

2018

ANNUAL REPORT



NLMK GROUP



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2018 highlights

Setting records in operations

Record performance: steel output increased to 17.5 million tonnes; sales grew to 17.6² million tonnes, hitting an all-time high for the Company. NLMK Group retained its leadership on the Russian market in terms of steel output, and consolidated its positions on global markets.

Stable financials and debt reduction

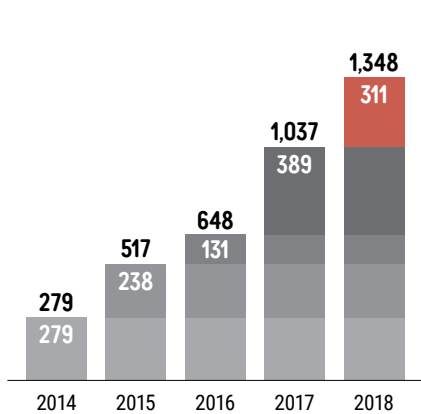
Revenue grew to \$12.0 billion; NLMK's EBITDA increased by 35% yoy to \$3.6 billion, while its EBITDA margin grew to 30%. Net debt/EBITDA decreased to 0.25x.

Strategy in action

In 2018 EBITDA gains from the operational efficiency programme totalled \$189 million to the 2017 cost base. The impact of capex projects executed as part of Strategy 2017 totalled \$121 million. Total gains from Strategy 2017 in 2014-2018 were \$1,348 million, which is significantly in excess of the \$1 billion target.

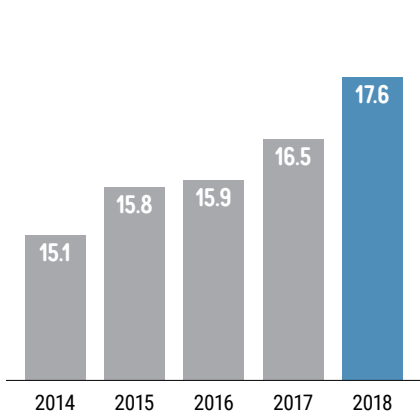
Sustainable Strategy 2017 gains

Strategy 2017 gains continue to drive our performance¹, \$ m



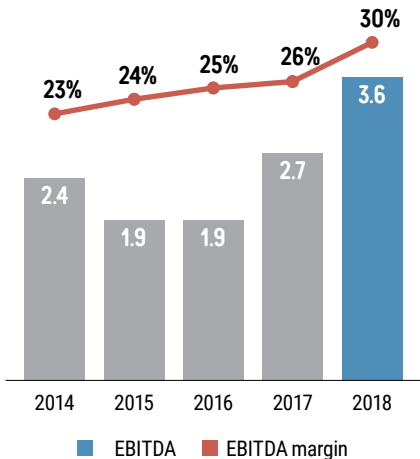
Record operating results

Sales hit an all-time high², m t



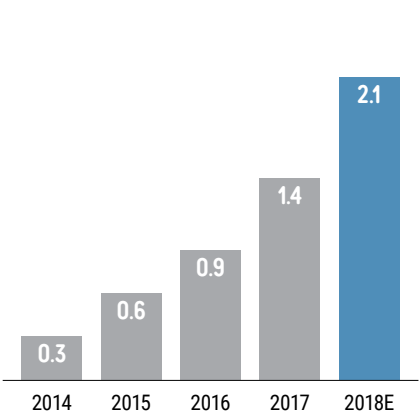
Growth of business profitability

Consistently expanding EBITDA margins, \$ bn



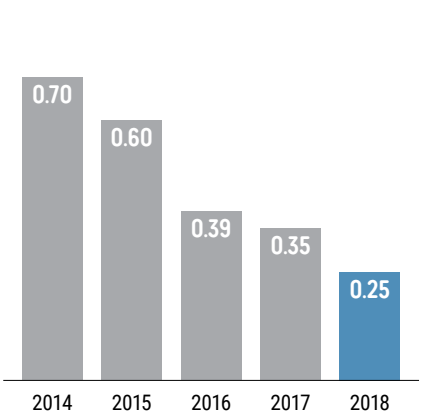
Growing dividends

Consistent growth in dividend payments, \$ bn



Strengthening financial standing

Low leverage (Net debt/EBITDA)



High occupational safety standards

Reduced injury rates, employees and contractors (LTIFR³, NLMK Group)



\$311 M

STRATEGY 2017 GAINS IN 2018. TOTAL GAINS IN 2014-2018 WERE \$1,348 MILLION

(for more details please refer to the Strategy 2017 results section)

+1.1 M T

NLMK GROUP ADDED 7% YOY TO ITS SALES REACHING AN ALL-TIME HIGH OF 17.6² MILLION TONNES

+35%

EBITDA GROWTH YOY

\$2.1 BN

DIVIDENDS FOR 2018⁴

4 YEARS

DEBT CONTINUED TO DECLINE FOURTH YEAR IN A ROW

-31% YOY

REDUCED LOST TIME INJURY FREQUENCY RATE ACROSS NLMK GROUP, INCLUDING CONTRACTORS

¹ Strategy gains with NBH
² Without NBH

³ LTIFR – Lost Time Injury Frequency Rate
⁴ Projected dividend payout, based on Q4'18 dividends recommended by NLMK Group's Board of Directors

President's Statement

GRI 102-14

Dear readers,

In 2018 NLMK Group reduced its injury rates while setting records in production and sales. Our profits and EBITDA margin hit a ten-year high.

We saw our sales increase to 17.4* million tonnes, more than at any other point in the Company's history. Revenue grew by 20% yoy to \$12.0 billion; EBITDA increased by 35% to \$3.6 billion, while its EBITDA margin grew to 30%. NLMK Group maintained its market leadership in Russia and consolidated its position on global markets.

It is extremely important that we keep up the good speed in boosting our operational efficiency. NLMK Production System now covers all of our Russian sites and has been rolled out to our European sites. It extends not only to core operations, but to support processes as well.

Our focus on operational efficiency was instrumental in keeping low cash cost, enabling maximum utilization of our facilities. NLMK Lipetsk had a record-breaking year, producing more steel in 2018 than ever before; Stoilensky became the second largest Russian producer of iron ore concentrate; and NLMK Long's financial performance was at a ten-year high.

All of our sites and functional areas have enjoyed their own successes – and behind these successes is the NLMK

TOTAL EBITDA GAINS FROM STRATEGY 2017 IMPLEMENTATION DURING 2014-2018 AMOUNTED TO \$1.348 BILLION, CONSIDERABLY EXCEEDING OUR TARGET OF \$1 BILLION

team. Our team is looking forward to new projects and challenges, and each of us – to new opportunities and interesting work. We are proud of what we have achieved and fully recognize that our achievements were made possible thanks to the contribution of our entire team, united by the common goal of leadership for NLMK Group.

I want to thank the Company's employees for their contribution, which enables NLMK to unlock its potential and be recognized as the industry leader. I would also like to express my sincere gratitude to NLMK's shareholders, customers and business partners who believe in us and work with us to develop the Company.

Grigory Fedorishin

President of NLMK Group

Key indicators:

SALES GROWTH
+7% YOY

EBITDA MARGIN
INCREASED
TO 30%

STRATEGY 2017
EBITDA GAIN:
\$1.348 BILLION

LTIFR
DECREASED
TO 0.77

NLMK GROUP INCREASED SALES TO A RECORD 17.4* MILLION TONNES

* with NBH sales



Our approach to preparing reports

This NLMK Group’s 2018 Annual Report (‘the Report’) discloses information on financial and business operations along with data on the Company’s achievements in sustainability management for the period from 1 January 2018 to 31 December 2018. [GRI 102-50](#)

NLMK prepares its Annual Report on a yearly basis [GRI 102-52](#); the Report includes information on the Company’s sustainability activities in the relevant topic-specific sections. The Company’s latest annual report was published in June 2018. Electronic versions of previous reports can be found on the Company’s official website: [www.nlmk.com](#). [GRI 102-51](#)

Previously, the Group’s annual public reports were prepared taking the recommendations of the Standards under advisement. In particular, in 2017, NLMK used GRI Standards to disclose information on environmental protection. In 2018, the entire Report of NLMK Group was prepared in accordance with the GRI Standards. The GRI Standards: Core option was selected for information disclosure*. [GRI 102-54](#) The GRI Content Index, listing the disclosures included, can be found in the Appendix. [GRI 102-55](#)

The Report also covers compliance with the principles of the UN Global Compact and the OECD Principles of Corporate Governance, in accordance with which the Group strives to conduct its activities.

The interests of the investment community regarding sustainability management practices were taken into account during the preparation of this Report. In particular, the Group relied on the methodology of such rating agencies as RobecoSAM, MSCI, Sustainalytics, and FTSE Russell when disclosing information.

The Report also reflects the Group’s contribution to the achievement of the Sustainable Development Goals adopted by the United Nations in 2015 in the document Transforming Our World: The 2030 Agenda for Sustainable Development.

* The GRI Standards: Core option requires obligatory disclosure of a selective set of indicators from GRI Standard 102, as well as at least one indicator from the selected topic-specific GRI Standards.

Scope of reporting [GRI 102-45](#)

Information on the Group’s financial and business activities is disclosed in accordance with its 2018 consolidated IFRS financial statements.

Data relating to NLMK’s operating activities and sustainability information

are presented within the scope shown in the table below, unless otherwise indicated in the text of the Report.

Compared to the previous reporting period, the scope of a number of topics and indicators has been expanded and supplemented by the inclusion of NLMK Group’s international companies.

SCOPE OF REPORTING ABOUT NLMK OPERATIONS AND SUSTAINABILITY ACTIVITIES

RUSSIA

NLMK Russia Flat Products

| | |
|-----------------------|---------------------------------|
| NLMK Lipetsk | Steel and flat products |
| VIZ-Steel | GO electrical steel |
| Altai-Koks | Coke |
| NLMK Trading SA | Trader (located in Switzerland) |
| Novexco (Cyprus) Ltd. | Trader (located in Cyprus) |

NLMK Russia Long Products

| | |
|------------------|-------------------------|
| NLMK-Ural | Steel and long products |
| NLMK-Kaluga | Steel and long products |
| NLMK-Metalware | Metalware |
| Vtorchermet NLMK | Scrap processing |

Production and Processing of Raw Materials, Russia

| | |
|------------|--|
| Stoilensky | Extraction and processing of iron ore |
| Stagdok | Extraction and processing of flux limestones |
| Dolomit | Dolomite |

USA

NLMK USA

| | |
|--|-------------------------|
| NLMK Pennsylvania LLC & Sharon Coating LLC | Steel and flat products |
| NLMK Indiana LLC | Steel and flat products |

EU

NLMK DanSteel and plate distribution network

| | |
|-------------------|-------|
| NLMK DanSteel A/S | Plate |
|-------------------|-------|

NBH Segment

| | |
|-----------------------|-------|
| NLMK Clabecq S.A. | Plate |
| NLMK Verona SpA | Plate |
| NLMK La Louvière S.A. | Strip |
| NLMK Strasbourg S.A. | Strip |

SERVICE AND SUPPORTING BUSINESSES

| | |
|--|---|
| NLMK Trading House | VIZ |
| Novolipetsk Steel Service Centre (Metallobaza) | VIZ-Broker |
| Ussuriysk Steel Service Centre (Metallobaza) | Gazobeton-48 |
| NLMK-Engineering | Novolipetsk Printing House |
| UralNIAS Institute | NLMK India Service Center Pvt Ltd |
| SMT NLMK | NLMK Overseas Holdings |
| NLMK Accounting Centre | Zhernovsky-1 mining and beneficiation plant |
| NLMK IT | Usinky-3 mining and beneficiation plant |
| NLMK Communications | Metallurg Hotel Complex |

The process of defining material topics [GRI 102-46](#)

Significant economic, environmental, and social topics of the greatest importance to the Company and its stakeholders were identified as part of the process of defining the Report's content. This approach was developed on the basis of the requirements set out in the GRI Standards.

For the purpose of preparing the 2018 Report, a working group comprising the heads of NLMK's functional units was formed.

A total of 16 material topics were identified and approved on the basis of the analysis, including disclosures from each of the following categories: economic, environmental, and social. These disclosures were also prioritized on the basis of feedback from a survey carried out in October 2018 of internal stakeholders who are members of the Report preparation working group.

The GRI information disclosure requirements were met to the same extent for all topics, regardless of

their determined level of materiality. At the same time, topics with a high level of materiality were accorded special attention: additional detailed information about them is provided in the Report.

Methodology for preparing and revising data [GRI 102-48, 102-49](#)

The calculation, collection, and consolidation of the operational, social, and environmental indicators presented in the Report were carried out in accordance with the reporting principles and requirements of the GRI Standards, based on the Group's existing processes for collecting and preparing business information.

Financial information is presented in US dollars or Russian rubles in accordance with the financial reporting system adopted by the Group. In cases where financial data were recalculated in dollars, the weighted average rate for 2018 was used: USD 1 = RUB 62.7078.

Operating performance indicators and sustainability data are presented in the International System of Units (SI).

The sources of sustainability information on staff management, occupational health and safety, and environmental protection are the state mandatory statistical reporting forms, which are submitted to the relevant government agencies on an annual basis.

To enable data to be compared, the most significant indicators of the Group's activities will be presented not only for the reporting period, but also for the previous four years. At the same time, taking into account that the scope of 2018 information disclosure covers international companies as well, certain data for previous periods were also adjusted.

Another change in the Company's approach to information disclosure was the disclosure of quantitative information on energy consumption and energy efficiency in joules. These units of measurement are more universal and allow comparing the results of

MATERIAL TOPICS [GRI 102-47](#)

| Topic | Level of materiality | Internal stakeholders | External stakeholders |
|--|----------------------|-----------------------|-----------------------|
| Economic | | | |
| 201 Economic Performance | High | ✓ | ✓ |
| 203 Indirect Economic Impacts | Medium | ✓ | ✓ |
| 205 Anti-Corruption | High | ✓ | ✓ |
| Environmental | | | |
| 302 Energy | High | ✓ | ✓ |
| 303 Water and Effluents | High | - | ✓ |
| 304 Biodiversity | Low | - | ✓ |
| 305 Emissions | High | ✓ | ✓ |
| 306 Effluents and Waste | High | ✓ | ✓ |
| 307 Environmental Compliance | High | ✓ | ✓ |
| 308 Supplier Environmental Assessment | Medium | ✓ | ✓ |
| Social | | | |
| 401 Employment | High | ✓ | ✓ |
| 403 Occupational Health and Safety | High | ✓ | ✓ |
| 404 Training and Education | High | ✓ | - |
| 405 Diversity and Equal Opportunity | Medium | ✓ | - |
| 406 Non-Discrimination | Low | - | - |
| 407 Freedom of Association and Collective Bargaining | Medium | ✓ | ✓ |
| 408 Child Labour | Low | - | ✓ |
| 409 Forced or Compulsory Labour | Low | - | ✓ |
| 413 Local Communities | High | ✓ | ✓ |

the Company's activities in this area with other companies, including international ones.

In 2018, NLMK for the first time disclosed information on greenhouse gas emissions, including direct and indirect emissions, and specific emissions per tonne of steel produced. In the next reporting periods, the Company plans to continue the practice of disclosing this information.

External assurance

An external audit of the Company's financial statements was carried out by PwC. The Auditor's Opinion is presented in the Appendix.

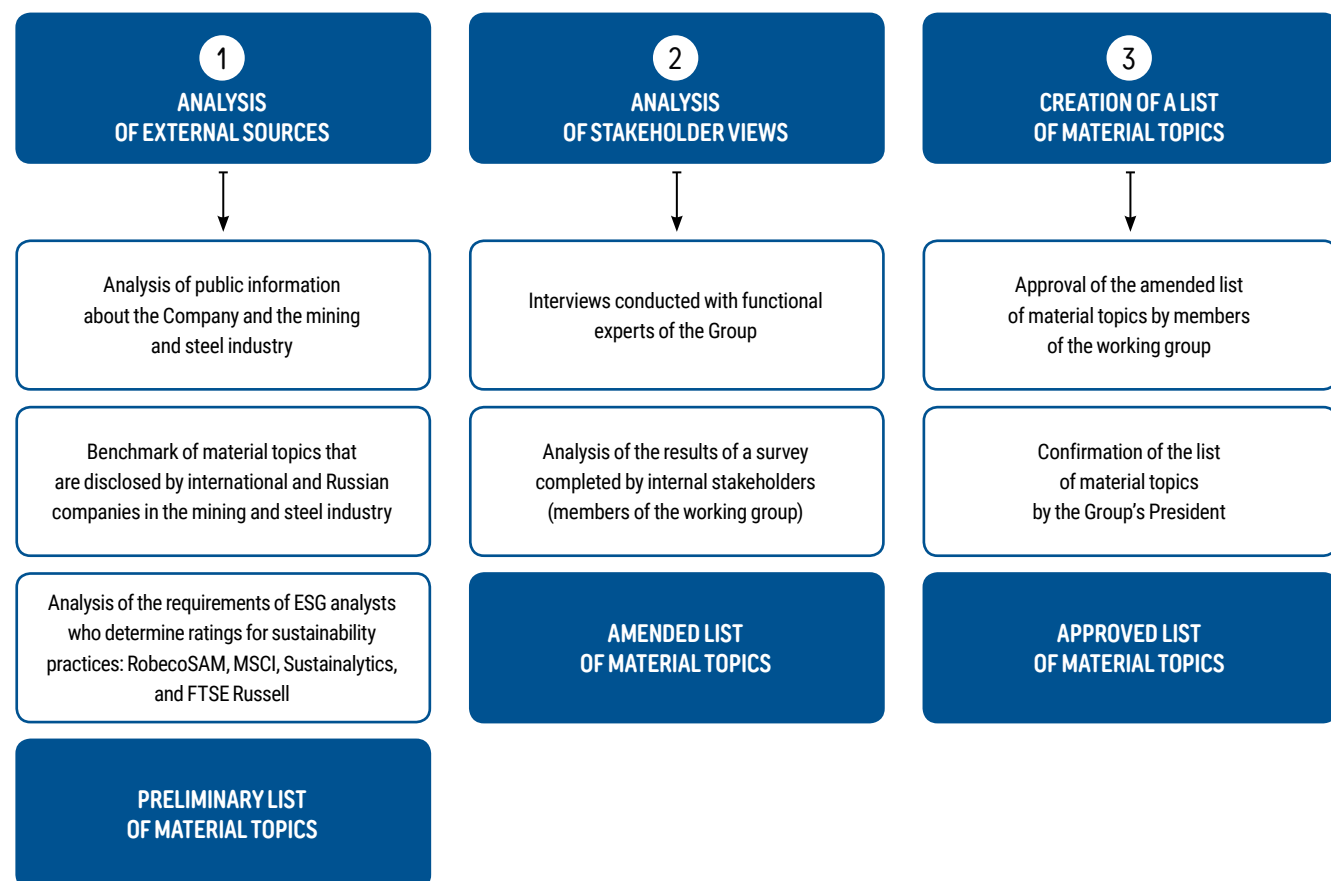
The sustainability information presented in this Report was not subject to external assurance in 2018. However, the Group plans to certify this information in future reporting periods, since it is aware that NLMK Group stakeholders value independent confirmation of non-financial information. [GRI 102-56](#)

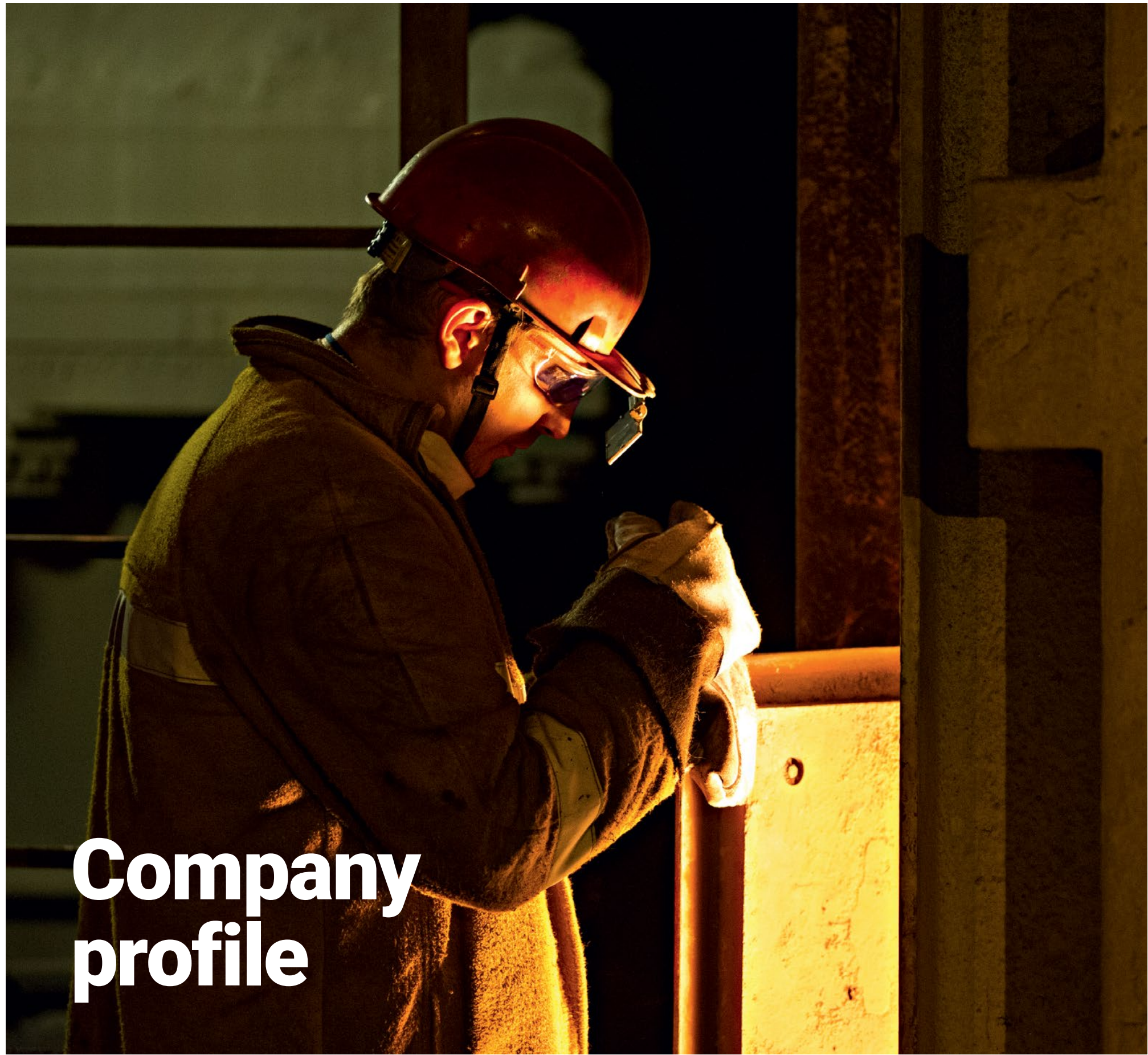
Contact details

We will be happy to answer additional questions regarding this Report, as well as receive feedback from our stakeholders for the development and improvement of the content of future public reports of the Company. [GRI 102-53](#)

- **Dmitry Kolomytsyn, CFA**
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ir@nlmk.com
- **NLMK's Representative Office in Moscow**, 119017 40-3, Bolshaya Ordynka str., Moscow [GRI 102-3](#)

APPROACH TO DEFINING MATERIAL TOPICS





Company profile GRI 102-7

N LMK Group is the largest integrated steelmaker in Russia and one of the most efficient in the world. GRI 102-1

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

NLMK operates production facilities in Russia, Europe and the United States. The Company's steel production capacity exceeds 17 million tonnes per year. GRI 102-4

NLMK's ordinary shares with a 16% free-float are traded on the Moscow Exchange (ticker "NLMK") and its global depositary 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 RUB 1.

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.

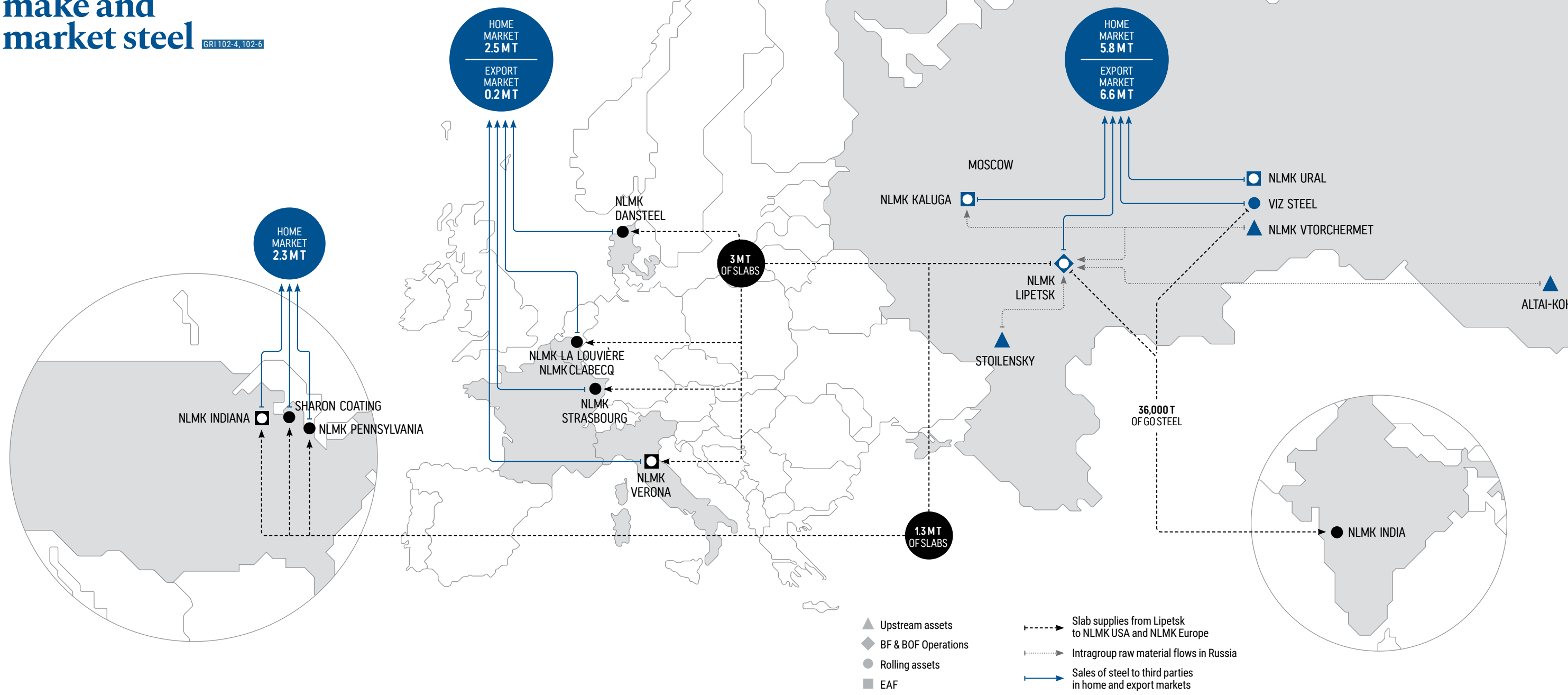
NLMK has the most competitive cash cost among global manufacturers and one of the highest profitability levels in the industry. In 2018, the Company generated \$12.046 billion in revenue and \$3.589 billion in EBITDA. As of 31 December 2018, Net debt/EBITDA stood at 0.25x.

KEY BUSINESS HIGHLIGHTS

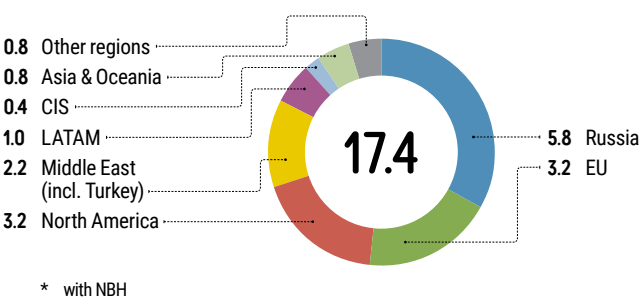
| Key number/idea | Key |
|---|--|
| Production capacities | 17.5 million tonnes per year |
| 23% of steel produced in Russia | No.1 steelmaker in Russia and among TOP 20 leading steelmakers globally |
| Efficient vertical integration | <ul style="list-style-type: none">▶ 100% self-sufficiency in iron ore concentrate▶ 97% self-sufficiency in iron ore pellets▶ >100% self-sufficiency in coke▶ 60% self-sufficiency in scrap▶ 59% self-sufficiency in energy |
| 99% utilization rate of NLMK Group's steelmaking capacity | Capacity utilization of the key site running at 100% vs. a global average of about 78% |
| \$266 cash cost per tonne of slabs | Among TOP 3 cost-efficient steelmakers globally |
| 30% EBITDA margin | Stable growth in profitability over the last few years, driven by consistent execution of Strategy 2017 |
| Net debt/EBITDA stands at 0.25x | A stable financial position supported by a balanced financial policy and growth of positive free cash flow |
| High sustainability standards | <p>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:</p> <ul style="list-style-type: none">▶ Group LTIFR (contractors and employees) stands at 0.77▶ Specific air emissions total 18.0 kg/t |

Where we make and market steel

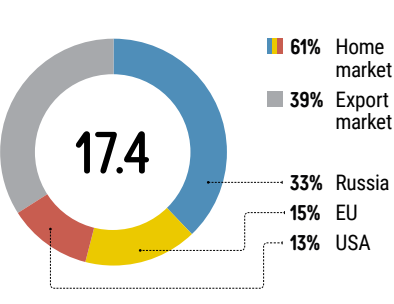
GRI 102-4, 102-6



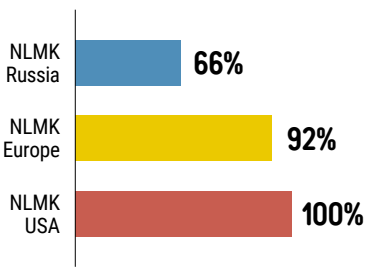
SALES IN 2018*, M T



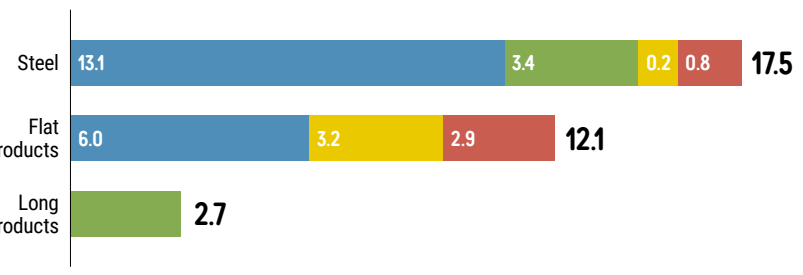
SALES BY MARKET*, M T



SHARE OF FINISHED STEEL SALES TO HOME MARKETS*, %



NLMK PRODUCTION CAPACITIES*, M T



NLMK's integrated process environment GRI 102-7

Over the past decade, NLMK has evolved from a local steel producer into a global steel company with control over every production stage, from raw materials extraction to the sale of high value added (HVA) products to end 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 CAPACITIES*:

Iron ore concentrate: **17.4MT**
Sinter ore: **1.6MT**

CONSUMERS:

Internal: NLMK Lipetsk
External: Steelmakers, road construction, agriculture

PRODUCTION:

Iron ore: **18.4MT** (+7% yoy)
Fluxes: **6.7MT** (+7% yoy)

SALES TO THE GROUP'S COMPANIES:

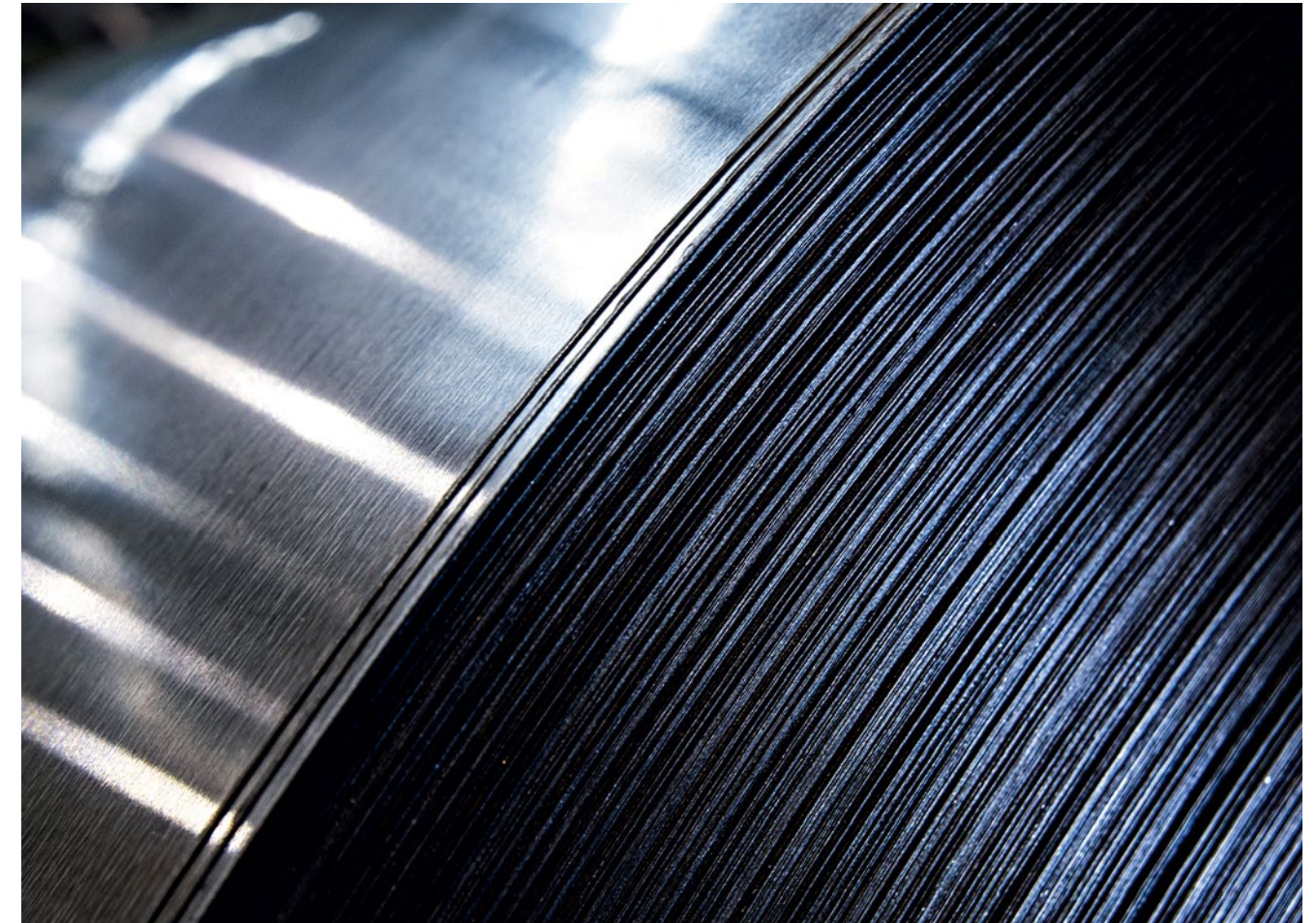
Iron ore concentrate: **10.1MT** (+5% yoy)
Pellets: **6.7MT** (+13% yoy)
Sinter ore: **1.5MT** (+2% yoy)
Limestone: **2.9MT** (-1% yoy)
(76% to the Lipetsk site)
Dolomite: **1.8MT** (+6% yoy)
(68% to the Lipetsk site)

FINANCIAL PERFORMANCE:

Revenue: **\$1,211M** (+28% yoy)
EBITDA: **\$888M** (+38% yoy)
Investments: **\$137M** (+18% yoy)

Event of the year 2018: Stoilensky increased its total output of iron ore concentrate to 17.4 million tonnes (+ 8% yoy), thanks to the introduction of high-pressure grinding rollers (HPGRs) at four sections of the beneficiation plant at the end of 2017.

