished goods	353	-0.2%	-1%
LLC NLMK-Metalware	Property, plant and equipment	15%	Metalware	464	-7%	-31%
NLMK DanSteel A/S	Property, plant and equipment	9%	Plate	630	-1%	-5%

\* Weighted average prices based on the forecast product mix, averaged for the period from 2016 to 2022

9 Intangible assets

	Goodwill	Mineral rights	Customer base	Industrial intellectual property	Beneficial lease interest	Total
Cost at 1 January 2015	285	359	148	30	9	831
Accumulated amortisation and impairment	-	(217)	(110)	(25)	(1)	(353)
<b>Net book value at 1 January 2015</b>	<b>285</b>	<b>142</b>	<b>38</b>	<b>5</b>	<b>8</b>	<b>478</b>
Amortisation charge	-	(7)	(38)	(5)	-	(50)
Impairment	(14)	-	-	-	-	(14)
Translation adjustment	(56)	(31)	-	-	-	(87)
Cost at 31 December 2015	229	277	-	-	9	515
Accumulated amortisation and impairment	(14)	(173)	-	-	(1)	(188)
<b>Net book value at 31 December 2015</b>	<b>215</b>	<b>104</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>327</b>
Amortisation charge	-	(7)	-	-	-	(7)
Translation adjustment	38	21	-	-	-	59
Cost at 31 December 2016	267	333	-	-	9	609
Accumulated amortisation and impairment	(14)	(215)	-	-	(1)	(230)
<b>Net book value at 31 December 2016</b>	<b>253</b>	<b>118</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>379</b>
Additions	-	-	-	10	-	10
Amortisation charge	-	(7)	-	-	-	(7)
Translation adjustment	12	6	-	-	-	18
Cost at 31 December 2017	279	351	-	10	9	649
Accumulated amortisation and impairment	(14)	(234)	-	-	(1)	(249)
<b>Net book value at 31 December 2017</b>	<b>265</b>	<b>117</b>	<b>-</b>	<b>10</b>	<b>8</b>	<b>400</b>

The intangible assets were acquired in business combinations and met the criteria for separate recognition. They were recorded at fair values at the date of acquisition, based on their appraised values.

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 \$86, \$86 and \$76 as at 31 December 2017, 2016 and 2015, respectively.

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



## 9 Intangible assets (continued)

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Russian flat products	176	167	139
NLMK USA	21	21	21
Russian long products	3	3	3
Mining	65	62	52
	<b>265</b>	<b>253</b>	<b>215</b>

### Goodwill impairment testing

The Group tested goodwill for impairment as at 31 December 2017, 31 October 2016 and 31 December 2015. For the purpose of annual impairment testing of goodwill related to CGUs JSC Altai-Koks, LLC VIZ-Steel and LLC NLMK Indiana as at 31 December 2017, management decided to use the previous detailed calculations of these CGUs' recoverable amounts prepared as at 31 October 2016 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 2017 and 31 October 2016 and showed impairment of goodwill related to NLMK Indiana LLC by \$14 as at 31 December 2015.

## 10 Trade and other accounts payable

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Financial liabilities</b>			
Trade accounts payable	600	522	342
Other accounts payable	30	16	16
	<b>630</b>	<b>538</b>	<b>358</b>
<b>Non-financial liabilities</b>			
Accounts payable and accrued liabilities to employees	156	179	105
Advances received	153	130	63
Taxes payable other than income tax	90	41	39
	<b>399</b>	<b>350</b>	<b>207</b>
	<b>1,029</b>	<b>888</b>	<b>565</b>

Due to the short-term nature of trade and other accounts payable, their carrying amount is considered to be the same as their fair values.

## 11 Borrowings

Rates	Currency	Maturity	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Bonds</b>					
8.05% to 11.10%	RUR	2017	-	168	350
4.00% to 4.95%	USD	2018-2024	1,501	1,318	1,196
<b>Loans</b>					
LIBOR +2.00%	USD	2021	94	332	583
EURIBOR +0.90% to EURIBOR +2.00%	EUR	2018-2022	686	451	547
			<b>2,281</b>	<b>2,269</b>	<b>2,676</b>
Less: short-term borrowings and current maturities of long-term borrowings			(380)	(468)	(560)
<b>Long-term borrowings</b>			<b>1,901</b>	<b>1,801</b>	<b>2,116</b>

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

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,346	1,385	1,307	1,325	1,316	1,301

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 2017, 2016 and 2015.

The long-term borrowings mature as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
1-2 year	228	586	360
2-5 years	473	501	1,719
over 5 years	1,200	714	37
	<b>1,901</b>	<b>1,801</b>	<b>2,116</b>

### Collateral

As at 31 December 2017, 2016 and 2015, the loan facilities were secured by inventories and accounts receivable in the total amount of \$583, \$418 and \$378, respectively (Notes 6, 7).

## 11 Borrowings (continued)

### Net debt reconciliation

	Short-term borrowings	Long-term borrowings	Cash and cash equivalents	Short-term bank deposits	Net debt
Balance at 31 December 2016	(468)	(1,801)	610	898	(761)
Cash flows	207	(32)	(314)	135	(4)
Interest accrued	(88)	-	-	23	(65)
Foreign exchange difference	(6)	32	(4)	(54)	(32)
Translation adjustment	(25)	(100)	9	55	(61)
<b>Balance at 31 December 2017</b>	<b>(380)</b>	<b>(1,901)</b>	<b>301</b>	<b>1,057</b>	<b>(923)</b>

## 12 Shareholders' equity

### (a) Shares

As at 31 December 2017, 2016 and 2015, 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 2017, 2016 and 2015, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$5,728, \$5,024 and \$4,361, converted into US dollars using exchange rates at 31 December 2017, 2016 and 2015, 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 range with the boundaries of 50% of net profit and 50% of free cash flow calculated based on IFRS consolidated financial statements;
- if Net Debt/EBITDA for the preceding 12 months exceeds 1.0x: dividends are in range with the boundaries of 30% of net profit and 30% of free cash flow calculated based on IFRS consolidated financial statements.

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

	Declaration period	2017		2016		2015	
		Per share*	Total amount	Per share*	Total amount	Per share*	Total amount
For the 4 <sup>th</sup> quarter of previous year	June	3.38	358	2.43	218	1.56	170
For the 1 <sup>st</sup> quarter of current year	June	2.35	249	1.13	102	1.64	179
For the 2 <sup>nd</sup> quarter of current year	September	3.20	328	1.08	102	0.93	84
For the 3 <sup>rd</sup> quarter of current year	December	5.13	525	3.63	357	1.95	164
			<b>1,460</b>		<b>779</b>		<b>597</b>

\* 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 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit for the year attributable to the NLMK shareholders (millions of US dollars)	1,450	935	967
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
<b>Basic earnings per share (US dollars)</b>	<b>0.2419</b>	<b>0.1560</b>	<b>0.1613</b>

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 2017, 2016 and 2015.

The average shares outstanding for the purposes of basic earnings per share information was 5,993,227,240 for the years ended 31 December 2017, 2016 and 2015.

## 14 Revenue

### (a) Revenue by product

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Flat products	5,674	4,325	4,366
Pig iron, slabs and billets	2,612	1,887	2,207
Long products and metalware	1,090	838	809
Coke and other chemical products	346	210	229
Scrap	75	55	47
Iron ore and sintering ore	-	147	166
Other products	268	174	184
	<b>10,065</b>	<b>7,636</b>	<b>8,008</b>

## 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 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Russia	3,887	3,077	3,146
North America	1,932	1,328	1,357
European Union	1,730	1,373	1,603
Middle East, including Turkey	1,083	629	684
Asia and Oceania	277	317	374
Other regions	1,156	912	844
	<b>10,065</b>	<b>7,636</b>	<b>8,008</b>

Other regions are represented by countries from Central America, South America and the CIS.

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 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Cost of sales	711	602	608
General and administrative expenses	221	194	154
Selling expenses	28	28	31
	<b>960</b>	<b>824</b>	<b>793</b>

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 long-term incentive plan for the Group's strategic targets in 2017-2018.

Total remuneration of the key management personnel, including social security costs amounted to \$24, \$31 and \$11 in 2017, 2016 and 2015, respectively. As at 31 December 2017 accrued liabilities to key management personnel related to long-term incentive plan and recorded within other long-term liabilities amounted to \$9.

## 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 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Cost of sales	70	64	67
General and administrative expenses	3	2	4
Other operating expenses	7	4	5
	<b>80</b>	<b>70</b>	<b>76</b>

## 17 Income tax

Income tax charge comprises the following:

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Current income tax expense	(374)	(237)	(301)
Deferred income tax benefit/(expense)	3	4	(52)
<b>Total income tax expense</b>	<b>(371)</b>	<b>(233)</b>	<b>(353)</b>

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 11% to 35%.

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

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before income tax	1,823	1,172	1,321
Income tax at applicable tax rate 20%	(365)	(234)	(264)
Change in income tax:			
- tax effect of non-deductible expenses	(16)	(13)	(27)
- non-taxable translation adjustments	(2)	(5)	17
- effect of different tax rates	5	-	32
- unrecognized deferred tax asset on investments in joint ventures	(21)	(20)	(36)
- unrecognised tax loss carry forward for the year	(3)	(2)	(83)
- utilisation of previously unrecognised tax loss carry forward	50	51	-
- change in option and in NBH ownership	-	-	19
- write-off of previously recognised deferred tax assets	(19)	(21)	(10)
- other	-	11	(1)
<b>Total income tax expense</b>	<b>(371)</b>	<b>(233)</b>	<b>(353)</b>

**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 2017	Charged/(credited) to profit or loss	Translation adjustment	As at 1 January 2017
<b>Deferred tax assets</b>				
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
	<b>88</b>	<b>(20)</b>	<b>5</b>	<b>103</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(410)	15	(17)	(408)
Other intangible assets	(11)	(3)	-	(8)
Inventories	-	11	-	(11)
	<b>(421)</b>	<b>23</b>	<b>(17)</b>	<b>(427)</b>
<b>Total deferred tax liability, net</b>	<b>(333)</b>	<b>3</b>	<b>(12)</b>	<b>(324)</b>
	As at 31 December 2016	Charged/(credited) to profit or loss	Translation adjustment	As at 1 January 2016
<b>Deferred tax assets</b>				
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
	<b>103</b>	<b>9</b>	<b>1</b>	<b>93</b>
<b>Deferred tax liabilities</b>				
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)
	<b>(427)</b>	<b>(5)</b>	<b>(58)</b>	<b>(364)</b>
<b>Total deferred tax liability, net</b>	<b>(324)</b>	<b>4</b>	<b>(57)</b>	<b>(271)</b>
	As at 31 December 2015	Charged/(credited) to profit or loss	Translation adjustment	As at 1 January 2015
<b>Deferred tax assets</b>				
Trade and other accounts payable	74	(18)	(9)	101
Trade and other accounts receivable	3	(10)	(3)	16
Inventories	-	(21)	(4)	25
Tax losses carried forward	-	(13)	(2)	15
Other	16	3	(1)	14
	<b>93</b>	<b>(59)</b>	<b>(19)</b>	<b>171</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(342)	12	76	(430)
Other intangible assets	(8)	(1)	2	(9)
Inventories	(13)	(14)	1	-
Other non-current liabilities	(1)	10	3	(14)
	<b>(364)</b>	<b>7</b>	<b>82</b>	<b>(453)</b>
<b>Total deferred tax liability, net</b>	<b>(271)</b>	<b>(52)</b>	<b>63</b>	<b>(282)</b>



**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 2017	As at 31 December 2016	As at 31 December 2015
From 1 to 5 years	99	211	294
From 5 to 10 years	115	98	376
More than 10 years	749	828	851
No expiration	<u>1,486</u>	<u>1,398</u>	<u>977</u>
Total	<u><b>2,449</b></u>	<u><b>2,535</b></u>	<u><b>2,498</b></u>

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 \$1,569, \$1,448 and \$908 for the years ended 31 December 2017, 2016 and 2015, 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 2017, 2016 and 2015, 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 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income on bank accounts and bank deposits	23	29	45
Other finance income	6	10	7
<b>Total finance income</b>	<b>29</b>	<b>39</b>	<b>52</b>
Interest expense on borrowings	(88)	(104)	(119)
Capitalised interest	23	33	32
Other finance costs	(22)	(34)	(8)
<b>Total finance costs</b>	<b>(87)</b>	<b>(105)</b>	<b>(95)</b>

## 19 Foreign exchange differences

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
Foreign exchange (loss)/gain on cash and cash equivalents	(3)	(84)	45
Foreign exchange (loss)/gain on financial investments	(56)	(434)	542
Foreign exchange gain/(loss) on debt financing	28	393	(415)
Foreign exchange gain/(loss) on other assets and liabilities	48	(4)	(62)
	<b>17</b>	<b>(129)</b>	<b>110</b>

## 20 Operating leases

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Within 1 year	10	9	7
From 1 to 5 years	35	33	28
After 5 years	16	20	23
<b>Total commitments for minimum lease payments</b>	<b>61</b>	<b>62</b>	<b>58</b>

In 2017, 2016 and 2015 total rental expenses relating to operating leases were equal to \$11, \$7 and \$5, 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 the segments based on segment revenues, gross profit, operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment, profit for the year and amount of total assets and total liabilities.

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

## 21 Segment information (continued)

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

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

## 21 Segment information (continued)

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

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	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.

## 21 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2015 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Elimination of intersegmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	184	4,732	858	1,098	343	1,221	-	(428)	8,008
Intersegment revenue	405	1,344	293	-	1	57	(2,043)	(57)	-
Cost of sales	(226)	(4,004)	(1,025)	(1,192)	(321)	(1,121)	2,064	329	(5,496)
Gross profit/(loss)	363	2,072	126	(94)	23	157	21	(156)	2,512
Operating profit/(loss)*	257	1,199	(16)	(155)	(11)	(172)	113	172	1,387
Net finance income/(costs)	16	1	(26)	(30)	(4)	(20)	-	20	(43)
Income tax (expense)/benefit	(71)	(253)	2	6	1	7	(38)	(7)	(353)
Profit/(loss) for the year	278	1,285	(93)	(192)	(14)	(191)	(193)	88	968
Segment assets	1,477	7,456	951	744	288	1,485	(2,125)	(1,358)	8,918
Segment liabilities	(326)	(3,603)	(565)	(1,101)	(284)	(1,281)	2,604	775	(3,781)
Depreciation and amortisation	(41)	(378)	(65)	(62)	(10)	(80)	-	80	(556)
Capital expenditures	(281)	(266)	(25)	(20)	(3)	(39)	-	39	(595)

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

## **21 Segment information (continued)**

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Russian Federation	5,512	5,242	4,260
USA	350	378	420
Denmark	124	103	107
Other	8	6	4
	<u>5,994</u>	<u>5,729</u>	<u>4,791</u>

## **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 was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political developments in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This environment may have a significant impact on the Group's operations and financial position and the future effects of the current economic situation are difficult to predict therefore management's current expectations and estimates could differ from actual results. Management is taking necessary measures to ensure sustainability of the Group's operations.

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

### **(b) Market risk**

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

#### ***Interest rate risk***

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

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



## 22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Fixed rate instruments</b>			
Financial assets			
- cash and cash equivalents (Note 3)	301	610	343
- financial investments (Note 5)	1,286	1,134	1,463
- trade and other accounts receivable less allowance for impairment (Note 6)	982	676	622
	<b>2,569</b>	<b>2,420</b>	<b>2,428</b>
Financial liabilities			
- trade and other accounts payable (Note 10)	(630)	(538)	(358)
- dividends payable	(537)	(361)	(161)
- borrowings (Note 11)	(1,501)	(1,486)	(1,546)
	<b>(2,668)</b>	<b>(2,385)</b>	<b>(2,065)</b>
<b>Variable rate instruments</b>			
Financial liabilities			
- borrowings (Note 11)	(780)	(783)	(1,130)
	<b>(780)</b>	<b>(783)</b>	<b>(1,130)</b>

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 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)
<b>Net foreign currency position</b>	<b>(468)</b>	<b>(18)</b>

## 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 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)
<b>Net foreign currency position</b>	<b>(291)</b>	<b>29</b>

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 2015.