* Hereinafter, current capacities are based on current shifts and product mix
** 6% moisture



NLMK Russia Flat

PRODUCTION SITES:

NLMK Lipetsk (the Lipetsk site)
VIZ-Steel
Altai Koks

FUNCTIONS:

Produces steel, including semis for international companies, flat products and coke

PRODUCTS:

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

HEADCOUNT:

30,600
PEOPLE

PRODUCTION CAPACITIES:

Steel: **13.1MT**
Flat products: **6.0MT**

STEELMAKING

CAPACITY

UTILIZATION:

100%

CONSUMERS:

Internal: international rolling divisions
External: construction, pipe production, automotive industry, machine building, white goods, yellow machinery, power industry and other sectors

SALES GEOGRAPHY:

Russia (44% of sales), Turkey and the Middle East, North America and LatAm, Asia and Oceania, European Union, the CIS

PRODUCTION:

Coke**: **6.4MT** (-7% yoy)
Pig iron: **13.2MT** (+3% yoy)
Steel: **13.3MT** (+1% yoy)
Commodity semis: **7.1MT** (+5% yoy)
Rolled products: **5.7MT** (-2% yoy)

SALES TO EXTERNAL CUSTOMERS:

Commodity pig iron: **0.9MT** (+109% yoy)
Slabs: **2.8MT** (+11% yoy)
Hot-rolled steel: **2.3MT** (-14% yoy)
Cold-rolled steel: **1.4MT** (+1% yoy)
Galvanized steel: **0.8MT** (+13% yoy)
Pre-painted steel: **0.4MT** (+5% yoy)
NGOES: **0.3MT** (-6% yoy)
GOES steel: **0.3MT** (+9% yoy)

INTRAGROUP SALES:

Supplies to NLMK USA: **1.3MT** (-20% yoy)
Supplies to NLMK Europe: **3.0MT** (+15% yoy)

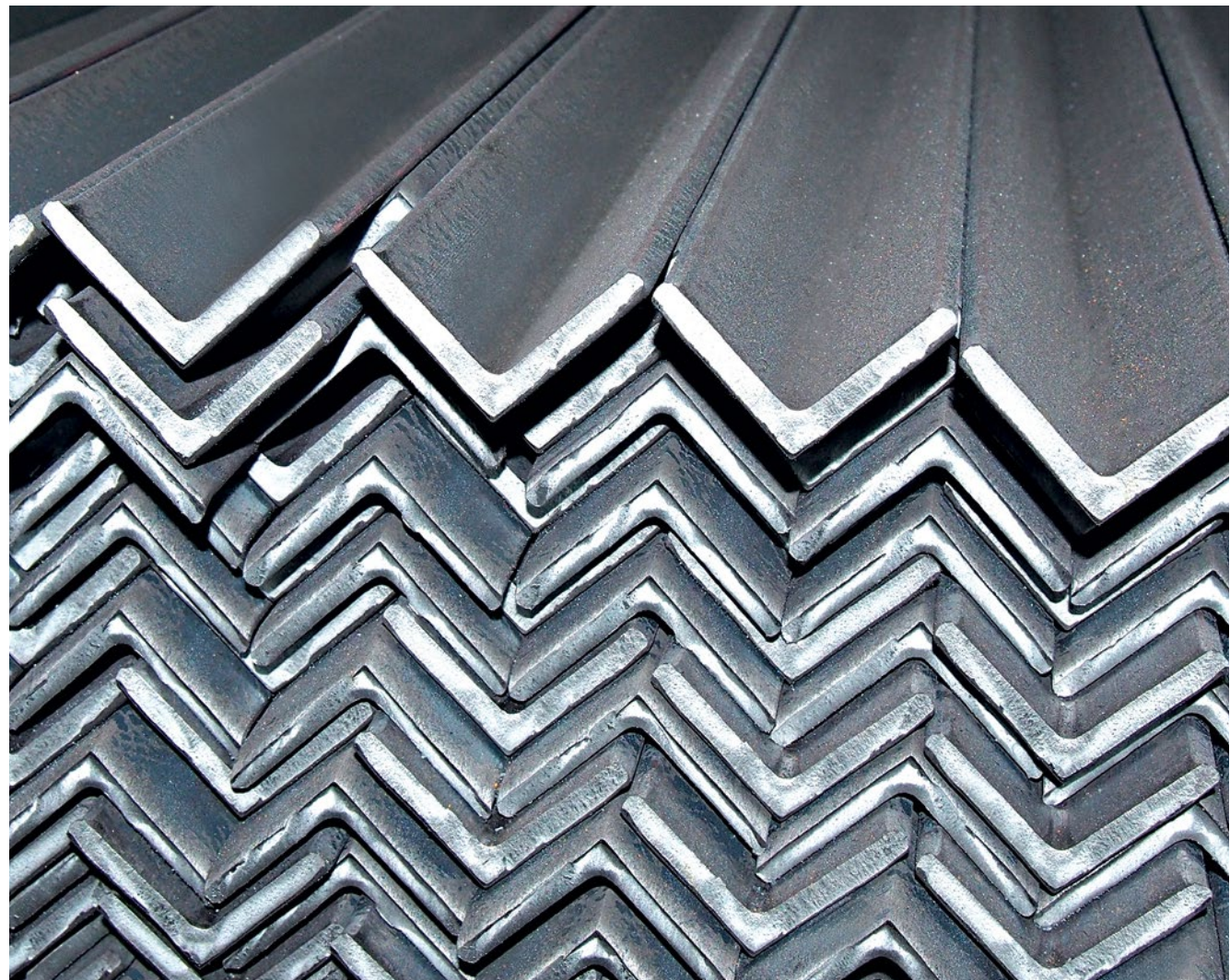
FINANCIAL PERFORMANCE:

Total revenue: **\$8,743M** (+14% yoy)
EBITDA: **\$2,339M** (+36% yoy)
Investments: **\$522M** (+24% yoy)

2018 fact: The Division's sales grew by 4% yoy to 13.5 million tonnes. The share of finished steel sold to third parties accounted for 60% of total sales.

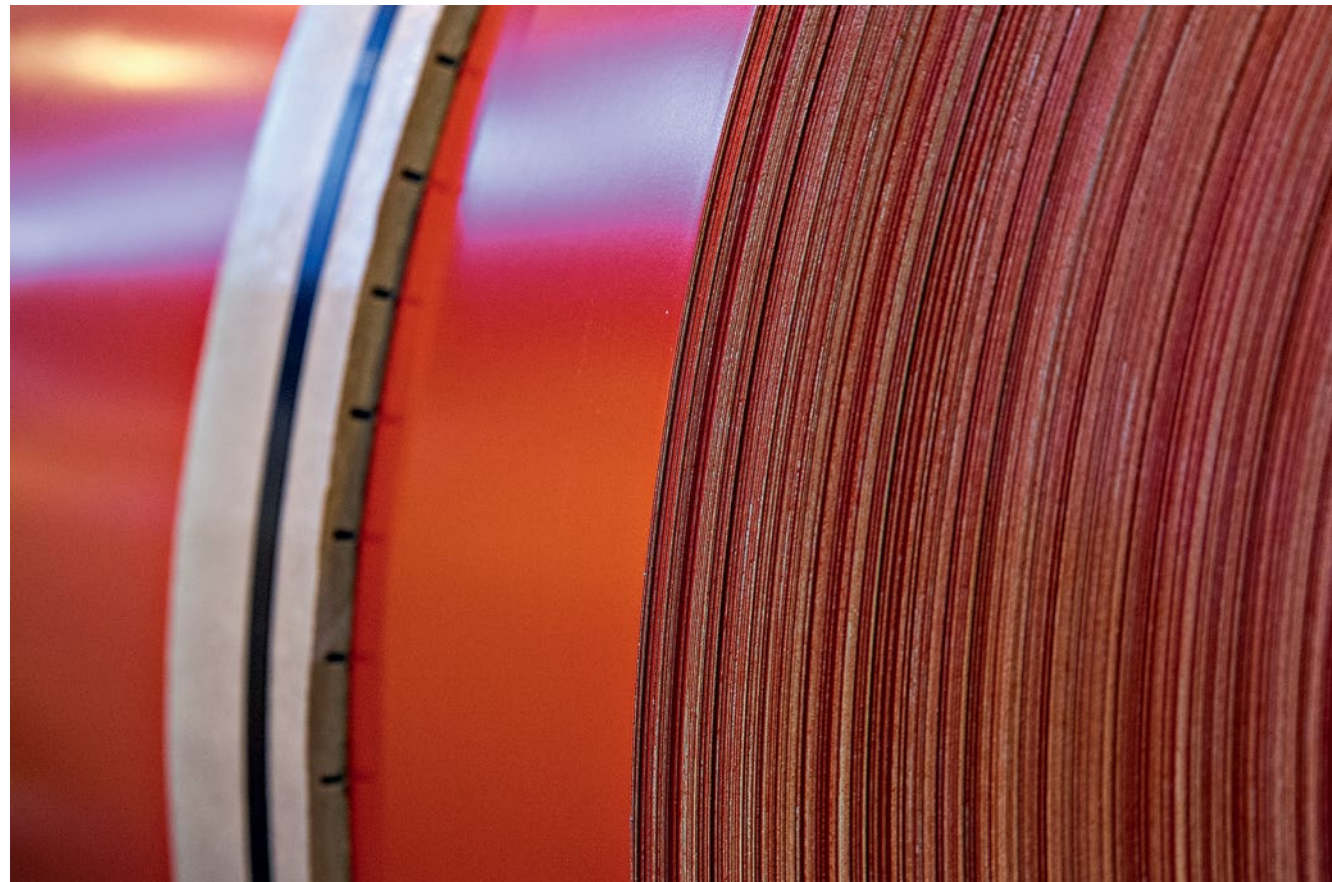
NLMK Russia Long

| | | |
|---|---|--|
| PRODUCTION SITES: NLMK Vtorchermet scrap collecting facilities NLMK Ural NLMK Kaluga NLMK Metalware | HEADCOUNT: <div>8,700</div> <div>PEOPLE</div> | PRODUCTION: Scrap processing: 2.4MT (+4.8% yoy) Steel: 3.3MT (+9% yoy) Long products: 2.2MT (+13% yoy) Metalware: 0.3MT (-6% yoy) |
| FUNCTIONS: Processes scrap for the Group's steelmaking capacities in Russia Long products and metalware production | PRODUCTION CAPACITIES: Steel: 3.4MT Long products: 2.7MT | SALES TO EXTERNAL CUSTOMERS: Billets: 0.8MT (+12% yoy) Long products: 2.2MT (+8% yoy) Metalware: 0.3MT (-7% yoy) |
| PRODUCTS: Scrap, billets, rebar, wire rod, sections, metalware | STEELMAKING CAPACITY UTILIZATION: <div>98%</div> | FINANCIAL PERFORMANCE: Total revenue: \$2,152M (+20% yoy) EBITDA: \$221M (+45% yoy) Investments: \$36M (+64% yoy) |
| | CONSUMERS: Construction, machine building | SALES GEOGRAPHY: Russia (55% of sales), the European Union, Turkey, the Middle East, North Africa. |
| | | 2018 fact: Due to the expansion of sales channels and the development of customer service, the segment's sales volume increased by 8% yoy reaching 3.2 million tonnes |



NLMK USA

| | | |
|---|--|---|
| PRODUCTION SITES: NLMK Pennsylvania NLMK Indiana Sharon Coating | HEADCOUNT: <div>1,200</div> <div>PEOPLE</div> | SALES GEOGRAPHY: 100% of steel sold in the USA |
| FUNCTIONS: Produces flat steel from the semis coming from the Lipetsk site as well as from own-produced semis and from 3-rd parties semis | PRODUCTION CAPACITIES: Steel: 0.8MT Flat products: 2.9MT | SALES: Hot-rolled steel: 1.3MT (+3% yoy) Cold-rolled steel: 0.5MT (-3% yoy) Galvanized steel: 0.5MT (+6% yoy) |
| PRODUCTS: Hot-rolled steel, cold-rolled steel, galvanized steel | STEELMAKING CAPACITY UTILIZATION: <div>85%</div> | FINANCIAL PERFORMANCE: Total revenue: \$2,134M (+28% yoy) EBITDA: \$253M (+28% yoy) Investments: \$20M (-29% yoy) |
| | CONSUMERS: construction, pipe production, automotive industry, machine building, white goods and yellow machinery production | 2018 fact: The Division's sales of hot-rolled steel grew by 3% yoy. A new surface control system was installed at NLMK Indiana's hot rolling mill; the hot rolling mill at NLMK Pennsylvania will be equipped with a similar system. |
| | PRODUCTION: Steel: 0.7MT (+6% yoy) Flat products: 2.2MT (+3% yoy) | |



NLMK EUROPE

NLMK Europe Strip

PRODUCTION SITES:

NLMK La Louvière*
NLMK Strasbourg*

FUNCTIONS:

Produces flat steel from slabs coming from the Lipetsk site

PRODUCTS:

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

SALES GEOGRAPHY:

92% of steel sold in the European Union

HEADCOUNT:

900 PEOPLE

PRODUCTION CAPACITIES:

Flat products: 1.7MT

ROLLING CAPACITY UTILIZATION:

87%

CONSUMERS:

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

PRODUCTION:

Flat products: 1.5MT (+8% yoy)

SALES:

Hot-rolled steel: 1.1MT (+15% yoy)
Cold-rolled steel: 0.04MT (-33% yoy)
Galvanized steel: 0.2MT (-9% yoy)
Pre-painted steel: 0.1MT (+16% yoy)

2018 fact: NLMK Group and SOGEPA equalized their holdings in NLMK Belgium Holdings SA. NLMK Group has decreased its holdings in NBH through the sale of its 2% stake to THN, an NBH-affiliated company. Via this transaction, the respective holdings of NLMK Group and SOGEPA (Société Wallonne de Gestion et de Participations S.A.), the second shareholder of NBH, have been equalized to 49% each.

* Part of NLMK Belgium Holdings (NBH)

NLMK Europe Plate

PRODUCTION SITES:

NLMK Dansteel
NLMK Clabecq*
NLMK Verona*

FUNCTIONS:

Produces plates from the semis coming from the Lipetsk site and from own-produced semis

PRODUCTS:

Niche steel semis, plates including Quard and Qend grades

SALES GEOGRAPHY:

92% of steel sold in the European Union

HEADCOUNT:

1,300 PEOPLE

PRODUCTION CAPACITIES:

Steel: 0.2MT
Plate: 1.5MT

ROLLING CAPACITY UTILIZATION:

82%

CONSUMERS:

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

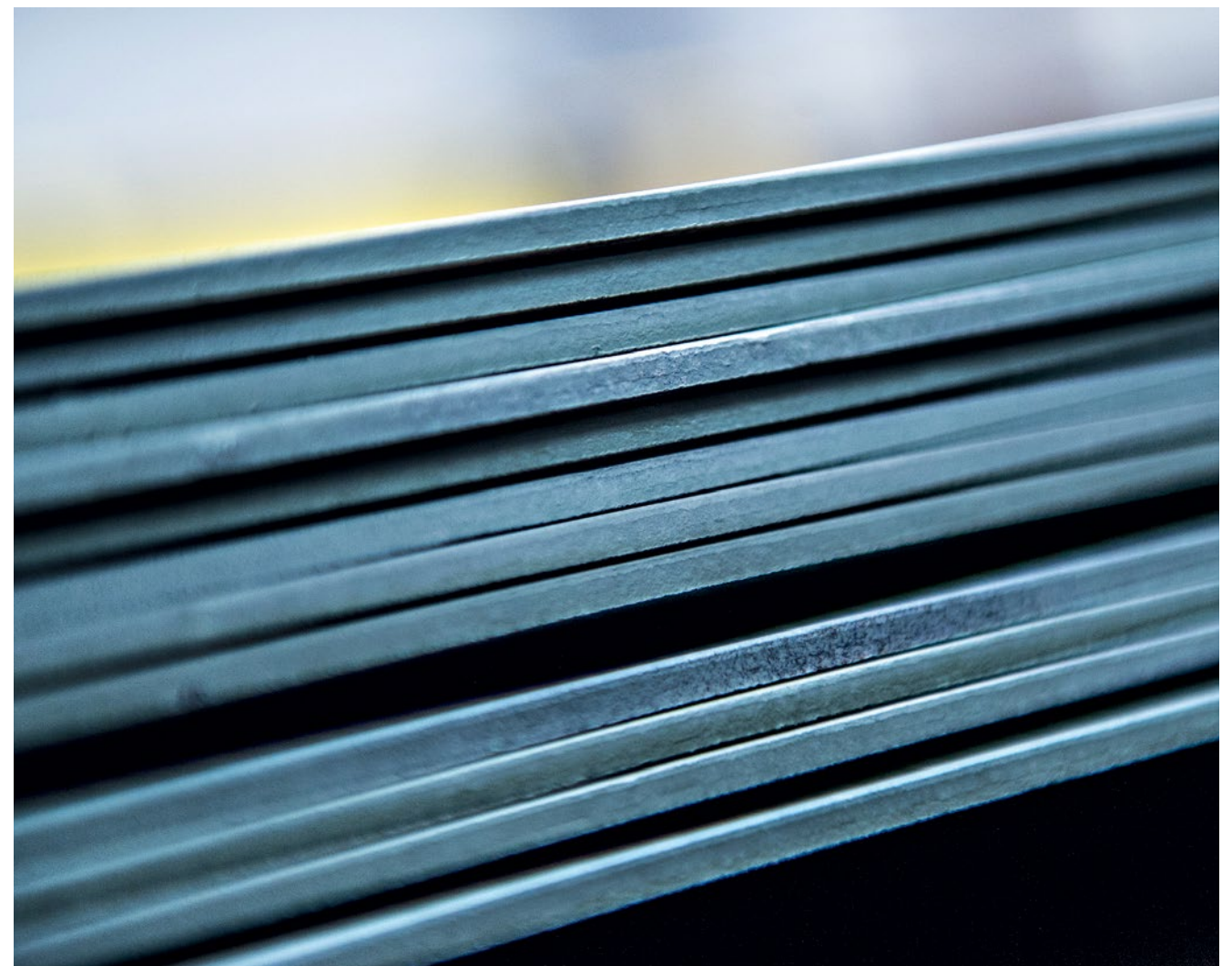
PRODUCTION:

Steel: 0.2MT (-8% yoy)
Flat products: 1.2MT (+6% yoy)

SALES:

Plate and ingots: 1.3MT (+4% yoy)

2018 fact: Mr. Peter Georg Selbach was appointed CEO of NLMK Belgium Holdings plate business. Before joining NLMK, Peter Georg Selbach served in executive management positions in European steel companies, including Hydro Aluminium, Bodycote International plc, Telemond Holding, Alcoa Europe and ThyssenKrupp Steel. NLMK DanSteel launched an accelerated cooling unit. It will enable production of plates weighing up to 60 tonnes.





What we make and market

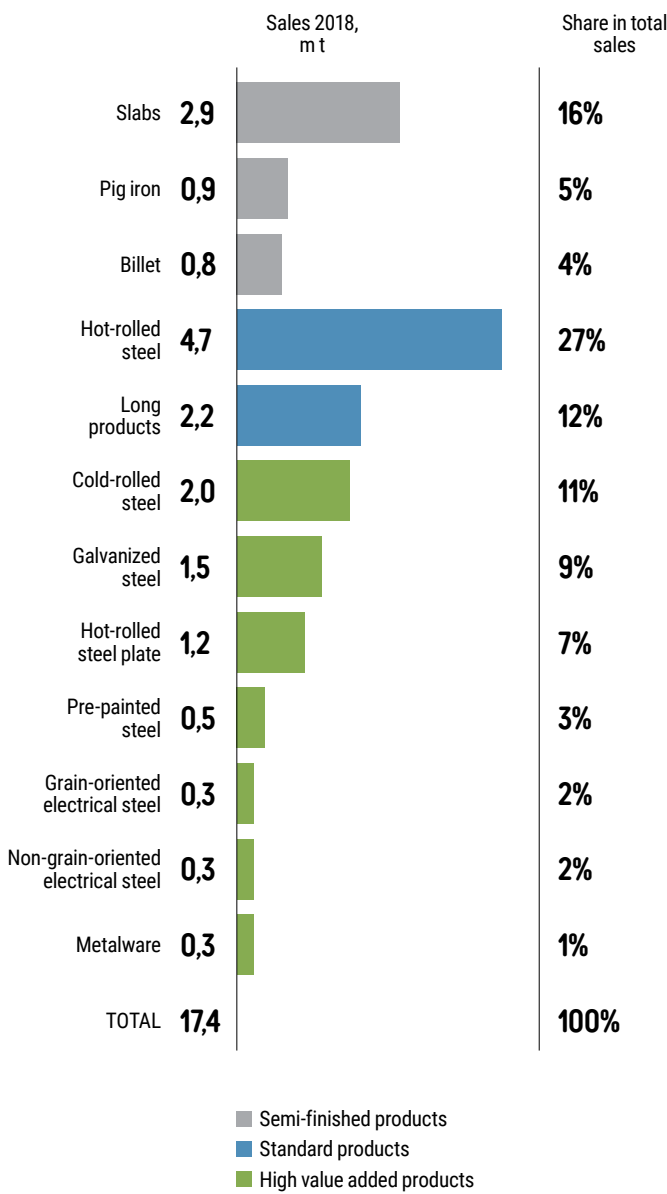
GRI 102-2

NLMK 2018 STEEL PRODUCT SALES:

17.4* MILLION TONNES

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 82% of total output, 18% is accounted for by long steel used in construction.

NLMK SALES IN 2018



* with NBH Sales

Our products

Steel semis

Plate

Hot-rolled steel

Cold-rolled steel

SHARE IN TOTAL SALES



DESCRIPTION

| | | | |
|--|---|---|--|
| Semi-finished steel products for further processing: slabs are processed into flat steel products; billets are processed into long steel products. A wide range of semis, both standard and niche products with specific chemical composition, physical properties and dimensions | Flat steel products with higher thickness than that of hot-rolled steel. A range of standard products and niche abrasion-resistant and high-strength plates. Produced at NLMK Group's European sites from slabs supplied by NLMK Lipetsk | Flat steel products that have been hot-rolled. A wide range of hot-rolled steel in sheets and coils with a variety of performance characteristics | Flat steel products that have been cold-rolled A wide range of cold-rolled steel sheets and coils with a variety of performance characteristics, including niche high-ductility products |
|--|---|---|--|

CONSUMERS

| | | | |
|----------------------------|---|---|--|
| Steelmaking, pipe industry | Lifting and transport equipment, offshore wind turbines, 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 Louviere NLMK Pennsylvania |
|-----------------------------|--|---|---|

MARKET SHARE*



* NLMK shares in apparent consumption.

Coated steel

Electrical steel

Long products

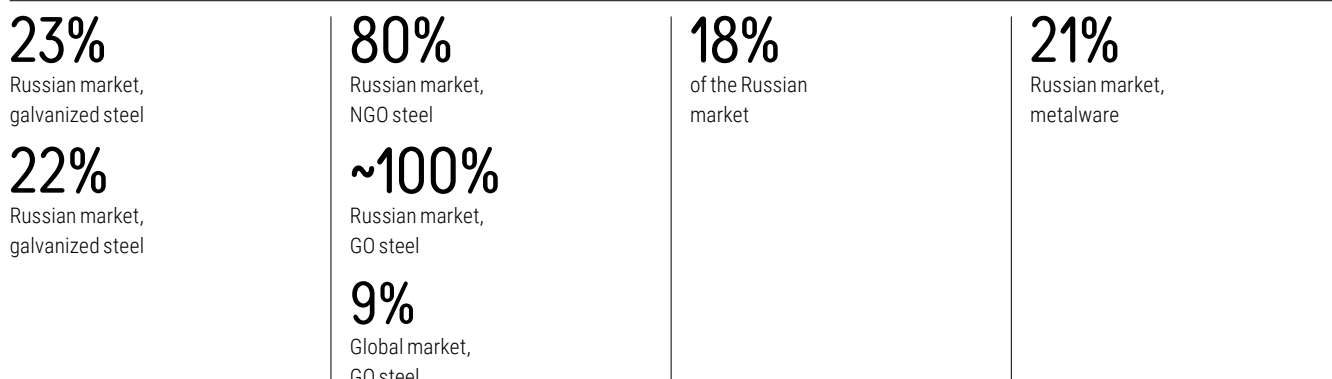
Metalware



| | | | |
|--|---|---|---|
| Galvanized and pre-painted steel from hot-rolled and cold-rolled flats. Coatings are applied on a production line to protect the steel from corrosive environments. Available in coils, strip and sheets | Dynamo (non-grain-oriented) and transformer (grain-oriented) electrical steel. Includes a range of standard products with conventional properties, and unique high-permeability steel (HGO). Available in coils, strip and sheets | Rebar in rods and coils, wire rod, sections | A wide range of low-carbon metalware. This includes wire and secondary products, with various coatings and surface finishes, nails, fasteners |
|--|---|---|---|

| | | | |
|---|--|--------------|--------------------------------|
| Automotive manufacturing, yellow and white goods, construction, facing materials. | Electrical machines, transformers, power engineering, instrument making. | Construction | Construction, machine building |
|---|--|--------------|--------------------------------|

| | | | |
|---|---------------------------|--------------------------|----------------|
| NLMK Lipetsk NLMK Strasbourg Sharon Coating | NLMK Lipetsk VIZ-Steel | NLMK Ural NLMK Kaluga | NLMK Metalware |
|---|---------------------------|--------------------------|----------------|





Strategy and business review

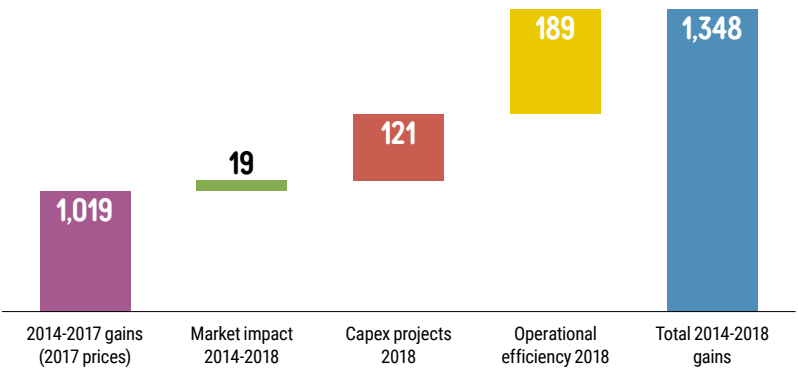
Strategy 2017 results

The report of the Board of Directors on priority areas development

In 2018, NLMK Group successfully finalized its Strategy 2017, gaining additional effects from continuing operating efficiency efforts and investment programmes implemented as part of Strategy 2017.

In the reporting period, EBITDA gains from the operational efficiency programme totalled \$189 million to the 2017 cost base. The impact of capex projects executed as part of Strategy 2017 brought an additional \$121 million. Total gains from Strategy 2017 in 2014-2018 were \$1,348 million, which is significantly in excess of the \$1 billion target.

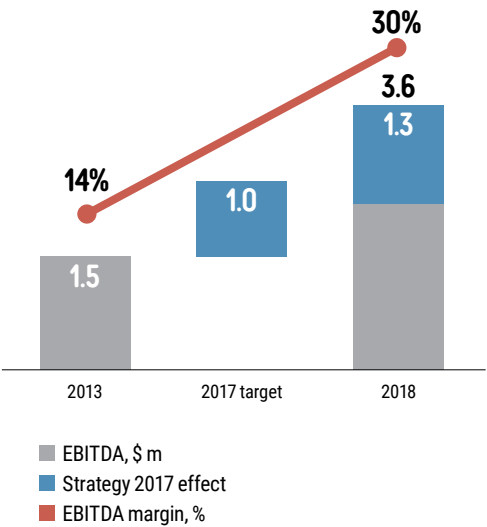
STRATEGY 2017 EBITDA GAINS, \$ M



STRATEGY 2017 TARGETS:

- 1 Net gains of \$1.0 billion pa vs. 2013 EBITDA
- 2 Structural reduction of annual capex
- 3 Conservative leverage: target Net debt/EBITDA ratio at 1.0x
- 4 Stable positive free cash flow
- 5 Dividend payments in accordance with the revised dividend policy

STRUCTURAL GROWTH IN EBITDA



KEY ELEMENTS OF STRATEGY 2017

Leadership in operational efficiency

Increased productivity delivered by investment programmes and development of NLMK Production System.

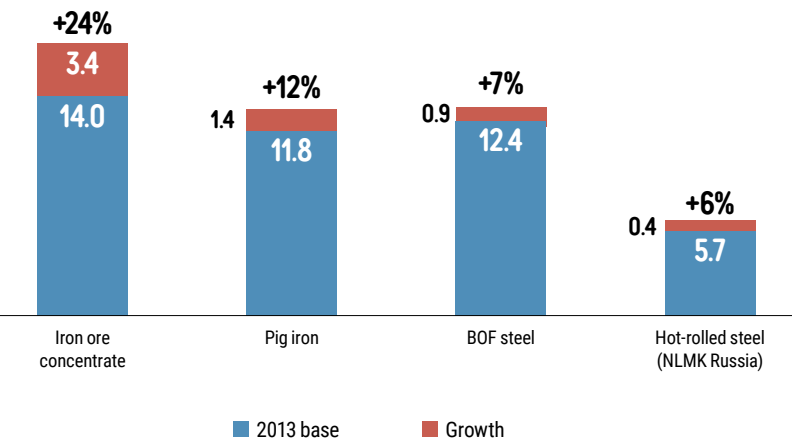
Target net EBITDA gain:
\$0.33 BILLION

Actual gains totalled:
\$0.70 BILLION

Production costs reduced and productivity increased. This secured NLMK’s global cost leadership in the steel sector.

NLMK increased its steel output by 0.9 million tonnes (+7%), hot-rolled steel output grew by 0.4 million tonnes (+6%) per year vs. the 2013 levels through better practices.

NLMK GROUP'S PRODUCTIVITY GROWTH, 2013–2018, M T



Leading positions in strategic markets

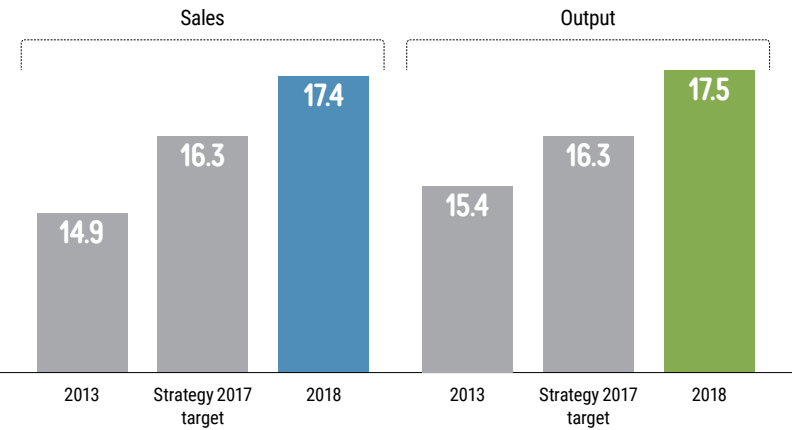
An increase in the share of HVA products in the sales mix and in NLMK Group’s sales in its ‘home’ markets, and greater presence in lucrative segments.

Target net EBITDA gain:
\$0.19 BILLION

Actual gains totalled:
\$0.15 BILLION

Lower actual gains than targeted are due to a significant weakening of the Russian steel market in 2014–2016. Nevertheless, sales and output targets have been significantly exceeded.