	US dollar	Euro
Cash and cash equivalents	196	40
Trade and other accounts receivable	3	304
Financial investments	1,080	351
Trade and other accounts payable	(42)	(95)
Borrowings	(1,598)	(547)
<b>Net foreign currency position</b>	<b>(361)</b>	<b>53</b>

### 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 2017, 2016 and 2015 would have increased/(decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to \$23, \$45 and \$88, respectively, due to foreign exchange gain from intercompany operations (Note 19).

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
US dollar	(117)	(73)	(90)
Euro	(5)	7	13

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

The Group 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. Prior to acceptance of a new counterparty, management assesses the credit quality of a potential customer or financial institution and defines credit limits. Credit limits attributable to counterparties are regularly reviewed, at a minimum quarterly.

The Group's management on a monthly basis reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Cash and cash equivalents (Note 3)	301	610	343
Trade and other accounts receivable (Note 6)	982	676	622
Financial investments (Note 5)	1,286	1,134	1,463
<b>Total on-balance sheet exposure</b>	<b>2,569</b>	<b>2,420</b>	<b>2,428</b>
Financial guarantees issued (Note 23(d))	304	255	273
	<b>2,873</b>	<b>2,675</b>	<b>2,701</b>

Analysis of trade accounts receivable, net of allowance for impairment, by credit quality, based on geographical area is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
European Union	380	279	289
Russia	314	182	131
North America	140	98	59
Middle East, including Turkey	57	50	49
Asia and Oceania	33	23	42
Other regions	49	37	27
	<b>973</b>	<b>669</b>	<b>597</b>

Other regions are represented by countries from Central America, South America and the CIS.

## 22 Risks and uncertainties (continued)

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Bank balances and term deposits</b>			
AAA-BBB	199	517	244
BB-B	99	91	96
Unrated and cash on hand	3	2	3
	<b>301</b>	<b>610</b>	<b>343</b>
<b>Short-term and long-term bank deposits</b>			
AAA-BBB	724	396	756
BB-B	335	502	416
	<b>1,059</b>	<b>898</b>	<b>1,172</b>

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

	Trade and other receivables		
	Gross amount	Allowance for impairment	Net of allowance for impairment
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)	-
<b>Total</b>	<b>1,025</b>	<b>(43)</b>	<b>982</b>

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

	Trade and other receivables		
	Gross amount	Allowance for impairment	Net of allowance for impairment
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)	-
<b>Total</b>	<b>718</b>	<b>(42)</b>	<b>676</b>

## 22 Risks and uncertainties (continued)

As at 31 December 2015, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross amount	Allowance for impairment	Net of allowance for impairment
Not past due	505	-	505
Past due, including:			-
- up to 1 month	86	-	86
- from 1 to 3 months	17	-	17
- from 3 to 12 months	18	(4)	14
- over 12 months	27	(27)	-
<b>Total</b>	<b>653</b>	<b>(31)</b>	<b>622</b>

### (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 2017	As at 31 December 2016	As at 31 December 2015
Less than 1 year	348	536	752
From 1 to 2 years	298	647	473
From 2 to 5 years	735	609	1,800
Over 5 years	1,255	762	38
<b>Total borrowings</b>	<b>2,636</b>	<b>2,554</b>	<b>3,063</b>

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

As at 31 December 2017, 2016 and 2015, the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

## 22 Risks and uncertainties (continued)

### (e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, vehicles and commercial (trade) credits. In respect of legislation requirements, the Group purchases compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance and accident insurance for employees of the Group.

## 23 Related party transactions

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

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

	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
<b>Sales</b>			
NBH group companies	970	692	793
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	1	1	2
Other related parties	<u>1</u>	<u>1</u>	<u>3</u>
<b>Purchases</b>			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	335	330	325
NBH group companies	66	45	57
Other related parties	<u>4</u>	<u>6</u>	<u>8</u>

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

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
<b>Accounts receivable and advances given</b>			
NBH group companies	289	199	221
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	<u>26</u>	<u>34</u>	<u>27</u>
<b>Accounts payable</b>			
NBH group companies	25	16	18
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	5	3	6
Other related parties	<u>-</u>	<u>-</u>	<u>1</u>

## 23 Related party transactions (continued)

### (c) Financial transactions

As at 31 December 2017, 2016 and 2015, loans issued to NBH group companies amounted to \$222, \$230 and \$285, 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 2017, 2016 and 2015, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$304, \$255 and \$273, respectively, which is the maximum potential amount of future payments, paid on demand of the guarantee. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses the probability of cash outflows related to these guarantees, as low.

The maturity of the guaranteed obligations is as follows:

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Less than 1 year	66	70	82
From 1 to 2 years	238	5	14
Over 2 years	-	180	177
	<b>304</b>	<b>255</b>	<b>273</b>

### (e) Common control transfers

In September 2015, the Parent Company completed the sale of its full controlling interest in OJSC North Oil and Gas Company (51.0%) to a company under common control for a cash consideration of \$10 realising a gain of \$10 upon deconsolidation of assets amounting to \$20 and liabilities amounting to \$20.

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

This transaction was carried out in line with the Group's strategy to dispose of its none-core assets portfolio.

## 24 Commitments and contingencies

### (a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to compliance reviews 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.



## 24 Commitments and contingencies (continued)

### (c) Environmental matters

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

### (d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$629, \$473 and \$565 as at 31 December 2017, 2016 and 2015, 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.

## 24 Commitments and contingencies (continued)

### (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 2017, 2016 and 2015.

## 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 – 50 years
Machinery and equipment	2 – 25 years
Vehicles	5 – 25 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (i) "Impairment of non-current assets".

### (f) Leasing

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

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

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

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

## 25 Significant accounting policies (continued)

### (g) Goodwill and intangible assets

Goodwill is the difference between:

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

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

Goodwill on 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 | 5 years     |
| • Beneficial lease interest        | 80 years    |

### **(h) Decommissioning obligation**

The Group's obligations related to assets disposal include estimating costs related to restoration of land in accordance with applicable legal requirements and licenses.

Decommissioning costs are carried at the present value of expected expenses to settle obligations that is calculated using estimated cash flows and are recognised as a part of the historical cost of the asset. Capitalised costs are amortised over the asset's useful life.

Cash flows are discounted at the current rate before tax, which reflects risks inherent to the asset decommissioning obligations. The effect of discounting is recognised in the consolidated statement of profit or loss as finance costs.

The estimated future costs related to decommissioning are reviewed annually and adjusted as necessary.

### **(i) Impairment of non-current assets**

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year if their carrying amount impairment indicators are identified.

### **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.

## 25 Significant accounting policies (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units), which in most cases are determined as individual subsidiaries of the Group. Estimated cash flows are adjusted in line with the risk of specific conditions at sites and discounted at the rate based on the weighted average cost of capital. With regard to assets that do not generate cash regardless of cash flows generated by other assets, the recoverable amounts are based on the cash-generating unit to which such assets relate.

### **Impairment loss**

The asset's carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets' impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

### **(j) Pension and post-retirement benefits other than pensions**

The Parent Company and some other Group companies maintain defined contribution plans in accordance with which contributions are made on a monthly basis to a non-government pension fund (the "Fund"), calculated as a certain fixed percentage of the employees' salaries. These pension contributions are accumulated in the Fund during the employment period and subsequently distributed by the Fund. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

The Group complies with the pension and social insurance legislation of the Russian Federation and the other countries where it operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions constitute defined contribution plans.

Payments under defined contribution plans are expensed as incurred.

### **(k) Provisions for liabilities and charges**

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in selling expenses in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

## 25 Significant accounting policies (continued)

### (l) Call and put options

Call and put options are carried at their fair value in the consolidated financial statements. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of options are reflected in the consolidated statement of profit or loss.

### (m) Income taxes

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

#### **Current tax**

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

#### **Deferred tax**

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

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.

**25 Significant accounting policies (continued)**

***Uncertain tax positions***

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**(n) Dividends payable**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

**(o) Revenue recognition**

***Revenue from sales of goods and provision of services***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group, and the specific criteria stipulated by IAS 18, "Revenue" have been met for each type of Group revenues.

Revenue is recorded less of discounts, provisions, value added tax and export duties, and refunds, and after excluding internal Group sales turnover.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenue from services is recognised in the period in which the services were rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be rendered under the relevant agreement.

***Interest income***

Interest income is recognised on a time-proportion basis using the effective interest method.

***Dividend income***

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

**(p) Segment information**

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, "Operating Segments".

## 25 Significant accounting policies (continued)

The Group's organisation comprises six reportable segments:

- the Mining segment, which comprises mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, and supplies raw materials to the steel segment and third parties;
- the Russian flat products segment, comprising production and sales of steel products and coke, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanised cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- the Russian long products segment, comprising a number of steel-production facilities combined in a single production system beginning from scrap iron collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- NLMK USA, comprising production and sales of steel products in the United States;
- NLMK DanSteel and Plates Distribution Network, comprising production and sales of plates in Europe and other regions of the world;
- Investments in NBH, comprising production of hot rolled, cold rolled coils and galvanised and pre-painted steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment are similar to the principles outlined in significant accounting policies.

### (q) Financial instruments

#### *Financial assets*

The Group's financial assets include cash and short-term deposits, trade and other accounts receivable, loans and other amounts receivable, quoted and non-quoted financial instruments and derivatives.

Financial assets have the following categories:

- loans and receivables;
- held-to-maturity investments.

#### *Loans and receivables*

Loans and receivables represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, such financial assets are measured at amortised cost using the effective interest method less any impairment losses.

#### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity investments if the Group intends and is able to hold them to maturity. Subsequent to the initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

#### *Valuation techniques*

Depending on their classification, financial instruments are carried at fair value or amortised cost. Below are the methods and key definitions.

*Fair value* is the price that would be received from selling an asset or paid when transferring a liability in an orderly transaction between market participants as at the valuation date. The best evidence of fair value is the price quoted in an active market.

## 25 Significant accounting policies (continued)

The fair value of financial instruments traded in active markets at each reporting date is determined based on the market quotes or dealers' quotes (buy quotes for long positions and sell quotes for short positions) without deducting transaction costs.

Valuation techniques, such as discounted cash flow models, or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure the fair value of financial instruments for which external market pricing information is unavailable.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount (calculated using the effective interest method), and for financial assets less any impairment loss.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

### **Initial recognition of financial assets**

Financial investments available for sale and financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

### **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)

***Impairment of financial assets***

At each reporting date, the Group assesses whether the objective indicators exist that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets are considered to be impaired only when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that have had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or group of debtors are experiencing significant financial difficulty, cannot service their debt or are demonstrating delinquency in interest or principal payments; or they are likely to undergo bankruptcy procedures or any other financial reorganisation. In addition, such evidence includes observable data testifying to an identifiable decline in estimated future cash flows under a financial instrument, in particular, negative changes in a counterparty's payment status caused by changes in the national or local business environment that impact the counterparty, or a significant impairment of collateral, if any, as a result of deteriorated market conditions.

***Impairment of financial assets carried at amortised cost***

The carrying amount of an asset is reduced by the amount of the allowance for impairment of financial assets. Losses from impairment of financial assets carried at amortised cost are carried through profit or loss as they arise.

Accrual of interest income on the reduced carrying value is continued based on the interest rate applied to discounting the future cash flows for impairment loss assessment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then de-recognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

***Impairment of financial investments available for sale***

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that a financial investment or a group of financial investments is impaired.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss, is reclassified from other comprehensive income to finance costs in profit or loss for the year.

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

***Financial liabilities***

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

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.



## 25 Significant accounting policies (continued)

### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss.

### *Borrowings*

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

### *Initial recognition of financial liabilities*

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

### *De-recognition*

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

### *Financial guarantee agreements*

Financial guarantees issued by the Group are irrevocable agreements requiring a payment to compensate losses incurred by the owner of the agreement due to the inability of the debtor to duly pay under the terms of a debt instrument. Financial guarantee agreements are initially recorded at fair value. Consequently the liability is measured at the higher of the best likelihood estimate of costs necessary to settle the liability at the reporting date, and the amount of the liability less accumulated amortisation.

### *Derivative financial instruments*

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 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).

### (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).

### (c) Impairment analysis of property, plant and equipment and goodwill

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

### (d) Control and the consolidation or accounting using equity method of accounting of entities in the Group's consolidated financial statements

Management judgement is involved in the assessment of whether the Group controls certain entities and, accordingly, whether consolidation or equity method of accounting for these investments in the consolidated financial statements is appropriate. As at 31 December 2017, 2016, and 2015, the Group owned 51% of shares in NBH, however, management concluded that in the light of giving certain governance rights to the party that owns the residual interest in this company, the Group does not control it, thus the Group's investment in NBH is accounted for under the equity method.

## 27 New or revised standards and interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted:

**IFRS 9 “Financial Instruments” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).** Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Management performed an analysis of Group financial assets and financial liabilities as of 31 December 2017 based on factors and circumstances that existed on these date and also using forward-looking information and concluded that application of the new standard since 1 January 2018 will not significantly impact classification of assets and liabilities in the consolidated financial statements of the Group and also that the amount of expected credit loss as of 1 January 2018 does not materially differ from the amount of recognized provisions and allowances in the consolidated financial statements as of 31 December 2017.

## 27 New or revised standards and interpretations (continued)

**IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

**Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).** The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

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 in the consolidated financial statements for the year ending 31 December 2018 which will be the first year when the Group will apply IFRS 15. The Group plans to apply the practical expedient available for the simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date in view of the simplified transition method application, the management of the Group is not expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

**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 is currently assessing the impact of the new standard on its consolidated financial statements.

**IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. Management is currently assessing the impact of the new standard on its consolidated financial statements.

27 New or revised standards and interpretations (continued)

**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).** This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. Management is currently assessing the impact of the interpretation on its consolidated financial statements.

**IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority’s right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. Management is currently assessing the impact of the interpretation on its consolidated financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- 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 IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- 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).
- 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).

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

**27 New or revised standards and interpretations (continued)**

The following amended standards became effective from 1 January 2017, but did not have a material impact on the Group.

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 11.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).



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# **ACCOUNTING (FINANCIAL) STATEMENTS NOVOLIPETSK STEEL FOR 2017**





## *Independent Auditor`s Report*



## *Independent Auditor`s Report*

To the shareholders and Board of Directors of Novolipetsk Steel:

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### *Opinion*

In our opinion the enclosed accounting statements that reflect accurately in all material aspects the financial position of Novolipetsk Steel (hereinafter “the Company”) as of 31.12.2017 as well as financial performance and cash flow for the year ended as of the given date according to the rules on preparation of accounting statements, established in the Russian Federation.

### **Audit subject**

The Company`s accounting statements comprise:

- Balance sheet as of December 31, 2017;
- The statement of financial results for the year ended as of given date;
- The statement of changes in equity for the year ended as of given date;
- The statement of cash flows for the year ended as of given date;
- Explanatory notes to the balance sheet and financial performance statement.

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### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). *Our liabilities under those standards are further described in the Auditor`s Liabilities for the Audit of the Financial Statements section of our report*

We believe that the audit evidence received by us is sufficient and appropriate in order to provide the basis for expression of our opinion.

### **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*

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### **Synopsis**

#### ***Materiality***

- Materiality of accounting statements for the Group on the whole: Russian Roubles ("RUB") 4,100 million, which represents 1% of the Company's revenue.

#### ***Key audit matter***

- Impairment of long-term financial investments: contributions to the nominal capital of the subsidiaries
- 

We designed our audit by determining materiality and assessing the risks of material misstatement in the accounting statements. In particular, we considered where the management made subjective judgements, for instance, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also evaluated risk of management override of internal control measures including among others, consideration of the presence of management bias that represents a risk of material misstatements due to fraud.

We tailored the scope of our audit so as to perform works sufficient for expression of our opinion on the accounting statements as a whole with regard to the structure of the Company, accounting processes and control means used by the Company as well as the industry in which the Company operates.

### **Materiality**

The scope of our audit was influenced by our application of materiality. Audit is designed to obtain reasonable assurance whether the accounting statements are free from material misstatement. Misstatements may occur as a result of fraudulent actions or mistakes. They are considered material if it is reasonable to expect that, individually or in aggregate, they could influence economic decisions of users taken on the basis of the accounting statement.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including materiality of accounting statements for the Company on the whole as presented in the table below. Using this thresholds and considering qualitative considerations we determined the scope of our audit and the nature, timing and extent of the audit procedures and evaluated the effect of misstatements, both individually and in aggregate, on the accounting statements for the Group on the whole.