STEEL OUTPUT AND SALES, M T



World-class resource base

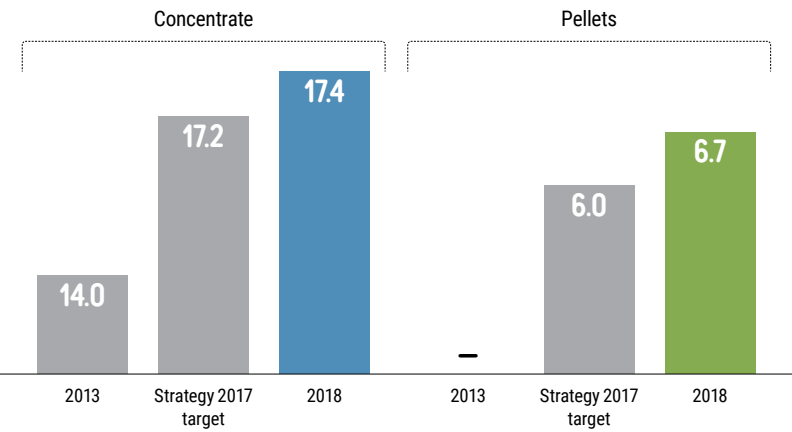
Increased self-sufficiency in key raw materials and lower consumption of expensive resources.

Target net EBITDA gain:
\$0.48 BILLION

Actual gains totalled:
\$0.55 BILLION

Higher self-sufficiency in iron ore despite steel output increase.

OUTPUT, M T



Leadership in sustainability safety

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

LTIFR in Russian companies declined by 54% and reached 0.39. Labour productivity grew by 31% compared to 2013, thanks to optimization and automation of processes, as well as increased steel output.

SPECIFIC SUSTAINABILITY INDICATORS



Strategy 2022

Strategy 2022 is based on enhancing NLMK Group's competitive advantages through boosting operational efficiency across the entire production chain, growing cost-efficient steel production, enhancing vertical integration into key raw materials, increasing sales of high value added products, and pursuing environmental, safety and human capital development programmes. Strategy 2022 targets net gains of \$1.25 billion to EBITDA.

GRIGORY FEDORISHIN, PRESIDENT OF NLMK GROUP:

► "We continue to set ourselves ambitious objectives. Our new Strategy targets a structural EBITDA gain of \$1.25 billion pa, or 35% of the high financial bar set in 2018.

"Strategy 2022 is marked by high resilience to external market factors, being based on enhancing the Company's competitive advantages: low cash cost, efficient vertical integration, product mix diversification by product and by market, and a high level of production and sales localization.

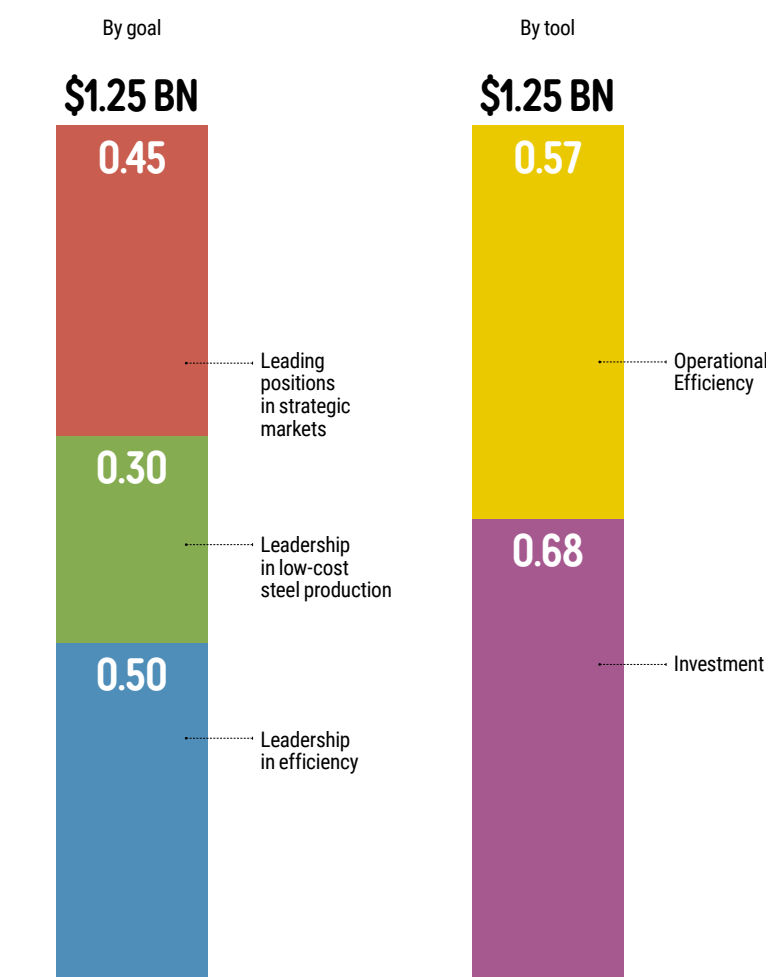
"NLMK's new Strategy is balanced across its gain drivers: target operational efficiency gains are comparable to investment project gains. The new Strategy is also well-balanced in terms of capital allocation: NLMK invests in growth projects while maintaining its financial stability and adhering to a highly competitive dividend policy.

"As part of Strategy 2022, we will continue to work on maximizing stakeholder value, and on ensuring that we balance the interests of all NLMK Group stakeholders."

STRATEGY 2022 GOALS

- 1 Additional EBITDA gain from all projects: \$1.25 billion
- 2 Conservative leverage: Net debt/EBITDA ratio up to 1.0-1.5x
- 3 Annual capex: \$0.9 billion per year on average
- 4 Stable positive free cash flow
- 5 Dividend distribution: 100% of free cash flow with normalized capital expenditure at \$0.7 billion per year for dividend calculation
- 6 Focus on the Company's shareholders value growth

PROJECTED STRATEGY 2022 EBITDA GAINS



KEY ELEMENTS OF STRATEGY 2022

- 1 Leadership in operational efficiency
- 2 Growth in low-cost steel production
- 3 World-class sales portfolio
- 4 Leadership in sustainability and safety

1. Leadership in operational efficiency

Goal: Focus on operational efficiency and approaching best production practices; global leadership in cash cost of steel production

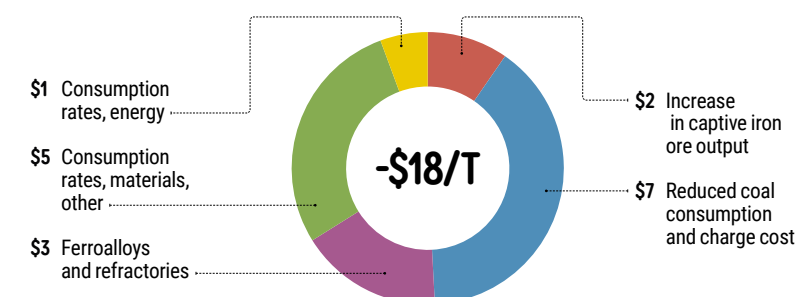
Target structural EBITDA gain:
\$0.5 BILLION

Capex over the strategic period:
\$0.05 BILLION

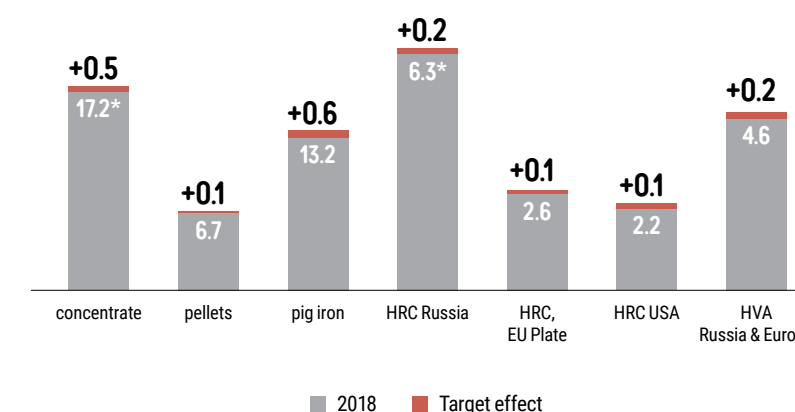
Operational efficiency growth is a continuous process, which covers processes across all conversion stages and production levels. Further development of NLMK Production System drives the achievement of operational efficiency targets. This way the Company targets slab cash cost reduction of \$18/t of steel by 2023 and labour productivity growth of 25%.



CASH COST REDUCTION: BY \$18/T BY 2023



EQUIPMENT PRODUCTIVITY GROWTH IN 2018-2023, M T



* Current normalized capacities

2. Growth in low-cost steel production

Goal: Growth of steel output at NLMK Lipetsk; 100% self-sufficiency in iron ore maintained; growth of NLMK Lipetsk energy self-sufficiency; decrease in coal consumption including deficit grades

Target structural EBITDA gain:
\$0.3 BILLION

Capex over the strategic period:
\$1.0 BILLION

As part of Strategy 2022, NLMK Group is implementing a project to increase NLMK Lipetsk's steelmaking capacity by 1 million tonnes to 14.2 million tonnes, while simultaneously increasing captive generating capacity and maintaining 100% self-sufficiency in iron ore through growth of concentrate output by 2.3 million tonnes to 20 million tonnes per year and growth of pellet output by 1.2 million tonnes to 8 million tonnes per year at Stoilensky.

3. World-class sales portfolio

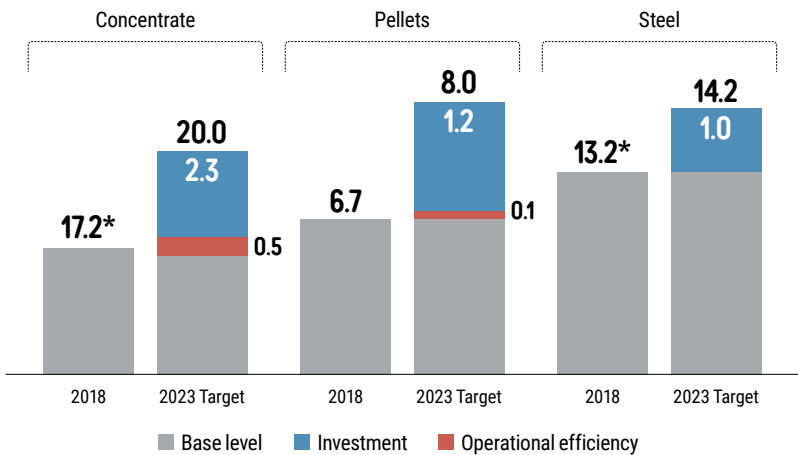
Goal: Growth of steel product sales; Growth of high value added product output and sales

Target structural EBITDA gain:
\$0.45 BILLION

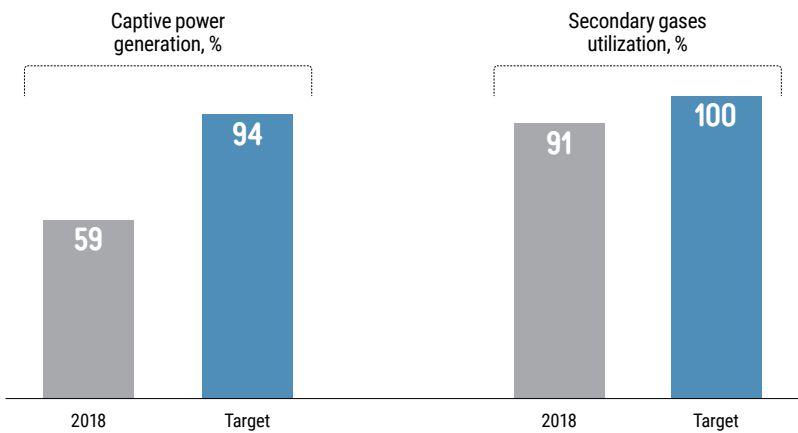
Capex over the strategic period:
\$1.1 BILLION

In its Strategy 2022, the Company continues to focus on growing its sales and the HVA products share and sales in 'home' markets (Russia, the EU, and the USA). Targeted sales growth amounts to 0.6 million tonnes up to 18 million tonnes, with an increase in HVA product sales by 1.7 million tonnes. Sales growth in Russia, the EU and the USA to grow by 2.7 million tonnes.

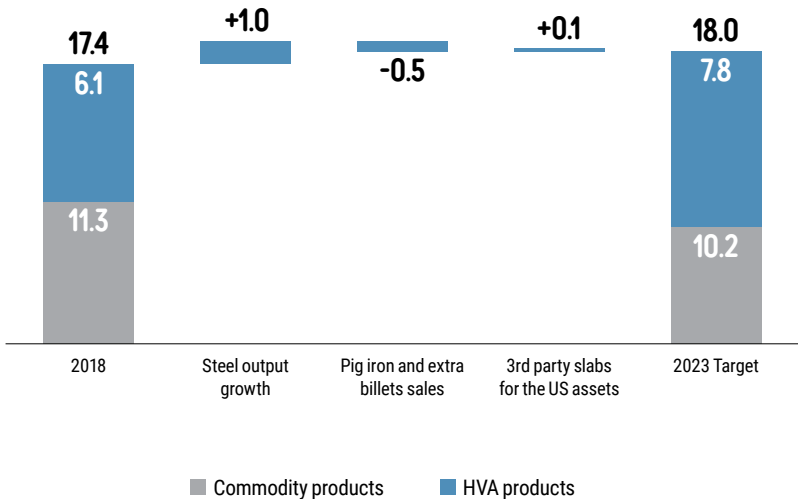
OUTPUT INCREASE, M T



GROWTH OF CAPTIVE GENERATING CAPACITY

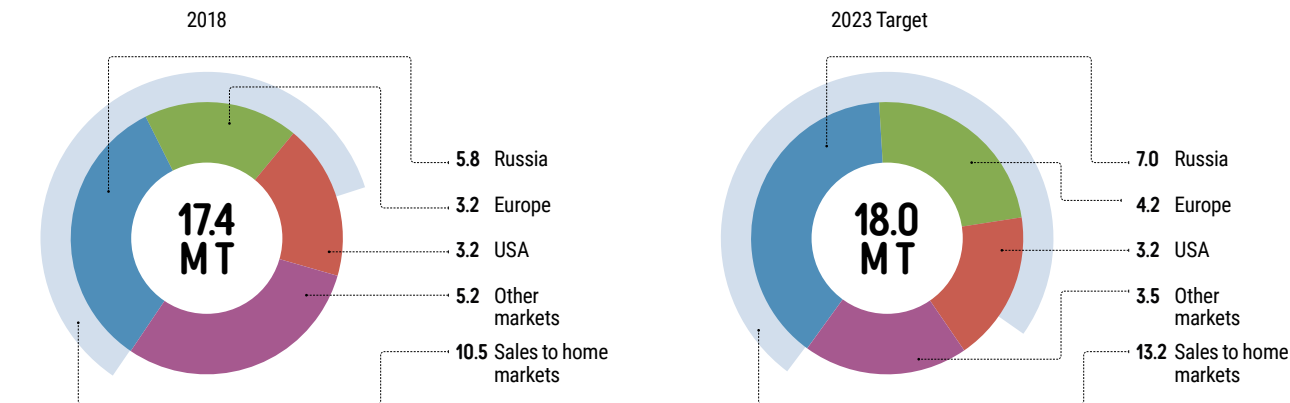


SALES GROWTH, M T

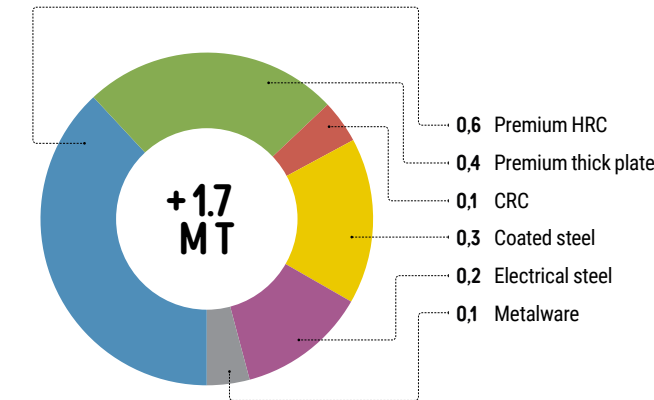


* Normalized capacity level

GROWTH OF SALES IN 'HOME' MARKETS: RUSSIA, EUROPE AND USA , M T



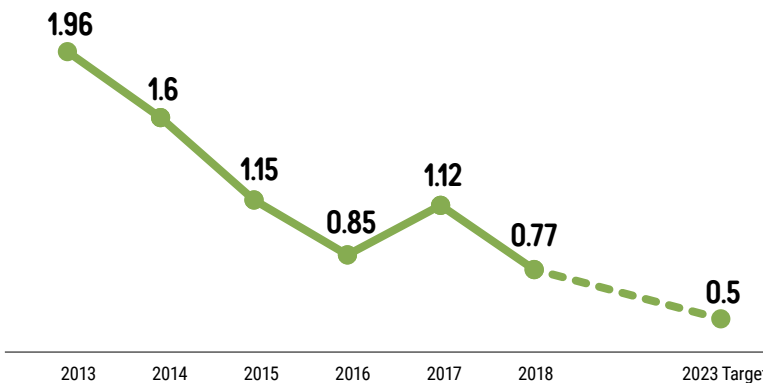
INCREASE IN HIGH VALUE ADDED PRODUCT SALES, M T



4. Leadership in sustainability and safety

- Goal:** minimization of environmental footprint and safe operations
- Leadership in sustainability and safety remain a priority for NLMK Group. Priority environmental areas include:
- Further minimization of environmental footprint, including a reduction of specific emissions per tonne of steel at NLMK Russia to the level of best available EU technologies
 - Further reduction of injury rate to LTIFR 0.5
 - High level of social security, personnel motivation and engagement

NLMK'S LTIFR





Key performance indicators

BUSINESS MODEL EFFICIENCY

Steelmaking capacity utilization

Steel product sales

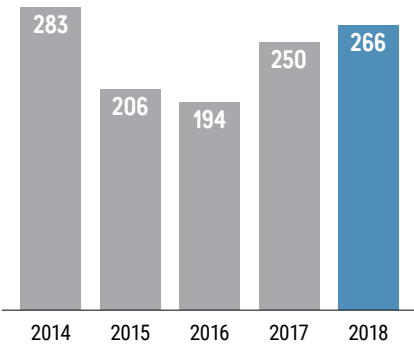
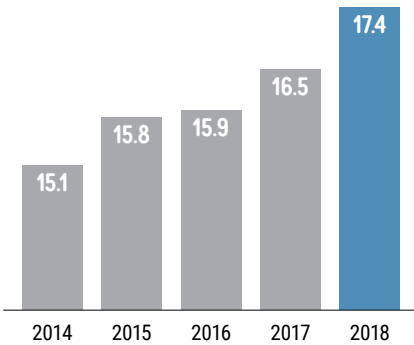
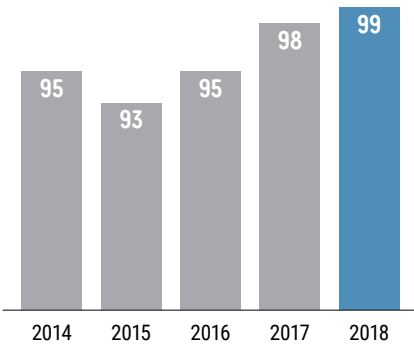
Slab cash cost

DESCRIPTION

Utilization rate of crude steel production capacities, %

Total sales of steel products to external consumers of all NLMK Group facilities, m t

Consolidated cash cost for slab production at NLMK Lipetsk, \$/t



PERFORMANCE REPORT

2018 targets met

Steel product sales targets exceeded

Cost leadership position retained

2018 COMMENTS

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

Sales reached a record 17.4 million tonnes (+6% yoy), driven by increased demand for semis and an increase in long products sales in Russia

Slab cash cost at NLMK Lipetsk grew by 6% to \$266 per tonne due to a surge in prices for main raw materials. Despite that, NLMK was able to retain its cost leadership thanks to its vertically integrated business model

FINANCIAL PERFORMANCE

EBITDA

EBITDA margin

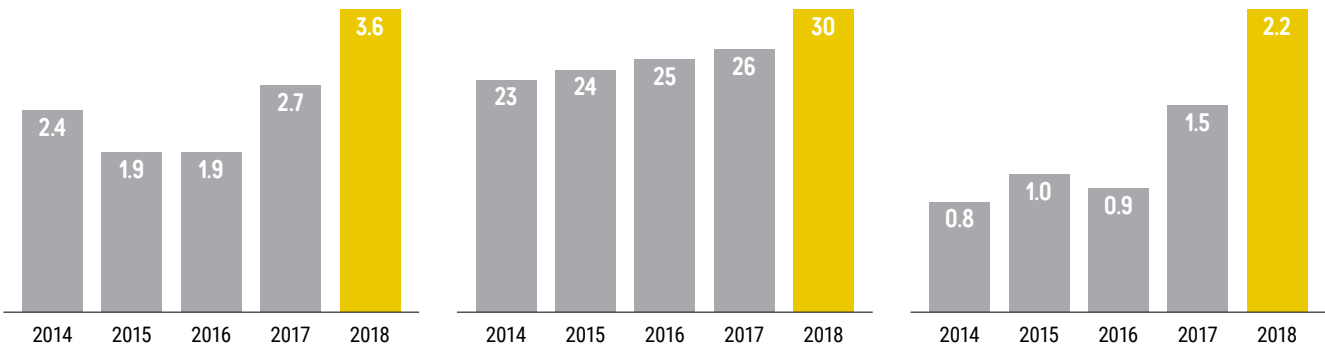
Net profit

DESCRIPTION

Profit before taxes, interest and depreciation received from NLMK Group's core businesses, \$ bn

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

NLMK Group's profit after income and expense. One of the elements used to determine dividend payments, \$ bn



PERFORMANCE REPORT

2018 targets exceeded by 46%

2018 targets exceeded

Not applicable

2018 COMMENTS

Strong profit in 2018 was largely driven by higher sales volumes, expanding spreads and additional Strategy 2017 gains

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

54% growth of net profit was due to the growth of operating profit and a decrease in the effective income tax rate due to the recognition in Q4 2018 of tax losses incurred earlier by NLMK USA

Free cash flow

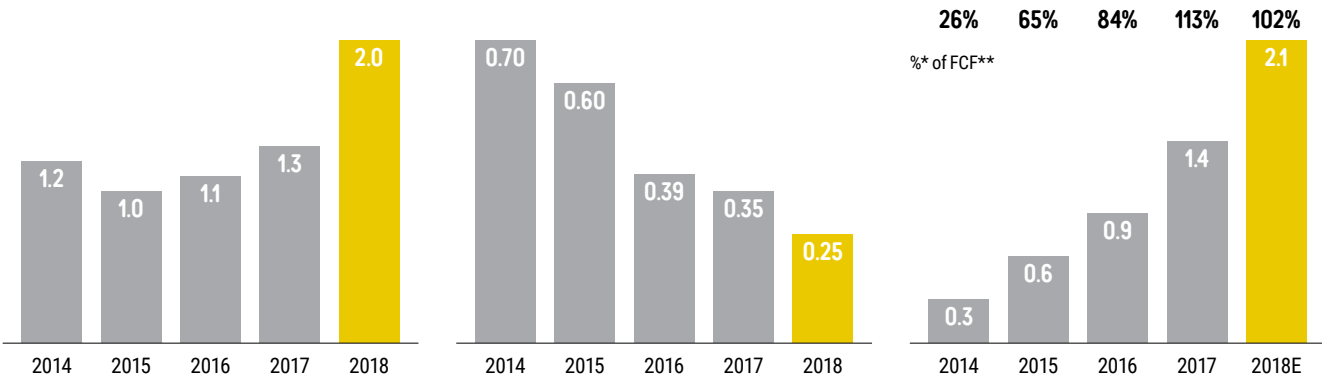
Net debt / EBITDA

Dividends

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

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

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



Target – positive cash flow – achieved

Debt leverage does not exceed target values

In line with NLMK's current dividend policy

Consistently high free cash flow is secured by EBITDA growth and lower cash outflow to finance working capital vs. 2017

Thanks to a substantial free cash flow, Net debt/EBITDA ratio is maintained below the target

Thanks to a stable financial position and the growth of free cash flow, dividend payments increased by ~ 45% to \$2.1 billion

* Share of the free cash flow (FCF).
** FCF - free cash flow

SUSTAINABILITY PERFORMANCE

| Labour productivity | LTIFR | Specific air emissions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--|--|------|------|------|-------|-----|-----|-----|-----|-----|---|------|------|------|------|------|------|-------|-----|------|------|------|------|--|------|------|------|------|------|------|-------|------|------|------|------|------|
| DESCRIPTION | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Crude steel production per one employee, tonne of steel/pers. | Lost time injury frequency rate across NLMK Group, including contractors | Air emissions (gases, dust, etc.) per tonne of crude steel | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table><tr><th>Year</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th></tr><tr><td>Value</td><td>268</td><td>283</td><td>308</td><td>321</td><td>328</td></tr></table> | Year | 2014 | 2015 | 2016 | 2017 | 2018 | Value | 268 | 283 | 308 | 321 | 328 | <table><tr><th>Year</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th></tr><tr><td>Value</td><td>1.6</td><td>1.15</td><td>0.85</td><td>1.12</td><td>0.77</td></tr></table> | Year | 2014 | 2015 | 2016 | 2017 | 2018 | Value | 1.6 | 1.15 | 0.85 | 1.12 | 0.77 | <table><tr><th>Year</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th></tr><tr><td>Value</td><td>20.1</td><td>20.1</td><td>20.0</td><td>19.5</td><td>18.9</td></tr></table> | Year | 2014 | 2015 | 2016 | 2017 | 2018 | Value | 20.1 | 20.1 | 20.0 | 19.5 | 18.9 |
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Value | 268 | 283 | 308 | 321 | 328 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Value | 1.6 | 1.15 | 0.85 | 1.12 | 0.77 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Value | 20.1 | 20.1 | 20.0 | 19.5 | 18.9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PERFORMANCE REPORT | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Labour productivity consistently increases | 2018 targets met | | Emissions consistently decrease | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018 COMMENTS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Growth in labour productivity in 2018 was driven by increased operational efficiency | Group LTIFR was reduced by 31% vs. 2017 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

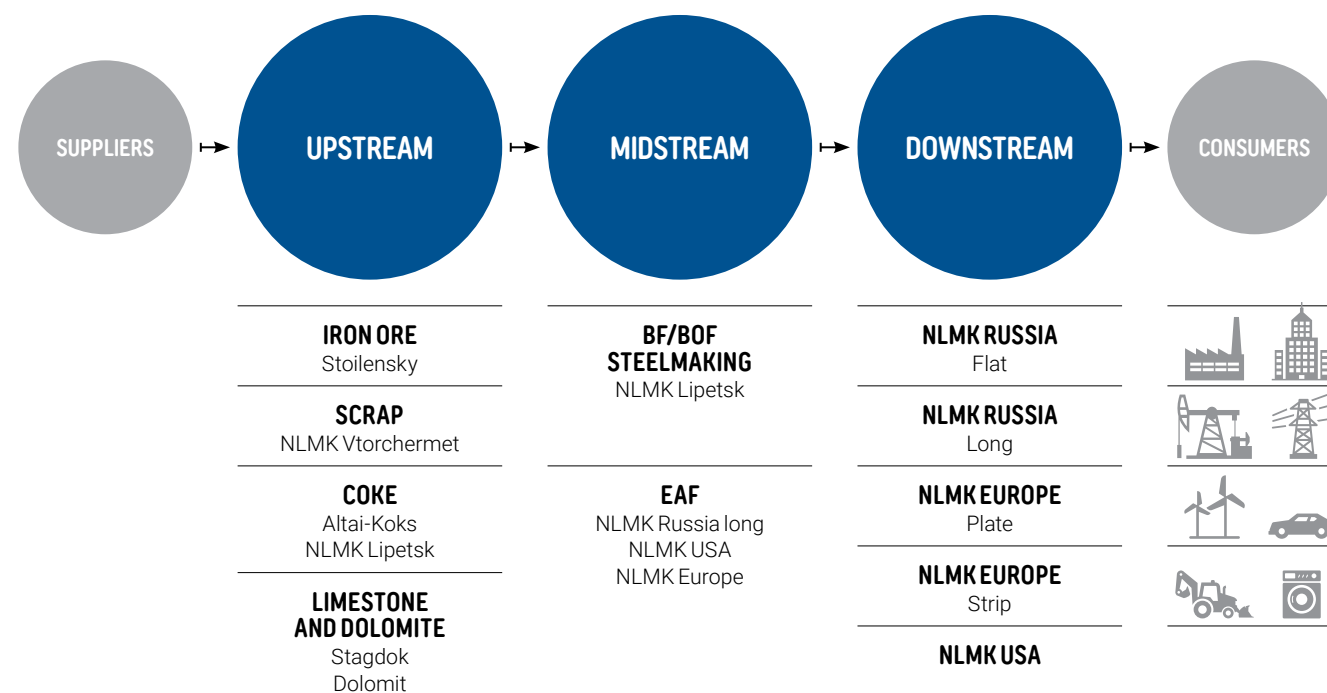
| Total energy consumption | Specific water consumption | Total waste production | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|------|-------|------|-------|------|-------|------|-------|------|-------|--|------|--|------|-----|------|-----|------|-----|------|-----|------|-----|--|------|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| Energy consumption, including electricity, heat and non-renewable fuels, PJ | Specific non-reused water consumption (the difference between the total water withdrawal and discharge), m³ / t of steel | Total waste production, NLMK Group, '000 t | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table><tr><th>Year</th><th>Total energy consumption (PJ)</th></tr><tr><td>2014</td><td>610.0</td></tr><tr><td>2015</td><td>603.5</td></tr><tr><td>2016</td><td>604.3</td></tr><tr><td>2017</td><td>602.7</td></tr><tr><td>2018</td><td>591.1</td></tr></table> | Year | Total energy consumption (PJ) | 2014 | 610.0 | 2015 | 603.5 | 2016 | 604.3 | 2017 | 602.7 | 2018 | 591.1 | <table><tr><th>Year</th><th>Specific water consumption (m³ / t of steel)</th></tr><tr><td>2014</td><td>6.1</td></tr><tr><td>2015</td><td>5.7</td></tr><tr><td>2016</td><td>5.5</td></tr><tr><td>2017</td><td>4.9</td></tr><tr><td>2018</td><td>4.6</td></tr></table> | Year | Specific water consumption (m³ / t of steel) | 2014 | 6.1 | 2015 | 5.7 | 2016 | 5.5 | 2017 | 4.9 | 2018 | 4.6 | <table><tr><th>Year</th><th>Total waste production ('000 t)</th></tr><tr><td>2014</td><td>63.2</td></tr><tr><td>2015</td><td>63.5</td></tr><tr><td>2016</td><td>60.0</td></tr><tr><td>2017</td><td>57.3</td></tr><tr><td>2018</td><td>49.4</td></tr></table> | Year | Total waste production ('000 t) | 2014 | 63.2 | 2015 | 63.5 | 2016 | 60.0 | 2017 | 57.3 | 2018 | 49.4 |
| Year | Total energy consumption (PJ) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014 | 610.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | 603.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | 604.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | 602.7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018 | 591.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | Specific water consumption (m³ / t of steel) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014 | 6.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | 5.7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | 5.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | 4.9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018 | 4.6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | Total waste production ('000 t) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014 | 63.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | 63.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | 60.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | 57.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018 | 49.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total energy consumption decreases | NLMK Group's specific water consumption consistently decreases | NLMK Group's total waste production consistently decreases | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reduction of energy consumption is associated with the implementation of energy saving initiatives in the reporting year | Specific consumptive water use decreased by 6% yoy due to a decrease in water intake as a result of equipment upgrades | Total waste generation decreased by 13% yoy driven by a decrease in mining waste generation at Stoilensky | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

NLMK Group's business model

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



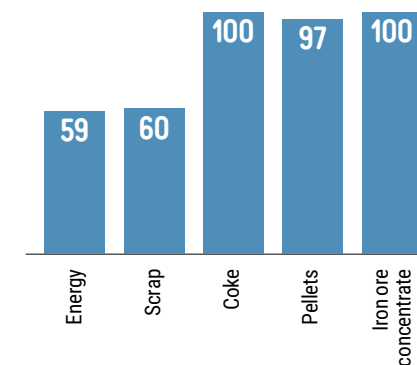
VALUE CHAIN



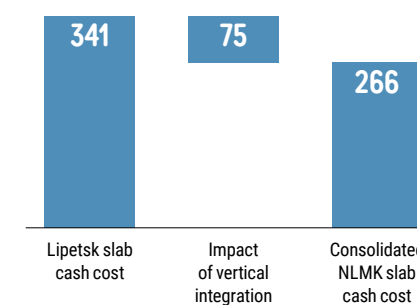
UPSTREAM

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

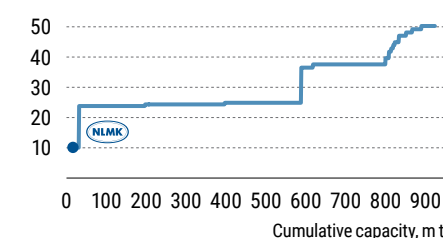
SELF-SUFFICIENCY IN RESOURCES
FOR STEEL PRODUCTION IN RUSSIA, %



IMPACT ON STEEL CASH COST REDUCTION
PER TONNE IN 2018, \$/T



GLOBAL IRON ORE CONCENTRATE
CASH COST CURVE IN 2018



Source: Bloomberg

NLMK advantages

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 close to \$12 per tonne.

NLMK's scrap collection and processing network

is the largest in Russia, securing stable delivery of scrap to NLMK Group's Russian steelmaking facilities.