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**Overall materiality of accounting statements:**

RUB 4,100 million (2016: (RUB 3,350 million)

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**How we determined it**

1% of revenue

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**Rationale for the materiality benchmark applied**

We decided to use the Group`s revenue as the basic indicator for materiality level as we believe that this basic indicator objectively reflects the results of the Group`s operations during the period with observable profit volatility. We chose materiality of 1% which is consistent with acceptable quantitative thresholds for public companies in this sector.

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We also considered misstatements and/or potential misstatements which, in our view, are material due to qualitative considerations.

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**Key audit matters**

Key audit matters are those matters that according to our professional judgement were of most significance for the accounting statements audit for the current period.

These matters were addressed in the context of our audit of the accounting 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
<i>Impairment of long-term financial investments: contributions to the nominal capital of the subsidiaries</i> The Company`s management conducts checking for impairment of financial investments including contributions to the nominal capital of the subsidiaries whose market value is not determined annually as of the reporting date. During the analysis of signs of financial investments impairment the Company	We received, reviewed and assessed the documents on checking for impairment of financial investments conducted by the management and discovered no additional factors that are supposed to be present, but were not considered during this checking. We checked the estimated value of contributions to the nominal capitals of Russian and foreign subsidiaries determined by the management on basis of their net assets. We also reviewed and assessed other factors considered by the

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Key audit matter	How our audit addressed the Key audit matter
<p>reviews net assets of the subsidiaries as well as the results of financial and economic activity.</p> <p>If there are signs of impairment the Company defines estimated costs of financial investments and compares it to their net (book) value. If the impairment checking reveals stable decrease of financial investment cost, then the impairment provision in the amount of difference between the net (book) and estimated values is set up.</p> <p>The estimated value of contributions to the nominal capital of Russian production subsidiaries is determined as the amount of their net assets calculated in consideration of the ownership share.</p> <p>The estimated cost of investment to the nominal capital of the subsidiary NLMK Overseas Holdings, that possesses investments to its own subsidiaries, is determined as the amount of net assets adjusted in consideration of estimated cost of investment`s final objects. Respectively, the last is determined on basis of discounted cash flow models for main production companies and net assets for other companies. These models and calculations are prepared as of December 31, 2017. Evaluation performed by the management revealed the increase of estimated investment value of NLMK Overseas Holdings. Respectively, the amount</p>	<p>management during estimation of stable decrease of financial investment cost, the results of subsidiaries` operations and forecasts in particular.</p> <p>In the course of evaluation of the investment objects estimated cost of NLMK Overseas Holdings, defined on the basis of discounted cash flow models, we performed critical analysis of judgements and key assumptions that influence evaluation results.</p> <p>Specific works conducted for evaluation of the investment objects estimated cost of NLMK Overseas Holdings comprised:</p> <ul style="list-style-type: none"> <li>• Assessment of discounted cash flow models prepared by the management. We involved assessment experts to support us in assessment of methodology and allowances of the models;</li> <li>• Comparison of applied Key assumptions with the company performance results for the past reporting periods and with approved budget indicators;</li> <li>• Comparison of applied Key assumptions including product selling prices, inflation level, discount rates with general and our own forecasts;</li> <li>• Evaluation of completeness and accuracy of disclosed information.</li> </ul>



Key audit matter	How our audit addressed the Key audit matter
<p>of previously established provision decreased by RUB 23,300 a 'b.</p> <p>We paid special attention to this matter due to presence of judgement factor in impairment testing as well as significant book value of assets being tested.</p>	<p>As the result of above mentioned procedures we discovered no material misstatements of the amount of provision for impairment of financial investments reported by the management in the accounting statements.</p>

### *Other information*

The management is responsible for other information. Other information is comprised of the Group's 2017 Annual Report and the Issuer's Quarterly Report for Q1 2007 excluding accounting statements and our auditor's opinion on these statements. It is assumed that these Reports will be provided after the issue date of this audit opinion.

Our opinion on accounting statements is not attributable to other information and we do not and will not express any form of assurance conclusion thereon.

Due to audit of accounting statements our duty is to review above mentioned other information upon submitting in order to reveal if there are any possible material misstatements or significant discrepancy between other information, consolidated financial statements or our knowledge obtained during audit.

### *Responsibility of the management and persons responsible for corporate governance and accounting statements*

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

In preparing the accounting 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Persons responsible for corporate government shall be responsible for supervision of the Group's accounting statements preparation.



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### *Auditor`s responsibility for the audit of the accounting statements*

Our purpose is to obtain reasonable assurance that accounting statements do not contain any material misstatements due to fraud or errors and to release our auditor`s report containing our opinion. Reasonable assurance represents high level of confidence but is not a guarantee that audit performed in accordance with ISA shall always reveal material misstatements if any of them are present. Misstatements may occur as a result of fraud or errors and are considered material if it is possible to reasonably assume that, separately or in aggregate, they may influence users` economic decisions taken on the basis of this accounting statement.

In the framework of the audit performed in accordance with ISA we implement professional judgement and keep professional sceptical attitude during the whole process of audit. Additionally, we perform following:

- Identify and assess risks of material misstatements of the accounting statements due to fraud or errors; design and perform audit`s procedures as a response to these risks; obtain audit evidence that is sufficient and appropriate in order to provide the basis for expression of our opinion. Risk of failure to detect a material misstatement due to fraud is higher than risk of failure to identify material misstatement due to error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control system.
- Obtain an understanding of internal control system, relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not to express our opinion on the effectiveness of the Group`s internal control system.
- Evaluate the appropriateness of accounting policy used and the reasonableness whether the accounting estimates and related disclosures made by the management are justified.
- 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 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 auditor`s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate presentation of the accounting statements as a whole, its structure and contents including 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 observe all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably influence our independence, and where applicable, related precautions.

From the matters reported with those charged with governance, we determine those matters that were the most significant for audit of the accounting statements of the current period and respectively the audit`s key matters. We describe these matters in our audit`s report, except for the cases when public information disclosure of these matters is forbidden by the law or regulatory requirement or on rare occasion when we decide that information on some matter should not be included 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 Alexei Ivanov.

February 19, 2018

Moscow, the Russian Federation

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

Audited entity: NLMK

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

The certificate of registration in the Unified State Register of Legal  
Entities issued on July 9, 2002 under № 1024800823123  
398040, Russian Federation, Lipetsk Metallurgov sq. 2

Independent Auditor:  
Joint-Stock Company "PricewaterhouseCoopers Audit"

Certificate of State Registration № 008.890  
issued by Moscow Registration Chamber on 28 February 1992.

The certificate of registration in USRL issued on August 22, 2002  
under № 1027700148431

Self-regulating organization of auditors "Russian Union of Auditors"  
(Association)

ORNZ in the register of auditors and auditing organizations -

11603050547.

## CONTENTS

BALANCE SHEET .....	4
PROFIT AND LOSS STATEMENT .....	6
STATEMENT OF CHANGES IN EQUITY .....	8
CASH FLOW STATEMENT .....	10
EXPLANATIONS TO BALANCE SHEET AND PROFIT AND LOSS STATEMENT .....	12
1 GENERAL INFORMATION .....	13
2 SIGNIFICANT ASPECTS OF ACCOUNTING POLICY AND BASIS OF ACCOUNTING (FINANCIAL) STATEMENTS PREPARATION .....	15
2 1 INTANGIBLE ASSETS .....	15
2 2 R&D RESULTS .....	16
2 3 FIXED ASSETS AND CONSTRUCTION IN PROGRESS .....	16
2 4 FINANCIAL INVESTMENTS .....	17
2 5 INVENTORIES .....	17
2 6 SHORT-TERM AND LONG-TERM ASSETS AND LIABILITIES .....	18
2 7 ADVANCE PAYMENTS MADE AGAINST NON-CURRENT ASSETS .....	18
2 8 CASH AND CASH EQUIVALENTS .....	18
2 9 CREDITS AND LOANS .....	19
2 10 ESTIMATED LIABILITIES .....	19
2 11 INCOME AND EXPENSES .....	19
2 12 TAXES .....	20
2 13 ASSETS, LIABILITIES AND OPERATIONS IN FOREIGN CURRENCY .....	20
2 14 INFORMATION BY SEGMENTS .....	21
2 15 CHANGES IN ACCOUNTING POLICY .....	21
2 16 COMPARATIVE DATA .....	21
3 DISCLOSURE OF SIGNIFICANT INDICATORS .....	22
3 1 INTANGIBLE ASSETS .....	22
3 2 FIXED ASSETS AND CONSTRUCTION IN PROGRESS .....	23
3 3 FINANCIAL INVESTMENTS .....	25
3 4 INVENTORIES .....	26
3 5 ACCOUNTS RECEIVABLE AND LIABILITIES .....	27
3 5 1 Accounts Receivable .....	27
3 5 2 Accounts payable .....	29
3 6 CASH AND CASH EQUIVALENTS .....	30
3 7 EQUITY AND DIVIDENDS .....	31
3 8 CREDITS AND LOANS .....	33
3 9 ESTIMATED LIABILITIES .....	34
3 10 INCOME AND EXPENSES .....	35
3 10 1 Income and expenses from ordinary activities .....	35
3 10 2 Other income and expenses .....	36



*Accounting  
(Financial)  
Statements  
for 2017*

3 11 CURRENT PFORIT TAX FORMATION .....	36
3 12 INFORMATION BY SEGMENTS .....	37
3 13 SECURITY OF LIABILITIES .....	38
INFORMATION ON RELATED PARTIES .....	39
3 14 1 The list of related parties <sup>1</sup> .....	39
3 14 2 Operations with related parties.....	41
3 15 CONTINGENT LIABILITIES .....	48
3 16 EVENTS AFTER THE REPORTING DATE .....	49



Accounting  
(Financial)  
Statements  
for 2017

# **BALANCE SHEET** **as of 31 December 2017**

Company **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of business entity / form of ownership  
**Public company / Joint private and foreign property**  
Unit of measurement - RUB thou.  
Address **2, Metallurgov sq., 398040 Lipetsk**

	CODES
Form acc. to OKUD	0710001
Date (date, month, year)	31.12.2017
acc. to OKPO	05757665
TIN	4823006703
acc. to OKVED	24.10.4
acc. to OKOPF/ OKFS	12247 / 34
acc. to OKEI	384

Parameter description	Code	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015	Disclosure in Explanations
1	2	3	4	5	6
<b>ASSET</b>					
<b>I. Non-current assets</b>					
Intangible assets	1110	1,603,351	807,061	479,344	2.1, 3.1
R&D results	1120	18,810	22,161	28,414	2.2
Fixed assets	1150	130,017,060	130,676,632	131,024,265	2.3, 3.2
Financial investments	1170	147,965,809	124,336,442	152,520,560	2.4, 2.6, 3.3
Deferred tax assets	1180	161,667	153,987	148,597	2.12, 3.11
Other non-current assets	1190	6,158,438	1,964,808	1,846,963	2.7, 3.5.1
Total for Section I	<b>1100</b>	<b>285,925,135</b>	<b>257,961,091</b>	<b>286,048,143</b>	
<b>II. Current assets</b>					
Inventories	1210	54,022,367	53,201,748	42,543,057	2.5, 3.4
Input value added tax	1220	3,037,696	6,486,168	7,914,804	
Accounts receivable	1230	146,072,418	134,055,175	123,151,582	2.6, 3.5.1
Financial investments (excluding cash equivalents)	1240	62,557,498	58,323,950	90,796,881	2.4, 2.6, 3.3
Cash and cash equivalents	1250	8,910,318	27,801,961	14,628,783	2.8, 3.6
Other current assets	1260	67	67	67	
Total for Section II	<b>1200</b>	<b>274,600,364</b>	<b>279,869,069</b>	<b>279,035,174</b>	
<b>BALANCE (sum of lines 1100 + 1200)</b>	<b>1600</b>	<b>560,525,499</b>	<b>537,830,160</b>	<b>565,083,317</b>	

Accounting  
balance



Accounting  
(Financial)  
Statements  
for 2017

Form 0710001 p. 2

Parameter description	Code	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015	Disclosure in Explanations
1	2	3	4	5	6
<b>LIABILITIES</b>					
<b>III. Capital and reserves</b>					
Authorized capital	1310	5,993,227	5,993,227	5,993,227	
Revaluation of non-current assets	1340	3,300,202	3,308,264	3,333,289	3.7
Additional capital (without revaluation)	1350	771,777	771,777	771,777	
Reserve capital	1360	299,661	299,661	299,661	
Retained earnings (uncovered loss)	1370	329,936,615	304,722,304	317,835,836	
Total for Section III	<b>1300</b>	<b>340,301,482</b>	<b>315,095,233</b>	<b>328,233,790</b>	
<b>IV. Long-term liabilities</b>					
Borrowed funds	1410	79,363,678	95,619,746	137,275,933	2.6, 2.9, 3.8
Deferred tax liabilities	1420	10,954,069	11,341,530	11,079,929	2.12, 3.11
Other liabilities	1450	4,296	12,258	22,861	2.6, 3.5.2
Total for Section IV	<b>1400</b>	<b>90,322,043</b>	<b>106,973,534</b>	<b>148,378,723</b>	
<b>V. Short-term liabilities</b>					
Borrowed funds	1510	25,360,981	20,796,621	27,893,440	2.6, 2.9, 3.8
Accounts payable	1520	100,068,427	89,819,854	58,666,218	2.6, 3.5.2
Estimated liabilities	1540	4,472,566	5,144,918	1,911,146	2.10, 3.9
Total for Section V	<b>1500</b>	<b>129,901,974</b>	<b>115,761,393</b>	<b>88,470,804</b>	
<b>BALANCE (sum of lines 1300 + 1400 + 1500)</b>	<b>1700</b>	<b>560,525,499</b>	<b>537,830,160</b>	<b>565,083,317</b>	

NLMK Manager

by virtue of Power of Attorney #500 dd. 11.12.2017

O. Zarubina

19 February 2018

Accounting  
balance



Accounting  
(Financial)  
Statements  
for 2017

## PROFIT AND LOSS STATEMENT for 2017

Company **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of business entity / form of ownership  
**Public company / Joint private and foreign property**  
Unit of measurement – RUB thou.

	CODES
Form acc. to OKUD	0710002
Date (date, month, year)	31.12.2017
acc. to OKPO	05757665
TIN	4823006703
acc. to OKVED	24.10.4
acc. to OKOPF/ OKFS	12247 / 34
acc. to OKEI	384

Indicator description	Code	For 2017	For 2016	Disclosure in Explanations
1	2	3	4	5
Revenue	2110	411,806,469	335,238,197	2.11, 3.10.1
incl. sales of steel-making products	2110.1	409,649,446	333,592,630	
Cost of sales	2120	(299,452,589)	(238,026,159)	2.11, 3.10.1
including steel- making products sold	2120.1	(297,037,958)	(236,404,867)	
Gross profit (loss)	2100	112,353,880	97,212,038	
Commercial expenses	2210	(30,111,863)	(26,474,726)	
Administrative expenses	2220	(13,769,489)	(13,873,410)	
<b>Sales profit (loss)</b>	<b>2200</b>	<b>68,472,528</b>	<b>56,863,902</b>	
Income from shareholding in other organizations	2310	37,962,345	14,860,979	3.3
Interest receivable	2320	1,507,064	2,056,988	2.4, 3.3
Interest payable	2330	(4,616,732)	(6,658,656)	2.9, 3.8
Other income	2340	320,870,508	229,988,441	
Other costs	2350	(301,562,359)	(249,795,041)	2.11, 3.10.2
<b>Profit (loss) before tax</b>	<b>2300</b>	<b>122,633,354</b>	<b>47,316,613</b>	
Current profit tax	2410	(13,549,212)	(11,614,819)	
incl. fixed tax liabilities (assets)	2421	(11,372,600)	2,407,704	
Change in deferred tax liabilities	2430	387,461	(261,601)	2.12, 3.11
Change in deferred tax assets	2450	7,680	5,390	
Other	2460	(20,587)	(276,316)	
Profit tax redistribution among a consolidated group of taxpayers	2465	7,555	1,250,217	2.12, 3.11
<b>Net profit (loss)</b>	<b>2400</b>	<b>109,466,251</b>	<b>36,419,484</b>	3.7

Profit and  
Loss Statement



Accounting  
(Financial)  
Statements  
for 2017

Form 0710002 p. 2

Parameter description	Code	For 2017	For 2016	Disclosure in Explanations
1	2	3	4	5
Combined financial performance for the period	2500	109,466,251	36,419,484	
FOR REFERENCE				
Base profit (loss) per share (RUB)	2900	18.26	6.08	3.7

**NLMK Manager**

by virtue of Power of Attorney #500 dd. 11.12.2017

**O. Zarubina**

19 February 2018

Profit and  
Loss Statement





Accounting  
(Financial)  
Statements  
for 2017

## STATEMENT OF CHANGES IN EQUITY for 2017

Company **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of business entity / form of ownership  
**Public company / Joint private and foreign property**  
Unit of measurement – RUB thou.

Form acc. to OKUD  
Date (date, month, year)  
acc. to OKPO  
TIN  
acc. to OKVED  
acc. to OKOPF/ OKFS  
acc. to OKEI

CODES
0710003
31.12.2017
05757665
4823006703
24.10.4
12247 / 34
384

### 1 Capital flow

Parameter description	Code	Authorized capital	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
1	2	3	4	5	6	7
<b>Capital as of December 31, 2015</b>	<b>3100</b>	<b>5,993,227</b>	<b>4,105,066</b>	<b>299,661</b>	<b>317,835,836</b>	<b>328,233,790</b>
<b>For 2016</b>						
Capital increase– <b>total:</b>	3210	--	--	--	<b>36,425,432</b>	<b>36,425,432</b>
including:						
net profit	3211	X	X	X	36,419,484	36,419,484
income directly pertaining to the capital increase	3213	X	--	X	5,948	5,948
Capital reduction– <b>total:</b>	3220	--	--	--	<b>(49,563,989)</b>	<b>(49,563,989)</b>
including:						
dividends	3227	X	X	X	(49,563,989)	(49,563,989)
Additional capital change	3230	X	(25,025)	--	25,025	X
<b>Capital as of December 31, 2016</b>	<b>3200</b>	<b>5,993,227</b>	<b>4,080,041</b>	<b>299,661</b>	<b>304,722,304</b>	<b>315,095,233</b>
<b>For 2017</b>						
Capital increase– <b>total:</b>	3310	--	--	--	<b>109,471,022</b>	<b>109,471,022</b>
including:						
net profit	3311	X	X	X	109,466,251	109,466,251
income directly pertaining to the capital increase	3313	X	--	X	4,771	4,771
Capital reduction– <b>total:</b>	3320	--	--	--	<b>(84,264,773)</b>	<b>(84,264,773)</b>
including:						
dividends	3327	X	X	X	(84,264,773)	(84,264,773)
Additional capital change	3330	X	(8,062)	--	8,062	X
<b>Capital as of 31 December 2017</b>	<b>3300</b>	<b>5,993,227</b>	<b>4,071,979</b>	<b>299,661</b>	<b>329,936,615</b>	<b>340,301,482</b>

Statement of  
changes in equity



**3 Net assets**

Parameter description	Code	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
1	2	3	4	5
Net assets	3600	340,301,482	315,095,233	328,233,790

**NLMK Manager**

by virtue of Power of Attorney #500 dd. 11.12.2017

**O. Zarubina**

*19 February 2018*



Accounting  
(Financial)  
Statements  
for 2017

## CASH FLOW STATEMENT for 2017

Company **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of business entity / form of ownership  
**Public company / Joint private and foreign property**  
Unit of measurement – RUB thou.

	CODES
Form acc. to OKUD	0710004
Date (date, month, year)	31.12.2017
acc. to OKPO	05757665
TIN	4823006703
acc. to OKVED	24.10.4
acc. to OKOPF/ OKFS	12247 / 34
acc. to OKEI	384

Parameter description	Code	For 2017	For 2016
1	2	3	4
<b>Cash flow from current operations</b>			
Inflow – <b>total</b>	<b>4110</b>	<b>403,885,705</b>	<b>350,628,794</b>
including:			
from sales of goods, products, works and services	4111	402,486,200	348,961,523
from rent, license payments, royalties, commissions and other similar payments	4112	223,889	194,929
other inflow	4119	1,175,616	1,472,342
Payments - <b>total</b>	<b>4120</b>	<b>(351,753,029)</b>	<b>(283,633,979)</b>
including:			
to suppliers (contractors) for raw and other materials, works, services	4121	(294,302,426)	234,309,472
related to employee salaries and wages	4122	(28,778,649)	(24,545,052)
interest on debt liabilities	4123	(4,796,091)	(7,216,116)
corporate income tax	4124	(13,436,802)	(7,697,072)
other payments	4129	(10,439,061)	(9,866,267)
Balance of cash flows from current operations	<b>4100</b>	<b>52,132,676</b>	<b>66,994,815</b>
<b>Cash flow from investment operations</b>			
Inflow – <b>total</b>	<b>4210</b>	<b>130,448,980</b>	<b>77,717,520</b>
including:			
from sale of non-current assets (except financial investments)	4211	61,229	15,223
from sale of stock (shares) in other companies	4212	47,359	183,134
from repayment of loans granted, from sale of debt securities (rights of demand of monetary funds from other persons)	4213	97,751,341	35,687,103
from dividends, interest on debt financial investments and similar incoming funds from share participation in other organizations	4214	32,589,051	23,826,840
other inflow	4219	--	18,005,220

Cash flow  
statement



*Accounting  
(Financial)  
Statements  
for 2017*

Indicator description	Code	For 2017	For 2016
1	2	3	4
<b>Payments – total</b>	<b>4220</b>	<b>(118,025,092)</b>	<b>(58,203,302)</b>
including:			
those related to acquisition, set-up, upgrade, reconstruction and preparation for usage of non-current assets	4221	(16,165,709)	(13,591,803)
those related to acquisition of debt securities (rights of demand of monetary funds from other persons), granting of loans to other entities	4223	(92,989,809)	(44,236,534)
interest on debt liabilities included into the cost of an investment asset	4224	(1,072)	(1,193)
other payments	4229	(8,868,502)	(373,772)
<b>Balance of cash flows from investment operations</b>	<b>4200</b>	<b>12,423,888</b>	<b>19,514,218</b>
<b>Cash flow from financial operations</b>			
<b>Inflow – total</b>	<b>4310</b>	<b>66,264,878</b>	<b>78,993,227</b>
including:			
receiving loans and credits	4311	66,264,878	78,993,227
<b>Payments – total</b>	<b>4320</b>	<b>(149,222,539)</b>	<b>(147,080,393)</b>
including:			
payment of dividends and other payments related to profit distribution in favour of owners (participants)	4322	(71,828,728)	(37,688,759)
related to repayment (buy- back) of bills of exchange and other debt securities, repayment of loans and credits	4323	(73,990,193)	(107,374,574)
other payments	4329	(3,403,618)	(2,017,060)
<b>Balance of cash flows from financial operations</b>	<b>4300</b>	<b>(82,957,661)</b>	<b>(68,087,166)</b>
<b>Balance of cash flows for the reporting period</b>	<b>4400</b>	<b>(18,401,097)</b>	<b>18,421,867</b>
<b>Balance of cash and cash equivalents as of the beginning of the reporting period</b>	<b>4450</b>	<b>27,801,289</b>	<b>14,628,545</b>
<b>Balance of cash and cash equivalents as of the end of the reporting period</b>	<b>4500</b>	<b>8,910,224</b>	<b>27,801,289</b>
Foreign currency to RUB exchange rate fluctuation effect	4490	(489,968)	(5,249,123)

**NLMK Manager**

by virtue of Power of Attorney #500 dd. 11.12.2017

**O. Zarubina**

19 February 2018

*Cash flow  
statement*



*Accounting  
(Financial)  
Statements  
for 2017*

# **EXPLANATIONS TO BALANCE SHEET AND PROFIT AND LOSS STATEMENT**

*Explanations*



## **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 flats.

Abbreviated Company name: NLMK

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

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

### **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 31.12.2017 the Company’s headcount was 27,130 persons, as of 31.12.2016 – 27,346 persons.

### **Board of Directors as of December 31, 2017:**

Chairman of the Board of Directors –Vladimir Lisin

Members:

- Oleg V. Bagrin
- Thomas Veraszto
- Helmut Wieser
- Nikolai Gagarin
- Karen Sarkisov
- Stanislav Shekshnya
- Benedict Sciortino
- Franz Struzl

#### Management Board as of December 31, 2017:

Oleg Bagrin	– President (Chairman of the Management Board)
Grigory Fedorishin	– Senior Vice President - Deputy Chairman of the Management Board
Sergey Filatov	– Managing Director
Tatiana Averchenkova	– Vice-President, Operational Efficiency
Ilya Guschin	– Vice President, Sales
Barend de Vos	– Vice-President, International Operations
Sergey Likharev	– Vice President, Logistics
Stanislav Tsyrlin	– Vice President, HR & Management System (until December 29, 2017)

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

#### The Audit Commission composition as of December 31, 2017:

Mikhail Makeev	– Chairman of the Audit Commission, Director, Audit Division
Yulia Kunikhina	– Senior Specialist for comprehensive assessment of the internal control system, risk management and corporate governance system of NLMK Group companies
Natalia Savina	– Senior Specialist, Internal Audit Organization and Methodology Department
Elena Skladchikova	– Lead Auditor, Audit Department
Sergey Ushkov	– Lead Auditor, Audit Department

#### Information on the Register Holder and the Auditor:

Register Holder of the Company is JSC Agency “RNR”; 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 JSC PWC 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.

Olga Zarubina, Director General of NLMK-Accounting Center, performs the functions of the Company’s chief accountant on the basis of a Power of Attorney.

#### The Company’s operational environment

The Russian economy demonstrates some characteristics typical of emerging markets. Low oil prices, continuous political tension in the region as well as the extended international sanctions against some Russian companies and nationals were having a negative impact on the Russian economy. Financial markets are characterized by absence of stability, frequent and significant changes in prices and increase in trade operations spreads as before. 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 might differ from today’s expectations of the Management.



Main financial risks intrinsic to the Company's operations include market risks, credit risks, currency risks and underliquidity risks. Financial risk management is aimed at determination of risk limits and subsequent observance of the established limits. Risk management is to ensure proper functioning of the Company's internal policy and procedures for the purpose of minimizing these risks. The Company discloses its risks management procedures at its official website <http://www.nlmk.com>

The Russian Law on transfer pricing provides for a possibility of additional charging of tax liabilities to monitored transactions (transactions with related parties and certain transactions between independent parties), if the transaction price does not correspond to the market one.

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 2016" to the Tax authority (in 2016 - for 2015).

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 contested and consequences of such outcome cannot be securely evaluated.

According to the Law on Controlled Foreign Companies (hereinafter - CFC) taxation on profit was introduced in the Russian Federation for foreign companies and foreign ventures without establishing an entity (including funds) being controlled by tax residents of the Russian Federation (controlling persons). 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 company has been included into the CTG.

The Company concluded an Agreement with Bank of Social Development and Construction Lipetskombank and Sberbank of Russia on accession to Cash pooling service for a Master account where the Company acts as a Parent Company for the purpose of NLMK Group companies' liquidity management by cash consolidation. Cash consolidation is performed through conducting operations under loan agreements between the Company and NLMK Group companies.

## **2. SIGNIFICANT ASPECTS OF ACCOUNTING POLICY AND BASIS OF ACCOUNTING (FINANCIAL) STATEMENTS PREPARATION**

The accounting (financial) statements have been prepared in accordance with the rules of accounting and reporting effective in the Russian Federation, in particular, with the Federal Law "Accounting" and Regulation on accounting and reporting in the Russian Federation approved by the RF Ministry of Finance.

The unit of measurement for accounting indicators is RUB thousand without decimal digits. In the 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, Joint-Stock Company or Production Cooperative) as of the reporting date, are presented with their names changed.

The Company's consolidated financial statements have been made in line with the International Financial Reporting Statements (IFRS).

### **2. 1 INTANGIBLE ASSETS**

Intangible assets are reflected in balance sheets upon 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 depreciation charged.

Depreciation of intangible assets is calculated by a straight-line method with an exclusion of cases when application of another method to determine depreciation can 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 useful life of an intangible asset is checked in order to revise it, more accurate definition of the useful life is performed in case of significant change in the period (for 12 months and longer of the previously defined one) within which the Company plans to use that asset.

Should it be impossible to define useful life for intangible assets accounted before January 1, 2008, standard depreciation charges are established on the basis of a 20-year term. For similar intangible assets accounted from January 1, 2008, depreciation is not charged.

There are no regular revaluations of intangible assets or checks for their impairment.

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

## 2. 2 R&D RESULTS

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

## 2. 3 FIXED ASSETS AND CONSTRUCTION IN PROGRESS

### Structure of fixed assets

Fixed assets acquired from January 1, 2011 with the initial cost of RUB 40 thou. per item and below, are accounted within inventories.

Special tools, devices, equipment and special clothing the lifetime of which is longer than 12 months and the cost of which is over RUB 40 thou. per item are accounted under the procedure established for fixed asset accounting.

### Evaluation basis

The original value of fixed assets acquired by the Company for payment, is formed by the actual costs of acquisition, construction and manufacture less taxes refundable. The initial cost of fixed assets received under agreements which provide for the fulfilment of liabilities (payments) by non-monetary means shall be recognized as the price of valuables handed over or to be handed over, based on the price upon which the Company usually defines the value of similar valuables in comparable circumstances.

Costs related to completion, additional supply of equipment, modernization and upgrading increase the initial cost of fixed assets.

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

Fixed assets purchased before 01.01.1997 are shown in the balance sheet at replacement cost, and those purchased after 01.01.1997 – at initial cost, minus accumulated depreciation amounts respectively.

### Depreciation

Depreciation of fixed asset items is charged on a straight-line basis from the initial (replacement) value of items and using depreciation norms calculated for established useful lives of such items.

Groups of fixed assets	Useful life (years) of items taken onto the books	
	before 01.01.2003	since 01.01.2003
Buildings	3-256	2-45
Structures	2-106	2-45
Machinery and equipment including household equipment and other objects.	2-100	2-42
Vehicles	2-35	2-25
Cultivated resources of natural origin	40	30

For fixed asset items commissioned before 01.01.2003, useful life is set on the basis of depreciation norms 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 starting from 01.01.2003 - according to the norms calculated based on the useful lives set by the Company.

Depreciation is not charged for objects under preservation for longer than three months as well as within renewal period longer than 12 months.

#### **Retirement, writing-off and disposal**

Retired or disposed fixed asset items are written off from the balance sheet along with the accrued depreciation amount. The revaluation surplus amount of a retired fixed asset item shall be transferred from additional capital to retained profit of the Company, remaining within the equity.

Any profits and expenses induced by fixed asset retirement shall be reflected in the Profit and Loss Statement for the reporting period when they were incurred as other income and expenses.

#### **Construction in progress**

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

Settlements between the Company (Builder) and contractors are performed on a monthly basis according to the agreements on construction, after step-by-step (intermediate) acceptance of the construction and installation works done. Information on value of works done contained in Forms KC-2 and KC-3 is a basis for reflection of expenses related to construction of fixed assets. The value of works is reflected in the contract prices, also in the estimated costs according to which the settlements of NLMK with the contractors are effected with the progressive total since the beginning of the works, the beginning of the year also including the reporting period.

## **2. 4 FINANCIAL INVESTMENTS**

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

Financial investments are accounted on the basis of actual acquisition costs. Debt securities for which current market value is not determined are accounted before the retirement at original cost. Financial investments, for which the current market value is determined under the established procedure, are reflected as of the quarter end at their current market value.

Debt securities and granted loans are not estimated in terms of discounted value. Financial investments in securities (shares, bonds), for which the current market value is not defined, are depreciated at time of retirement upon 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 the Company's financial investments a provision for their impairment is set up calculated according to the method summarizing information on cost reduction factors and signs of depreciation. If there are signs of impairment of financial investments for which market value is not defined, as of the end of reporting year the Company generates a provision amounting to the excess of book value of such investments over their estimated value determined 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 reported as part of other cash assets.