Captive electric energy

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

Captive coke production

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

UP TO 100% OF RAW MATERIALS
PRODUCED ARE USED FURTHER
IN THE STEEL PRODUCTION PROCESS

2018 facts and figures:

- Iron ore production: **18.4 million tonnes** (+7% yoy), including: **6.7 million tonnes** of pellets (+0.7 m t yoy); **10.2 million tonnes** of commercial concentrate; **1.5 million tonnes** of sinter ore.
- The output of iron ore concentrate totalled **17.4 million tonnes**. Part of this volume is used for pellets production.
- Cash cost of iron ore concentrate: **\$12/t** (flat yoy)
- Total coke production: **6.4 million tonnes** (-0.5 m t yoy), covers more than **100%** of NLMK Lipetsk's needs.

Development in 2018:

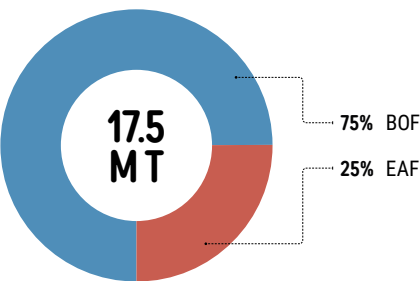
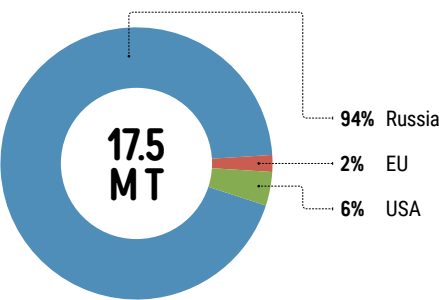
- Stoilensky gained additional +1.7 million tonnes of concentrate yoy from implementation of the high-pressure grinding technology (HPGRs). The construction of the additional beneficiation section started. Three new grinding lines will increase the volume of concentrate output to 20 million tonnes per year by 2020.

The Company has also embarked on its coal charge stamping project at Altai-Koks' operating battery No. 5. This will improve the quality of coke and reduce its cost, as well as boost environmental performance.

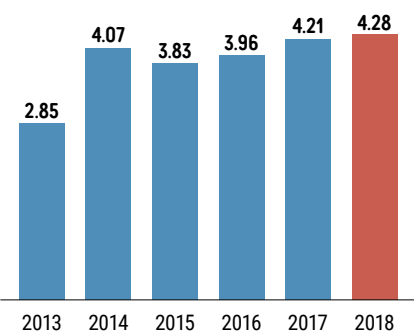
MIDSTREAM

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 17.5 million tonnes per year, 95% of which is made in Russia.

NLMK'S STEELMAKING CAPACITY



SLAB SUPPLIES TO SUBSIDIARIES AND JOINT VENTURES, M T



NLMK advantages

Cost leadership

NLMK is among the global leaders in cost. Over the past five years, the Company managed to consolidate its leadership: the gap between NLMK's steel cash cost and the industry average has increased from 25% to 32%. 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 the Lipetsk steel in 2018 was \$266 per tonne, compared to a world industry average of \$393 per tonne.

Optimal logistics

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

Sales vs. further processing

74% of NLMK steel is processed into finished products, while 26% 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 availability of the Company's rolling facilities in the regions of consumption, i.e. Russia, Europe and the United States, enable NLMK to maintain a high capacity utilization rate of 99% throughout the cycle.

2018 facts and figures:

- ▶ Steel output: **17.5 million tonnes** (with NBH)
- ▶ NLMK Group steelmaking capacity utilization rate: **99%**
- ▶ Slab cash cost of the Lipetsk site: **\$266/t**

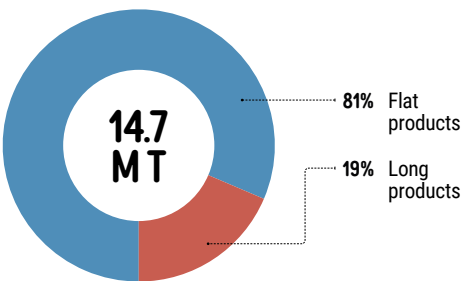
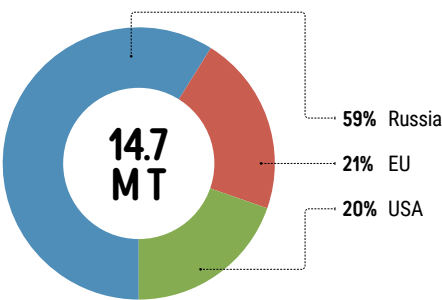
Development in 2018:

- ▶ In 2018, NLMK Group began the upgrade of a continuous casting machine at the Lipetsk site. This upgrade will enable a 80% increase in the unit's productivity (from 1.0 to 1.8 million tonnes per year) as well as the production of large-format slabs for plates, which are used in the production of large-diameter pipes, wind power equipment, ships and oil drilling rigs.

DOWNSTREAM

Finished products are made locally in 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 of 14.7 million tonnes, NLMK can process as much as 90% of captive crude steel at its own rolling facilities.

ROLLING CAPACITY BREAKDOWN



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 consistent high quality and short lead times. The Company's products are certified to international standards.

Optimal production footprint

Due to the location of NLMK Group's rolling operations in strategic markets, 61% 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.

Diversification of sales

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

Balanced product portfolio

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

2018 facts and figures:

- ▶ Finished steel output (with NBH): **13.1 million tonnes** (+0.35 million tonnes yoy).
- ▶ Growth in sales to home markets **+11%** vs. 2013.
- ▶ Sales to more than **70 countries around the world**.
- ▶ Flat steel accounts for **82%** of steel produced, while the remaining **18%** are attributed to long steel.

Development in 2018:

- ▶ In 2018, the output of finished steel increased by 3% yoy. The Group's international companies and the Long Products segment demonstrated an increase in finished steel output.

NLMK Production System

The Production System is one of the key tools used by the Company to achieve its strategic goals. Under Strategy 2017, operational efficiency gains brought the Group more than \$865 million per year in EBITDA growth, which accounted for about 64% of the Strategy’s total gains 2014-2018. Part of these gains were achieved through the roll out of NLMK Production System.

Our objective in NPS rollout is not only short-term results, but also making sure that these results are reproducible and sustainable in the future. This may be achieved by:

- Continuously searching for potential ways to improve all processes (from the supply of raw materials to the shipment of finished products)
- Focusing the efforts of employees on priority areas for improvement
- Creating an environment that allows employees to develop and involving them in the process of continuous improvement by striking an effective balance between the interests of employees and those of the Group.

NLMK Group began building its Production System in 2009. Since then, we have come a long way: we successfully formulated the principles of the Production System; defined the technical model, and the goal-setting system. Moreover, we created a performance management system at various levels; and a suite of effective tools to boost productivity on the basis of best practices used in leading companies worldwide.

Today, NLMK Production System covers all of the Group’s enterprises and operates across all production areas, providing real-time monitoring of over 1,000 technical and financial indicators. We have deployed 11 different tools to boost productivity, including: A3, mapping, control charts, equipment inspection checklists, standard operating procedures, initiatives, and downtime analysis using the 5 Whys approach, etc.

In 2016, a new stage in the development of NLMK Production System started, the goal of which was to involve staff at all levels in the optimization of production processes.

A distinctive element of this stage of NPS rollout are the so-called “waves”. So what is a “wave”? The project team

NLMK Production System (NPS)

is a business management approach based on optimization of business processes and systematic use of its tools, which increases production efficiency and engages staff in the continuous improvement process.

Second wave of NPS development completed

More than 1,700 initiatives were implemented with an economic impact of \$71 million.

Third wave of NPS roll-out was launched

A new stage of NPS development has begun at NLMK Lipetsk, Stoilensky, Altai-Koks, and NLMK Ural.

arrives at the selected site and works there for 9–10 months. During this time, the team trains the employees on site: they are taught to use NPS tools with confidence and to develop the skills and competencies they will need to work in new conditions. Most importantly, they foster a new ideology and production culture. Then, the team moves on to the next wave at a new site, and the project is ‘handed over to the production line’: in other words, it is further developed by the staff who were trained on site.



First wave: 2016-2017

The first wave was rolled out at NLMK Kaluga in 2016-2017. In 2017 the number of initiatives implemented at NLMK Kaluga exceeded 1,350 with total gain of close to \$7.9 million.

Second wave: 2017-2018

The second wave of NPS roll out covered NLMK Lipetsk (the sinter plant) and Stoilensky (the beneficiation and pelletizing plants). This stage was completed in 2018. During this wave, more than 1,700 initiatives were implemented, with a total economic impact of about \$71 million.

Third wave: launched in 2018

The third wave of NPS rollout was also launched in the middle of the reporting period. This wave concerns four companies: NLMK Lipetsk (steel making), Stoilensky (open-pit mining), Altai-Koks (production of coke and chemical products), and NLMK Ural (production of rebar, angles, and steel billets). All four companies have already developed their initiatives, which are expected to bring more than \$34 million. This wave is expected to end in 2019.

Looking forward

In the Strategy 2022 cycle, the Group will begin a gradual transition from managing operational improvement programmes to a continuous improvement management system, which will allow staff to be even more involved in these processes.

NPS TOOLS

Checklist

A list of actions that must be performed one after another in order to accomplish the task. In order to make the checklist as clear as possible, items may be illustrated using photographs, drawings, or diagrams.

Why: this is one of the best ways to protect against human error resulting from forgetfulness, inattention, information overload, or lack of communication

6S

Workplace organization system based on six principles: Sort, Set in Order, Shine, Safety, Standardize, and Sustain

Why: To make working processes as clear and effective as possible, to save time and reduce other losses, to increase safety, and to improve the overall production culture

A3

A structured approach to solving problems without an obvious answer. In order to find the answer, you need to assemble a team, set a goal, develop a schedule for working group meetings, traverse the entire path for a certain system, and obtain a result: an action plan written out on an A3 sheet of paper.

Why: the problem and its solution are described together in a comprehensive yet concise way.

SOP/PRM

Instructions, containing details about who should carry out the prescribed actions and where, when, and how they should be performed. Standard operating procedures (SOPs) are used by repair staff, and process road maps (PRMs) are used by technicians.

Why: They help us to embed good working practices. These are described in an intelligible form and can be studied by all interested parties, from new employees who are just starting on the job to senior managers who want to extent their professional knowledge.

TATYANA AVERCHENKOVA, VICE PRESIDENT, OPERATIONAL EFFICIENCY:



“The results of Strategy 2017 suggest that the annual impact of operational efficiency programmes on the Company’s financial performance amounts to additional \$865 million EBITDA gains. The potential for further improving the Group’s operating efficiency over the next five years is \$500 million. Not only because the Group has considerable untapped potential for efficiency improvements, but also because this potential is never-ending: the Company is growing, and new opportunities are emerging. NLMK Production System is systematically changing the Company’s processes and culture.

“It now covers all major Russian production sites, extending beyond the scope of production to take in occupational safety, repairs, energy, and logistics. It will soon be extended to cover other primary and supporting business processes.”

Innovations

The Company engages in research and innovation based on customer needs and an analysis of promising metallurgical technologies. NLMK Group focuses on computational modelling and developing laboratory samples rather than conducting full-scale experiments on industrial equipment.

For this purpose, a separate corporate research centre has been established which manages projects aimed at devising new products. The centre has been allocated the necessary resources to create digital and physical prototypes of steel products and carry out advanced metallurgical research. The main laboratory complex is located at the Lipetsk production site, while the centre of competence charged with the development of computational modelling and the creation of digital prototypes is located in Belgium.

In addition to the corporate research centre, the Company has an Innovation Projects Committee established in 2018 under the leadership of NLMK's President (Chairman of the Management Board). The Committee is a key governing body for innovation. Its main tasks include optimization of internal processes enabling search and quick adaptation of innovative business solutions, as well as allocation of necessary resources for implementation of innovative projects.

NLMK actively interacts with the innovation ecosystem and establishes mechanisms for systematic work with venture funds, development institutions and technology parks both in Russia and abroad. The goal of this work is to create a constant flow of projects and subsequent introduction of those innovations that economically and strategically fit the Group sites.

Research & Development

The roadmap for the Company's research and development activities is the R&D functional area development concept for the next three years, which was approved by the Group's Board of Directors in 2018. The Company is currently putting in place a process base to regulate the project management approaches that are used to implement research and innovation projects.

As at the end of 2018, the Company has identified two priority areas for research and development: high-tech zinc-aluminium-magnesium (ZAM) coatings and development of new grades of high-strength steel for automotive industry.

Big data and mathematical modelling

The Data Analysis and Modelling Department, established last year, has hit the ground running.

In 2018 we continued to develop the Systems, Data Analysis, and Modelling (SADIM) platform, which addresses both data accessibility and data quality (data lakes). It also provides tools for computing and analysis. These efforts will form the basis for a new digital platform, the architecture of which is currently being developed in the Digitalization functional area. SADIM is already enabling the Group to develop models and digital services. In 2018, the Group succeeded in developing its key components and establishing connections between data sources that are important to the Company's work.

The creation of the Data Analysis and Modelling Department team, which employs data science specialists, data engineers, analysts, and digital project managers, was a significant achievement of 2018.

Innovations Laboratory

In 2017, NLMK Group and SAP established the Co-Innovation Lab, the first project of its kind in the Russian steel industry, building on the partnership between the two companies. The main job of the laboratory is to prototype innovative ideas in order to test existing digital technologies on the market and their applicability to NLMK. Prototyping allows the Company to test the performance of a specific technology, as well as assess the benefits that the use of technology can bring to the Group companies, including in occupational health and safety, finance, procurement and logistics processes.

One of the brightest and most innovative projects in 2018 was a positioning system for shop-floor employees of one of production lines.

Safety of employees was a priority for the Company when developing this prototype. The system enables real-time tracking of employee positioning and in case of an emergency, activates an alarm to notify the foreman or other employees nearby.

ANDZHEY ARSHAVSKIY, DIRECTOR FOR DATA ANALYSIS AND MODELLING:



► “The speed of digital transformation is now so fast it almost beggars belief. A year ago, for instance, a steelworker would decide how much ferroalloys to load in the furnace based on operating instructions and their personal experience. Today artificial intelligence, trained in machine learning, helps to use expensive material at various stages of melting more accurately.

“Today Bid Data and mathematical modelling are fairly new for the industrial sector, but we are actively developing these. We have hundreds of production lines and 20 large sites in seven countries around the world. We collect terabytes of data about production process parameters. If this data became available for analysis, it would allow us to make decisions about how to manage these processes better.”



Plans for 2019 and midterm

Within the framework of the approved medium-term research and development strategy, the Company in the next 3-4 years plans to implement a number of projects, including:

- Production of steel for hot stamping, as well as coatings for this type of steel for the production of power parts of the car body
- Production of advanced high-strength plates for the needs of engineering, construction of offshore structures
- Improvement of the production technology of high-permeable grain-oriented and non-grain oriented steels with low energy losses, including for the production of electric vehicle engines
- Development of products with the replacement of expensive alloying elements with cheaper ones while preserving product properties.

TOP PRIORITIES FOR RESEARCH & DEVELOPMENT IN 2019-2022

- 1 Introduce product innovations aimed at helping the Group catch up with foreign competitors
- 2 Establish a diversified product portfolio for the automotive, heavy engineering, industrial and civil construction, and energy industries

Market review

Global steel output grew by 5% yoy in 2018 to 1.81 billion tonnes according to Worldsteel Association. Average global capacity utilization was 77.8%

Global steel market was on the rise in 2018 after a recovery in consumption in 2017

Steel production in China (50% of global steel output) increased by 7% yoy up to 927 million tonnes. Global apparent steel consumption grew by 4% yoy to 1.66 billion tonnes and by 8% yoy to 781 million tonnes in China.

At the same time, export from China reduced by 8% yoy to 70 million tonnes, driven by the recovery of domestic demand for steel in China and the plan to improve environmental situation during the winter period.



US market

Steel production in the US increased by 4% yoy to 87 million tonnes in 2018, capacity utilization was 78%.

- Steel consumption increased by 3% yoy in 2018 to 101 million tonnes, driven by growing demand from the construction and automotive sectors. Import of steel products reduced by 10% yoy to 31 million tonnes amid Section 232 restrictions, while exports decreased by 15% yoy to 8 million tonnes.

EU market

Steel production remained flat at 168 million tonnes.

- Apparent consumption of steel in the EU in 2018 grew by 3% yoy to 163 million tonnes, driven by stronger demand from the construction and transport sectors as well as machine building.
- Import of flat and long steel grew by 12% yoy to 29 million tonnes; export reduced by 10% yoy to 21 million tonnes.

Russian market

Driven by economic recovery, apparent consumption of finished steel grew by 1% yoy in 2018.

- Steel output in Russia in 2018 increased by 1% yoy to 72 million tonnes, while imports of rolled steel reduced by 7% yoy to 6 million tonnes and exports by 2% to 14 million tonnes.

Source: Bloomberg, Worldsteel, Eurofer, Metal Expert. Data are preliminary.

Global steel production

- Production increased by 5% yoy to 1.81 billion tonnes, hitting an all-time high.
- Global steelmaking capacity utilization increased to 77.8%. Protectionism continued to grow.

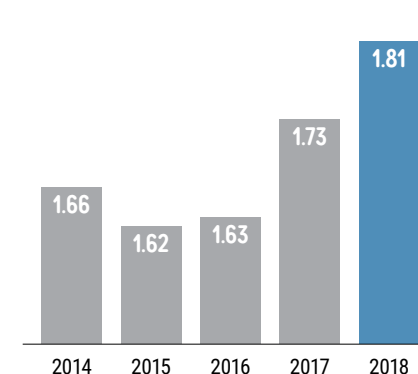
Regional trends

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

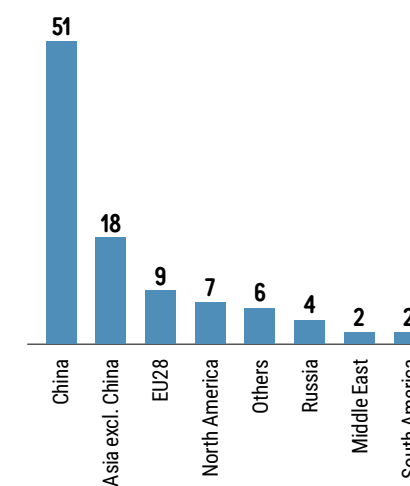
Slowdown of exports from China and price trends

- 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 2018.

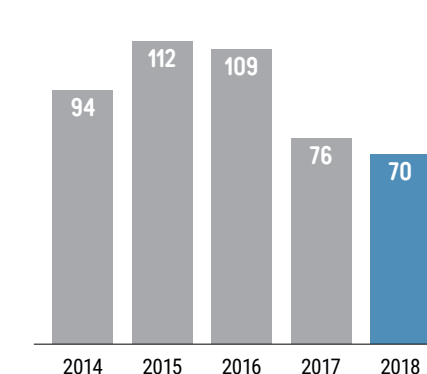
GLOBAL STEEL PRODUCTION, BN T



STEEL PRODUCTION BY REGION, %



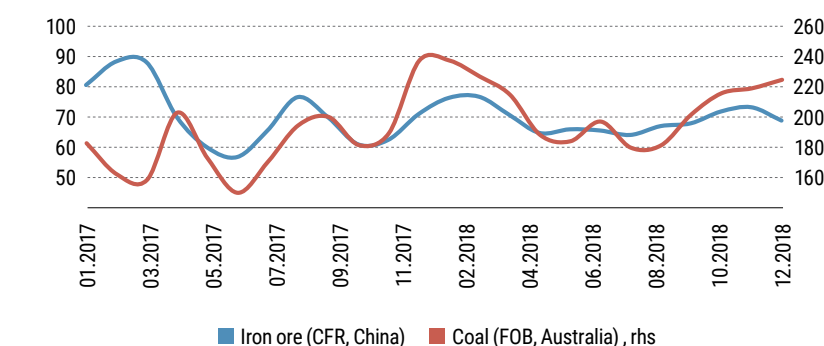
CHINESE EXPORTS, M T



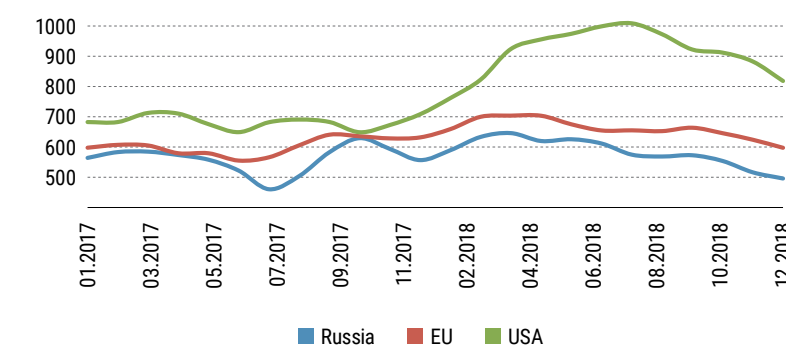
Price trends

Global average prices for coal grew by 12% yoy, impacted by weather and infrastructure constraints in Australia and the US throughout the year. Ore prices dropped by 2% yoy. Average steel product prices grew year-on-year: in the US by 17-33%, in Russia by 4-13%, and in the EU by 6-11%.

GLOBAL RAW MATERIALS PRICES, \$/T



HOT-ROLLED STEEL PRICES, EXW, \$/T



Source: Bloomberg, SBB



Sustainability management

Our approach to sustainability management

As one of the largest international producers of steel and steel products, NLMK Group is aware of its responsibility towards society, nature, and future generations. Our team is united by corporate values that shape NLMK’s approach to responsible leadership.

NLMK Group’s activities are based on a commitment to such key sustainability values as the promotion of employee health and wellbeing, respect for local communities, environmental protection, and conducting business in accordance with high ethical standards, constructive and mutually beneficial collaboration with stakeholders, and information transparency.

NLMK Group’s approach to managing the economic, environmental, and social aspects of its operations is based on global best sustainability practices. At all stages of its operations, the Group strives to take into account the needs and expectations of stakeholders while treating local communities, employees, and the environment with respect.

NLMK Group is committed to continuously improving its sustainability performance and integrating responsible business principles into its day-to-day operations. In managing sustainability aspects, NLMK Group is guided by the principles of the UN Global Compact.

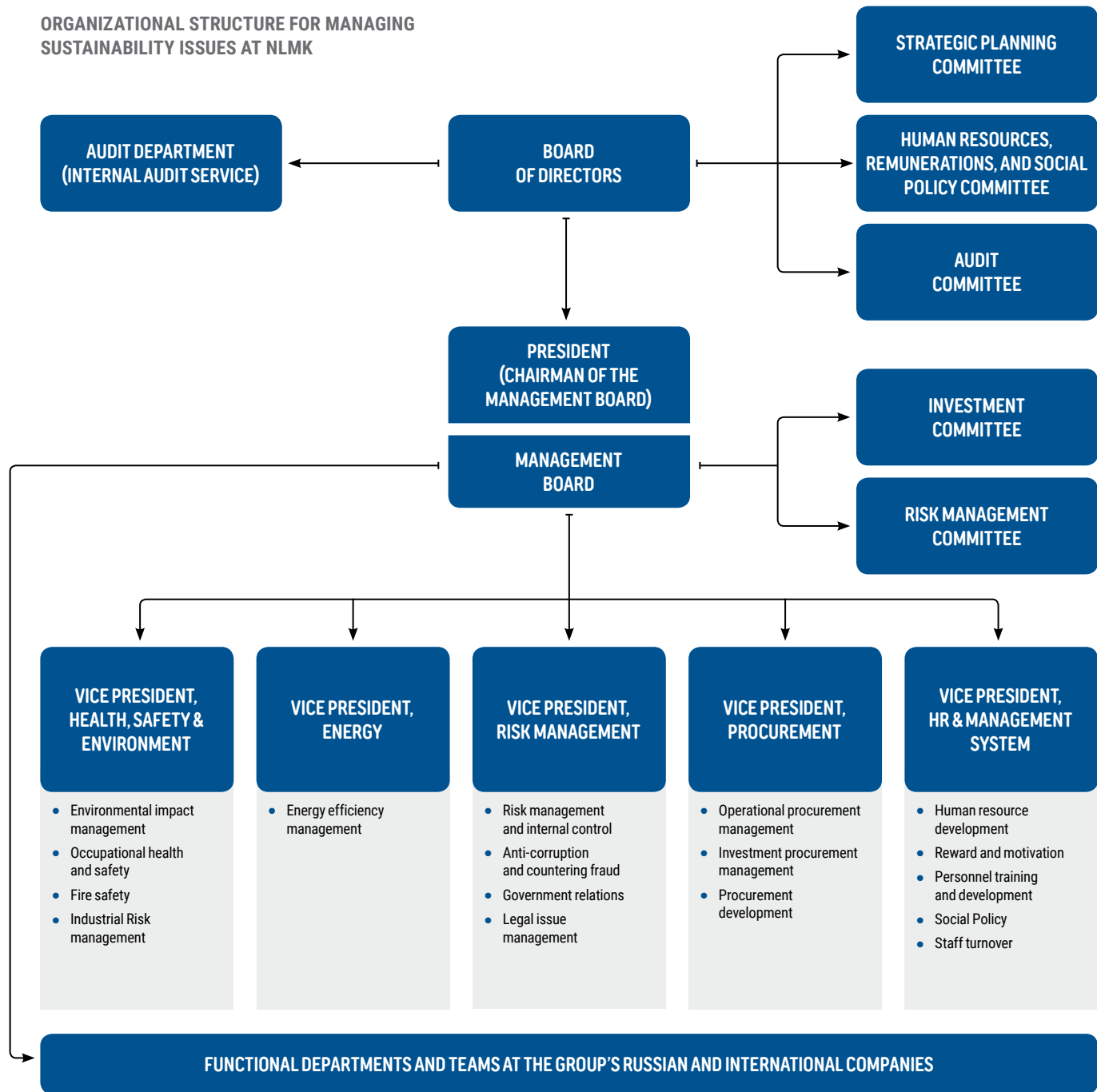
NLMK GROUP VALUES GRI 102-16

| Value | Description |
|---|---|
| Continuous improvement of processes | Continuous improvement of processes and technologies to ensure efficient production of steel products that help improve the quality of life |
| Client oriented approach | Production of unique premium quality steel products and development of engineering solutions that help our customers to be on the cutting edge of innovation and to lead in their markets |
| Absolute priority of 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 |
| Ensuring equal opportunities for employee development | Ensuring equal opportunities for professional and personal growth of our employees, motivating our employees to be proactive and innovation-driven |
| Sustainable use of resources | Sustainable use of resources and pursuit of the best available environmental and energy efficiency standards, which we also expect our partners to comply with |
| Active approach to social responsibility | Active approach to social responsibility and care for cultural legacy in the regions where we operate |

NLMK GROUP SUSTAINABLE DEVELOPMENT PRIORITIES

| Priority | Areas of Activity |
|------------------------------------|--|
| Operational efficiency improvement | <ul style="list-style-type: none">▶ Reducing the consumption of certain types of resources through the introduction of cutting-edge technologies and advanced waste processing methods |
| Energy efficiency | <ul style="list-style-type: none">▶ Increasing production of the Group’s captive power generation by utilizing by-product fuel gases▶ Upgrading equipment▶ Generating energy from secondary resources▶ Implementing energy-saving initiatives |
| Developing local communities | <ul style="list-style-type: none">▶ Helping to solve the most acute social problems faced by the regions where we operate, in partnership with government bodies and the public▶ Charitable initiatives and programmes▶ Developing culture, science, education, and sport▶ Work with children and young people |
| Personnel development | <ul style="list-style-type: none">▶ Hiring and retention of qualified staff, development of a motivation and remuneration system▶ Organizing vocational training▶ Developing the Group’s corporate culture▶ Engaging employees in the process of continuous improvement▶ Introducing digitalization and implementing best HR practices |
| Occupational health and safety | <ul style="list-style-type: none">▶ Applying best practices in occupational health and safety management▶ Managing occupational safety risks▶ Maintaining and developing a safety culture among NLMK Group employees and contractors |
| Minimizing environmental footprint | <ul style="list-style-type: none">▶ Carrying out planned environmental and technological initiatives▶ Implementing projects from NLMK Group’s investment programme▶ Making efficient use of natural resources▶ Implementing projects to reduce emissions and discharge of pollutants▶ Restoring contaminated land and conducting rehabilitation work |

ORGANIZATIONAL STRUCTURE FOR MANAGING SUSTAINABILITY ISSUES AT NLMK



Sustainability measures are regulated by a number of NLMK Group’s internal documents. A more detailed list of these documents can be found further in the text of this Report.

Sustainability management is integrated into the NLMK Group corporate governance system and is carried out at all Group companies, including international. Sustainability issues consistently feature on the agenda of NLMK Group’s leadership. The Board of Directors, committees of the Board of Directors, President

(Chairman of the Management Board) and the Management Board determine the strategic directions for development and ensure overall sustainability management.

Vice Presidents of functional areas are responsible for identifying specific tasks and initiatives to manage the social, economic, and environmental aspects of the Group’s activities and monitor their implementation. Departments responsible for developing approaches and implementing measures in the

field of sustainability report to these Vice Presidents.

The Group’s functional departments and teams are directly responsible for executing the assigned tasks and for local management of sustainability issues at the Group’s companies.



Contribution to the achievement of the Sustainable Development Goals adopted by the UN General Assembly

NLMK Group supports the Sustainable Development Goals adopted by the UN General Assembly in 2015 to address the significant economic, social, and environmental issues the global community faces.

We believe that the Group makes a valuable contribution to the achievement of global sustainability goals through its responsible business conduct and targeted activities aimed at reducing its environmental footprint, supporting local communities, and ensuring safe and decent working conditions.

UN Goal

NLMK Group Contribution

| | |
|---|--|
|  | Ensure healthy lives and promote wellbeing for all at all ages <ul style="list-style-type: none">▶ Implementing programmes aimed at helping employees stay healthy and increasing the availability and quality of medical services for employees▶ Informing Group employees and contractors about occupational safety rules <i>See the following chapters of the Report: Occupational health and safety, Environmental protection, Supply chain management</i> |
|  | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all <ul style="list-style-type: none">▶ Implementing training and development programmes to enhance employees' professional skills▶ Implementing external social programmes aimed at supporting education in the regions where we operate <i>See the following chapters of the Report: Our team, Community development</i> |
|  | Ensure availability and sustainable management of water and sanitation for all <i>See the following chapters of the Report: Environmental protection</i> <ul style="list-style-type: none">▶ Introducing water recycling systems▶ Implementing water treatment technologies▶ Reducing water intake through equipment upgrades▶ Monitoring and disclosing information on the use of water resources |
|  | Ensure access to affordable, reliable, sustainable, and modern energy for all <i>See the following chapters of the Report: Energy efficiency</i> <ul style="list-style-type: none">▶ Improving energy efficiency▶ Transitioning to captive energy generation▶ Consuming energy from secondary resources▶ Monitoring and disclosing information on the volume of consumed energy |

UN Goal

NLMK Group Contribution

| | |
|---|---|
|  | Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all <ul style="list-style-type: none">▶ Fulfilling tax obligations▶ Ensuring equal access for all Group employees to social benefits and creating equal opportunities for high performance, professional growth, and the development of creative potential▶ Creating jobs in the regions where we operate▶ Implementing training and development programmes to enhance employees' professional skills▶ Ensuring decent and safe working conditions▶ Developing NLMK Group's Human rights policy prohibiting forced and child labour, recognizing the right to a minimum wage, outlawing discrimination, and guaranteeing safe working conditions▶ Ensuring transparency of procurement procedures <i>See the following chapters of the Report: Our team, Community development, Operational health and safety, Human rights protection, Supply chain management, Environmental protection</i> |
|  | Ensure sustainable consumption and production patterns <ul style="list-style-type: none">▶ Increasing the efficiency of natural resource usage▶ Recycling ferrous scrap▶ Implementing a series of measures aimed at improving energy efficiency, the efficiency of resource use and reducing the negative impact of production activities on the environment <i>See the following chapters of the Report: Environmental protection</i> |
|  | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels <ul style="list-style-type: none">▶ Countering corruption and fraud and preventing conflicts of interest▶ Introducing NLMK employees to the Code of Corporate Ethics and Anti-Corruption Policy▶ Introducing Counterparties to the Supplier's Code of Business Conduct▶ Creating and continuously improving efficient corporate governance practices▶ Creating and developing a system of government relations▶ Ensuring human rights protection▶ Complying with applicable laws, including occupational practices <i>See the following chapters of the Report: Corporate governance system, Operational control and risk management, Dialogue with stakeholders, Environmental protection</i> |
|  | Strengthen the means of implementation and revitalize the global partnership for sustainable development <ul style="list-style-type: none">▶ Publishing non-financial reporting in accordance with the GRI standards▶ Developing practices of non-financial information collection throughout the Group <i>See the following chapters of the Report: Dialogue with stakeholders, Development of local communities, Environmental protection, Supply chain management, About the Report</i> |

Generating economic value

By implementing its activities in various areas of sustainable development, NLMK Group generated additional value for its stakeholders. In 2018, the volume of distributed economic value amounted to \$11,565 million*, which is 18.3% higher than in 2017.



ECONOMIC VALUE GENERATED AND DISTRIBUTED, \$ M GRI 201-1

| Indicator | Stakeholder group | 2016 | 2017 | 2018 |
|--|----------------------------|---------|---------|----------|
| Generated direct economic value | | 7,684 | 10,104 | 12,069 |
| Revenue | Wide range of stakeholders | 7,636 | 10,065 | 12,046 |
| Revenues from financial investments | | 39 | 29 | 21 |
| Revenues from sale of assets | | 9 | 10 | 2 |
| Distributed economic value | | (7,065) | (9,773) | (11,565) |
| Operating expenses | Wide range of stakeholders | (5,255) | (6,994) | (7,967) |
| Employee wages and other payments and benefits paid to employees | Employees | (824) | (960) | (979) |
| Payments to providers of capital | Shareholders and Investors | (667) | (1,354) | (1,946) |
| incl. dividends paid | | (583) | (1,285) | (1,890) |
| incl. interests paid to creditors | | (84) | (69) | (56) |
| Payments to government | Government authorities | (307) | (454) | (662) |
| Community investments | Local communities | (12) | (11) | (11) |
| Non-distributed economic value | | 619 | 331 | 504 |

* Calculated as required by GRI Standard 201.