## **2. 5 INVENTORIES**

Evaluation of inventories acquired at a charge, as of the end of the reporting period is done at actual costs. In the reporting period accounting is carried out at book prices, determined when first assigning a nomenclature number. When materials arrive, their cost is determined based on the price specified in the delivery order on the basis of a contract or other data. Subsequently actual first cost of materials based on the data for the period preceding the previous period is used as accounting price of the acquired materials. Entry of materials purchased is accounted using control accounts 15 "Procurement and acquisition of tangible assets" and 16

“Deviation of tangible assets cost”. In the end of a reporting period, any deviations of the actual cost of materials from their cost of acquisition are written off pro rata the value of materials consumed in the reporting period at book prices to accounting accounts in accordance with the purposes of materials usage and to account 10 “Materials” for the adjustment of its balance by the amount of deviations related to the unused materials balance.

Inventories received without settlement documents of suppliers are recorded as non-invoiced deliveries at book prices.

When tangible assets are released into production or otherwise retire they are valued within the reporting period at book prices with subsequent writing off of deviations of actual cost from the book prices to the relevant accounts at the end of the reporting period. When materials are written off, their evaluative calculation includes their quantity and cost as per the nomenclature number as of the beginning of the month, and also all incomings during the month.

Finished products are valued as of the end of the reporting period at actual costs for each product type, which is formed by the cost of finished product balances as of the beginning of the reporting period and the first cost of the reporting period.

Within the reporting period, finished products accounting is carried out on the basis of book prices without application of account 40 “Product (works, services) output”. Actual first cost of the finished products upon the data of the reporting period before the last one is used as a book price.

Difference between actual first cost and book price of the finished goods is charged to a separate subaccount of account 43 “Finished goods” broken down to product types.

Finished goods are written off at book prices when dispatched. At the same time deviations related to finished goods sold are written off to sales accounts pro rata their quantity. Deviations related to the balance of finished goods are written off from deviations subaccount to finished goods subaccounts at the end of the reporting period, when actual calculation is formed, by product type for the purpose of determination of actual first cost.

Work-in-progress as of the reporting period end is valued on the basis of the actual first cost generated based on work-in-progress value as of the period beginning and production costs of the reporting period. The order-by-order calculation of work-in-progress is evaluated on the basis of actual costs.

In the balance sheet inventories, including work-in-progress, are accounted less the assessed reserves charged quarterly. The method of reserves estimation takes into account the value of identified unused nonvolatile stocks and probable price of their sale.

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

Accounts payable and receivable, including indebtedness under credits and loans, are accounted 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 not fixed. Financial investments are classified as short- term or long-term depending on estimated time of their use (circulation, ownership or repayment).

As of the end of reporting period, long-term assets and liabilities are shown in the balance sheet as short-term ones when their remaining maturity (repayment period) does not exceed 12 months from the balance sheet date.

## **2. 7 ADVANCE PAYMENTS MADE AGAINST NON-CURRENT ASSETS**

For a more reliable accounting of information on the property status of the Company, the amounts of advances, given for capital construction, purchasing fixed asset items and other non-current assets, are reflected 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 accounting (financial) statements as part of other cash assets. Interest received on cash equivalents is accounted in cash flow statement as part of ongoing operation.

Cash flow amount in foreign currency is converted into rubles at the official rate of this foreign currency to ruble established by the Central Bank of the Russian Federation as of the date of the payment effecting or receipt.

In the presentation of cash flows in the cash flow statement, the following items are presented in summarized form as cash inflow (payments) in accordance with cash flow type:

- placement and refund of deposits for 3 months and up;
- indirect taxes as part of cash inflow from buyers and customers, payments to suppliers and contractors and payments to / refunds from the RF budget system;
- inflow from contractors as refund of payments made earlier;
- currency exchange transactions;
- execution and receipt of payments as refunds under earlier transactions;
- receipt and granting of loans in the framework of cash pooling.

Cash flows from current, investment and financial transactions are included in the same reporting segment identified by the type of activity.

The cash flow necessary to maintain the current Company's business volume is included in current transactions. The cash flow associated with the Company's business expansion is included in investment transactions.

Proceeds and payments on the investment 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 in any other indirect way.

## **2. 9 CREDITS AND LOANS**

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 for the received credits and loans are accounted in the balance sheet and statements in the reporting period which they belong to.

The discount on notes passed and bonds placed is reflected as included in other expenses proportionally over a loan contract validity period.

## **2. 10 ESTIMATED LIABILITIES**

The Company accepts estimated liabilities for forthcoming expenses on vacation pays and on payment of bonuses to employees. The Balance Sheet has such liabilities which are reported in short-term liabilities. The procedure for this estimated liabilities accrual 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 on the basis of the financial and economic activity.

## **2. 11 INCOME AND EXPENSES**

Income and expenses of the Company are classified as operational and other income and expenses.

Sales proceeds are defined as of transfer date of title for products, goods, results of works, services rendered (for charge) on the basis of settlement documents presented to buyers (customers).

Production costs of products (works, services) sold domestically or exported are defined by straight-line calculation on the basis of types of products and their actual price.

Expenses related to the sales of products (services, works) and general expenses are recognized in full in costs of products (services, works) sold in the reporting period as operational expenses.

Expenses on compulsory and voluntary insurance are recognized as cost of products (works, services) produced within the reporting period in which in accordance with the contract terms the funds for payment of insurance contributions were transferred. If the insurance contract terms provide for insurance contributions to be paid as a lump sum, the expenses under the contracts concluded for the period exceeding one reporting period are recognized pro rata the number of calendar days of the contract validity in the reporting period throughout the contract validity period.

If the insurance contract terms provide for insurance premium to be paid by instalments, the expenses for each instalment under the contracts concluded for the period exceeding one reporting period are recognized pro rata the number of calendar days of the contract validity in the reporting period throughout the period corresponding to the contributions payment period (year, half year, quarter, month. Expenses for licenses, certificates are included into the cost of goods manufactured (works, services) on a monthly basis by equal amounts during their validity.

Actual expenses related to routine and major repairs are recognized as current period expenses upon repairs completion.

Income generated from granting of assets, rights, arising out of patents for inventions, industrial models and other kinds of intellectual property for temporary use and possession subject to payment, from holding shares in nominal capitals of other organizations, interests received from granting organization's monetary funds for use, and other income from securities not related to the organization's core activity is attributed to other income.

The Company generates provisions for inventory impairment, shortage and losses from tangible assets impairment, for financial investment depreciation, provisions for bad debts. Accrual of evaluation reserves is effected on the account of other expenses.

Profits and expenses resulted from foreign currency sales are reflected in the Profit and Loss Statement: Currency purchase – in summarized form; currency sales – detailed.

## 2. 12 TAXES

### Income tax

Accounting and taxable profit are defined according to current legislative requirements of the Russian Federation using different methods of assessment and accounting of income and expenses.

The amount of the current profit tax is determined on the basis of the accounting data based on the amount of contingent expense (contingent income) adjusted in line with the sums of permanent tax liabilities (asset), deferred tax asset and deferred tax liability of the reporting period.

The Company takes into account constant and temporary differences which are generated on the basis of analytical data by comparison of balances on accounts and tax accounts with regards to income and expense. The data are recorded in the tax registers for accounting differences regarding the groups of uniform objects.

Deferred tax assets and liabilities are shown in the balance sheet as non-current assets and long-term liabilities, respectively.

CTG's consolidated taxation base shall be 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").

The Company states individually calculated profit tax in line 2410 "Current profit tax" of the income statement.

The due share of savings on CTG's operating results is shown in the Profit and Loss statement in line 2465 "Profit tax redistribution within a consolidated taxpayer group" Cash flows of CTG members are reflected within the cash flows from current operations of the Cash Flow Statement.

### 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 in foreign currencies, the official exchange rate of a foreign currency to the Russian ruble as of the date of operation is used.

In order to prepare accounting (financial) statements, funds on bank accounts (bank deposits), cash and payment documents, securities (except for the shares), accounts receivable including for borrowing liabilities (except for granted and received advance payments and down-payments, prepayments) expressed in foreign currency are recalculated into rubles at the exchange rate valid for the reporting date.

Exchange rate differences are shown in the balance sheet 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 ruble set by the RF Central Bank:

				(RUB)
Foreign currency	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015	
1 USD	57.6002	60.6569	72.8827	
1 EUR	68.8668	63.8111	79.6972	

## 2. 14 INFORMATION BY SEGMENTS

The Company owns assets only in the territory of the Russian Federation and is a sole integrated facility for the production and sale of ferrous products.

The Company identifies reporting segments based on the activity type. Key indicators: proceeds from sale of products, financial result (profit or loss). The information on assets and liabilities within a reporting segment is not disclosed, because for the Company as a whole the segment share in the production and sales is exceeding.

Besides the key indicators, proceeds from sales by product types, the share of proceeds from export sales and the total proceeds from sales of products to major customers are disclosed additionally.

Reporting segment information is stated using the same valuation techniques as used for the presentation of similar figures in the Company's financial statements taken as a whole.

Besides, the Company discloses segment information in its consolidated financial statements in line with the Financial Reporting Statements (IFRS), where the Company is included in the Strip Russia Segment without further subdivision by product types.

## 2. 15 CHANGES IN ACCOUNTING POLICY

Since the beginning of the reporting year no changes in accounting legislation which could cause any significant changes in the Company's accounting policy as well as any conversions or adjustments in the accounting and book-keeping came into force.

No significant changes have been made to the accounting policy.

## 2. 16 COMPARATIVE DATA

Comparative data of these statements are derived by carrying over the respective reporting parameters for the previous reporting period.



### 3. DISCLOSURE OF SIGNIFICANT INDICATORS

#### 3. 1 INTANGIBLE ASSETS

##### Availability of intangible assets

(RUB thou.)

Description	As of 31.12.2017			As of 31.12.2016			As of 31.12.2015		
	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation
Groups of intangible assets – <b>total</b>	1,692,832	(114,973)	1,577,859	892,965	(113,416)	779,549	577,251	(115,928)	461,323
including:									
research and development	32,727	(10,613)	22,114	26,074	(9,063)	17,011	26,068	(7,572)	18,496
software and data bases	1,657,349	(101,694)	1,555,655	864,192	(101,771)	762,421	548,484	(105,811)	442,673
trademarks and service marks	658	(570)	88	601	(486)	115	601	(449)	152
original works of entertainment books or art	2,073	(2,071)	2	2,073	(2,071)	2	2,073	(2,071)	2
other intellectual property items	25	(25)	--	25	(25)	--	25	(25)	--
Costs for purchase of intangible assets	X	X	25,492	X	X	27,512	X	X	18,021
<b>Total</b>	<b>X</b>	<b>X</b>	<b>1,603,351</b>	<b>X</b>	<b>X</b>	<b>807,061</b>	<b>X</b>	<b>X</b>	<b>479,344</b>
<i>For reference:</i>									
<i>intangible assets, created by the organization itself</i>	--	--	27,362	--	--	20,708	--	--	20,308
<i>the intangible assets with fully repaid value</i>	84,485	(84,485)	--	82,537	(82,537)	--	89,407	(89,407)	--

There are no intangible assets with undetermined useful life.

### 3. 2 FIXED ASSETS AND CONSTRUCTION IN PROGRESS

#### Availability of fixed assets and capital investments in progress

(RUB thou.)

Description	As of 31.12.2017			As of 31.12.2016 <sup>1</sup>			As of 31.12.2015 <sup>1</sup>		
	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation
<b>Fixed assets</b>									
Buildings	32,856,070	(9,955,710)	22,900,360	29,261,902	9,082,248	20,179,654	27,422,133	(8,300,861)	19,121,272
Structures	32,551,043	(15,224,151)	17,326,892	31,337,035	(14,023,466)	(17,313,569)	(30,213,346)	(12,729,174)	17,484,172
Machinery and equipment including household equipment and other objects.	149,840,879	(93,851,423)	55,989,456	144,112,424	(82,234,095)	61,878,329	138,206,877	70,514,596	67,692,281
Vehicles	3,911,984	(2,414,458)	1,497,526	3,838,479	(2,232,243)	1,606,236	3,624,606	(1,955,017)	1,669,589
Cultivated resources of natural origin	1,370	(474)	896	1,370	(434)	936	1,370	(395)	975
Land lots and land improvement expenses	1,052,339	--	1,052,339	1,052,339	--	1,052,339	1,052,382	--	1,052,382
<b>Total</b>	<b>220,213,685</b>	<b>(121,446,216)</b>	<b>98,767,469</b>	<b>209,603,549</b>	<b>(107,572,486)</b>	<b>102,031,063</b>	<b>200,520,714</b>	<b>(93,500,043)</b>	<b>107,020,671</b>
<i>For reference:</i>									
<i>the cost of real estate objects, received for use and undergoing state registration.</i>	4,740,599	X	X	3,612,067	X	X	3,488,028	X	X
<i>cost of the main assets rented on lease</i>	1,525,902	(795,928)	729,974	1,739,455	(837,573)	901,882	1,656,584	(695,996)	960,588
<b>Capital investments in progress</b>									
Facilities Construction <sup>2</sup>	X	X	23,673,727	X	X	22,731,690	X	X	18,426,908
Acquisition of objects	X	X	121,558	X	X	323,994	X	X	148,693
Equipment to be installed	X	X	6,331,156	X	X	4,027,628	X	X	3,292,303
Materials and spare parts for construction and installation works	X	X	1,123,150	X	X	1,562,257	X	X	2,135,690
<b>Total</b>	<b>X</b>	<b>X</b>	<b>31,249,591</b>	<b>X</b>	<b>X</b>	<b>28,645,569</b>	<b>X</b>	<b>X</b>	<b>24,003,594</b>

<sup>1</sup> Comparative data for 31.12.2016 and 31.12.2015 were changed due to reclassification of the fixed assets' types.

<sup>2</sup> Major construction in progress facilities as of 31.12.2017 are Revamping of By-Product Collection Shop combining coke gas flows from coke batteries, Replacement of BOF with off-gas system and construction of secondary dedusting and cleaning system, pulverized coal injection system for blast furnaces, replacement of turbine generator No.5, RCGP reconstruction, turbo blower installation.

## Fixed assets flow (original value)

(RUB thou.)

Description	For 2017		For 2016	
	Retired <sup>1</sup>	Retired	Received	Retired
Buildings	3,647,243	(53,075)	1,856,319	(16,550)
Structures	1,229,674	(15,666)	1,220,935	(97,246)
Machinery and equipment including household equipment and other objects.	6,298,203	(569,748)	6,906,464	(1,000,917)
Vehicles	120,240	(46,735)	254,308	(40,435)
Cultivated resources of natural origin	--	--	--	(43)
<b>Total</b>	<b>11,295,360</b>	<b>(685,224)</b>	<b>10,238,026</b>	<b>(1,155,191)</b>
<i>For reference:</i>				
<i>The increase of the objects' value due to additional construction, installation of additional equipment, reconstruction</i>	3,671,909	--	2,388,191	--
<i>the decrease of the objects' value as a result of partial liquidation</i>	--	(196,340)	--	(106,742)

<sup>1</sup> Major assets commissioned within the reporting year are the assets obtained within the frames of NLMK Investment Programme, please see the details at [www.nlmk.com](http://www.nlmk.com).

## Non-depreciable fixed assets

(RUB thou.)

Description	Original value		
	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Plots of land	1,052,339	1,052,339	1,052,382
Facilities on preservation	728,025	739,627	826,796
Housing facilities	--	2,033	2,033
Other	--	2,252	2,419
<b>Total</b>	<b>1,780,364</b>	<b>1,796,251</b>	<b>1,883,630</b>

As of 31.12.2017 the company rents fixed assets (including land lots) in the amount of RUB 4,564,719 thousand, as of 31.12.2016 – RUB 4,477,847 thousand, as of 31.12.2015 – RUB 4,667,867 thousand. The Company rents land lots with the total area of 2,471 thousand square meters. The land lots rented are located in Lipetsk and Lipetsk Region.

### 3. 3 FINANCIAL INVESTMENTS

#### Availability of financial investments

(RUB thou.)