Participation in industry associations and external initiatives

NLMK Group plays an active part in the life of the professional community, helping to address topical issues in the industry, including sustainability matters. Participation in external initiatives is a priority for NLMK Group.

Representatives of the Group are not only active in the workplace; they also head a number of industry associations and relevant commissions and committees, which allows the Group to play an active role in shaping the views and values of the business community. For instance, Vladimir Lisin,

NLMK Group's Chairman of the Board of Directors, is also Chairman of the Commission on Metals and the Committee on Taxation Policy, as well as a member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP).

NLMK GROUP PARTICIPATION IN INDUSTRY ASSOCIATIONS AND EXTERNAL INITIATIVES GRI 102-12, 102-13

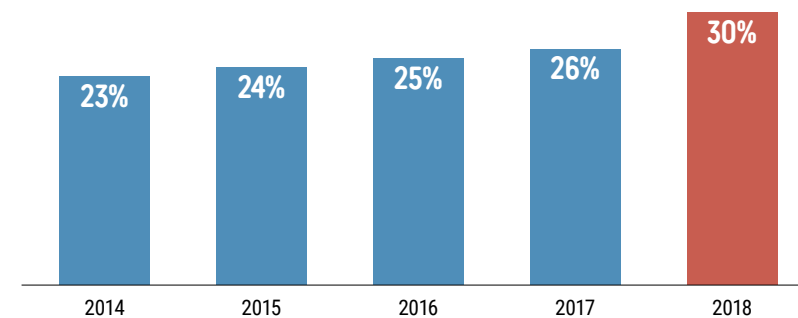
| Association/Initiative | Description |
|--|---|
| World Steel Association, an international association of iron and steel product manufacturers | <ul style="list-style-type: none">▶ Membership of various committees of the Association▶ 2018 signatory to the Sustainable Development Charter of the World Steel Association▶ Participation in conferences and seminars enabling the sharing of best practices in occupational health and safety▶ Provision of information on sustainability indicators |
| Russian Union of Industrialists and Entrepreneurs | <ul style="list-style-type: none">▶ Membership of the Management Bureau and Board▶ Chairmanship of the Commission on Metals▶ Participation in other commissions and committees, including: Commission on Mining, Committee on Corporate Social Responsibility and Demographic Policies, Committee on Vocational Training and Qualifications, and Committee on Competition Development |
| Russian Steel | <ul style="list-style-type: none">▶ President and Vice President of the association▶ Membership in all commissions of the association, including the Commission for the Protection of Labour, Industrial, and Environmental Safety |
| Consumer Council on the Operations of Russian Railways and its Subsidiaries and Affiliates | <ul style="list-style-type: none">▶ Membership in the Council |
| Council of Electricity Consumers of the Russian Federation | <ul style="list-style-type: none">▶ Membership in the Council |
| Expert Council of the Committee on Transport and Construction of the State Duma of the Russian Federation | <ul style="list-style-type: none">▶ Participation in the Council as an expert |
| RUSLOM.COM (Non-Profit Partnership National Self-Regulatory Organization for the Recycling of Ferrous and Non-Ferrous Metal Scrap and Waste and Recycling of Vehicles) | <ul style="list-style-type: none">▶ Participation in the Partnership |
| Anti-Corruption Charter of Russian Business | <ul style="list-style-type: none">▶ Participation in the Charter |

2018 performance review

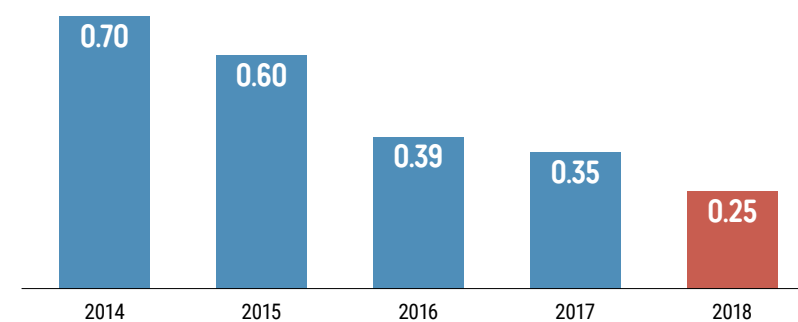
Operating performance

- Steel sales grew to an all-time high of 17.6* million tonnes.
- 12M 2018 Group revenue totalled \$12.0 billion (+20% yoy) driven by booming average selling prices and higher sales.
- EBITDA increased to \$3.6 billion (+35% yoy) driven by growing revenue and gains from operational efficiency programmes in 2018.
- Free cash flow increased by 60% yoy to \$2.0 billion thanks to higher margins and positive working capital behaviour as compared to 2017.
- Net profit increased by 54% yoy to \$2.2 billion.
- Net Debt/ EBITDA declined to 0.25x (0.35x as at the end of 2017) driven by higher margins and net debt reduction by 3% yoy.

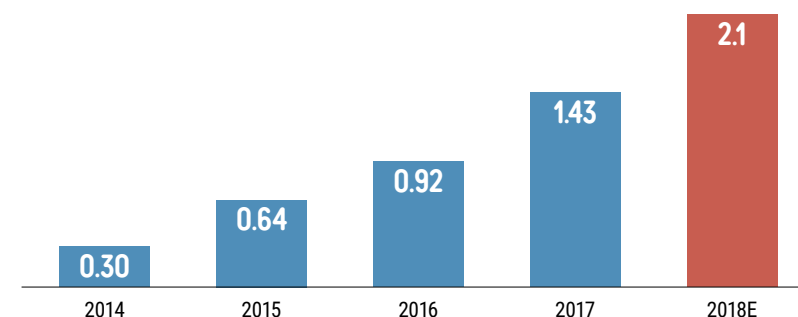
EBITDA MARGIN GROWTH



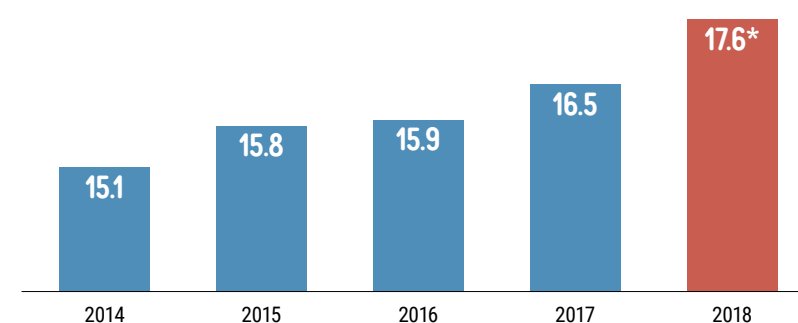
DEBT REDUCTION (NET DEBT/EBITDA)



HIGHER DIVIDEND PAYMENT, \$ BN



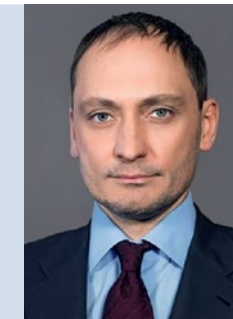
CONTINUOUS SALES* GROWTH, M T



* without NBH



SHAMIL
KURMASHOV,
NLMK GROUP CFO:



► "In 2018, demand for steel continued to recover, coupled with a rise in protectionism in key markets.

"In this context, NLMK Group's flexible business model that helped it secure its presence in key sales markets, enabled the Company to grow its sales by 7% yoy (by 1.1 million tonnes) to 17.6 million tonnes¹, hitting an all-time high for the Company. NLMK Group retained its leadership on the Russian market in terms of steel output, and consolidated its positions on global markets. Revenue grew by 20% yoy to \$12.0 billion; NLMK's EBITDA increased by 35% to \$3.6 billion, while its EBITDA margin grew to 30% (+4 p.p. yoy).

"In 2018, NLMK Group continued its consistent operational efficiency efforts. EBITDA gains from the operational efficiency programme totalled \$189 million tonnes to the 2017 cost base. The impact of capex projects executed as part of Strategy 2017 totalled an additional \$121 m. Total gains from Strategy 2017 in 2014-2018 were \$1,348 m, which is significantly in excess of the \$1 billion target².

"EBITDA growth and the decrease in cash outflow to finance working capital supported a 60% increase in the Group's free cash flow yoy to \$2.0 billion. Total debt decreased by 9% yoy, while the cost of financing reduced from 3.8% to 3.4%. The Company's debt is at an all-time low: Net debt/EBITDA decreased to 0.25x by the end of 2018. Growth of free cash flow and low debt enabled the Company to keep dividends high despite the growth in capex."

For additional information, please see press release on 2018FY and NLMK Group's five-year highlights on the web-site.

Operating performance

- Steel output³** increased by 2% yoy to 17.5 million tonnes, mainly due to outstripping output growth at NLMK Russia Long (+9% yoy). Steel output at NLMK Russia Flat increased by 1% yoy to 13.3 million tonnes. The Group's steelmaking capacity utilization rate increased by 1 p.p. to 99%⁴.
- Sales¹** grew by 7% yoy to 17.6 million tonnes, driven by increased demand for semi-finished products, and higher long product sales in Russia.
- Sales breakdown:** finished product sales were flat yoy at 10.8 million tonnes. HVA sales grew by 3% yoy to 5 million tonnes. The share of HVA in total sales dropped by 1 p.p. to 29%, due to the outstripping growth of semi-finished product sales amid intensified demand for slabs and pig iron, and planned equipment upgrades at the NLMK Lipetsk hot-rolling operations.
- Sales by region:** Sales in Russia declined by 4% yoy (to 5.8 million tonnes) due to sales being redirected to export markets. Sales in Europe and the US grew by 16% and 10%, respectively. Sales to the Middle East (including Turkey) increased by 7% yoy. The highest growth rates were achieved in the Asian and Oceanian markets (+89% yoy) due to an increase in slab sales to Taiwan and Indonesia.

Sales to home markets decreased to 10.56 million tonnes (-1% yoy) due to sales being redirected to semi-finished product exports driven by intensified demand in Q4 2018. The Group's share of sales on its home markets totalled 61% (-4 p.p. yoy).

Sales to external markets were up 17% yoy to 6.86 million tonnes, driven by higher slab and pig iron sales.

¹ Consolidated sales are given without NBH

² Strategy gains are presented with NBH

³ Without production capacities that are undergoing planned maintenance

⁴ Steel output with NBH

Financial performance

Revenue

Revenue increased to \$12 billion (+20% yoy) due to higher average sales prices.

Revenue share from sales of finished steel declined yoy to 65% (-2 p.p. yoy).

Revenue share (including NBH) from sales in home markets decreased by 3 p.p. yoy to 66%, against the backdrop of growing exports of semi-finished products.

Operating profit

Operating profit increased by 48% yoy to \$3 billion, due to the growth in sales volumes, the expansion of price spreads, and operational efficiency programme gains.

Net profit

Growth of net profit by 54% yoy in 12M 2018 was due to the growth of operating profit and a decrease in the effective income tax rate due to the recognition in Q4 2018 of tax losses incurred earlier by NLMK USA.

Free cash flow

Free cash flow increased by 60% yoy to \$2 billion, supported by growing EBITDA and decreasing cash outflow to finance working capital as compared to 2017.

The 44% yoy increase in operating cash flow to \$2.7 billion was driven by increased sales profitability.

Cash outflow to finance working capital was \$261 million (vs. \$380 million a year earlier):

- **-\$258 m:** increase in receivables due to an increase in export sales and an increase in average sales prices
- **-\$187 m:** increase in stocks due to the increase in raw material and semi-finished product prices, including the rising cost of slabs in NLMK USA warehouses following

the introduction of import duties on steel

- **+\$177 m:** increase in payables as a result of rising prices for raw materials and the growth of externally sourced slab purchases by NLMK USA.

Investment

The Group's investments climbed by 15% to \$680 million in 2018, with the launch of projects as part of the new strategic cycle, and the start of BF-6 upgrades and major repairs of steelmaking equipment at NLMK Lipetsk.

Dividends

During 2018, the amount of dividend payments amounted to \$1,888 million.

The Board of Directors recommended the shareholders to approve the Q4 2018 dividends of RUB 5.80 per share. Taking into account declared dividends for Q1-Q3, 12M 2018 accrued dividends could total RUB 22.81 per share, which is equivalent to 102% of NLMK Group's 2018 free cash flow.

Debt leverage

Total debt decreased by 9% yoy to \$2.1 billion, due to the closing of a credit line for working capital financing in Q2 2018.

Net debt decreased by 3% yoy to \$891 million due to reduced total debt. Net debt/EBITDA improved to 0.25x (vs. 0.35x last year), driven by increased profit from core activities.

Financial guarantees for NBH liabilities totalled \$309 million (\$304 million at 2017 year-end).

Decrease in financial expenses by 20% yoy to \$70 million was associated with the reduction in the average interest rate (from 3.8% in 2017 to 3.4% in 2018), and an overall reduction in debt.

Segmental performance

NLMK Russia Flat

EBITDA increased by 36% yoy to \$2.3 billion, due to the expansion of price spreads between steel and primary raw materials, as well as operational efficiency programme gains. The decrease in the ruble FX rate also supported the Segment's profitability amid growing export sales. These factors supported an EBITDA margin increase by 5 p.p. yoy to 27%.

NLMK Russia Long

EBITDA increased by 45% yoy to \$221 million. EBITDA margin climbed by 2 p.p. to 10%. EBITDA grew at a higher rate than the revenue due to operational efficiency gains, expansion of the price spreads and the change in exchange rates against the backdrop of increased exports.

Mining and Processing of Raw Materials

EBITDA increased by 38% yoy to \$0.89 billion, with the completion of a number of capex projects, as well as due to the increase in productivity.

NLMK USA

EBITDA grew by 28% yoy to \$0.25 billion, mainly due to the growth in revenue. EBITDA margin remained flat yoy at 12%: revenue growth was offset by the growth of import duty related costs.

NLMK DanSteel and plate distribution network

EBITDA fell to (-) \$17 million (vs. (+) \$2 million last year), due to the narrowing of price spread between slabs and plate, against the backdrop of the outstripping growth of slab prices.

JV performance (NBH)

NBH EBITDA decreased to (-) \$87 million, due to the narrowing of price spreads between rolled steel and slabs, against the backdrop of a spike in slab prices in 2018.

Sustainability performance

Occupational safety

With a view to reduce injury rates and prevent accidents at NLMK facilities in 2018, the Company went to considerable lengths in managing occupational risks. Thanks to the initiatives implemented in the reporting year and prior periods, the 2018 LTIFR injury rate for NLMK Group employees and contractors decreased to 0.77 (31% lower than in 2017).

Minimizing environmental footprint

NLMK Group follows an integrated approach to managing environmental footprint and environmental safety. In 2018, a number of initiatives were implemented enabling the following performance:

- Water withdrawal for industrial water supply reduced by 884,000 m³
- Total air emissions fell by 2,200 tonnes
- Better than the industry average performance in specific greenhouse gas emissions
- Total waste generated fell by 13%
- Reclamation of more than 22 hectares of Stagdok completed

Energy efficiency improvement

In 2018, the Company continued implementation of energy-efficiency improvement initiatives at the Group's facilities. In total, RUB 509 million in savings were achieved by implementing optimization measures over the course of 2018. The Company also continued to actively develop its captive generation capacities: NLMK Group's total installed generating capacity in the reporting period was 722 MW. More than half of the electricity consumed at the Lipetsk site and 100% of the electricity consumed at Altai-Koks is generated using NLMK Group's own resources.

Our team and local communities

The average headcount in 2018 increased by 0.1%, which is associated with the implementation of Investment Programme 2022, aimed at steel output increase.

An important achievement in 2018 was the implementation of a large-scale position grading project for white-collar employees and managers, which will help determine the pay based on employees' competencies and position grade as early as in 2019. This project will enable a unified approach and establish transparent mechanisms for determining pay.

NLMK also continues to actively develop in-house employee training. For example, in 2018, more than 6,000 employees were trained in NLMK Corporate University's programmes.

Within social policy expansion initiative in 2018, the Group developed an NLMK Employee Health programme, aimed at improving working conditions, promoting healthy lifestyle, and at improving the quality and accessibility of health services for NLMK Group employees.

In the reporting period, NLMK also reviewed its approach to the Steel Tree grant competition, which supports environmental initiatives of employees, including projects in social areas, in particular in the health sector. Starting from 2018, the 'Steel Tree' environmental programme has become open not only to NLMK employees but also to local residents in the regions where the Company operates.

Promoting responsible business practices

In 2018, the majority of NLMK's Board members were independent directors (5 out of 9 members of the Board of Directors), which demonstrates the Company's commitment to best practices in corporate governance and contributes to the adoption of balanced and constructive decisions by the Board of Directors in the long-term interests of the Company.

In addition, in 2018, the possibility of electronic voting was implemented at the General Shareholders' Meeting. The use of the electronic voting service as an effective way to ensure the rights of shareholders to manage the Company and participate in the General Shareholders' Meeting has increased the total number of shareholders who participated in the voting.

In 2018, as part of improving its risk management system, NLMK Group implemented a risk management approach for innovative projects and developed a methodology for assessing cybersecurity risks.

In 2018, the Company also adopted the revised versions of NLMK Group's Corporate Ethics Code and Anti-Corruption Policy.

Another important event was the approval of NLMK Group's Human Rights Policy. The goal of the Policy is to ensure that human rights are observed in Group activities everywhere we operate.

* Operating profit before equity share in results of joint ventures, impairment of capital assets and losses from fixed assets retirement.



Five-year highlights

| Financial performance, \$ m | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------|--------|--------|--------|--------|--------|
| Revenue | 10,396 | 8,008 | 7,636 | 10,065 | 12,046 |
| Net profit* | 773 | 967 | 935 | 1,450 | 2,238 |
| EBITDA | 2,381 | 1,943 | 1,943 | 2,655 | 3,589 |
| EBITDA margin | 23% | 24% | 25% | 26% | 30% |
| Operating cash flow | 1,806 | 1,622 | 1,699 | 1,899 | 2,741 |
| Investment | 563 | 595 | 559 | 592 | 680 |
| Net debt | 1,666 | 1,161 | 761 | 923 | 891 |
| Free cash flow | 1,153 | 992 | 1,092 | 1,266 | 2,027 |
| Dividends, \$ per share | 0.0507 | 0.1076 | 0.1535 | 0.2384 | - |

| Operating performance, '000 t | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------------|--------|--------|--------|--------|--------|
| Steel output (without NBH) | 15,921 | 15,866 | 16,438 | 16,850 | 17,285 |
| Steel output (with NBH) | 16,108 | 16,060 | 16,641 | 17,076 | 17,493 |
| Steel product sales (without NBH) | 15,147 | 15,829 | 15,925 | 16,469 | 17,591 |
| Finished steel sales | 10,223 | 9,793 | 10,211 | 10,759 | 10,762 |
| Sales to home markets | 10,605 | 10,140 | 10,225 | 10,650 | 10,573 |

| Sustainability performance | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|
| NLMK Group headcount, '000 people | 60.1 | 56.7 | 54 | 53.2 | 53.3 |
| Labour productivity, t of steel /pers., NLMK Lipetsk | 437 | 463 | 482 | 502 | 503 |
| LTIFR, NLMK Group employees | 1.55 | 1.12 | 0.82 | 0.97 | 0.69 |
| LTIFR, NLMK Group employees + contractors | 1.6 | 1.15 | 0.85 | 1.12 | 0.77 |
| Specific air emissions, kg/t of steel | 20.1 | 20.1 | 20.0 | 19.5 | 18.9 |

* Net profit attributable to NLMK shareholders.



Corporate governance

2018 facts and figures

5 OUT OF 9

Board members are
independent directors

2,055

employees completed
the "Conflict of Interest"
corporate e-learning course

Recommendation of the Board
of Directors to NLMK's Annual General
Shareholders' Meeting regarding
FY 2018 dividend declaration:

22.81 RUB PER
SHARE

158.05^{RUB}

the average price of NLMK's
ordinary shares on the Moscow
Stock Exchange

\$25.15

the average price of NLMK's
Global depositary receipts on
the London Stock Exchange

Material topics

- ▶ Combating corruption

2018 facts and figures

- ▶ NLMK Group was ranked among the leaders with the best corporate governance disclosure practices (TopCompetence 2018 National Corporate Governance Index study)
- ▶ Online voting service at the General Shareholders' Meeting
- ▶ Systematization and improvement of crisis response plans
- ▶ Development and implementation of risk management approaches for innovative projects
- ▶ Cybersecurity risk assessment methodology development
- ▶ Adoption of revised versions of NLMK Group's Corporate Ethics Code and Anti-Corruption Policy
- ▶ NLMK was ranked the first one in terms of "Corporate anti-corruption programs" according to Transparency International - Russia

UN Global Compact principles

Principle 7

Businesses should support a precautionary approach to environmental challenges.

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery

Global sustainable development objectives



Corporate governance system

Corporate governance in action

The corporate governance of the Company is a system of relations between the Company's management, its Board of Directors, shareholders and other stakeholders.

In its activities, NLMK adheres to best international practices and the highest standards of corporate governance. NLMK's corporate governance system is built on best global practices and is fully compliant with the requirements of the prevailing Russian legislation and laws of the countries where the Company operates. The structure and practices of NLMK's corporate governance have been established to function in line with G20/OECD Corporate Governance Principles¹⁴, and provisions of the Corporate Governance Code approved and recommended by the Central Bank of Russia.

The main goals of NLMK's corporate governance system are to identify the Company's objectives, ensure business efficiency, compliance with the Company's legal and social obligations, and attract investors.

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

KEY PRINCIPLES LYING AT THE CORE OF OUR CORPORATE GOVERNANCE

- 1 Sustainable development and long-term growth of return on equity investment
- 2 Commitment to 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 activities of the Company and its governing and controlling bodies
- 3 Equal treatment of all shareholders, including foreigners and minority shareholders
- 4 Commitment to ensure reliable and effective registration of title to shares and guarantee the opportunity to alienate them freely and without encumbrances
- 5 Commitment to ensure compliance with existing laws, principles of the Corporate Governance Code recommended by the Bank of Russia and international corporate governance standards
- 6 Adherence to the policy of observing the rights of third parties, including creditors and NLMK employees, as required by the law, the Charter and other regulatory documents
- 7 Adherence to 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
- 8 Adherence to 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
- 9 Adherence to a policy of complying with business ethics in conducting its operations

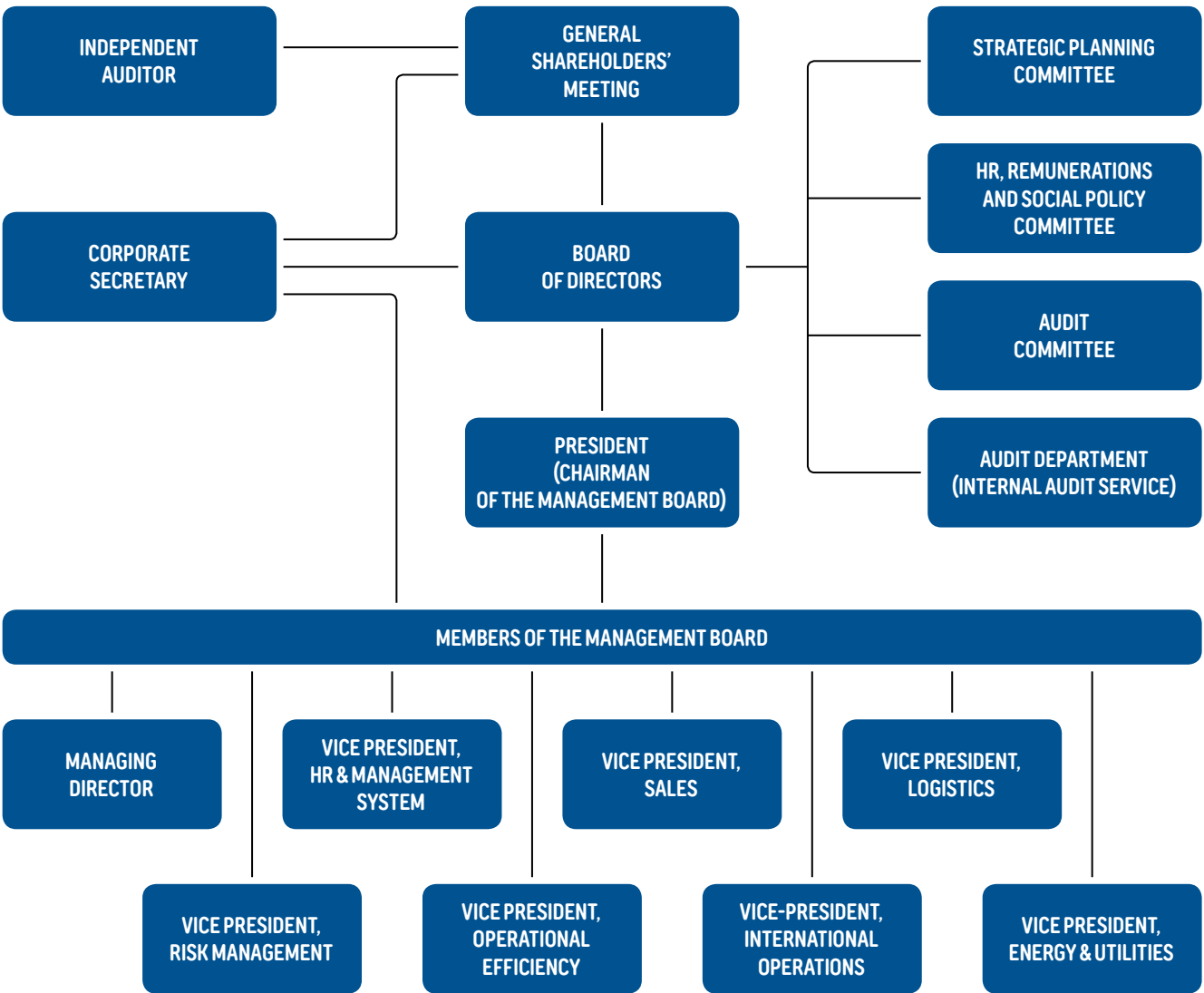
* Organization for Economic Co-operation and Development

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
- Board of Directors, which carries out overall management of the Company's activity excluding those issues, which fall under the competence of the General Shareholders' Meeting according to NLMK Charter
- Committees of the Board of Directors, established to perform preliminary review of key matters of NLMK Group's business and provide assistance to the Board of Directors in devising and reaching decisions within their areas of expertise
- Executive bodies of the Company, 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
- Corporate Secretary, who ensures interaction with shareholders, coordinates the Company's activities aimed at protecting shareholders' rights and interests and supports the Board of Directors and the Management Board
- Independent auditor, the Audit Committee, Internal Control and Risk Management Department and Audit Department (Internal Audit Service) that oversee financial and economic activities of the Company

NLMK'S CORPORATE GOVERNANCE STRUCTURE GRI 102-18



Improving Corporate Governance practices in 2018

As a public company, NLMK is constantly improving its corporate governance practices. Improving corporate governance is an integral part of the overall efforts to improve the efficiency of the Company's operations and is focus of the Board of Directors' constant attention.

With a view to harmonize the system that controls and monitors the financial and economic activities of the Company and introduce best practices in this field, the Extraordinary General Shareholders' Meeting held in December 2018 resolved to dissolve the Internal Audit Commission and introduce corresponding amendments into the internal corporate documents of the Company. This resolution is based on the fact that the Company has an efficiently functioning risk management and internal control system in place as well as Internal Audit Service, which continuously monitors the financial and economic activities of NLMK.

Aiming to improve the quality of corporate governance, and taking the prevailing legislation into consideration, NLMK approved revised versions of the following internal corporate documents.

- In particular, the General Shareholders' Meeting held in December 2018 adopted the revised versions of NLMK Charter, Regulations on the General Shareholders' Meeting, Regulations on the Board of Directors, Regulations on the Management Board, Regulations on Remuneration of Members of the Board of Directors, in full compliance with the prevailing Russian legislation.
- The Board of Directors held in December 2018 adopted Regulations on the HR, Remunerations and Social Policy Committee, Regulations on the Corporate Secretary, the Corporate Governance Code, NLMK Group's Corporate Ethics Code and NLMK Group's Anti-Corruption Policy.

Based on the results of the annual study performed by TopCompetence Corporate Development Centre with the support of the Moscow Stock Exchange in 2018 the Company was once again ranked among the leaders with the fullest disclosure of corporate governance practices.

Plans for 2019 and midterm

With a view to further improve its corporate governance practices, the Company plans to make changes to its internal corporate documents providing for shorter time for public statements, preparation, a shift in the date of the General Shareholders' Meeting to an earlier period (from June to April), and adoption of the Company's new Strategy.



ONLINE VOTING SERVICE

- Guided by the priority of the rights and interests of investors, the Company is constantly working to improve the efficiency of corporate decision-making process and create the most favourable conditions for shareholders to exercise their voting rights.

In 2018, for instance, during General Shareholders' Meetings, all shareholders of the Company had the opportunity to vote using e-voting platform on the Company's official website. The service also enabled shareholders to access agenda items and meeting materials online. The use of the electronic voting service as an effective way to enforce the rights of shareholders to manage the Company and participate in the General Shareholders' Meeting has increased the total number of shareholders who participated in the voting.

By resolution of the Company's Board of Directors the Annual General Shareholders' Meeting on the 2017 performance was video broadcast online, available to shareholders as part of the e-voting service. Live video broadcasts is another step towards better transparency of the Company.

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 General Shareholders' Meetings and on

the Company's operations, sufficient to make informed decisions regarding their shares.

Shareholders holding no less than 2 per cent of the Company's voting shares are entitled to submit proposals on the agenda items for the Annual General Shareholders' Meeting and nominate candidates to the Board of Directors and the Counting Commission of the Company. In accordance with

NLMK Charter, such proposals must be received by the Company no later than 60 days after the end of the reporting year.

The Company is focused on creating the most favourable conditions for shareholders' participation in the General Shareholders' Meeting, including through the use of such advanced information and telecommunication technologies as e-voting and online broadcasting of the General Meeting.



NLMK's General Shareholders' Meeting procedures

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 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 Federal Law "On Joint-Stock Companies" and NLMK Charter establish a complete list of issues, resolutions on which are within the remit of the General Shareholders' Meeting. The procedure for preparation, convocation, holding and summarizing the results of NLMK's General Shareholders' Meeting is set forth in Regulations on NLMK's General Shareholders' Meeting published on the Company's official website at: nlmk.com.

NLMK Charter and Regulations on NLMK's General Shareholders' Meeting, contain, among others, provisions relating to:

- the option for the Company's shareholders to participate in the Shareholders' Meeting online
- the option to discuss agenda items and make decisions on issues put to the vote while being absent from the venue where the voting takes place
- the option to complete electronic ballots online.

The notice of the General Shareholders' Meeting and information (materials) provided to persons entitled to participate in the General Shareholders' Meeting is published on NLMK website (www.nlmk.ru) according to

the procedure and within the timeframe established by the Company's Charter and the laws of the Russian Federation, not later than 30 days before the meeting.

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, approved by the Central Bank of Russia. The Company shall also post a map of how to get to the General Shareholders' Meeting, an approximate form of a power of attorney that may be issued by a shareholder to their representative for participation in the meeting, and information on certifying such a power of attorney.

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

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 and published on the Company's website at www.nlmk.com.

The General Shareholders' Meeting's activity in 2018

Four General Shareholders' Meetings were held in 2018.

NLMK's Annual General Shareholders' Meeting on the 2017 performance was held on 8 June 2018. Shareholders and shareholder

representatives holding a total of 91.17% of NLMK's equity were present, meeting the quorum requirements. During the Annual General Shareholders' Meeting, resolutions were passed on the issues provided for by Item 1 Article 47 of the Federal Law "On Joint-Stock Companies", as well as on the payment of FY 2017 and Q1 2018 dividends.

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

At NLMK's Extraordinary General Shareholders' Meeting held on 12 March 2018, shareholders passed the resolution on early termination of the powers of the Company's President (Chairman of the Management Board) and on the election of a new President (Chairman of the Management Board).

At NLMK's Extraordinary General Shareholders' Meeting held on 30 September 2016, a resolution was passed to pay (declare) H1 2018 dividends in the amount of 5.24 rubles per ordinary share.

At NLMK's Extraordinary General Shareholders' Meeting held on 21 December 2018, shareholders passed the resolution to pay (declare) 9M 2018 dividends on ordinary shares in the amount of 6.04 rubles per common share. They also resolved to approve amendments to NLMK Charter and internal corporate documents resulting from improvement of corporate legislation and the Company's corporate governance practices; and rendered documents regulating the activities of Internal Audit Commission null and void.

Detailed information on the voting results and resolutions passed by the General Shareholders' Meetings in 2018 is available on the Company's website at www.nlmk.com.

NLMK'S GENERAL SHAREHOLDERS' MEETINGS HELD IN 2018

| General Shareholders' Meeting by status (format) | Number |
|--|--------|
| Annual meeting (in person using e-voting technology) | 1 |
| Extraordinary meeting (absentee voting using e-voting technology) | 3 |

NLMK'S EXTRAORDINARY GENERAL SHAREHOLDERS' MEETINGS HELD IN 2018

| Date | Number of votes held by the general meeting participants |
|------------|--|
| 12.03.2018 | 90.92% |
| 28.09.2018 | 91.37% |
| 21.12.2018 | 91.20% |



Board of Directors

NLMK Board of Directors procedures

A key element of the Company's corporate governance system 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 Charter and Regulations on the Board of Directors govern the procedures of the Board of Directors. They are available on the Company's official website at www.nlmk.com. In particular, NLMK's Regulations

on the Board of Directors include the procedure for arranging and holding meetings of the Board of Directors, which allows members of the Board of Directors to prepare for the meetings properly.