Description	As of 31.12.2017			As of 31.12.2016			As of 31.12.2015		
	Original value	Provision for financial investment impairment	Balance valuation	Original value	Provision for financial investment impairment	Balance valuation	Original value	Provision for financial investment impairment	Balance valuation
<b>Long-term financial investments - total</b>	<b>174,759,372</b>	<b>26,793,563</b>	<b>147,965,809</b>	<b>174,431,948</b>	<b>50,095,506</b>	<b>124,336,442</b>	<b>182,320,071</b>	<b>29,799,511</b>	<b>152,520,560</b>
Investments in charter capitals of other entities	173,708,827	(26,399,511)	147,309,316	173,790,510	(49,699,511)	124,090,999	173,872,560	29,799,511	144,073,049
of which:									
NLMK Overseas Holdings	55,362,843	(15,160,000)	40,202,843	55,362,843	(38,460,000)	16,902,843	55,362,843	(18,560,000)	36,802,843
NLMK Kaluga	39,185,090	--	39,185,090	39,185,090	--	39,185,090	39,185,090	--	39,185,090
Stoilensky	21,196,293	--	21,196,293	21,196,293	--	21,196,293	21,196,293	--	21,196,293
Altai-Koks	18,477,302	--	18,477,302	18,477,302	--	18,477,302	18,477,302	--	18,477,302
VIZ Steel	14,754,878	--	14,754,878	14,754,878	--	14,754,878	14,754,878	--	14,754,878
Uralvtorchermet	12,901,320	(11,225,918)	1,675,402	12,901,320	(11,225,918)	1,675,402	12,901,320	(11,225,918)	1,675,402
NLMK-Metalware	4,196,960	--	4,196,960	4,196,960	--	4,196,960	4,196,960	--	4,196,960
Loans granted	654,782	--	654,782	233,268	--	233,268	8,447,505	--	8,447,505
Other financial investments	395,763	(394,052)	1,711	408,170	(395,995)	12,175	6	--	6
<b>Short-term financial investments - total</b>	<b>65,952,322</b>	<b>(3,394,824)</b>	<b>62,557,498</b>	<b>61,713,003</b>	<b>(3,389,053)</b>	<b>58,323,950</b>	<b>94,193,025</b>	<b>(3,396,144)</b>	<b>90,796,881</b>
Loans granted	6,623,516	(3,394,824)	3,228,692	7,875,150	(3,389,053)	4,486,097	11,009,766	(3,396,144)	7,613,622
of which:									
Holiday Hotel Metallurg	10,653	(10,653)	--	5,883	(5,883)	--	1,200	--	1,200
Maxi-Group	3,383,171	(3,383,171)	--	3,383,171	(3,383,171)	--	3,396,144	(3,396,144)	--
Deposits	59,328,806	--	59,328,806	53,837,853	--	53,837,853	83,183,259	--	83,183,259
<b>Total</b>	<b>240,711,694</b>	<b>(30,188,387)</b>	<b>210,523,307</b>	<b>236,144,951</b>	<b>(53,484,559)</b>	<b>182,660,392</b>	<b>276,513,096</b>	<b>(33,195,655)</b>	<b>243,317,441</b>

As of 31.12.2017, 31.12.2016 and 31.12.2015 there were no financial investments for which the current market value was to be determined.

### Financial investments flow

In October 2017 the Company completed the transaction on selling 100% interest in LLC Ussuriisk Steel Service Center. The sales revenue was RUB 45,000 thousand. The balance value of the retired asset was RUB 101,121 thousand.

In February 2017 the Company increased the charter capital of Zhernovsky-1 for RUB 19,438 thousand by property contribution.

As per the result of investment into Overseas Holdings LLC impairment testing as of 31 December 2017, the reserve established before was adjusted (reduced) on RUB 23,300,000 thou., the income is shown in line 2340 Other Income of the Profit and Loss Statement.

The Company granted loans to its related parties.

### Income from financial investments

Description	Income, RUB thou.	
	For 2017	For 2016
Income from short-term deposits (from 3 months up to 1 year)	801,345	1,425,856
Dividends from subsidiaries	37,962,345	14,860,979
Interests on loans granted	301,464	271,071
<b>Total</b>	<b>39,065,154</b>	<b>16,557,906</b>

### 3. 4 INVENTORIES

#### Structure of inventories

(RUB thou.)

Type of inventories	As of 31.12.2017			As of 31.12.2016			As of 31.12.2015		
	Production costs	Provisions for inventory impairment	Balance valuation	Production costs	Provisions for inventory impairment	Balance valuation	Production costs	Provisions for inventory impairment	Balance valuation
Raw and other materials, other similar valuables	28,374,650	(2,715,456)	25,659,194	27,456,603	(2,100,994)	25,355,609	22,704,417	(1,756,083)	20,948,334
WIP costs	10,590,667	(290,843)	10,299,824	9,220,414	(385,255)	8,835,159	7,847,539	(355,530)	7,492,009
Finished products and goods for reselling	8,808,085	--	8,808,085	8,079,423	--	8,079,423	7,086,030	--	7,086,030
Goods shipped	8,889,954	--	8,889,954	10,739,125	--	10,739,125	6,983,754	--	6,983,754
Deferred expenses	365,310	--	365,310	192,432	--	192,432	32,930	--	32,930
<b>Total</b>	<b>57,028,666</b>	<b>(3,006,299)</b>	<b>54,022,367</b>	<b>55,687,997</b>	<b>(2,486,249)</b>	<b>53,201,748</b>	<b>44,654,670</b>	<b>(2,111,613)</b>	<b>42,543,057</b>

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

### 3. 5 ACCOUNTS RECEIVABLE AND LIABILITIES

#### 3. 5. 1 Accounts Receivable

##### Structure of accounts receivable

(RUB thou.)

Type of debt	As of 31.12.2017			As of 31.12.2016			As of 31.12.2015		
	Accounted as per the Contract terms	Bad debt provision	Balance valuation	Accounted as per the Contract terms	Bad debt provision	Balance valuation	Accounted as per the Contract terms	Bad debt provision	Balance valuation
<b>Long-term accounts receivable - total</b>	<b>17,034,573</b>	<b>--</b>	<b>17,034,573</b>	<b>6,646,329</b>	<b>--</b>	<b>6,646,329</b>	<b>97,116,582</b>	<b>--</b>	<b>97,116,582</b>
including:									
settlements with buyers and customers	14,102	--	14,102	1,394	--	1,394	2,038	--	2,038
advance payments made <sup>1</sup> - total	1,870,896	--	1,870,896	1,117,623	--	1,117,623	1,042,834	--	1,042,834
including:									
for current operations	77,391	--	77,391	90,234	--	90,234	84,690	--	84,690
for non-current assets <sup>3</sup>	1,793,505	--	1,793,505	1,027,389	--	1,027,389	958,144	--	958,144
other	15,149,575	--	15,149,575	5,527,312	--	5,527,312	96,071,710	--	96,071,710
<b>Short- term accounts receivable - total</b>	<b>144,153,088</b>	<b>(8,956,805)</b>	<b>135,196,283</b>	<b>138,175,361</b>	<b>(8,801,707)</b>	<b>129,373,654</b>	<b>37,419,654</b>	<b>(9,537,691)</b>	<b>27,881,963</b>
including:									
settlements with buyers and customers	17,742,667	(348,103)	17,394,564	9,778,687	(340,322)	9,438,365	7,455,599	(191,668)	7,263,931
advance payments made - total	6,682,037	(186,884)	6,495,153	3,167,579	(98,220)	3,069,359	3,502,122	(262,627)	3,239,495
including:									
for current operations	2,315,786	(185,566)	2,130,220	2,228,842	(96,902)	2,131,940	2,613,303	(262,627)	2,350,676
for non-current assets <sup>3</sup>	4,366,251	(1,318)	4,364,933	938,737	(1,318)	937,419	888,819	--	888,819
other	119,728,384	(8,421,818) <sup>2</sup>	111,306,566	125,229,095	(8,363,165)	116,865,930	26,461,933	(9,083,396)	17,378,537
<b>Total</b>	<b>161,187,661</b>	<b>(8,956,805)</b>	<b>152,230,856</b>	<b>144,821,690</b>	<b>(8,801,707)</b>	<b>136,019,983</b>	<b>134,536,236</b>	<b>(9,537,691)</b>	<b>124,998,545</b>

<sup>1</sup> Here and hereafter the advance payments made are shown VAT included.

<sup>2</sup> U

<sup>3</sup> Advance payments, given for the purposes of capital construction, purchase of fixed assets and other non-current assets, reflected in line 1190 «Other non-current assets» of the balance sheet.

## Other debtors

(RUB thou.)

Type of debt	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
<b>Other long-term receivables - total</b>	<b>15,149,575</b>	<b>5,527,312</b>	<b>96,071,710</b>
including:			
settlements with personnel on other operations	338,120	325,773	332,001
calculations of assignment of claims	--	--	12,305,940
interest-free loans granted	3,622,856	2,915,581	70,472,950
interest on long-term financial investments	11,188,599 <sup>1</sup>	2,285,958	12,960,819
<b>Other short-term receivables - total</b>	<b>111,306,566</b>	<b>116,865,930</b>	<b>17,378,537</b>
including:			
interest-free loans granted	2,881,205	4,608,857	--
received non-interest bearing notes	400,500	374,500	139,000
settlements related to interest accrued	2,624,736	12,070,532	4,449,766
calculations of assignment of claims	12,306,651	12,305,940	228
including			
Debt related to assignment transactions			
NLMK Overseas Holdings <sup>2</sup>	12,305,940	12,305,940	--
settlements with budget and off-budget funds in terms of taxes and duties	590,339	265,486	25,023
settlements with VAT budget	3,907,073	3,461,979	4,867,989
settlements with customs	188,315	153,531	220,898
claim settlements	15,344	39,784	926,521
settlements with CTG participants	585,152	--	2,257,470
settlements related to reimbursable services	11,961	10,644	124,614
lease settlements	22,834	17,961	16,171
settlements with staff in terms of salaries and wages and other operations	7,059	18,367	8,766
settlements with reporting persons	2,248	2,140	2,567
settlements related to dividends	8,012,324	1,009,983	4,305,829
interest-free loans granted (cash pooling)	79,508,707	82,455,974	--
including:			
interest-free loan to NLMK Overseas Holdings LLC	78,686,486	78,515,913	--
others	242,118	70,252	33,695
<b>Total</b>	<b>126,456,141</b>	<b>122,393,242</b>	<b>113,450,247</b>

<sup>1</sup> Including the interest related to loan to NKML Ural of RUB 10,941,392 thou. Due in 2019.

<sup>2</sup> In January 2018 it was decided to extend the due period till 31 December, 2019.



## Over-due accounts receivable

(RUB thou.)

Type of debt	As of 31.12.2017		As of 31.12.2016		As of 31.12.2015	
	Accounted as per the Contract terms	Balance sheet value	Accounted as per the Contract terms	Balance sheet value	Accounted as per the Contract terms	Balance sheet value
<b>Total</b>	<b>2,073,734</b>	<b>776,493</b>	<b>1,432,371</b>	<b>305,876</b>	<b>2,909,443</b>	<b>960,742</b>
including:						
settlements with buyers and customers	611,252	263,149	556,824	216,502	873,986	682,318
advance payments made - total	548,680	363,114	168,364	71,462	517,892	255,266
including:						
for current operations	548,680	363,114	168,364	71,462	517,892	255,266
other	913,802	150,230	707,183	17,912	1,517,565	23,158

## 3. 5. 2 Accounts payable

### Structure of accounts payable

(RUB thou.)

Type of debt	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
<b>Long-term accounts payable - total</b>	<b>4,296</b>	<b>12,258</b>	<b>22,861</b>
including:			
settlements with suppliers and contractors	4,296	12,258	22,861
<b>Short-term accounts payable - total</b>	<b>100,068,427</b>	<b>89,819,854</b>	<b>58,666,218</b>
including:			
Advances received <sup>1</sup>	37,226,487	40,170,712	25,484,239
suppliers and contractors	27,100,279	23,972,950	18,020,018
settlements related to payables to employees	772,034	683,757	689,366
settlements related to taxes and duties	3,050,388	790,964	2,018,971
settlements related to debt to state off-budget funds	692,730	620,751	537,215
debt to shareholders on dividend payment <sup>2</sup>	30,922,278	21,853,073	11,740,580
other	304,231	1,727,647	175,829
<b>Total</b>	<b>100,072,723</b>	<b>89,832,112</b>	<b>58,689,079</b>

<sup>1</sup> Hereinafter advance payments received from buyers and customers are indicated net of VAT to be paid to the budget.

## Overdue accounts payable

(RUB thou.)

Parameter description	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
<b>Total</b>	<b>2,835,415</b>	<b>2,165,967</b>	<b>2,052,357</b>
including:			
settlements with suppliers and contractors	2,418,120	2,050,786	1,829,432
advance payments received	407,083	111,746	218,365
other	10,212	3,435	4,560

## 3. 6 CASH AND CASH EQUIVALENTS

(RUB thou.)

Description	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Carrying amount	--	--	6
Settlement accounts	497,259	520,280	697,734
Currency accounts	1,516,315	2,394,798	3,172,560
Deposits (up to 3 months)	6,892,858	24,882,260	10,708,047
Loans granted for cash-pooling	--	--	43,098
Other cash equivalents	3,886	4,623	7,338
of which: financial documents	94	672	238
<b>Total</b>	<b>8,910,318</b>	<b>27,801,961</b>	<b>14,628,783</b>

## Other income and payments from current operations

(RUB thou.)

Description	For 2017	For 2016
<b>Other income from current operations</b>	<b>1,175,616</b>	<b>1,472,342</b>
Income from litigation, claims	282,452	749,802
Interest on cash equivalents	405,584	334,672
Other income	487,580	387,868
<b>Other payments under the current operations</b>	<b>10,439,061</b>	<b>9,866,267</b>
Tax payments	7,569,942	5,705,225
Including VAT	5,474,357	3,362,631
Other settlements with personnel	946,335	903,734
Settlements with various creditors	612,381	799,066
Funds transfer to Group companies	--	670,000
Insurance settlements	424,320	638,238
Settlements related to claims	370,779	515,019
Charity expenses	202,328	260,050
Land lease settlements	127,935	127,306
Settlements with the pension fund	106,397	110,288
Other remittance	78,644	137,341



Within the cash flows of current operations CGT participants' cash transfers to the Company as well as CGT income tax payments to the budget have been shown in summarized form.

Other cash flows from investment activities include the summarized transactions on placement and return of deposits over 3 months.

#### Cash flows with Subsidiaries and Affiliates (including VAT)

(RUB thou.)

Description	Inflow		Payments	
	For 2017	For 2016	For 2017	For 2016
<b>Cash flow from current operations</b>	<b>232,341,990</b>	<b>196,337,626</b>	<b>142,886,261</b>	<b>87,203,568</b>
Subsidiaries	11,001,986	10,563,028	142,511,091	86,388,621
Other companies <sup>1</sup>	221,340,004	185,774,598	375,170	814,947
including:				
Novex Trading (Swiss) S.A.	221,020,078	155,057,468	375,144	727,735
<b>Cash flow from investment operations</b>	<b>36,520,032</b>	<b>56,837,955</b>	<b>1,454,484</b>	<b>57,919,821</b>
Subsidiaries	36,520,032	56,837,955	1,454,484	57,919,821
<b>Cash flow from financial operations</b>	<b>36,265,055</b>	<b>32,707,510</b>	<b>28,140,614</b>	<b>34,079,535</b>
Subsidiaries	32,575,915	32,707,510	28,140,614	34,079,535
Other companies <sup>1</sup>	3 689 140	--	--	--
<b>Total</b>	<b>305,127,077</b>	<b>285,883,091</b>	<b>172,481,359</b>	<b>179,202,924</b>

<sup>1</sup> Cash flows of Novex Trading (Swiss) S.A., Novexco (Cyprus) Limited, NLMK DanSteel A/S

#### 3. 7 EQUITY AND DIVIDENDS

(RUB thou.)

Description	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Authorized capital	5,993,227	5,993,227	5,993,227
Reserve capital	299,661	299,661	299,661
<b>Paid-in capital - total</b>	<b>4,071,979</b>	<b>4,080,041</b>	<b>4,105,066</b>
including:			
revaluation of fixed assets	3,300,202	3,308,264	3,333,289
other sources	771,777	771,777	771,777
<b>Retained profit (loss) - total</b>	<b>329,936,615</b>	<b>304,722,304</b>	<b>317,835,836</b>
including:			
of previous years	284,465,195	303,272,294	294,970,987
of the reporting year	45,471,420	1,450,010	22,864,849
<b>Total</b>	<b>340,301,482</b>	<b>315,095,233</b>	<b>328,233,790</b>



### Company's shares

As of 31.12.2017 the authorized capital is paid up in full and consists of 5 993 227 240 common shares at par value RUB 1 each.

### Shareholders holding more than 5% of the nominal capital

Description	Share, %		
	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
FLETCHER GROUP HOLDINGS LIMITED	84.03	84.03	85.54

Other free-floating shares (including: global depositary shares traded on London Stock Exchange (Deutsche Bank Trust Company Americas is NLMK's depositary bank) and shares traded on Moscow Stock Exchange.

### Earnings per share

Description	For 2017	For 2016
Net profit for the reporting period, RUB thou.	109,466,251	36,419,484
Weighted average number of outstanding common shares, pcs.	5,993,227,240	5,993,227,240
Basic profit (loss) per share, RUB	18.26	6.08

Diluted profit per share was not calculated due to absence of factors, having the diluting effect on the basic profit per share indicator.

### Dividends

The Annual General Shareholders' Meeting held on 02.06.2017 approved payment of dividends in the amount of RUB 9.22 per common stock upon 2016 performance results that made in total RUB 55 257 555 thou. with account of interim dividends of RUB 35 000 447 thou. accrued in 2016.

In the reporting year the following interim dividends were declared: RUB 2.35 per common stock for Q1 which made RUB 14 084 084 thou.; RUB 3.20 per common stock for H1 which made RUB 19 178 327 thou.; RUB 5.13 per common stock for 9 months which made RUB 30 745 256 thou.

As of 31.12.2017 the dividends for 2016, Q1 and H1 of 2017, accrued to the main company running business, are paid in full.

### 3. 8 CREDITS AND LOANS

#### Structure of credits and loans

(RUB thou.)

Type of liabilities	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
<b>Long-term liabilities - total</b>	<b>79,363,678</b>	<b>95,619,746</b>	<b>137,275,933</b>
including:			
loans	77,660,747	80,308,896	95,877,612
credits	1,702,931	15,310,850	41,398,321
<b>Short-term liabilities - total</b>	<b>25,360,981</b>	<b>20,796,621</b>	<b>27,893,440</b>
including:			
loans	15,618,871	11,234,461	21,692,969
Loans followed-up by Cash-pooling agreement	5,313,838	2,779,470	651,856
credits	4,428,272	6,782,690	5,548,615
<b>Total</b>	<b>104,724,659</b>	<b>116,416,367</b>	<b>165,169,373</b>

#### Bank credits

As of 31.12.2017 and 31.12.2016 the Company signed agreements with ALFA-BANK, Sberbank and VTB Bank on the opening of credit facilities with the limit not exceeding RUB 78 000 000 thou., for working capital financing and for other corporate purposes. Unused credit limit for all the credit facility agreements makes RUB 78,000,000 thou.

#### Bank credits

(RUB thou.)

Lender description	Maturity	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Deutsche Bank AG , Amsterdam branch <sup>1</sup>		--	12,193,238	29,304,393
Deutsche Bank AG <sup>1</sup>	2019	6,116,765	9,900,302	17,642,543
Other banking institutions	2018	14,438	--	--
<b>Total bank credits, incl. interest accrued</b>		<b>6,131,203</b>	<b>22,093,540</b>	<b>46,946,936</b>
including:				
with maturity up to 1 year, incl. current portion of long-term credits		4,428,272	6,782,690	5,548,614

<sup>1</sup> This credit was obtained from a syndicate of banks, the agent bank is specified as the creditor here.

## Loans

(RUB thou.)

Lender	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Steel Funding DAC (Eurobonds) <sup>2</sup>	86,463,327 <sup>1</sup>	79,939,098 <sup>1</sup>	87,167,209 <sup>1</sup>
Subsidiaries and other related parties	6,816,291 <sup>1</sup>	1,414,995 <sup>1</sup>	4,866,311 <sup>1</sup>
of which: interest-free loans	2,430,859	542,000	3,969,310
Bond loan	--	10,189,264 <sup>1</sup>	25,537,061 <sup>1</sup>
Loans under cash-pooling	5 313 838 <sup>1</sup>	2,779,470 <sup>1</sup>	651,854 <sup>1</sup>
of which: interest-free loans	4,467,771	2,320,051	225,284
<b>Total loans, incl. interest accrued</b>	<b>98,593,456</b>	<b>94,322,827</b>	<b>118,222,435</b>
including:			
with maturity up to 1 year, incl. current portion of long-term loans	20,932,709	14,013,931	22,344,825

<sup>1</sup> Including the interest accrued.

<sup>2</sup> Four issues of Eurobonds due in 2018-2024. The rest of debt is a short-term debt.

Detailed information on the structure and terms and conditions of the debt portfolio is published on the Company's web-site (<http://www.lipetsk.nlmk.com>)

## 3. 9 ESTIMATED LIABILITIES

(RUB thou.)

Name of an estimated liability	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Estimated liabilities - total	4,472,566	5,144,918	1,911,146
including:			
on upcoming expenses for vacations	1,769,826	1,368,716	1,290,962
on upcoming expenses for bonuses	2,668,608	3,724,764	509,761
on unsettled court proceedings and claims	34,132	51,438	110,423

### 3. 10 INCOME AND EXPENSES

#### 3. 10. 1 Income and expenses from ordinary activities

##### Income from ordinary activities

(RUB thou.)		
Description	For 2017	For 2016
Revenue from sales of products (services) outside the RF	235,300,494	182,019,896
Revenue from sales in the RF	176,505,975	153,218,301
<b>Total</b>	<b>411,806,469</b>	<b>335,238,197</b>

##### Expenses for production

(RUB thou.)		
Description	For 2017	For 2016
Material expenses - <b>total</b>	293,778,209	235,804,170
including: raw and other materials	185,855,190	149,522,029
fuel, energy	73,443,770	56,514,094
work and services rendered by third parties <sup>1</sup>	34,479,249	29,768,047
Labour Costs	21,490,333	22,007,327
Social allocations	6,396,987	5,712,144
Depreciation	13,940,583	14,865,415
Other costs	7,648,255	6,982,303
<b>Total for components</b>	<b>343,254,367</b>	<b>285,371,359</b>
Balance change (increase [-], decrease [+]): construction in progress, semi-finished products, finished products	79,574	- 6 997 064
<b>Total expenses on ordinary activities</b>	<b>343,333,941</b>	<b>278,374,295</b>
<i>For reference:</i>		
<i>Expenses for capital and routine repair</i>	<i>12,602,878</i>	<i>12,639,518</i>

<sup>1</sup>Including expenses related to the sale of products in the amount of RUB 28 396 715 thou. (for 2016– RUB 24 978 417 thou.).



### 3. 10. 2 Other income and expenses

#### Other income and expenses

(RUB thou.)

Description	For 2017		For 2016	
	Income	Expenses	Income	Expenses
Sale of foreign currency	292,485,456	292,516,897	216,144,42	216,249,024
Exchange rate difference <sup>1</sup>	772,647	296,863	5,784,486	173,013
The right of claim assignment	579,402	566,341	5,168,969	5,168,969
Valuation reserves	23,319,054	704,489	35,299	19,998,926
Profit and loss of previous years	396,094	1,755,069	166,101	1,435,701
Sales of inventories	1,247,284	956,299	1,053,911	827,196
Retirement of fixed assets, capital investments	183,805	264,427	216,615	312,116
Transactions with securities	45,000	101,178	183,134	82,160
Expenses on credits	--	696,437	--	1,871,119 <sup>2</sup>
Writing-off of inventories, tare, inventories from repairs	1,021,923	1,488,160	613,026	787,312
Other	819,843	2,216,199	622,158	2,889,505
<b>Total</b>	<b>320,870,508</b>	<b>301,562,359</b>	<b>229,988,441</b>	<b>249,795,041</b>

<sup>1</sup> Exchange rate difference data are presented in summarized form with the exception of exchange rate difference expenses formed by recalculation of assets and liabilities value expressed in foreign currency to be paid in rubles.

<sup>2</sup> Credit expenses for 2016 include fee for early repayment of the part of bond issues in Russian rubles made by the Company in July 2016 for the purpose of debt portfolio optimization.

### 3. 11 CURRENT PFORIT TAX FORMATION

#### Calculation of profit tax according to Accounting rules (PBU) 18/02 requirements

(RUB thou.)

Description	For 2017	For 2016
Book profit (loss) before tax	122,633,354	47,316,613
Contingent expenses (income) for profit tax (according to accounting data)	24,526,671	9,463,322
Fixed tax liabilities (assets)	(11,372,600)	2,407,708
Change in deferred tax assets	7,680	5,390
Change in deferred tax liabilities	387,461	(261,601)
Current profit tax	13,549,212	11,614,819
Taxable profit (according to the tax accounting data)	67,746,059	58,074,098
Permanent difference leading to taxable profit increase according to the tax accounting data	4,449,239	26,899,429
Permanent difference leading to taxable profit decrease according to the tax accounting data	(61,312,238)	(14,860,979)
Taxable temporary differences	1,937,305	(1,308,005)
Deductible temporary differences	38,398	26,950

When the taxation base was determined by the profit tax the income received in the form of dividends from participation in authorized capitals and also the income received from recovery of provision for impairment of financial investments were not accounted for. Expenses not used for taxation purposes are mainly related to the accrual of valuation reserves and other expenses within NLMK Group companies.

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

Deductible temporary differences are associated with differences in recognition in accounting and taxation of exchange rate differences, deferred expenses, losses from servicing facilities and companies, losses from sale of depreciated property.

### 3. 12 INFORMATION BY SEGMENTS

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

*(RUB thou.)*

Parameter	Segment		Not distributed		Company as a whole	
	2017	2016	2017	2016	2017	2016
Sales revenue, RUB thou.	407,870,453	333,063,831	3,936,016	2,174,366	411,806,469	335,238,197
Share of proceeds from sales in total proceeds, %	99.04	99.35	0.96	0.65	100.00	100.00
Total production cost, RUB thou.	340,268,050	276,651,998	3,065,891	1,722,297	343,333,941	278,374,295
Sales profit (loss), RUB thou.	67,602,403	56,411,833	870,125	452,069	68,472,528	56,863,902
Share of profit in total profit, %	98.73	99.20	1.27	0.80	100.00	100.00

*(RUB thou.)*

Type of product	Sales revenue		Change
	for 2017	for 2016	
HM	11,149,853	6,763,928	4,385,925
Slabs	178,895,801	141,273,689	37,622,112
Hot rolled flats	86,800,407	70,293,667	16,506,740
Cold rolled flats	53,534,290	42,843,659	10,690,631
Coated steel	51,943,401	48,555,912	3,387,489
Electrical steel flats	18,273,676	17,490,364	783,312
Other by-products and energy resources	7,273,025	5,842,612	1,430,413
<b>Total</b>	<b>407,870,453</b>	<b>333,063,831</b>	<b>74,806,622</b>

In the reporting year the proceeds from sales to foreign customers accounted for 57.69% (54.65% in 2016) of the total proceeds from sales in the segment.

### 3. 13 SECURITY OF LIABILITIES

(RUB thou.)

Description	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Received -total	4,734,313	2,647,504	2,695,856
including:			
bank guarantees	4,734,313	2,647,504	2,695,856
Guarantees and sureties granted	56,884,966	37,722,198	47,486,668

As of 31.12.2017, 31.12.2016, 31.12.2015 the Company has liabilities under the surety agreements (RUB 56,580,595 thou., RUB 37,722,198 thou., and RUB 47,001,993 thou. Accordingly) issued to the Lenders of the affiliates. The liabilities in accordance with the terms and conditions of the agreements will remain valid by 2022 and they cease to exist pro rata the repayment of the credits by the related parties. Granted sureties are not likely to have negative consequences.

### 3. 14 INFORMATION ON RELATED PARTIES

#### 3. 14. 1 The list of related parties<sup>1</sup>

The list of related parties includes the affiliates of the Company<sup>1</sup> in accordance with the RF legislation as well as related parties acting on other grounds.

The main business entity owning 84.03% of the Company's stock is FLETCHER GROUP HOLDINGS LIMITED.

The Beneficiary of the above companies in accordance with definition of this notion by the Russian legislation is Mr. Vladimir Lisin.

There are no predominant (participating) business entities.

#### List of NLMK's subsidiaries and affiliates as of 31.12.2017:

Description	Stake in authorized capital as of 31.12.2017, %	Description	Stake in authorized capital as of 31.12.2017, %
VIZ Steel	100	Holiday Hotel Metallurg	100
NLMK- Communications	100	Trade House NLMK	100
Vtorchermet NLMK	100	Construction and Assembly Trust NLMK	100
Stagdok	100	Stoilensky	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 Ural	92.59
Altai-Koks	100	NLMK Engineering	57.57
NLMK Information Technologies	100	Maxi-Group	50.00
NLMK Overseas Holdings	100	Neptune	25.00

\* Acquisition made 50% plus 1 share of Maxi-Group.

All the companies specified are registered in the Russian Federation.

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

#### Explanations

<sup>1</sup> 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>).

## Other related parties

Other related parties include entities belonging to the same group as the Company does, 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 by way of voting interest ownership / participation in management.

### Other related parties with whom the Company had operations in the reporting year and/or in regards of which there are balances under settlements of operations not completed on the reporting date

First Freight Company	Heat Supply Organization
Universalny Expeditor	IP Molodechnensky Pipe Plant
Tuapse Sea Trade Port	VMI Recycling Group
Taganrog Sea Trade Port	PO TatVtorchermet
Saint-Petersburg Sea Port	Vtorchermet
UNIVERSAL FORWARDING COMPANY (UFC) LIMITED	Chuvashvtormet
Novexco (Cyprus) Limited <sup>1</sup>	Vtorchermet NLMK Center
Novex Trading (Swiss) S.A. <sup>1</sup>	Vtorchermet NLMK North
NLMK Sales Europe S.A.	Vtorchermet NLMK Siberia
NLMK Verona SpA	Vtorchermet NLMK Western Siberia
NLMK DanSteel A/S <sup>1</sup>	Vtorchermet NLMK Ural
NLMK La Louvière S.A.	Vtorchermet NLMK Black Belt Region
NLMK Clabecq S.A.	Vtorchermet NLMK South
NLMK Plate Sales S.A.	Vtorchermet NLMK East
NLMK Belgium Holdings S.A.	Vtorchermet NLMK Perm
NLMK International B.V. <sup>1</sup>	Vtorchermet NLMK West
NLMK Pennsylvania LLC <sup>1</sup>	Vtorchermet NLMK Republic
Steel Funding DAC	Vtorchermet NLMK Povolzhie
Advocate Bureau "Reznik, Gagarin & Partners", Moscow	Vtorchermet NLMK Bashkortostan
VIZ- Broker	Vtorchermet NLMK Volga
Bank of Social Development and Construction Lipetskombank (by 15.06.2017)	Ural Research & Development Institute for Architecture & Construction
ZENIT Bank (by 15.06.2017)	Association of ferrous metallurgy enterprises "Russian steel"
NLMK - Ural Service	Novolipetsk Medical Center
Railcar Repair Company "Gryazi"	SC Lipetsk Metallurg
InServicePlus	Lisya Nora
LLC Gazobeton 48 <sup>1</sup>	Ural Health-Center Nizhnie Sergi
Metallurgical Holding	TVK
Verkh-Isetsy Steel Plant	Pride Media
LLC Blinovskoye	Non-Governmental Pension Fund "Social Development" (by 1.02.2017)

<sup>1</sup>Other affiliates controlled by Novolipetsk Steel through NLMK Overseas Holdings

### 3. 14. 2 Operations with related parties

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

The Company makes transactions with the related parties in line with market principles.

#### Sales to related parties

(RUB thou.)

Description	For 2017					For 2016				
	Total	Products, commodities	Inventories	Services	Lease	Total	Products, commodities	Inventories	Services	Lease
Subsidiaries	<b>10,720,338</b>	10,215,509	145,474	265,972	93,383	<b>10,577,753</b>	10,155,869	105,109	234,799	81,976
of which:										
VIZ Steel	7,307,669	7,285,344	--	22,325	--	5,311,038	5,273,113	16,690	21,235	--
Novolipetsk Steel Service Center	2,479,008	2,428,731	136	32,657	17,484	3,649,260	3,559,606	36,369	35,801	17,484
Other related parties	<b>225,065,619</b>	224,870,712	--	183,960	10,947	<b>173,041,930</b>	172,876,655	--	153,568	11,707
of which:										
Novexco (Cyprus) Limited	2,323,970	2,323,970	--	--	--	<b>31,081,823</b>	31,081,823	--	--	--
Novex Trading (Swiss) S.A.	221,941,359	221,923,791	--	17,568	--	<b>141,161,102</b>	141,161,102	--	--	--
<b>Total</b>	<b>235,785,957</b>	<b>235,086,221</b>	<b>145,474</b>	<b>449,932</b>	<b>104,330</b>	<b>183,619,683</b>	<b>183,032,524</b>	<b>105,109</b>	<b>388,367</b>	<b>93,683</b>

#### Purchases from other related parties

(RUB thou.)