Members of the Company's Board of Directors shall have sufficient time to fulfil their obligations efficiently and in good faith, including for participation in meetings of the Board of Directors and its Committees. The requirement for members of the Board of Directors to have sufficient time for efficient participation in the work of the Board of Directors is fixed in the Company's Corporate Governance Code.

Meetings of the Board of Directors are held on a regular basis at least six 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, and as a rule, they are first reviewed by

the Board Committees, facilitating their all-round consideration and informed decision-making.

Information on the activities of NLMK's Board of Directors, including information on its composition, its Committees, meetings held and decisions taken is disclosed on the Company's official website at www.nlmk.com.

Chairman of the Board of Directors

The Chairman of NLMK's Board of Directors ensures the efficient functioning of the Board of Directors. The Chairman 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.

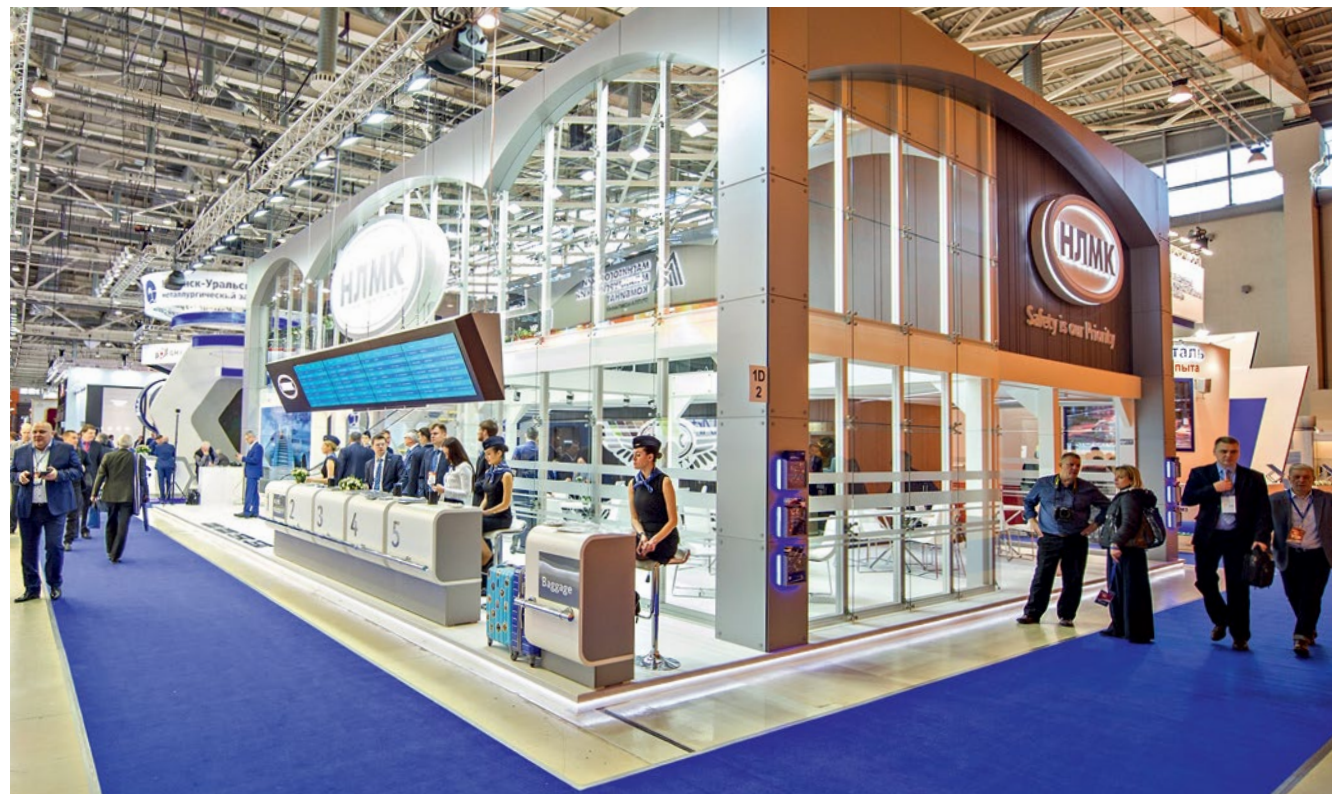
The Chairman of the Board also plays a key role in ensuring that the Committees of the Board of Directors function efficiently, including through the nomination of members of the Board of Directors to the Board Committees. The Chairman of the Board nominates members of the Board to the Board Committees based on their professional and personal qualities, and taking into account the proposals received from the Board members on forming 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 Board members.

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

Independent members of the Board of Directors

In order to ensure the effective implementation by the Board of Directors of its functions, including those related to protection of shareholders' interests, the Company's Board of Directors includes independent directors. 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.

The key role of independent directors is to increase the level of confidence in the Company among shareholders and investment community. Independent directors, who have been the majority of the Company’s Board since 2016, make a decisive contribution to the discussion and decision-making on issues that may affect the interests of shareholders, including devising the Company’s development strategy, assessing the conformity of the activities of executive bodies with the Company’s chosen strategy, preventing and resolving corporate conflicts, providing an objective assessment of the quality of work undertaken by the executive bodies, and establishing an efficient motivation system, ensuring that the Company’s activities are in the interest of all its shareholders. In addition, independent directors play a key role in the operation of the Board’s Committees.

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 fully meet the independence criteria stipulated

by Regulations on the Company’s Board of Directors and the Corporate Governance Code recommended by the Bank of Russia.

In some exceptional cases in the process of assessment the Board of Directors may recognize an independent status of a member of the Board of Directors, despite them having some formal criteria of being related to the Company, if such relatedness does not affect the ability of the individual to exercise independent, impartial and fair judgements.

In the course of the independence assessment of Board members, performed by the Board of Directors in 2018, four out of five directors were deemed fully compliant with the independence criteria defined by Regulations on NLMK’s Board of Directors, with one director, having formal relationship with NLMK (Mr. Helmut Wieser has been member of the Board for more than seven (but less than twelve) years), recognized as independent due to the immateriality of relatedness upon the said criterion and the director’s ability to act in good faith and soundly in the interests of the Company and its shareholders.

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. Members of the Board of Directors have impeccable business reputation, knowledge, skills and experience in steelmaking, mining, science, economics, business management, and law.

As of 31 December 2018, the Board of Directors, elected at the Annual General Shareholders’ Meeting on 8 June 2018, consisted of nine members, including five Independent directors. The Board composition was changed during 2018: Marjan Oudeman was elected to the Board of Directors as an independent director.

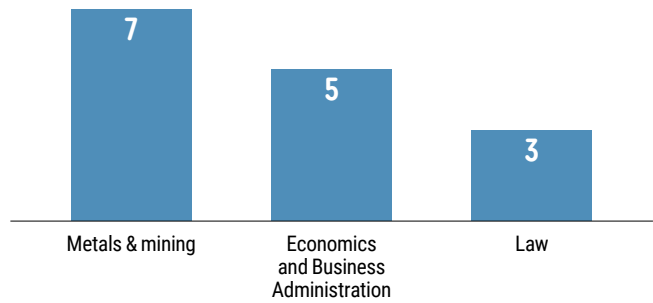
MEMBERS OF NLMK’S BOARD OF DIRECTORS AS ON 31 DECEMBER 2018

| | Position | Directors’ length of tenure, years | Status | Participation in the Strategic Planning Committee | Participation in the Audit Committee | Participation in the Human Resources, Remunerations and Social Policy Committee |
|---------------------|------------------------------------|------------------------------------|------------------------|---|--------------------------------------|---|
| Vladimir Lisin | Chairman of the Board of Directors | 22 | Non-executive director | ✓ | | ✓ |
| Oleg Bagrin | Member of the Board of Directors | 14 | Non-executive director | Chairman | | ✓ |
| Thomas Veraszto | Member of the Board of Directors | 3 | Independent director | ✓ | | ✓ |
| Helmut Wieser | Member of the Board of Directors | 8 | Independent director | ✓ | | ✓ |
| Nikolai Gagarin | Member of the Board of Directors | 17 | Non-executive director | | ✓ | |
| Karen Sarkisov | Member of the Board of Directors | 9 | Non-executive director | ✓ | ✓ | |
| Stanislav Shekshnia | Member of the Board of Directors | 4 | Independent director | | ✓ | Chairman |
| Benedict Sciortino | Member of the Board of Directors | 7 | Independent director | ✓ | Chairman | |
| Marjan Oudeman | Member of the Board of Directors | 1 | Independent director | ✓ | ✓ | |

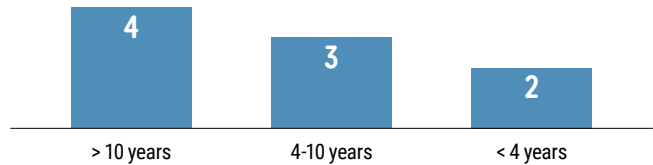
COMPOSITION OF NLMK’S BOARD OF DIRECTORS IN 2018

| Composition of NLMK’s Board of Directors from 2 June 2017 until 8 June 2018 | | Composition of NLMK’s Board of Directors, elected on 08 June 2018 | |
|---|--|---|--|
| | Position | | Position |
| Vladimir Lisin | Chairman of the Board of Directors | Vladimir Lisin | Chairman of the Board of Directors |
| Oleg Bagrin | Member of the Board of Directors | Oleg Bagrin | Member of the Board of Directors |
| Thomas Veraszto | Member of the Board of Directors, Independent director | Thomas Veraszto | Member of the Board of Directors, Independent director |
| Helmut Wieser | Member of the Board of Directors, Independent director | Helmut Wieser | Member of the Board of Directors, Independent director |
| Nikolai Gagarin | Member of the Board of Directors | Nikolai Gagarin | Member of the Board of Directors |
| Karen Sarkisov | Member of the Board of Directors | Marjan Oudeman | Member of the Board of Directors, Independent director |
| Stanislav Shekshnia | Member of the Board of Directors, Independent director | Karen Sarkisov | Member of the Board of Directors |
| Benedict Sciortino | Member of the Board of Directors, Independent director | Stanislav Shekshnia | Member of the Board of Directors, Independent director |
| Franz Struzl | Member of the Board of Directors, Independent director | Benedict Sciortino | Member of the Board of Directors, Independent director |

DIRECTORS' EXPERTISE AND PROFESSIONAL BACKGROUND

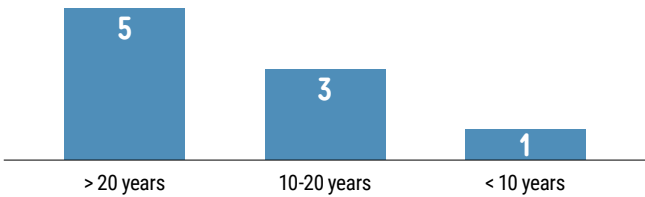


DIRECTORS' LENGTH OF TENURE*

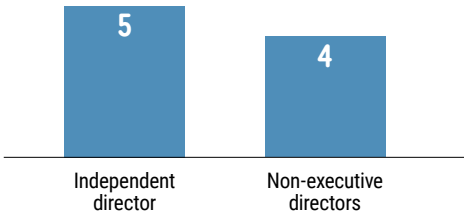


* As on 31 December 2018

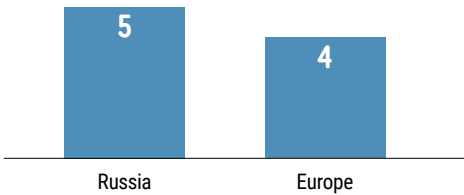
DIRECTORS' EXPERTISE IN THE STEEL SECTOR



COMPOSITION OF THE BOARD OF DIRECTORS BY DIRECTOR STATUS*



DIRECTORS' LOCATION



NLMK SHARES OWNED BY MEMBERS OF NLMK'S BOARD OF DIRECTORS AND TRANSACTIONS PERFORMED WITH NLMK SHARES IN 2018

| | Position | Share of the authorized capital stock of NLMK | Information on transactions with NLMK shares |
|---------------------|------------------------------------|---|--|
| Vladimir Lisin | Chairman of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Oleg Bagrin | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Thomas Veraszto | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Helmut Wieser | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Nikolai Gagarin | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Karen Sarkisov | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Stanislav Shekshnia | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Benedict Sciortino | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |
| Marjan Oudeman | Member of the Board of Directors | Not an NLMK shareholder | Did not participate in any transactions |

Board of Directors biographies



Vladimir Lisin

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|--|
| <p>YEAR OF BIRTH: 1956</p> <p>A MEMBER OF THE BOARD OF DIRECTORS SINCE 1996, CHAIRMAN OF THE BOARD OF DIRECTORS SINCE 1998</p> <p>MEMBER OF THE STRATEGIC PLANNING COMMITTEE AND MEMBER OF THE HUMAN RESOURCES, REMUNERATIONS AND SOCIAL POLICY COMMITTEE</p> |
|--|

- ▶ Started career in 1975 as electrical fitter. Worked at Tulachermet, rising through the ranks from assistant steelmaker to deputy shop manager. From 1986 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.
- ▶ Graduate of Siberian Metallurgic Institute majored in Ferrous and Non-Ferrous Foundries. In 1990 graduated from the Higher School of Commerce with the Foreign Trade Academy. In 1992 graduated from the Academy of National Economy, majored 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. President of the International Shooting Sport Federation.



Oleg Bagrin

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|---|
| <p>YEAR OF BIRTH: 1974</p> <p>PRESIDENT (CHAIRMAN OF THE MANAGEMENT BOARD) SINCE 2012 UNTIL MARCH 2018. MEMBER OF THE BOARD OF DIRECTORS SINCE 2004</p> <p>CHAIRMAN OF THE STRATEGIC PLANNING COMMITTEE AND MEMBER OF THE HUMAN RESOURCES, REMUNERATIONS AND SOCIAL POLICY COMMITTEE</p> |
|---|

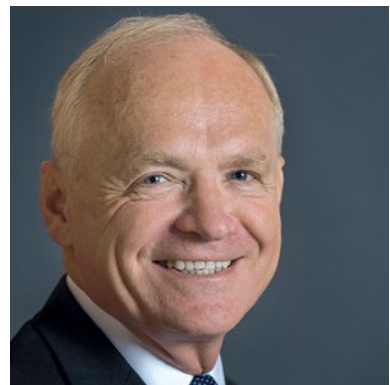
- ▶ President (Chairman of the Management Board) of NLMK since 2012 till March 2018. Member of NLMK Board of Directors since 2004.
- ▶ Board member of a number of NLMK subsidiary and affiliate companies. Chairman of the Board of Directors of management company Libra Capital, investment company Libra Capital, Moscow, Member of the Board of JSC Freight One. Director, Member of the Board of Directors of FLETCHER GROUP HOLDINGS LIMITED.
- ▶ Holds a graduate degree in Operations Research and a postgraduate degree in Economics from State Management University, Moscow, and a degree in Business Administration from the University of Cambridge, UK.



Benedict Sciortino

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|---|
| <p>YEAR OF BIRTH: 1950</p> <p>MEMBER OF THE BOARD OF DIRECTORS SINCE 2012 (INDEPENDENT DIRECTOR)</p> <p>MEMBER OF THE AUDIT COMMITTEE AND THE STRATEGIC PLANNING COMMITTEE</p> |
|---|

- ▶ 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.
- ▶ He graduated from Queens College, New York with a BA degree and received JD and LL.M degrees from New England School of Law (Boston, MA) and New York University Law School, New York.



Helmut Wieser

| |
|---|
| YEAR OF BIRTH:1953 |
| MEMBER OF THE BOARD OF DIRECTORS SINCE 2011 (INDEPENDENT DIRECTOR) |
| MEMBER OF THE STRATEGIC PLANNING COMMITTEE AND MEMBER OF THE HUMAN RESOURCES, REMUNERATIONS AND SOCIAL POLICY COMMITTEE |

► 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. He also oversaw Alcoa’s businesses in the Asia Pacific region, with a focus on China, the Australian rolled products businesses and Alcoa’s operations in Russia. In addition, Helmut Wieser was a member of the Alcoa Executive Council, the senior leadership group that provides strategic direction for the company.

► He also served on the board of governors of the International Graduate University in Washington, D.C. on Capitol Hill. 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 CEO. He held a position of a member of the board (Independent director) of Rain Carbon Inc. since 2014 till March of 2018. Helmut Wieser is the member of the Advisory Board of COBEX GmbH. Helmut Wieser received a Master’s degree in Mechanical Engineering and Economics in 1981 from the University of Graz, Austria.



Nikolai Gagarin

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| YEAR OF BIRTH: 1950 |
| MEMBER OF THE BOARD OF DIRECTORS SINCE 2001 |
| MEMBER OF THE AUDIT COMMITTEE |

► 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.

► Graduate of Lomonosov Moscow State University, majored in Law.

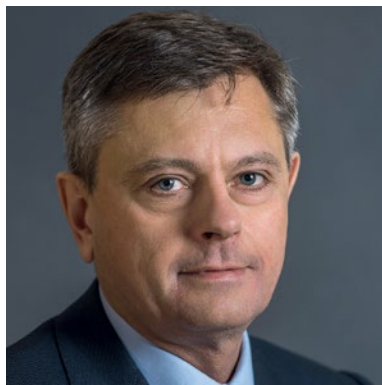


Karen Sarkisov

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|---|
| YEAR OF BIRTH: 1963 |
| MEMBER OF THE BOARD OF DIRECTORS SINCE 2010. AIDE TO THE CHAIRMAN OF THE BOARD OF DIRECTORS ON EXTERNAL ECONOMIC RELATIONS SINCE 2009 |
| MEMBER OF THE STRATEGIC PLANNING COMMITTEE AND MEMBER OF THE AUDIT COMMITTEE |

► 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 Directors at NLMK International BV.

► 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. Graduate of Tashkent State University, majored in Oriental Studies.



Stanislav Shekshnia

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|--|
| YEAR OF BIRTH: 1964 |
| MEMBER OF THE BOARD OF DIRECTORS SINCE 2015 (INDEPENDENT DIRECTOR) |
| CHAIRMAN OF THE HR, REMUNERATIONS AND SOCIAL POLICY COMMITTEE WITH NLMK BOARD OF DIRECTORS |

► In 1991-2002, Dr. Shekshnia held senior executive positions at Russian and international corporations, including HR Director of Otis Elevator in Central and Eastern Europe, President and CEO at Millicom International Cellular in Russia and the CIS, COO at VimpelCom, and CEO of Alfa-Telecom. He has served as Chairman of SUEK, Vimpelcom-R and as Director of a number of Russian and Ukrainian companies. Stanislav was an independent director at DTEK BV, Ilim Timber Industry, NIS (Naftna Industrija Srbije) and Ener1. Currently Mr. Shekshnia is Chairman of the Board of Russian Fishery Company. In 2002, Stanislav Shekshnia co-founded Zest Leadership International Consultancy.

► Currently Stanislav Shekshnia is a Senior Partner of LEADERSHIP VECTOR, a Talent Equity Consulting practice. He focuses on leadership, leadership development, corporate governance and business in emerging economies The company has offices in Moscow, Paris, St. Petersburg, Almaty and Riga. Dr. Shekshnia also provides personal coaching to business owners and corporate executives.

► Dr. Shekshnia is an Affiliate Professor of Entrepreneurship at INSEAD. He has over 15 years of graduate level teaching experience in Russia, France and United States; and is the author, co-author, or editor of 7 books, and numerous articles, executive commentaries, interviews and case studies on entrepreneurship, leadership, people management, intercultural management and business and management in Russia

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



Thomas Veraszto

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| YEAR OF BIRTH: 1962 |
| MEMBER OF THE BOARD OF DIRECTORS SINCE 2016 (INDEPENDENT DIRECTOR) |
| MEMBER OF THE STRATEGIC PLANNING COMMITTEE AND MEMBER OF THE HUMAN RESOURCES, REMUNERATIONS AND SOCIAL POLICY COMMITTEE |

► 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.

► 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 (the United States of America).



Marjan Oudeman

YEAR OF BIRTH: 1958

MEMBER OF THE BOARD OF DIRECTORS
SINCE 2018 (INDEPENDENT DIRECTOR)

MEMBER OF THE STRATEGIC
PLANNING COMMITTEE AND
MEMBER OF THE AUDIT COMMITTEE

- Marjan Oudeman was the President of the Executive Board of Utrecht University (The Netherlands) from 2013 until June 2017.
- From 2010 to 2013, Mrs Oudeman was a member of the Executive Committee of AkzoNobel, responsible for HR and Organisational Development.
- Previously Mrs Oudeman was a member of the Executive Committee of Corus Group, Executive Director Corus Strip Products Division from 2007 to 2010. She also held positions of the CEO Corus Nederland BV, Managing Director Corus Strip Products IJmuiden from 2004 to 2007, and Managing Director Corus Packaging Plus from 2000 to 2004.
- Before joining Corus, Marjan Oudeman worked for Hoogovens Group NV, holding various corporate staff positions at Hoogovens Group NV in legal, corporate finance and controlling, culminating in 1998-2000 as a Member of the Management Board of the Steel Division of Hoogovens Group NV and Managing Director Hoogovens Packaging Steel.
- Mrs Oudeman holds positions in governing bodies of a number of entities, being a member of the Boards of Solvay SA, SHV Holdings, NV Aalberts Industries NV, UPM-Kymmene Corporation.
- Marjan Oudeman has extensive experience as a line manager in the steel industry and considerable international business experience.
- Oudeman has a law degree from Rijksuniversiteit Groningen in the Netherlands and an MBA in Business Administration from the University of Rochester, New York, USA and Erasmus University, Rotterdam, the Netherlands.



Franz Struzl*

YEAR OF BIRTH: 1942

- Franz Struzl graduated from the University of Economics, Vienna, in 1964.
- In 1967 Franz Struzl started his career in Alpine Steelgroup, renamed afterwards to Voestalpine AG, Linz, Austria, and he devoted over 40 years to that company. 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.

* He was member of the Board of Directors, member of the Strategic Planning Committee and member of the Audit Committee until 8 June 2018.

The Board of Directors' activity in 2018

In 2018, there were nine meetings of NLMK's Board of Directors, six of which were held by absentee ballot. A total of about 30 items were considered at the meetings.

The following are the main issues that were examined by the Group's Board of Directors in 2018:

1. STRATEGY

AND PRIORITY AREAS:

- Approving the consolidated budget of the Group for 2019
- Determination of priority areas for the Company's business.

2. APPOINTMENTS

AND REMUNERATION:

- Reviewing proposals on nomination of candidates to NLMK's governing bodies (the Board of Directors, NLMK President (Chairman of the Management Board)) and inclusion of the nominees in the voting list to be elected to these governing bodies

- Providing recommendations to the Annual General Shareholders' Meeting regarding the payment of remuneration to members of NLMK's Board of Directors
- Approval of composition of NLMK's Management Board
- Election of Chairman of NLMK's Board of Directors
- Forming NLMK's Board Committees
- Recognition of independent status of nominees to NLMK's Board of Directors
- Performance evaluation of NLMK's Board of Directors
- Performance reports of NLMK's Board Committees.

3. INTERNAL CONTROL

AND RISK MANAGEMENT:

- Approval of revised version of NLMK Group's Anti-Corruption policy and Corporate Ethics Code.

4. CORPORATE GOVERNANCE:

- Convocation of NLMK's General Shareholders' Meetings
- Approving the agendas, draft documents and activities necessary for preparing and holding the Annual General Shareholders' Meeting
- Including the item on approval of revised versions of internal corporate documents; recognition of internal corporate documents as null and void into the Extraordinary General Shareholders' Meeting agenda
- Including the item on early termination of powers of NLMK's Internal Audit Commission members into the Extraordinary General Shareholders' Meeting agenda
- Providing recommendations to NLMK's Annual General Shareholders' Meeting regarding profit distribution
- Approving the 2017 NLMK report on interested-party transactions
- Approving NLMK's 2017 Draft Annual Report



- Providing recommendations to the Annual General Shareholders' Meeting regarding the approval of NLMK's Auditor and remuneration to be paid for the Auditor's services
- Approving the meeting schedule for NLMK's Board of Directors.

5. FINANCIAL REPORTING:

- Approving the Company's annual accounting (financial) statements, including the 2017 profit and loss statement, as well as the NLMK's IFRS 2017 Annual Consolidated Financial Statements.



ON-SITE MEETING OF THE BOARD OF DIRECTORS

- On 5 March 2018, a meeting of NLMK's Board of Directors was held at NLMK La Louvière, the Company's main Belgian production site.

In addition to discussing the issues on the meeting's agenda, members of the Board of Directors took part in a workshop on cybersecurity.

Members of the Board of Directors together with the management visited NLMK La Louvière production site and inspected the hot and cold rolling mills. In general, members of the Board of Directors took a favourable view of this event, noting that the meeting with the management and visits to production facilities were quite fruitful. They also highlighted the importance and relevance of the cybersecurity session.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN ITS MEETINGS AND THE MEETINGS OF ITS COMMITTEES

| | Independent director | Participation in the Board meetings* | Audit Committee | HR, Remunerations and Social Policy Committee | Strategic Planning Committee |
|---------------------|----------------------|--------------------------------------|-----------------|---|------------------------------|
| Oleg Bagrin | | 9 (9) | | 2 (2) | 5 (5) |
| Thomas Veraszto | ✓ | 9 (9) | | 2 (2) | 5 (5) |
| Helmut Wieser | ✓ | 9 (9) | | 4 (4) | 4 (5) |
| Nikolai Gagarin | | 9 (9) | 3(1)* (4) | | |
| Vladimir Lisin | | 9 (9) | | 4 (4) | 5 (5) |
| Karen Sarkisov | | 9 (9) | 4 (4) | | 5 (5) |
| Stanislav Shekshnia | ✓ | 9 (9) | 4 (4) | 4 (4) | |
| Benedict Sciortino | ✓ | 9 (9) | 4 (4) | | 5 (5) |
| Marjan Oudeman | ✓ | 5 ¹ (9) | 2 (4) | | 2 ¹ (5) |
| Franz Struzl | ✓ | 4 ² (9) | 2 (4) | | 1 ² (5) |

* The number in brackets denotes the number of NLMK's Board of Directors meetings during the tenure of this director

¹ Marjan Oudeman was elected to the Board of Directors at the Annual General Shareholders' Meeting held on 8 June 2018

² Franz Struzl was a member of NLMK's Board of Directors until 8 June 2018.

Evaluation of the Board of Directors' performance

Improving the processes and procedures of the Board of Directors as a strategic management and controlling body is an important aspect of increasing the overall efficiency of the Company's management system and gaining investor confidence. In line with the recommendations of the Corporate Governance Code, recommended by the Bank of Russia, and the best international practices, the Company has been conducting an annual performance evaluation (self-assessment) of the Board of Directors' performance since 2016.

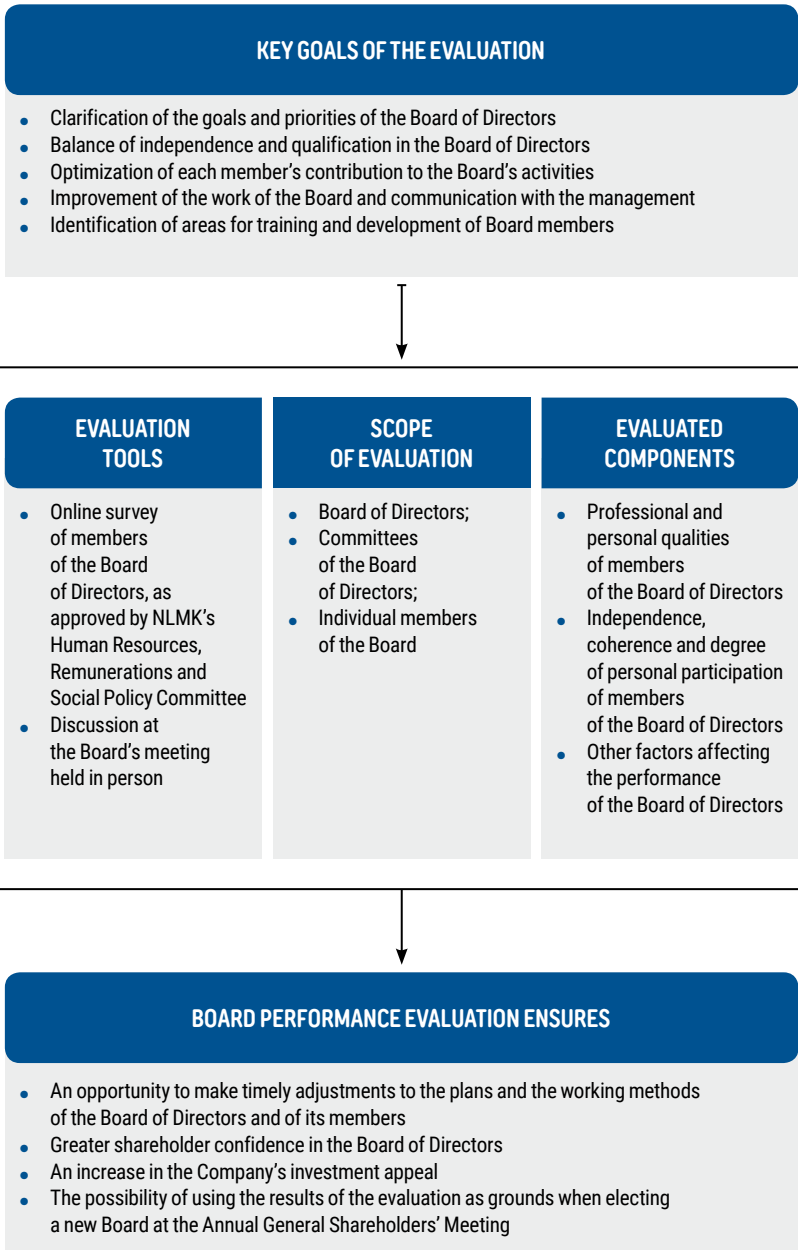
The formal evaluation procedure does not only cover the Board of Directors as a whole, but also assesses the work of the Board Committees and each member of the Board, including its Chairman.

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. Evaluation of the Board of Directors performance allows to determine the direction and dynamic pattern of changes in the Board of Directors' and its Committees' performance, to get a comparative analysis of their contribution to the successful development of the Company, as well as to identify areas for continuous improvement of the Board's practices.

If necessary, based on the results of the Board evaluation, the Chairman of the Board of Directors and the HR, Remunerations and Social Policy Committee of the Board of Directors put forward proposals aimed at improving the work of the Board of Directors and its Committees. Based on the results of individual evaluation of the Board members, aspects that need to be developed and strengthened are identified. Recommendations may be offered to improve the skills of individual members of the Board, as well as individual training programmes (training sessions) may be organized.

Within the framework of the formalized procedure, in January 2018 a self-assessment of the Board's performance was performed. Following the results of the self-assessment,

EVALUATION OF NLMK'S BOARD OF DIRECTORS



a number of areas were identified for the development of practices of the Board of Directors and its Committees. A report on the Board members' evaluation was prepared, and recommendations were given for further improvement and development of their activities. This evaluation confirmed the efficiency of the Board's and its Committees' performance in 2017; in 2018 the activity was focused

on improving the areas for development identified in the evaluation.

The results of the Board's performance evaluation and recommendations for further improvement of the activities of the Board of Directors, its Committees and individual members were considered at the in-person meeting of the Board of Directors in March 2018.



Training and professional development for the Board members

With a view to develop and strengthen individual competencies and expand the knowledge of the Board members, the Company organizes annual training, including in the form of workshops.

The introduction of modern decision-making methods based on big data technologies, control robotization, mathematical methods of improving the quality of economic forecasts, and the use of computer methods for analyzing the validity and efficiency of selected strategies is largely responsible for the fact, that the Company organized a cyber security workshop in March 2018.

Induction programme for newly elected members of NLMK's Board of Directors and onboarding process

An induction programme for newly elected members of NLMK's Board of Directors was developed and approved by the Human Resources, Remunerations and Social Policy 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.

An induction programme for Marjan Oudeman, a newly elected member of the Board of Directors, was organized in June 2018. As part of the Programme Ms. Oudeman had meetings with the Board members, the Company's executives, including President (Chairman of the Management Board), and visited production facilities of the Lipetsk site. In addition, Ms. Oudeman was given an opportunity to familiarize herself with material information on the Company's activities, its internal documents, financial statements, annual reports and other documents and information published on NLMK Group's official website (as per the list approved by the Programme), as well as information on the organization of the work of the Board of Directors, including information on the rights, duties and responsibilities of members of the Board of Directors.

Conflict of interests

In accordance with the Regulation on the Board of Directors and the Anti-Corruption Policy of the Company, members of the Board of Directors shall refrain from acts that will or may lead to conflict between their interests and those of the Company. In the event of a conflict of interest, members of the Board of Directors shall promptly inform the Board of Directors of any conflict of interest and the grounds for it, before the start of the discussion on the item in respect of which the Board member has a conflict of interest.

Members of the Board of Directors shall abstain from voting on items in respect of which they have a conflict of interest. Where the nature of the item discussed or the specific aspects of a conflict of interest so require, the Board member who has the said conflict of interest should not be present at the Board's meeting when the item is discussed.

NLMK Board members had no conflict of interests in 2018.

Committees of the Board of Directors

To ensure preliminary examination and study of the most essential matters in the area of the Company's activities, the Board of Directors has set up standing committees: the Strategic Planning Committee, the Audit Committee, and the HR, Remunerations and Social Policy Committee.

The Committees of the Board of Directors report to the Board of Directors and are its advisory bodies. Resolutions of the Committees are of a recommendatory nature, while the work of the Committees contributes to increasing the efficiency of the Board of Directors performance, improving the quality of draft resolutions and prior coordination of the positions of the Board members.