Description	For 2017				For 2016			
	Total	Inventories	Services	Lease	Total	Inventories	Services	Lease
Subsidiaries	<b>145,612,492</b>	142,256,417	3,347,667	8,408	<b>90,693,754</b>	87,031,239	3,647,208	15,307
of which:								
Altai-Koks	55,285,059	55,285,018	41	--	35,028,213	35,028,198	15	--
Stoilensky	61,588,729	61,588,729	--	--	32,224,537	32,224,501	36	--
Vtorchermet NLMK	23,469,628	23,469,628	--	--	17,906,258	17,906,258	--	--
Other related parties	<b>18,990,393</b>	347,443	18,220,696	422,254	<b>17,607,762</b>	127,278	16,964,710	515,774
of which:								
First Freight Company	15,639,023	--	15,216,769	422,254	<b>14,120,903</b>	--	13,605,129	515,774
<b>Total</b>	<b>164,602,885</b>	<b>142,603,860</b>	<b>21,568,363</b>	<b>430,662</b>	<b>108,301,516</b>	<b>87,158,517</b>	<b>20,611,918</b>	<b>531,0</b>

## Accounts receivable

(RUB thou.)

Description	As of 31.12.2017			As of 31.12.2016			As of 31.12.2015		
	Debt	Bad debt provision	Balance valuation	Debt	Bad debt provision	Balance valuation	Debt	Bad debt provision	Balance valuation
Subsidiaries	35,514,203	(571,099)	34,943,104	28,869,401	(572,870)	28,296,531	35,797,244	(1,497,356)	34,299,888
of which:									
NLMK Ural	13,123,572	(1,459)	13,122,113	13,437,157	--	13,437,157	16,606,577	(799,068)	15,807,509
NLMK Overseas Holdings	12,305,971	--	12,305,971	12,305,970	--	12,305,970	12,305,975	--	12,305,975
Other related parties	1,693,491	(45,281)	1,648,210	1,762,132	(1,643)	1,760,489	1,906,547	(7,668)	1,898,879
of which:									
First Freight Company	1,125,886	(42,018)	1,083,868	1,483,916	--	1,483,916	1,536,342	--	1,536,342
Total	37,207,694	(616,380)	36,591,314	30,631,533	(574,513)	30,057,020	37,703,791	(1,505,024)	36,198,767

## Accounts payable

(RUB thou.)

Description	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Subsidiaries	10,518,733	8,670,489	5,750,901
of which:			
Stoilensky	5,502,852	4,236,883	2,250,061
Altai-Koks	4,460,019	3,823,910	2,584,708
Other related parties	32,031,094	34,834,962	22,080,648
of which:			
Novex Trading (Swiss) S.A.	31,454,493	32,537,765	19,302,155
Total	42,549,827	43,505,451	27,831,549



## Dividends received from subsidiaries

(RUB thou.)

Description	For 2017	For 2016
Stoilensky	23,005,563	3,500,167
Dolomit	180,176	137,978
Altai-Koks	7,201,200	6,202,180
NLMK Accounting Center	25,000	32,000
Novolipetsk Steel Service Center	135,000	120,000
Novolipetsk Printing House	--	3,500
VIZ-Steel	--	7,900,000
Construction and Assembly Trust NLMK	30,000	110,000
Trade House NLMK	90,000	131,000
NLMK Information Technologies	40,000	--
NLMK Engineering	243,065	--
Other subsidiaries which ceased to be related parties	10,000	20,000
<b>Total</b>	<b>30,960,004</b>	<b>18,156,825</b>

## Loans granted to related parties

In the reporting year the Company granted loans, repayment of which is envisioned not later than by 2018:

(RUB thou.)

Description	For 2017		For 2016	
	Granted	Repaid	Granted	Repaid
Subsidiaries	4,770	256,240	31 907 376 <sup>1</sup>	34,738,378
including:				
interest-free loans	--	256,240	31,902,693	30,989,712
Other related parties	--	1,907	86,041	905,052
including:				
interest-free loans	--	--	84,134	--
<b>Total</b>	<b>4,770</b>	<b>258,147</b>	<b>31,993,417</b>	<b>35,643,430</b>

<sup>1</sup>Taking into account NLMK Overseas Holdings' loan reclassification into interest-free loan, granted under cash-pooling in the amount of RUB 17 127 600 thou.

Outstanding loans:

(RUB thou.)

Borrower's name	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Subsidiaries <sup>2</sup>	9,897,885	10,913,492	88,092,193 <sup>1</sup>
including:			
NLMK Ural	4,100,041	4,864,178	7,027,497
Maxi-Group	3,383,171	3,383,171	3,396,171
Vtorchermet NLMK	1,923,306	1,923,306	2,114,256
Other related parties <sup>3</sup>	871,134	878,242	1,776,187
<b>Total</b>	<b>10,769,019</b>	<b>11,791,734</b>	<b>89,868,380</b>

<sup>1</sup>In 2016 NLMK Overseas Holdings' loan was reclassified into interest-free loan, granted under cash-pooling in the amount of RUB 70 472 950 thou.

<sup>2</sup>Including the interest-free loans to the subsidiaries as of 31.12.2017 and 31.12.2016 in the amount of RUB 6,504,061 thou. and RUB 7,524,438 thou. As of 31.12.2015 there were no interest-free loans.

<sup>3</sup>Interest-bearing loans

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

(RUB thou.)

Borrower's name	For 2017		For 2016	
	Granted	Repaid	Granted	Repaid
Subsidiaries <sup>1</sup>	92,751,005	97,247,288	60,988,095	49,144,072
including:				
NLMK Ural	29,996,347	32,952,366	11,729,172	11,197,240
Vtorchermet NLMK	21,796,918	22,307,841	18,616,113	17,625,733
NLMK Kaluga	24,113,252	24,891,570	16,346,565	12,563,517
Stoilensky	4,585,433	5,020,516	1,771,079	1,335,997
NLMK Overseas Holdings	5,612,477	5,441,903	7,856,517	1,718,304
NLMK Metalware	6,106,155	6,106,154	4,265,154	4,265,154
Other related parties	177,166	170,605	84,134	78,933
<b>Total</b>	<b>92,928,171</b>	<b>97,417,893</b>	<b>61,072,229</b>	<b>49,223,005</b>

<sup>1</sup>Including interest-free loans for 2017 in the amount of RUB 68,626,133 thou. (in 2016 - RUB 44,632, 946 thou.), repaid – RUB 72,344,121 thou. (RUB 36,571,971 thou. in 2016).

Outstanding loans granted under cash pooling agreement:

(RUB thou.)

Borrower's name	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
Subsidiaries <sup>1</sup>	82,501,676	86,233,822 <sup>2</sup>	43,098
including:			
NLMK Overseas Holdings	78,686,487	78,515,913	--
Other related parties	11,762	--	--
including:			
interest-free loans	11,762	--	--
<b>Total</b>	<b>82,513,438</b>	<b>86,233,822</b>	<b>43,098</b>

<sup>1</sup> Including the interest-free loans to the subsidiaries as of 31.12.2017, 31.12.2016 and 31.12.2015 in the amount of RUB 79 496 945 thou. RUB 82,450,774 thou. and RUB 43,098 thou.

<sup>2</sup> Taking into account reclassification in 2016 of NLMK Overseas Holdings' interest-free loan in the amount of RUB 78,515,913 thou.

Returns on loans:

(RUB thou.)

Borrower's name	For 2017	For 2016
Subsidiaries	618	37,656
Other related parties	70,403	136,461
<b>Total</b>	<b>71,021</b>	<b>174,117</b>

### Loans granted to related parties

The Company received loans from subsidiaries and other related parties.

(RUB thou.)

Lender	For 2017		For 2016	
	Received	Repaid	Received	Repaid
Subsidiaries	30,428,813	28 493 682 <sup>1</sup>	31 387 269	34 084 729 <sup>1</sup>
including:				
Stoilensky	30,254,723	28,323,864	22,739,785	25,437,095
Other related parties	3 689 140	--	--	--
including:				
Novexco (Cyprus) Limited	3 689 140	--	--	--
<b>Total</b>	<b>34 117 953</b>	<b>28 493 682<sup>1</sup></b>	<b>31 387 269</b>	<b>34 084 729<sup>1</sup></b>

<sup>1</sup> Including the interest accrued.

<sup>2</sup> Including interest-free loans for 2017 in the amount of RUB 30,428,813 thou. (in 2016 - RUB 31,103, 825 thou.), repaid – RUB 28,381,464 thou. (RUB 33,931,135 thou. in 2016).

Interest payable:

(RUB thou.)			
Lender	For 2017		For 2016
Subsidiaries		35,497	56,506
Other related parties		65,146	--
<b>Total</b>		<b>100,643</b>	<b>56,506</b>

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

(RUB thou.)				
Lender	For 2017		For 2016	
	Received	Repaid	Received	Repaid
Subsidiaries <sup>1</sup>	115,843,268	113,746,800	55 908 011	54 587 769
including:				
Stoilensky	64,474,193	61,643,424	22,522,517	22,522,517
Altai-Koks	23,402,120	24,211,611	6,586,738	5,921,807
Vtorchermet NLMK	11,315,882	11,315,882	11,680,492	11,680,492
VIZ-Steel	7,692,211	7,216,159	-	-
Other related parties	810,066	803,426	785,847	770,980
<b>Total</b>	<b>116 653 334</b>	<b>114 550 226</b>	<b>56 693 858</b>	<b>55 358 749</b>

<sup>1</sup> Including interest-free loans for 2017 in the amount of RUB 114,945,732 thou. (in 2016 - RUB 51,575, 840 thou.), repaid – RUB 112,978,142 thou. (in 2016 - RUB 50,430,369 thou. ).

Interest payable for loans received from subsidiaries under cash pooling agreement:

(RUB thou.)			
Lender	For 2017		For 2016
Subsidiaries		52,769	26,886
<b>Total</b>		<b>52,769</b>	<b>26,886</b>



## Security

The Company stood surety for subsidiaries and other related parties:

(RUB thou.)

Security granted by the Company	As of 31.12.2017	As of 31.12.2016	As of 31.12.2015
NLMK Ural	--	--	195,110
NLMK Kaluga	879,082	1 093 326	1 713 725
VIZ Steel	310,192	403,359	400,287
Stoilensky	8 674 459	9 606 891	11 865 672
NLMK Clabecq S.A.	346,639	963,550	2 591 427
NLMK DanSteel A/S	6,473,947	6 717 708	8 488 466
NLMK Verona SpA	7 787 569	6 023 747	7 415 072
NLMK Belgium Holdings S.A.	3 443 713	3 280 119	3 985 059
Novex Trading (Swiss) S.A.	17 303 357	4 571 657	5 496 530
NLMK Plate Sales S.A.	5 930 851	4 976 787	5 265 320
VIZ- Broker	67,026	85,054	70,000
NLMK Pennsylvania LLC	5 668 131	--	--
<b>Total</b>	<b>56,884,966</b>	<b>37,722,198</b>	<b>47,486,668</b>

Liabilities under the above securities are valid till 2022.

## Other operations with related parties

In 2016 the Company provided, free of charge cash in the amount of RUB 670 000 thou. to Vtorchermet NLMK.

### Operations with key management personnel

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

Conditions and procedure for payment of remuneration and reimbursement of expenses related to the execution of the Board of Directors member's functions, is provided for by NLMK's Regulations on the Board of Directors members' Remuneration ("Regulations") approved by the General Shareholders Meeting.

Terms and procedure of payment of remuneration to the members of the Management Board are determined by the contract concluded with the members on the proposal of the Committee for Human Resources, Remuneration and Social Policy. Data for 2016 is adjusted with consideration of the actual payments in 2017.

(RUB thou.)

Description	For 2017	For 2016
Bonuses and salaries (without estimated liabilities for upcoming expenses for vacations)	759 649 <sup>1</sup>	562,370
Remunerations	123 956 <sup>2</sup>	123,930
Dividends	182	111
Other payments <sup>3</sup>	520,379	1 018 757
<b>Total</b>	<b>1,404,166</b>	<b>1 705 168</b>

<sup>1</sup> Bonuses to the members of the Management Board in 2017 include liabilities on their payment based on a preliminary calculation upon the reporting year performance.

<sup>2</sup> Remuneration to the members of the Board of Directors in 2017 are determined on the basis of a preliminary calculation according to the Regulation.

<sup>3</sup> Other payments include estimated liability for long-term motivation programme for achieving the Company's strategic targets in 2017-2018. Other payments for 2016 included estimated liability for long-term motivation programme for achieving the Company's strategic targets in 2014-2016, payments under which were performed in 2017.

In 2016 the Company granted interest-bearing loans to the Management Board members. In the reporting year loans to the Management Board members are fully paid. Total debt for loans as of 31.12.2016 accounted for RUB 45 517 thou. (including accrued interest – RUB 2 517 thou).

### 3. 15 CONTINGENT LIABILITIES

In the ordinary course of business the Company participates in several legal proceedings acting as a claimant or a defendant. The Company's management believes that its liabilities, which may arise from these proceedings, cannot have a material adverse effect on financial status and performances.

Since the Company fulfils the requirements of regulatory authorities within the framework of 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 admits various interpretations and is subject to frequent changes. The Company's Management does not rule out some possible disputes with supervisory agencies on any 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 31.12.2017 the respective legal regulations have been interpreted correctly by it, and the Company's position in terms of tax laws is going to be stable.



*Accounting  
(Financial)  
Statements  
for 2017*

### **3. 16 EVENTS AFTER THE REPORTING DATE**

In January 2018 the Company acquired common shares of NLMK Engineering for RUB 199.936 thou., thus the share in the authorized capital of NLMK Engineering increased from 57.57% up to 97.16%.

**NLMK Manager**

by virtue of Power of Attorney No.500 dd. 11.12.2017

**O. Zarubina**

*19 February 2018*

*Explanations*







## ABOUT NLMK

2017

This brochure gives an overview of the structure, business model, strategy, and performance of the Group over the past decade.

*“The scale of NLMK’s business, the quality of our strategy and execution will ensure that we use available growth options to continue creating shareholder returns going forward.”*

**Oleg Bagrin,**  
President and CEO of NLMK Group\*



## OUR TEAM

2017

Detailed information on NLMK Group’s team, talent development, occupational safety policy and financial contribution to the development of local communities, and much more.

*“In the common cause of realizing Strategy 2017, it was not just the contribution of individual people that was important, but above all the contribution of the team that our large, international company represents.”*

**Oleg Bagrin,**  
President and CEO of NLMK Group\*



## GOVERNANCE

2017

This brochure aims to showcase NLMK Group’s corporate governance practices, how the process of continuous improvement of corporate governance is arranged, and how we ensured our leadership in investor relations.

*“In 2017, the Company continued to actively improve its corporate governance practices as part of the corporate governance reform.”*

**Stanislav Shekshnia,**  
Independent Director, Chairman of the Human Resources, Remuneration and Social Policies Committee



## ENVIRONMENT

2017

In this brochure we talk about how advanced technologies, efficient processes, and environmentally friendly approaches ensure our leadership as an environmentally-oriented company.

*“Our goal is to minimize our environmental footprint. And we will continue to implement the best available technologies.”*

**Galina Khristoforova,**  
NLMK Group’s Director for the Environment

## FOR ESG INVESTORS

Our company is a socially responsible business. We focus on ensuring NLMK’s performance leadership goes hand in hand with the most advanced corporate governance practices. We have developed a dedicated section on the Company website at [www.nlmk.com](http://www.nlmk.com) to enable investors to review environmental and social questions, as well as corporate governance (Environmental, Social, Governance) when they are considering investment.



\* Oleg Bagrin held the position of President (Chairman of the Management Board) until 12 March 2018