The Committees are formed taking into account the professional experience, special knowledge and skills of members of the Board of Directors.

Members of the Committees have expertise, required to make a significant contribution to the work of Committees. If necessary, the Board Committees may engage experts and consultants to work with the committees on a temporary or permanent basis, with no right to vote at decision-making on issues within the Committees remit.

The status, goals, objectives and functions of the Committees as well as their composition, formation and operation procedures are set out in Regulations on Committees, approved by the Company's Board of Directors and published on the Company's official website at www.nlmk.com.

In order to balance approaches to problem solving in relation to risk management and the protection of shareholders' interests, the majority of members of two out of three Committees, including their Chairs, are independent directors.

Strategic Planning Committee

The Strategic Planning Committee 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.

Committee composition as of 31 December 2018

The Strategic Planning Committee includes four independent directors. All members of the Strategic Planning Committee, including those who are not members of the Board of Directors, have the right to vote on the agenda items of the Committee.

The composition of the Committee changed in 2018.

Grigory Fedorishin, formerly Senior Vice President, Deputy Chairman of the Management Board, was Secretary of the Committee until 6 March 2018; as of that date Konstantin Arshakuni, Director for Strategic Development of NLMK, was appointed Secretary of the Committee.

COMPOSITION OF THE STRATEGIC PLANNING COMMITTEE IN 2018

| Composition of the Committee from 2 June 2017 until 8 June 2018 | | Composition of the Committee as of 8 June 2018 | |
|---|--|--|---------------------------|
| | Position | | Position |
| Vladimir Lisin | Chairman of the Committee / member of the Committee* | Oleg Bagrin | Chairman of the Committee |
| Oleg Bagrin | Chairman of the Committee | Thomas Veraszto | Member of the Committee |
| Thomas Veraszto | Member of the Committee | Helmut Wieser | Member of the Committee |
| Helmut Wieser | Member of the Committee | Karl Doering | Member of the Committee |
| Karl Doering | Member of the Committee | Vladimir Lisin | Member of the Committee |
| Karen Sarkisov | Member of the Committee | Marjan Oudeman | Member of the Committee |
| Benedict Sciortino | Member of the Committee | Karen Sarkisov | Member of the Committee |
| Franz Struzl | Member of the Committee | Grigory Fedorishin | Member of the Committee |
| | | Benedict Sciortino | Member of the Committee |

* NLMK Group's Board of Directors at a meeting held on 13 February 2018 resolved to elect Oleg Bagrin as Chairman of the Strategic Planning Committee.

Committee's activity in 2018

In 2018, the Strategic Planning Committee held five meetings.

The Committee reviewed and passed resolutions on the following issues:

- NLMK Group strategy results in 2013-2017
- Development of coke production and coal sourcing strategy
- Appointment of the Strategic Planning Committee Secretary
- Development programmes of Energy and Logistics functions
- Development of the Lipetsk site upstream operations and Stoilensky
- Key areas of sales portfolio management in 2018-2022
- Development strategy of Research & Development function
- NLMK Group's Strategy 2022;
- Status of NLMK Group Investment Programme: 2018 Results and 2019 Budget
- Schedule of the Strategic Planning Committee for 2019.

Development and key projects of NLMK USA, NLMK Russia Flat Products, NLMK Europe Strip, NLMK Europe Plate and electrical steels production were also discussed.

In 2019, the Committee plans to work actively on NLMK Group's environmental programme, information systems development programmes, increasing operational efficiency, and the development programmes of such functions as Energy, Sales, Research and Development, and NLMK USA, NLMK EU Strip and NLMK EU Plate divisions, as well as electrical steels production and rolling operations at NLMK Lipetsk. The Committee will also analyse the implementation of the Committee's instructions and NLMK Group's investment programme progress status.

Audit Committee

The Audit Committee, chaired by an independent director, develops and submits recommendations to the Board of Directors on the following matters:

- Efficient supervision of the Company's financial and business activities, including annual independent audits of financial statements, the quality of services provided by the auditor, and

PARTICIPATION OF THE COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2018

| | Position | Participation in Committee meetings in 2018 |
|--------------------|---------------------------|---|
| Oleg Bagrin | Chairman of the Committee | 5/5 |
| Thomas Veraszto | Member of the Committee | 5/5 |
| Helmut Wieser | Member of the Committee | 4/5 |
| Karl Doering | Member of the Committee | 5/5 |
| Vladimir Lisin | Member of the Committee | 5/5 |
| Marjan Oudeman* | Member of the Committee | 2/5 |
| Karen Sarkisov | Member of the Committee | 5/5 |
| Grigory Fedorishin | Member of the Committee | 5/5 |
| Benedict Sciortino | Member of the Committee | 5/5 |
| Franz Struzl** | Member of the Committee | 1/5 |

* NLMK Group's Board of Directors at a meeting held on 8 June 2018 resolved to elect Marjan Oudeman as member of the Committee

** Member of the Committee until 8 June 2018

compliance with the requirements for auditor independence

- 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.

Committee composition as of 31 December 2018

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 changed in 2018.

Mikhail Makeev, Audit Director, was confirmed as the Secretary of the Committee.

Committee's activity in 2018

In 2018, the Audit Committee held four meetings.

During the Committee meetings the following major items were discussed and corresponding decisions taken:

- Review of draft NLMK's 2017 IFRS Consolidated Financial Statements, including financial performance review and results of the audit of the statements performed by PricewaterhouseCoopers Audit (PwC)
- Review of the results of the audit of NLMK's 2017 RAS Accounting (Financial) Statements, including the review of the Auditor's Opinion Evaluation, issued by PwC, on NLMK's 2017 Accounting (Financial) Statements
- Review of draft interim abridged NLMK's IFRS Consolidated Financial Statements for Q1, H1, and 9M 2018, including financial performance review and results of the audit of the statements performed by PwC
- Review of the candidate to the position of the Group's auditor and their remuneration

COMPOSITION OF THE AUDIT COMMITTEE IN 2018

| Composition of the Committee from 2 June 2017 until 8 June 2018 | | Composition of the Committee as of 8 June 2018 | |
|---|---------------------------|--|---------------------------|
| | Position | | Position |
| Benedict Sciortino | Chairman of the Committee | Benedict Sciortino | Chairman of the Committee |
| Karen Sarkisov | Member of the Committee | Karen Sarkisov | Member of the Committee |
| Nikolai Gagarin | Member of the Committee | Nikolai Gagarin | Member of the Committee |
| Stanislav Shekshnia | Member of the Committee | Stanislav Shekshnia | Member of the Committee |
| Franz Struzl | Member of the Committee | Marjan Oudeman | Member of the Committee |

- Review of the report on External Evaluation of NLMK's Internal Audit Function in 2016-2017, prepared by Deloitte & Touche CIS (Appraiser)
- Review of the Audit Department's (Internal Audit Service) draft road map for implementing the Appraiser's key recommendations
- Review of reports on the Audit Department's performance in Q3, Q4 2017, and FY 2017 and in Q1-Q3 2018
- Approval of the Audit Committee meeting plan for 2018
- Review of updated approach to planning of the IAS activity and generalized areas of internal audit's inspections and investigations for 2019.

Financial reporting

NLMK Audit Committee reviews on a quarterly basis the Group's IFRS (International Financial Reporting Statements) consolidated financial statements, and NLMK's RAS (Russian accounting standards) annual stand-alone statutory financials. The Committee pays special attention to significant financial reporting judgements, comments to statements and accounting policies.

Along with the quarterly IFRS financials the Committee reviews and discusses with senior management and external auditors NLMK Group's financial condition, performance results, cash flows and when necessary seeks explanations on key changes in the Group's operating and financial performance.

THE AUDIT COMMITTEE MEMBERS' PARTICIPATION IN THE COMMITTEE MEETINGS IN 2018

| | Position | Participation in Committee meetings in 2018 |
|---------------------|---------------------------|---|
| Benedict Sciortino | Chairman of the Committee | 4/4 |
| Karen Sarkisov | Member of the Committee | 4/4 |
| Nikolai Gagarin | Member of the Committee | 3(1)*/4 |
| Stanislav Shekshnia | Member of the Committee | 4/4 |
| Marjan Oudeman** | Member of the Committee | 2/4 |
| Franz Struzl*** | Member of the Committee | 2/4 |

* Participated by expressing their opinion in writing

** NLMK Group's Board of Directors at a meeting held on 8 June 2018 resolved to elect Marjan Oudeman as member of the Committee

*** Franz Struzl was member of the Committee until 8 June 2018

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 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 team of Vice President for Risk Management, internal audit and the external auditor reports, and holds regular meetings with the Audit Director and the external auditor's team.

Internal Audit

NLMK Audit Committee is responsible for monitoring the operation and evaluating effectiveness of the internal audit function. This is done via discussions with the Audit Director and approval of the quarterly and annual internal audit plans. 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, has a right to raise any matter they believe is important,

an obligation to report to the Committee including on audit results above a certain materiality threshold and/or corresponding with other obligatory disclosure requirements and meets with the external auditors whenever required.

The Internal Audit Service takes an annual self-assessment to evaluate the 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 once every five years, the results of assessments are submitted for consideration to the Audit Committee

External audit

In order to ensure confidence in the efficiency of the independent audit process, PwC and the Audit Committee of the Board of Directors maintain regular interaction. The independent auditor submits an annual audit plan to the Audit Committee, as well as quarterly progress reports.

HR, Remunerations and Social Policy Committee

The Human Resources, Remunerations and Social Policy 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 executives of the Company, human resource planning, and enhancing the Board's areas of expertise and performance.

COMPOSITION OF THE HR, REMUNERATIONS AND SOCIAL POLICY COMMITTEE IN 2018

| Composition of the Committee from 2 June 2017 until 8 June 2018 | | Composition of the Committee as of 8 June 2018 | |
|---|---------------------------|--|---------------------------|
| | Position | | Position |
| Stanislav Shekshnia | Chairman of the Committee | Stanislav Shekshnia | Chairman of the Committee |
| Vladimir Lisin | Member of the Committee | Vladimir Lisin | Member of the Committee |
| Helmut Wieser | Member of the Committee | Helmut Wieser | Member of the Committee |
| | | Oleg Bagrin | Member of the Committee |
| | | Thomas Veraszto | Member of the Committee |

Committee composition as of 31 December 2018

The majority of members of the Human Resources, Remunerations and Social Policy Committee are independent directors. The Committee includes an independent director, competent in matters of motivational management and personnel administration.

The composition of the Committee changed in 2018.

Committee's activity in 2018

In 2018, the Human Resources, Remunerations and Social Policy Committee held four meetings including two meetings in the form of absentee voting. The Committee passed resolutions on the following issues:

- HR strategy results in 2015-2017 and key areas for development in 2018-2022
- Goals and priorities of the Company's President for 2018-2022
- Review and approval of the results of NLMK's Board of Directors performance evaluation in 2017; selection of an independent consultant
- Approval of HR Committee meeting schedule for 2018-2019
- Update on the search for independent directors
- Eligibility of candidates to the position of independent directors to be voted on at NLMK's Annual General Shareholders' Meeting on the 2017 performance

- Professional qualification of candidates to NLMK's Board to be voted on at NLMK's Annual General Shareholders' Meeting on the 2017 performance
- Review of proposals to NLMK's Board of Directors on the amount of remuneration to be paid to Board members
- Achievement of NLMK Group's key performance indicators, target quantitative and project KPIs and 2017 bonuses to be paid to top executives
- Approval of the basic contract terms and conditions with NLMK's President (Chairman of the Management Board)
- Approval of an updated HR Committee meeting schedule for 2018-2019
- NLMK Group's Human Resources Strategy 2022
- NLMK Corporate University: achievements and challenges
- NLMK's Board of Directors performance evaluation.

In 2018, the Human Resources, Remunerations and Social Policy 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 members of the Board of Directors, in a format approved by the Committee, followed

by an interview of each Board member by the Chairman of the Committee. The results of the Board performance evaluation were reviewed at the meeting of the Board of Directors held in March 2018.

NLMK's Human Resources, Remunerations and Social Policy Committee resolved to assess the possibility of obtaining information on best global practices from an external consultant in 2019.

The issue of engaging an external consultant to the Board's performance evaluation is on the agenda of the HR, Remunerations and Social Policy Committee for 2019.

NLMK's Human Resources, Remunerations and Social Policy Committee took a positive view of holding an on-site Committee meeting in an extended format to include the entire Board of Directors that took place at NLMK La Louvière, the Group's main Belgian production site.

PARTICIPATION OF THE COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2018

| | Position | Participation in Committee meetings in 2018 |
|---------------------|---------------------------|---|
| Stanislav Shekshnia | Chairman of the Committee | 4/4 |
| Vladimir Lisin | Member of the Committee | 4/4 |
| Helmut Wieser | Member of the Committee | 4/4 |
| Oleg Bagrin | Member of the Committee | 2* /2 |
| Thomas Veraszto | Member of the Committee | 2* /2 |

* NLMK Group's Board of Directors at a meeting held on 8 June 2018 resolved to elect him as member of the Committee



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 and its Committees.

In addition to supporting the activities of the Board of Directors, NLMK 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, enables the establishment of a dynamic and balanced corporate governance system, ensuring efficient interaction between the Company’s shareholders, Board of Directors, and the 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. The Corporate Secretary’s activities are governed by Regulations on NLMK’s Corporate Secretary.

Valery Loskutov has been the Company’s Corporate Secretary since 2005.



Valery Loskutov

MR. LOSKUTOV WAS BORN ON 6 MAY 1969 IN LIPETSK

- He graduated from the Lipetsk Polytechnic Institute and the Academy of National Economy under the Government of the Russian Federation with an MBA.
- For more than twenty years, he has been a member of the governing bodies of a number of Russian companies. Mr. Loskutov has been with NLMK since 1998, and since 2005 he has been NLMK’s Corporate Secretary. Since 2017 Mr. Loskutov has been Secretary of the Human Resources, Remunerations and Social Policy Committee.
- Mr. Loskutov is a co-founder of National Association of Corporate Secretaries.
- For three years (2016–2018) Mr. Loskutov was ranked among TOP 50 corporate governance directors.
- In 2018 he won the Director of the Year XIII national award in the "Corporate Governance Director/Corporate Secretary" category.

Management Board

NLMK Management Board procedures

The Management Board is in charge of managing day-to-day operations of the Company, implementing the approved strategy and specific resolutions of the General Shareholders’ Meeting and 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 list of issues in the Management Board’s remit is regulated by NLMK Charter and Regulations on the Management Board, available on the Company’s official website at www.nlmk.com.

Composition of the Management Board

NLMK Group’s Management Board as of 31.12.2018 consisted of nine members.



COMPOSITION OF THE MANAGEMENT BOARD

| Composition of the Management Board as of 31 December 2018 | |
|--|---|
| | Position |
| Grigory Fedorishin | President (Chairman of the Management Board) ¹ |
| Tatyana Averchenkova | Vice President, Operational Efficiency |
| Ilya Guschin | Vice President, Sales |
| Barend de Vos | Vice President, International Operations |
| Sergey Likharev | Vice President, Logistics |
| Sergey Filatov | Managing Director |
| Evgeny Ovcharov | Vice President, Risk Management |
| Sergey Chebotarev | Vice President, Energy |
| Mikhail Arkhipov | Vice President, HR & Management System ² |

¹ Appointed President (Chairman of the Management Board) on 12 March 2018

² Vice President, HR & Management System, since 9 January 2018

| Composition of the Management Board until 27 April 2018 | |
|---|---|
| | Position |
| Grigory Fedorishin | President (Chairman of the Management Board) ¹ |
| Tatyana Averchenkova | Vice President, Operational Efficiency |
| Ilya Guschin | Vice President, Sales |
| Barend de Vos | Vice President, International Operations |
| Sergey Likharev | Vice President, Logistics |
| Sergey Filatov | Managing Director |
| Stanislav Tsyrlin | Vice President, HR & Management System ³ |
| Oleg Bagrin | Member of the Board of Directors ⁴ |

³ Vice President, HR & Management System until 29 December 2017

⁴ President (Chairman of the Management Board) until 12 March 2018

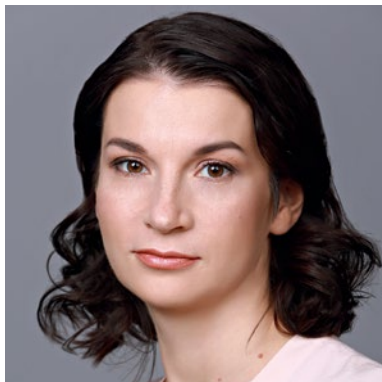
Members of the Management Board biographies



Grigory Fedorishin

| |
|---|
| YEAR OF BIRTH: 1979 |
| MEMBER OF THE STRATEGIC PLANNING COMMITTEE |
| PRESIDENT (CHAIRMAN OF THE MANAGEMENT BOARD) SINCE MARCH 2018 |

- ▶ 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, since March 2017 until March 2018. Vice President for Finance (CFO) from 2013 until 2017. In 2016 he also headed NLMK Group's Russia Long Division.
- ▶ From 2011 to 2013, he served as NLMK's Strategy and Business Development Director. 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.



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.



Barend de Vos

| |
|---|
| YEAR OF BIRTH: 1967 |
| VICE PRESIDENT, INTERNATIONAL OPERATIONS |
| MEMBER OF THE MANAGEMENT BOARD SINCE 2016 |

- ▶ Mr. de Vos 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 a number of its 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 from 2007 to 2011.
- ▶ After starting his career as production and development engineer in 1990, 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 PhD 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 was CEO of the Basel Aero airport group 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.



Sergey Filatov

| |
|---|
| YEAR OF BIRTH: 1959 |
| MANAGING DIRECTOR |
| MEMBER OF THE MANAGEMENT BOARD SINCE 2013 |

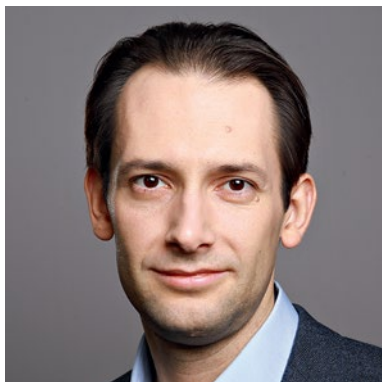
- ▶ Mr. Filatov graduated from Moscow Institute of Steel and Alloys. He holds a Ph.D., Tech., and is Honorary Metallurgist of Russia. Merited Metallurgist of Russia.
- ▶ Mr. Filatov has been with NLMK since October 2012, serving as Deputy Senior Vice President - General Director for Production and Technology. 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.



Evgeny Ovcharov

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|--|
| YEAR OF BIRTH: 1977 |
| VICE PRESIDENT, RISK MANAGEMENT |
| MEMBER OF THE MANAGEMENT BOARD SINCE 2018 |

- ▶ Graduate of Lipetsk State Technical University. Ph.D., Ec.
- ▶ Evgeny Ovcharov joined NLMK in 1998. Mr. Ovcharov held the positions of Director for Internal Control and Risk Management, Head of Corporate Finance, and senior management positions at the Department of Economics and Finance. In 2016, he was appointed Vice President for Risk Management.



Mikhail Arkhipov

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| YEAR OF BIRTH: 1982 |
| VICE PRESIDENT, HR & MANAGEMENT SYSTEM |
| MEMBER OF THE MANAGEMENT BOARD SINCE 2018 |

- ▶ Mr. Arkhipov graduated with honours from the Faculty of Sociology of Lomonosov Moscow State University.
- ▶ Mikhail Arkhipov joined NLMK in January 2018 as Vice President, HR & Management System. From 2013 to 2018, he was member of the Management Board and Vice President for HR at MTS Group. From 2009 to 2013, he held various positions at the HR Department at SIBUR up to HR Director. From 2004 to 2009, Mr. Arkhipov worked in senior management positions in HR at SUN InBev and KPMG.



Sergey Chebotarev

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| YEAR OF BIRTH: 1980 |
| VICE PRESIDENT, ENERGY |
| MEMBER OF THE MANAGEMENT BOARD SINCE 2018 |

- ▶ Mr. Chebotarev graduated from Lipetsk State Technical University, majoring in Applied Mathematics. Ph.D., Tech.
- ▶ Sergey Chebotarev joined NLMK in 2000 as an economist in the Fuel and Energy Complex Department. He was Head of Energy Policy Management and Director for Energy Efficiency and Energy Markets, before being promoted to Vice President of Energy in 2016.

President (Chairman of the Management Board)

The President (Chairman of the Management Board) manages the Company’s day-to-day activities, arranges for the execution of 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 outlined in the prevailing legislation of the Russian Federation, as well as the President’s contract with 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 resolution of the General Shareholders’ Meeting.

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.

Grigory Fedorishin has been the President (Chairman of the Management Board) since 12 March 2018.

Activity of the Management Board in 2018

In 2018, there were 45 meetings of the Management Board, including 20 meetings that were held by absentee ballot. President (Chairman of the Management Board) determines the format of the Management Board’s meeting.

The following issues were considered at these meetings:

- Achievement of the Group’s key performance indicators in occupational health & safety
- NLMK Group’s consolidated budget execution
- Working capital report
- Achievement of NLMK Group’s KPIs and implementation of its companies’ optimization programmes

- Participation/withdrawing participation of the Group in other companies
- Approval of draft decisions on matters within the competence of the General Shareholders’ Meetings of companies in which the Group is the sole participant/ shareholder
- Development programmes of NLMK’s divisions (functional areas), operations, including within the scope of Strategy 2022
- Operational Efficiency Improvement Programmes for divisions
- Recommendations to the Company’s Board of Directors (in particular, with regard to dividend payments and NLMK’s Draft 2017 Annual Report)
- 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 2019.

SHARES OWNED BY MEMBERS OF THE MANAGEMENT BOARD IN 2018

| | Position | Share of the authorized capital stock of NLMK | Information on transactions with NLMK shares |
|--------------------------------|---|---|--|
| Grigory Fedorishin | President (Chairman of the Management Board) ¹ | Not an NLMK shareholder | Did not participate in any transactions |
| Oleg Bagrin ² | Member of the Board of Directors, President (Chairman of the Management Board) ³ | Not an NLMK shareholder | Did not participate in any transactions |
| Tatyana Averchenkova | Vice President, Operational Efficiency | Not an NLMK shareholder | Did not participate in any transactions |
| Ilya Guschin | Vice President, Sales | Not an NLMK shareholder | Did not participate in any transactions |
| Barend de Vos | Vice President, International Operations | Not an NLMK shareholder | Did not participate in any transactions |
| Sergey Likharev | Vice President, Logistics | Not an NLMK shareholder | Did not participate in any transactions |
| Sergey Filatov | Managing Director | Not an NLMK shareholder | Did not participate in any transactions |
| Stanislav Tsyrlin ² | Vice President, HR & Management System ⁴ | Not an NLMK shareholder | Did not participate in any transactions |
| Evgeny Ovcharov ⁵ | Vice President, Risk Management | Not an NLMK shareholder | Did not participate in any transactions |
| Sergey Chebotarev ⁵ | Vice President, Energy | Not an NLMK shareholder | Did not participate in any transactions |
| Mikhail Arkhipov ⁵ | Vice President, HR & Management System ⁶ | Not an NLMK shareholder | Did not participate in any transactions |

¹ Appointed President (Chairman of the Management Board) on 12 March 2018
² Member of the Management Board until 27 April 2018
³ President (Chairman of the Management Board) until 12 March 2018

⁴ Vice President, HR & Management System, until 29 December 2017
⁵ Member of the Management Board since 27 April 2018
⁶ Vice President, HR & Management System, since 9 January 2018

PARTICIPATION OF MEMBERS OF THE MANAGEMENT BOARD
IN THE MANAGEMENT BOARD MEETINGS IN 2018

| | Participation in meetings |
|----------------------|---------------------------|
| Grigory Fedorishin | 45/45 |
| Oleg Bagrin | 8 ¹ /45 |
| Tatyana Averchenkova | 45/45 |
| Ilya Guschin | 45/45 |
| Barend de Vos | 45/45 |
| Sergey Likharev | 45/45 |
| Sergey Filatov | 45/45 |
| Stanislav Tsyrlin | 8 ² /45 |
| Evgeny Ovcharov | 32 ³ /45 |
| Mikhail Arkhipov | 32 ⁴ /45 |
| Sergey Chebotarev | 32 ⁵ /45 |

- ¹ Oleg Bagrin was member of the Management Board until 27 April 2018
- ² Stanislav Tsyrlin was member of the Management Board until 27 April 2018
- ³ Evgeny Ovcharov was appointed member of the Management Board at the meeting of the Board of Directors held on 27 April 2018
- ⁴ Mikhail Arkhipov was appointed member of the Management Board at the meeting of the Board of Directors held on 27 April 2018
- ⁵ Sergey Chebotarev was appointed member of the Management Board at the meeting of the Board of Directors held on 27 April 2018



NLMK Management Board members had no conflict of interest in 2018.

Events after
the reporting date

Konstantin Arshakuni, Secretary of the Strategic Planning Committee was appointed NLMK's Vice President for Strategy on 9 January 2019.

At a meeting held on 1 March 2018, NLMK Group's Board of Directors recommended the Company's shareholders to approve payment of FY2018 dividends in the amount of RUB 22.81 per ordinary share (taking into account paid interim dividends in the amount of RUB 17.01 per share, the outstanding amount to be paid in dividends is RUB 5.80 per share).

Report on remuneration
to governing bodies

Remuneration and
compensation of members
of the Board of Directors

Members of the Board of Directors are paid remuneration during the period of their duties execution, and they are also get coverage of expenses related to performance of their duties as members of the Company's Board of Directors. The Regulations on Remuneration of Members of the Board of Directors, approved by the General Shareholders' Meeting, establish the amount of remuneration and determine the terms and conditions as well as the procedure for remuneration payment. The Regulations are available on the Company's official website at www.nlmk.com.

It contains transparent criteria for determining the amount of remuneration paid to the Board members, and governs all types of compensation and benefits offered to them.

The levels of remuneration are sufficient to attract, motivate and retain competent and qualified directors.

The remuneration system for members of the Board of Directors serves to align their financial interests with the long-term financial interests of shareholders. 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 the Company. Remuneration to members of the Board of Directors consists of a basic remuneration and a bonus.

The amount of the basic remuneration was approved on 5 June 2015 by resolution of the Annual General Shareholders' Meeting and amounts to \$160,000 (one hundred and sixty thousand).

A member of the Board of Directors is entitled to the basic remuneration if they participated in over half of the Board of Directors meetings over the reporting period.

Members of the Board of Directors are also paid additional remuneration for performing the functions of the Chairman of the Board

REMUNERATION OF MEMBERS OF NLMK'S BOARD OF DIRECTORS

| Remuneration category | Remuneration amount |
|---|---|
| Basic remuneration | \$160,000 |
| Additional remuneration for the performance of duties of the Chairman of the Board of Directors, considering their functions related to organizing the work of the Board of Directors | Up to 50% of the basic remuneration |
| Additional remuneration to a member of any Committee of the Board of Directors (who participated in over half of its meetings) | Up to 25% of the basic remuneration, and up to 50% of the basic remuneration to a member of two and more Committees |
| Additional remuneration to the Chairman of any Committee of the Board of Directors (who participated in over half of its meetings) | Up to 40% of the basic remuneration, and up to 80% of the Basic remuneration to the Chairman of two and more Committees |

REMUNERATION TO BOARD OF DIRECTORS MEMBERS PAID
IN 2017-2018, RUB '000*

| | 2018 | 2017 |
|--|---------|---------|
| Remuneration and compensation to members of the Board of Directors, incl.: | 155,307 | 139,134 |
| Remunerations, incl.: | 148,389 | 136,977 |
| basic remuneration | 100,037 | 89,010 |
| bonuses | 48,352 | 47,967 |
| Salary | - | - |
| Bonuses | - | - |
| Commission | - | - |
| Benefits | - | - |
| Reimbursed expenses | 6,918 | 2,157 |
| Other types of remuneration | - | - |

* Data for 2017 are represented in actual amounts. Remunerations to members of the Board of Directors for 2018 are determined on the basis of preliminary calculation in accordance with the Regulations on Remuneration to Members of NLMK's Board of Directors

of Directors, a member of one or more Committees of the Board of Directors, or for chairmanship in one or more Committees of the Board of Directors.

A member of the Board of Directors may receive a bonus that shall not exceed two basic 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 Committees and recommendations of the Human Resources, Remunerations and Social Policy Committee.

The remuneration is paid based on a resolution of NLMK's General Shareholders' Meeting. Regulations on Remuneration of Members of the Board of Directors of NLMK outline the rules for reimbursing Board members' work-related expenses. The following expenses are considered to be reimbursable.

- Transportation costs of 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 basic 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.

The Company does not have other forms of remuneration, including short-term and long-term incentive programmes, depending on financial performance, or stock option programmes.

The Annual General Shareholders' Meeting on the 2017 performance, which was held on 8 June 2018, resolved to pay remuneration to members of NLMK Board of Directors in the amount of \$2.216 million.

Remuneration and compensation of members of the Management Board

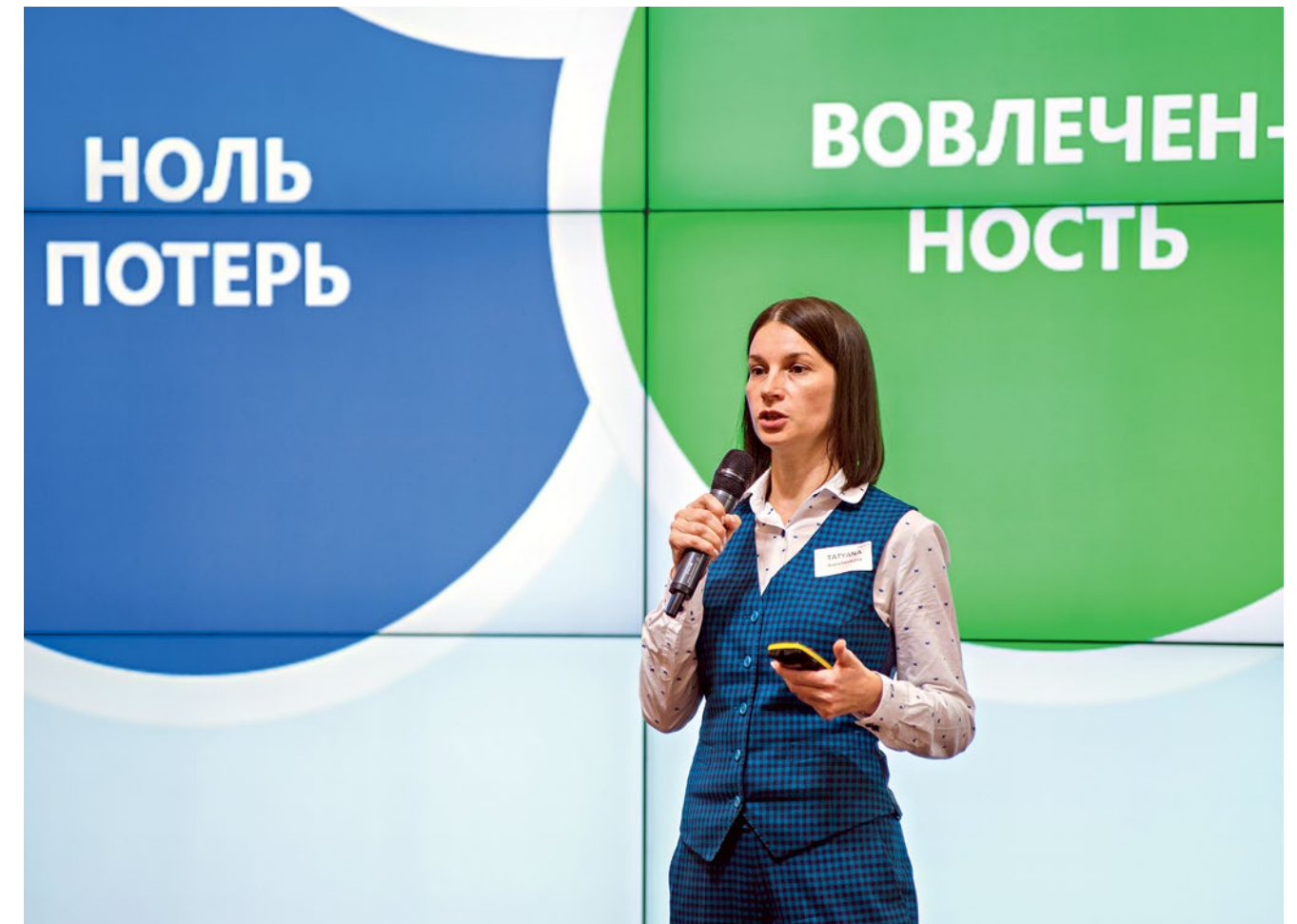
The Management Board remuneration system is aimed at ensuring their material interest in achieving strategic goals and increasing the economic efficiency of NLMK governance. The Company's approach to remunerating members of the Management Board creates sufficient motivation for their efficient work and allows the Company to attract and retain competent and qualified executives.

In line with the Regulations on the Management Board, members of the Management Board shall receive remuneration and compensation for expenses that relate to the execution of their duties as members of the Management 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 members of the Management Board.

The material interest of members of the Management Board in achieving the Company's strategic goals is provided for through short-term and long-term incentive systems.

Short-term incentives are based on the existing system of key performance indicators (KPIs). The amount paid to members of the Management Board in bonuses depends on their KPIs achievement. The KPIs used to determine rewards for top management are related to NLMK's financial and operating performance and are intrinsically linked to shareholder value. They include operational performance, social responsibility and occupational safety, and organizational development indicators.

The Company also has a long-term incentive (LTI) programme for members of the executive bodies and other top executives of the Company. In March 2019, it is planned to approve a new long-term incentive programme in connection with the completion of the 2014–2018 LTI programme.



INDIVIDUAL AMOUNT OF REMUNERATION TO BOARD MEMBERS PAID IN 2017-2018, RUB '000

| | Total remuneration in 2018 | Total remuneration in 2017 |
|---------------------|----------------------------|----------------------------|
| Vladimir Lisin | 21,264 | 19,449 |
| Stanislav Shekshnia | 16,318 | 14,925 |
| Oleg Bagrin | 13,846 | 11,308 |
| Nikolai Gagarin | 12,363 | 11,308 |
| Karen Sarkisov | 14,835 | 13,569 |
| Thomas Veraszto | 12,363 | 11,308 |
| Helmut Wieser | 14,835 | 13,569 |
| Marjan Oudeman | - | - |
| Benedict Sciortino | 16,318 | 14,925 |
| Franz Struzl | 14,835 | 13,569 |

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 performance during the reporting period
- Active involvement of members of the Management Board in the work of the Group's executive bodies.

REMUNERATION TO MANAGEMENT BOARD MEMBERS PAID IN 2017-2018, RUB '000*

| | 2018 | 2017 |
|---|----------------|----------------|
| Payments to Management Board members, incl.: | 446,943 | 706,437 |
| Salary | 205,195 | 256,517 |
| Bonuses | 234,900 | 425,698 |
| Commission | - | - |
| Benefits | - | - |
| Refunded expenses | 1,481 | 1,381 |
| Other types of remuneration | 5,367 | 22,841 |

* Data for 2017 are represented in the actual amounts. May differ from previously published estimated liabilities by the amount of liabilities for achieving the Company's strategic objectives in 2017–2018 under the long-term incentive programme. The actual payment is expected in 2019. NLMK's 2018 financial statements take into account the estimated reserve for the payment of bonuses under the long-term incentive programme in the amount of RUB 1,760,495.7 thousand. Bonuses to members of the Management Board for 2018 include payment liabilities based on a preliminary reporting year-end calculation. 2017 dividend pay to members of the Management Board amounted to RUB 182,000.

Operational control and risk management

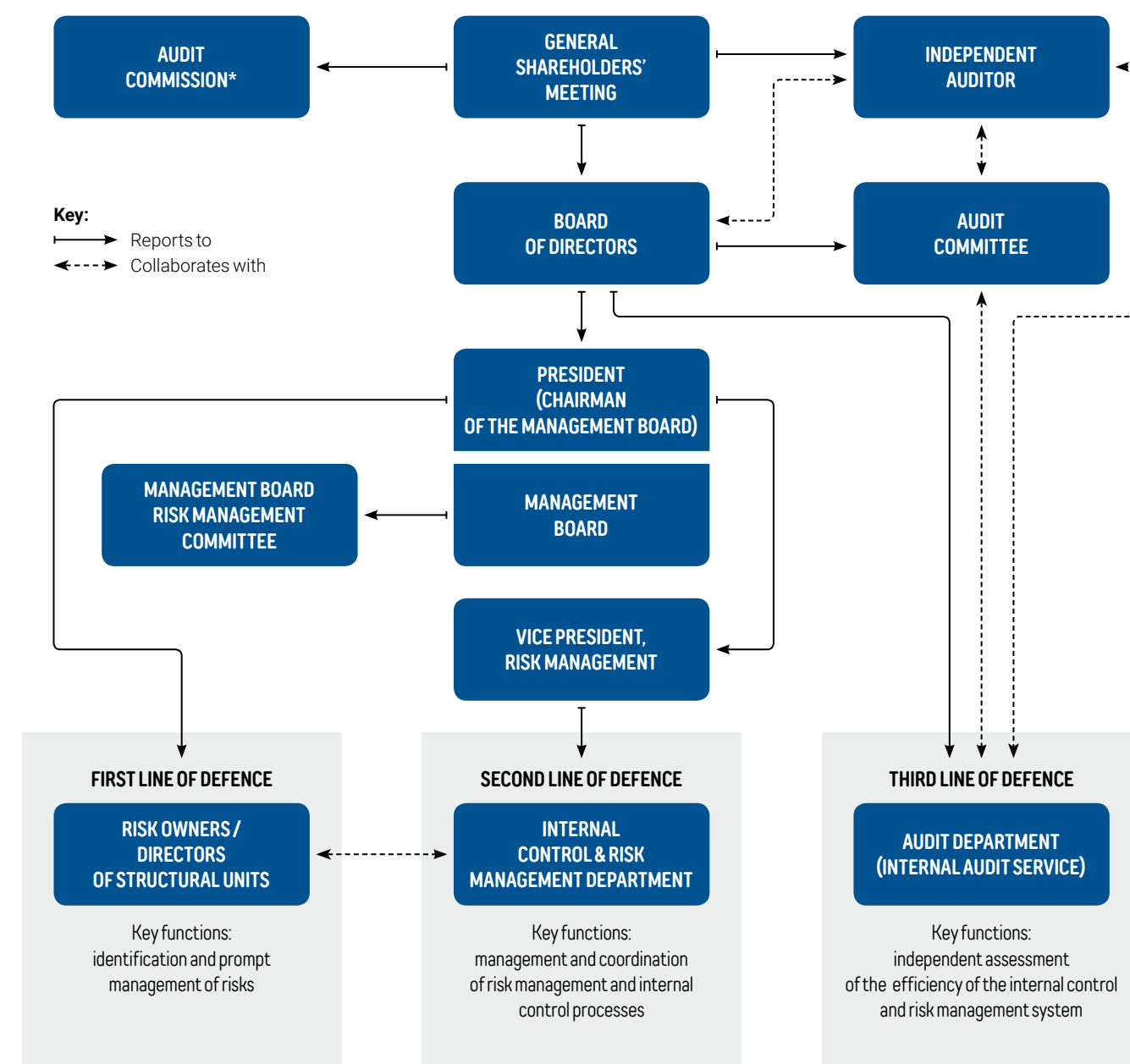
As a major international steel producer, NLMK Group is subject to a variety of operational risks which could have a negative impact on the Group's business and on our stakeholders if materialized. In order to safeguard shareholder value and sustainable development, we employ

the latest operational control and risk management practices and methods.

NLMK's approach to operational control is founded on a clear division of authority and functions between the entities involved in NLMK's internal control and risk management system; it also takes into account NLMK's

'three lines of protection'. Control procedures apply to the Group's Russian and international operations, and are an integral component of key corporate decision-making activities and processes.

ORGANIZATIONAL STRUCTURE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM



* At an Extraordinary General Shareholders' Meeting in December 2018, a resolution was passed to abolish the Audit Commission. This decision was taken pursuant to changes to the prevailing legislation of the Russian Federation and in connection with the fact that the Company has an efficient risk management and internal control system in place. The key functions of the Audit Commission will be fulfilled in practice by the Audit Department (Internal Audit Service).

DIVISION OF INTERNAL CONTROL AND RISK MANAGEMENT FUNCTIONS AMONG CORPORATE GOVERNANCE SYSTEM PARTICIPANTS

| Participant | Key functions |
|---|---|
| Board of Directors | <ul style="list-style-type: none"> Defines principles for and approaches to the organization of the internal control and risk management system |
| Audit Committee | <ul style="list-style-type: none"> Monitors the reliability and efficiency of the internal control and risk management system Monitors procedures to ensure the Group's compliance with legislative and stock exchange requirements, and with corporate ethical standards, rules, and procedures Analyses and assesses the implementation of NLMK's conflict of interest management policy |
| Audit Department (Internal Audit Service) | <ul style="list-style-type: none"> Assesses the reliability and efficiency of internal control and risk management system Assesses the corporate governance system Provides advice and recommendations, promotes knowledge sharing |
| Management Board | <ul style="list-style-type: none"> Defines strategy and approves critical risk management measures Ensures the effective functioning of the internal control and risk management system |
| Vice President, Risk Management | <ul style="list-style-type: none"> Organizes risk management and internal control operations Implements anti-corruption programmes and counter-corruption activities |
| Management Board's Risk Management Committee | <ul style="list-style-type: none"> Approves principles, strategy, and regulatory instruments for risk management processes and the internal control system Regularly reviews the Company's risk radar (a list of significant risks, indicating their weight and trends for the period) and ensures overall monitoring of the implementation of risk management measures Approves and implements general monitoring of risk management measures Regularly reviews the results of analysis and assessment of the internal control system, approves and ensures general monitoring of the implementation of measures to enhance it Approves and monitors adherence to corporate ethics and business culture norms within the Group Ensures overall organization of activity to enforce the Code of Corporate Ethics and Anti-Corruption Policy Regularly reviews reports on compliance with business ethics and anti-corruption principles Coordinates the work of subdivisions participating in the risk management process and internal control system |
| Internal Control & Risk Management Department | <ul style="list-style-type: none"> Assesses and regularly monitors the level of risks taken, assesses the efficiency of management activities Coordinates and provides methodological support with regard to the risk management process Develops regulatory and methodological documents relating to risk management and internal control Promotes and assesses the effectiveness of measures to counteract corruption and fraud implemented in accordance with the Group's Anti-Corruption Policy Records and processes incidents associated with deviations in the internal control system, plans and monitors corrective measures Systematically looks into the risk coverage by the internal control system in cooperation with line managers; plans and monitors implementation of corrective measures Builds a system for effective internal communication about risks Creates a risk- awareness culture |
| Risk owners (business subdivisions) | <ul style="list-style-type: none"> Identify risks Implement risk management measures Monitor key risk indicators (KRIs) |

Internal control and risk management system

The internal control and risk management system that NLMK has in place is designed to ensure reasonable certainty that the Group's strategic and operational goals will be achieved, to create and protect Group value, and to ensure sustainable development through rapidly identifying, assessing, and effectively managing risks and opportunities.

The Company's Board of Directors, which determines the principles and approaches to the organization of the risk management system and regularly reports on the status of the Company's risks, plays a key role in the risk management process.

The Internal Control and Risk Management Department operates as a separate structural subdivision within NLMK. Its goals and objectives include analysing risks associated with key business processes, ensuring that risk management processes are effective, implementing monitoring procedures, and developing a corporate culture of risk awareness. The Department includes the following units and functional specialists: Corporate Risk, Internal Control, Repair and Construction Control, Qualifications and Tender Procedures, and a lead anti-corruption specialist.

Our approach to risk management

Risk management is a continuous process aimed at reducing risk to an acceptable level and preventing events that could have a negative impact on the achievement of NLMK Group's business goals. The Group is committed to effectively and proactively managing risks and opportunities on a day-to-day basis, and to the ongoing development of a risk- awareness culture.

NLMK's risk management system has been developed to take account



of the challenges posed by the external environment and in accordance with the principles set forth in international risk management standards, including ISO 31000:2018 and COSO ERM:2017. The Regulations on the Corporate Risk Management System is the key internal document regulating NLMK's risk management. Internal documents have also been developed for managing individual risk categories, which are of relevance to the Group.

Management Board's Risk Management Committee is an important link in the risk management process. It conducts a detailed review of changes in the Company's risk profile, issues relating to the functioning of the risk management system, and methodological approaches to risk management during its meetings. The Management Board and the Board of Directors review the map of significant risks to which NLMK is exposed on an annual basis and take into account information on current and emerging risks in the course of decision-making. [GRI 102-11](#)

NLMK's functional areas are engaged in identifying and responding to risks relevant to their operations, with methodological support from the Internal Control and Risk Management Department. The effectiveness of measures to manage identified risks is monitored by the Department as part of the analysis of management reporting from risk-owning functional subdivisions;

this includes operational data at the business process level on current and planned KRI values, the status of risk management measures, and materialized risks.

NLMK is committed to the continuous development of its corporate risk management culture, which aims to identify and respond to risks in a timely and effective manner. With this aim in mind, the management consistently emphasizes the importance of risk management in internal corporate communications. The development of a risk-awareness corporate culture is also facilitated by systematic training in managing individual categories of risk, and by the integration of risk management in the daily activities of the Group employees.

Assessing the probability and impact of risks is one of the most significant factors in the making of considered management decisions, and NLMK therefore employs modern risk analysis practices and tools. By applying specially developed methods for assessing individual categories of risk, anticipated losses and the probability of risk realization can be determined with a very high degree of precision, and effective risk management measures can be developed.

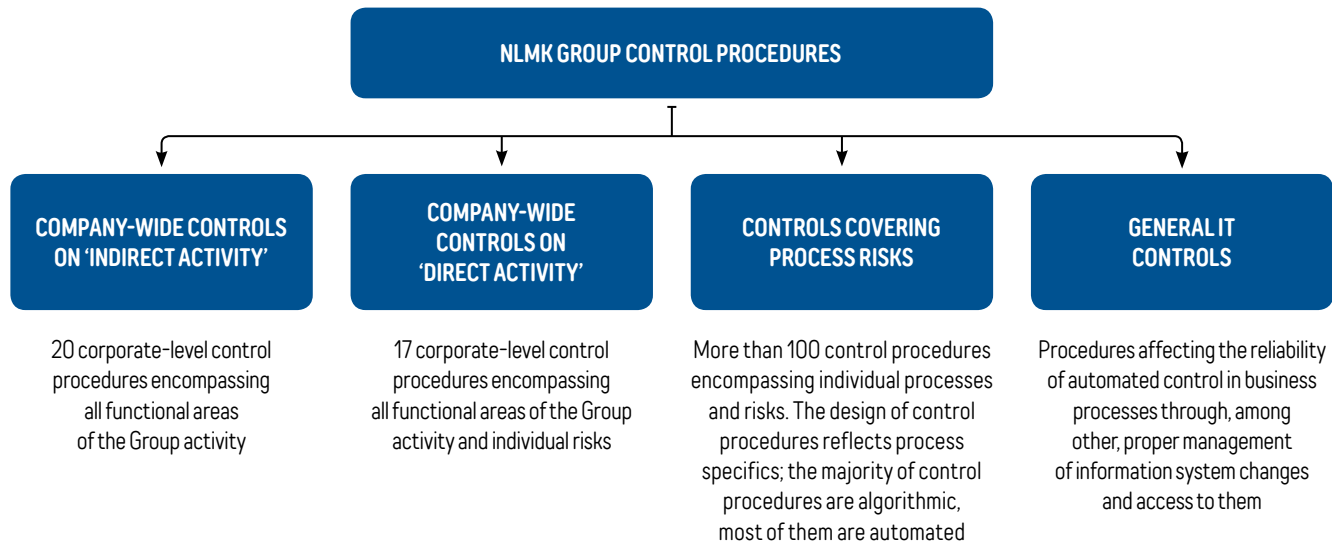
The majority of significant risks to which NLMK is exposed are assessed on a quantitative basis, leading to better-informed management decisions.

KEY PHASES IN THE RISK MANAGEMENT PROCESS



The Group assesses significant risks using scenario analysis models and stress testing.

The Company regularly monitors the efficiency of its risk management system and implements measures to improve it. The Audit Department (Internal Audit Service) plays a key role in the assessment of the risk management system. The Internal Control and Risk Management Department also conducts a regular self-assessment of the risk management system efficiency by comparing the Company's current practices with best practices, recommendations of professional standards, and practices implemented in similar companies.



Our approach to internal control

Internal control encompasses all key NLMK Group business processes, and aims to ensure that assets are safeguarded and that business operations can be pursued effectively. The key document regulating NLMK’s internal control system is the Regulations on the Internal Control System.

The Internal Control Department, which is part of the Internal Control and Risk Management Department, works systematically to assess and develop control procedures and analyse risk in the key business processes of the Group in collaboration with functional heads, including: Procurement, Investment Projects Implementation, Sales, the Maintenance Management System and others. If necessary, the Internal Control Department works in conjunction with the Audit Department. The fact that the Company has three levels of control procedures in place makes it possible to cover numerous areas of the Group’s operations and ensure that business processes function reliably.

Senior management plays a key role in determining the design and ensuring the efficiency of the internal control system (‘tone at the top’). Performance and evaluation reports on the internal control system across business processes are presented for review by the Risk Management Committee once or twice each quarter. A regular independent reliability assessment of the internal control system is carried out by the Internal Control Department, which is also responsible for developing the system.

The Audit Department (Internal Audit Service) assesses the performance of the internal control system. Monitoring of the internal control system’s reliability is also carried out as part of assessments of the system across business processes performed by the Audit Department. The Management Board’s Risk Management Committee also reviews the results of these assessments.

For more efficient risk control, the Group makes use of the SAP GRC system. The SAP GRC Access

Control and SAP GRC Process Control modules, which were rolled out in 2017, allow distribution of the most critical authorizations to be controlled within the Company’s main ERP system. They also enable regular automated monitoring of significant deviations in business processes.

2018 performance

In 2018 the Company continued to improve its internal control and risk management system and develop approaches to risk management. The key outcomes resulting from the development of these approaches and improving the reliability of risk management systems are as follows:

- An automated credit management system. The system is designed to perform automated monitoring of product shipments, with the objective of restricting shipments when a payment is overdue. The project encompasses the Group’s Russian and international companies.
- Development and implementation of risk management approaches in innovative projects that are characterized by a high degree of uncertainty with respect to outcomes, a lack of experience in applying the technological solutions implemented both within NLMK Group and in global practice, and an absence of standard approaches to implementation.

- In connection with the growing significance of improvements to corporate IT system security across its global sites, a methodology for assessing cybersecurity risks was developed at NLMK in 2018. A list of current cybersecurity threats relevant to NLMK was established, scenarios for the realization of these threats determined, and the potential losses resulting from each scenario calculated. Assessing the vulnerability of current cybersecurity measures has allowed NLMK both to determine the probability that each scenario will be implemented in such a way as to take these vulnerabilities into account, and to evaluate the total potential losses resulting from the realization of negative incidents in a given area.

- Further systematization and improvement of crisis response plans: negative developments, which could have a serious impact on business and commercial interests, the health and welfare of employees and local communities, and the environment.
- Improved accuracy of projected financial indicators included in NLMK Group’s budget, thanks to the involvement of the Internal Control and Risk Management Department in the budgeting process.
- Development and implementation of a portfolio management strategy for retail credit risk that takes into account the cost of protective measures.
- Replication of quantitative risk assessment methods for significant investment projects.
- Creation of a system for evaluating IT security risks.
- Updating the parameters of the property risks and business continuity risks insurance programme.

In 2018, as part of the development of a risk-oriented culture, the Internal Control and Risk Management Department organized training in investment risk management for all Russian companies, and conducted training presentations on credit risk management at the request of relevant subdivisions.

In addition the focus of the Internal Control Department in 2018 was analysis of production process risks. Key actions taken to develop and improve the reliability of the internal control system in 2018 include:

- Digitalization of real-time ferroalloy consumption in BOF operations with the launch of a project to monitor anomalies in ferroalloy utilization, audit of the adequacy and automation of weighing procedures at the Lipetsk site for controlling incoming and outgoing material flows.
- Implementation of a real-time flow analysis system for the weighing of scrap metal, analysis of the internal control system for transporting scrap metal at NLMK Kaluga.

- Risk assessment and implementation of control procedures for the raw materials procurement process, competitiveness analysis of panels of our most critical suppliers and contractors.
- Transition to the construction cost control based on market rates with application of the input method.

Significant risks

NLMK Group has drawn up a list of significant (critical) risks. This includes both financial and non-financial risks for which the Group has assessed the probability of their materialization and/or their expected impact is high. Analysing critical risks and monitoring implementation of measures to manage risks of this kind are a continuing priority for NLMK Group’s management team.



SIGNIFICANT RISKS FOR NLMK GROUP IN 2018

| Risk name | Description | Change in risk level 2017–2018 | Comments to changes | Quantitative assessment of risk | Management measures |
|---|--|--------------------------------|--|---------------------------------|--|
| Price and currency risks | Risk of reduced profits resulting from a negative change in market prices for finished products and in exchange rates. Assessed together due to strong statistical correlation. | Rise | Due to increasing volatility of prices for products and raw materials | Yes | <ul style="list-style-type: none"> Support for an optimal long-term open currency position in key currencies to ensure 'natural' hedging Formula-based pricing of finished products and raw materials and supplies |
| Risks to business continuity | Risk associated with production downtime caused by breakdown of key machinery | Rise | The estimate is based on the cost of equipment downtime. Due to high product prices in 2018, the cost of downtime also increased. At the same time, the duration and probability of downtime decreased or did not change | Yes | <ul style="list-style-type: none"> Development and implementation of a maintenance and major repairs programme (preventative maintenance and major repairs) |
| Environmental risk | Risk of occurrence of events with unfavourable consequences for the environment due to negative impact of NLMK Group's companies operations | Flat | The risk reduction effect due to systematic implementation of the environmental programme offset the increased risk through identification of new risk factors | Yes | <ul style="list-style-type: none"> Implementation of cutting-edge conservation technology as part of a comprehensive environmental investment programme |
| Investment risk | Risks of increased expenditure and shifting deadlines in relation to investment programme implementation | Reduced | Due to investment programme implementation | Yes | <ul style="list-style-type: none"> Risk-based calculation of reserves and inclusion in project budgets Model for calculating project risks with subsequent review of the acceptability of the project risk level by the Investment Committee. Inclusion of risk minimization measures in project budgets |
| Credit risk | Risk of losses stemming from contractors' payment default or from product non-delivery (accounts receivable and advance payments), or NLMK Group's bank deposits | Flat | The growth of receivables in absolute terms is offset by a decrease in the share of overdue and uncovered receivables | Yes | <ul style="list-style-type: none"> Series of principles and approaches to credit risk management unified within the Group's Credit Policy. Includes restrictions on the maximum permissible volume of subcontractor liabilities, taking into account the use of various protective instruments |
| Trade restriction risks | Risks of losses resulting from changes to tariffs, the application of non-tariff or other trade restrictions (in the procurement of raw materials, supplies, and equipment, and in the sale of products) | Flat | A number of risks materialized in 2018 | Yes | <ul style="list-style-type: none"> Monitoring and analysis of international customs statistics to identify sales channels most subject to risk, adaptation of the sales strategy to the growing risk of trade restrictions Management of a portfolio of collaborative projects with government bodies (participation in research, minimization of consequences) |
| IT and information security risks | This risk is associated with the heavy dependency of NLMK business processes on IT systems and services, and on the flow of information requiring special organizational and technical measures to ensure that these remain secure and function reliably | Rise | Reassessment of external factors in line with the new methodology | Yes | <ul style="list-style-type: none"> Implementation of comprehensive IT security projects |
| Occupational and industrial safety risks | Occupational and industrial safety risks include events associated with occupational injuries, equipment breakdown, buildings, and structures decay, fire, explosion, uncontrolled emissions of hazardous substances, and transport accidents | - | - | No | <ul style="list-style-type: none"> Development of a risk-based occupational and industrial safety programme (improvement of working conditions and industrial and fire safety, risk management) |
| Fraud and corruption risk | These risks arise as a result of unlawful (fraudulent) activity on the part of employees, subcontractors, or third parties with the objective of exacting personal gain by damaging NLMK's interests | - | - | No | <ul style="list-style-type: none"> Identification of those areas most exposed to corruption and fraud-related risks (obligatory declaration of conflicts of interest, psychophysiological assessment of employees in the risk area) Collegiality and restrictions on authorizations of decisions relating to work with subcontractors Promotion of the principles contained in the Anti-Corruption Policy and the Corporate Ethics Code |

Plans for 2019 and midterm

The Company is planning to further develop its internal control and risk management system by integrating a risk-based approach to the management of core business processes. Plans include expanding cooperation between the Internal Control and Risk Management Department and business process owners, and targeted implementation of risk management procedures in specific areas of the Group’s operations.

Plans for 2019 include:

- Improvement of the Group’s ability to adapt to negative events by creating plans to restore critical equipment in the event of accidents
- Analysis and unification of the existing regulatory framework for emergency response at sites, improving the status update process
- Introduction of optimal approaches to managing the credit risk of contractors, working on investment projects, taking into account the risk/reduced construction time ratio and the quality of equipment maintenance
- Development of a risk-based approach to prioritization of maintenance projects in the field of occupational and industrial safety, physical and economic security

- Development of a portfolio approach to assessing the overall risk of the Group, taking into account the correlation of factors
- Review of the main pools of suppliers and contractors for availability of qualified partners and exclusion of unreasonable intermediaries
- Approval of the principles of strategic partnership with contractors in the construction and fixed assets management
- Training of the Group's executives in approaches to compliance risk management when working with counterparties
- Full-scale migration to the use of the input method for assessing investment projects.

Internal Audit

Internal audit is a source of reasonable guarantees for the management to achieve NLMK Group's strategic objectives. The activities of the Audit Department (Internal Audit Service) are aimed at improving the Group's performance by conducting objective audits in line with the risk-based approach and giving recommendations following the results of audits and knowledge sharing.

The Group's internal audit function is built in line with legal requirements and recommendations of professional standards and the Bank of Russia Corporate Governance Code, and meets the requirements of the best international practices. The Audit Department includes NLMK Lipetsk's Audit Department, NLMK Group Companies' Audit Department, Comprehensive Assessment and Information and Analytical Support, as well as a lead international audit specialist.

Internal audit is a centralized function, ensuring full coverage of the core activities of NLMK Group's companies, including international ones. Unified management of the internal audit function facilitates the use of uniform standard approaches to planning, auditing and reporting, as well as ensures effective exchange of information between specialists of the Internal Audit Service.

The Internal Audit Services' key functions include assessment of the internal control system and the risk management system efficiency as well as corporate governance assessment. In addition, the Internal Audit Service carries out consulting activities by providing professional opinion to internal customers on certain issues of financial and business activities.

The assessment of the Company's risk management and internal control system is carried out taking into account the principles set forth in international standards for risk management and internal control, including ISO 31000: 2018 and COSO ERM: 2017, COSO Internal control. Integrated model 2013.

PRINCIPLES OF THE INTERNAL AUDIT SERVICE AND THEIR ENFORCEMENT

| Principles of the Internal Audit Service | Principles enforcement tools and mechanisms |
|--|---|
| Independence and objectivity | <ul style="list-style-type: none"> Audit Director functionally reports to NLMK's Board of Directors Audit Director is appointed (dismissed) by resolution of NLMK's Board of Directors Audit Director has the right of direct and free access to the Chairman of the Board of Directors, Chairman of the Audit Committee and President (Chairman of the Management Board) to provide information on identified significant risks Third parties are prohibited from interfering in the process and the results of the audit |
| Systematic and consistent approach | <ul style="list-style-type: none"> The Internal Audit Service is guided by a risk-based Audit Plan Distribution of resources between local (limited scope) and integrated audits of processes and subsidiaries in devising Audit Plan The Internal Audit Service prepares recommendations taking into account the costs/value ratio. Priority is given to systemic measures |
| Efficient use of resources | <ul style="list-style-type: none"> Lead auditors are appointed from among the most qualified auditors Engagement of internal and external experts (consultants) Timely status updates of the Company's management about the requirements (limitations) in the resources necessary for carrying out audits |
| Risk-based approach | <ul style="list-style-type: none"> Focus on areas, most subject to risk, when drawing up the Audit Plan and performing audits |
| Professionalism and professional attitude to work | <ul style="list-style-type: none"> More than 80% of the Internal Audit Service' team have internationally recognized internal audit diplomas (ICFM) and other professional certificates Continuous professional development and improvement of knowledge, skills and other competencies of the Internal Audit Service' team |
| Continuous audit quality improvement | <ul style="list-style-type: none"> Audit Director develops and keeps up-to-date the Quality Assurance and Improvement Programme, covering all activities of the Internal Audit Service Internal and external evaluations of the internal audit function for compliance of its activities and auditors with the definition of internal audit, the International Standards for the Professional Practice of Internal Auditors and the Code of Ethics Audit Director presents the results of the Quality Assurance and Improvement Programme for consideration to the Board of Directors (Audit Committee) and the President (Chairman of the Management Board) |

The activities of the internal audit function are governed by the Regulations on the Audit Department, approved by the Company's Board of Directors. The Regulations are available on the Company's official website at www.nlmk.com.

With a view to unify approaches to internal audit and to ensure efficient control of financial and business activities at all the its sites, the Group

has adopted a number of internal corporate documents, including:

- Regulations on Risk-based Planning
- Regulations on Audit Arrangement and Conducting
- Internal Control System and Business Process Risks Assessment Methods
- Guidelines for Internal Control and Risk Management System Comprehensive Assessment

In addition to assessing the reliability and efficiency of the risk management and internal control systems and the quality of corporate governance, the Internal Audit Service pays attention to aspects related to the Group's sustainable development. For instance, the Internal Audit Service assesses compliance with operational health and safety rules in the Group's companies that have been sampled for audits. At the request of interested parties, limited scope audits are carried out, for example, in the field of environmental protection with respect to emissions and waste management.

The Internal Audit Service regularly monitors implementation of recommendations given following the audits, which ensures consistency of the internal audit function. The monitoring is considered completed only if there is a report of the audited department on implementation of recommended actions.

In order to continuously improve the internal audit function, the Internal Audit Service conducts external and internal quality assessments. The annual internal self-assessment evaluated the Department's maturity level and compliance with the International Standards for the Professional Practice of Internal Auditors. The results of this

self-assessment are used to identify risks of the Internal Audit Service and develop measures to minimize them. One of the ways to collect information for self-assessment is a survey of stakeholders, which is aimed at collecting opinions on the efficiency of key internal audit processes.

The independent external quality assessment is performed once every five years to obtain an independent opinion on the compliance of the Company's internal audit function with the best international practices. After its 2017 independent quality assessment, Deloitte issued a positive opinion that the Internal Audit Service's activities are generally in line with International Standards for the Professional Practice of Internal Auditors and Code of Ethics.

2018 performance

In 2018, the Internal Audit Service performed an assessment of availability and efficient functioning of controls required for risk management and internal control at NLMK and the Group's core companies. It also reviewed the implementation of initiatives at the request of interested parties, as well as initiatives aimed at confirming the reliability of 2017 financial statements in the framework of the audit commissions' activities.

Plans for 2019 and midterm

In 2019, the Internal Audit Service plans to implement initiatives set forth in the applicable legislation on joint-stock companies and the Regulations on NLMK's Audit Department, namely:

- Assess the reliability and functioning of risk management and internal control for NLMK Group's key business processes that have been sampled in accordance with the risk-based approach.
- Follow up on implementation of recommendations given after the corporate governance quality assessment performed by internal auditors in 2017.

Moreover, starting from 2019, the Internal Audit Service plans to proceed to the development of long-term action plans, which will be periodically revised based on the influence of internal and external factors.





Anti-corruption compliance and fair business practices

Approach to corporate conduct and business ethics

NLMK Group is guided by high ethical standards, principles of business transparency and zero tolerance to any form or manifestation of corruption in its day-to-day operations.

The Company makes every focused effort to prevent and counteract corruption and fraud. The matter of timely detection and response to wrongdoings are in the area of constant attention of the Company's management.

The Company's values, principles, standards and norms of business conduct are laid out in NLMK Group's Code of Corporate Ethics

and Anti-Corruption Policy, adopted by the Board of Directors. The Anti-Corruption Policy and the Code of Corporate Ethics are available in Russian and English on the corporate portal and on NLMK Group's official website. [GRI 102-16, 205-2](#)

The Company's employees and management familiarize themselves with the provisions of the Code of Corporate Ethics and the Anti-Corruption Policy against their signature when the revised versions of documents are enacted, as well as when they are hired. Job descriptions of all the Company's employees contain an obligation to comply with

the provisions of the Anti-Corruption Policy and the Code of Corporate Ethics. [GRI 102-16](#)

A significant event in terms of improving the anti-corruption system in 2018 was the introduction of changes to the Anti-Corruption Policy and the Company's Code of Ethics. The main changes affected such important areas as feedback, informing employees about business conduct and respect for human rights. Approval of the Anti-Corruption Policy and the Code of Corporate Ethics of the Company, as well as familiarization of employees with revised versions of documents is planned in 2019.

The Company also expects its business partners to adhere to basic values and principles of good business conduct. The Company's business partners familiarize themselves with the provisions of the Code of Corporate Ethics during qualification, selection and conclusion of a contract. [GRI 102-16](#)

An obligatory appendix to all contracts with the Group's business partners, with the exception of those contracts that contain an anti-corruption clause, is the Agreement on Anti-corruption Terms. The agreement establishes obligations of each of the parties to take measures aimed at preventing violations of the applicable anti-corruption legislation.

The Audit Committee of the Board of Directors, the President (Chairman of the Management Board) and the Risk Management Committee of the Management Board play the key role in establishing an efficiently

operating anti-corruption system. Vice President for Risk Management is in charge of implementing anti-corruption programmes and countering corruption in the Company. [GRI 102-16](#)

The main mechanisms and tools to combat corruption and fraud used in the Company are:

- Development, communication to all stakeholders and implementation of internal corporate documents
- Informing and training employees in the field of anti-corruption issues
- Hot line on combating corruption
- Identification, assessment and impact on corruption and fraud risks of business processes
- Inclusion of the requirement to comply with the provisions of the Anti-Corruption Policy and the Code of Ethics in the job descriptions of employees and agreements with counterparties.

The anti-corruption and fraud system efficiency assessment is performed as part of the Internal Audit Service's audits.

Assessment of corruption risks

Identification, analysis and assessment of risks associated with corruption and fraud are carried out at all levels of management and in all Group companies. The risk of corruption and fraud is one of the significant corporate risks of NLMK Group, controlled by the Group's management. [GRI 205-1](#)

Experts of Internal Control and Risk Management Department are consistently working to identify the sources of fraud and corruption risks and prevent their materialization in collaboration with the Security Department. [GRI 205-1](#)

Conflict of interests

Declaration of conflict of interests is a mandatory annual procedure for more than 3,000 of the Group's employees whose sphere of activities is related with higher risks of corruption and bribery. In addition, all employees have the opportunity to independently declare conflict of interest by filling in an electronic questionnaire. All situations that show signs of conflict of interest, whether declared by

employees or identified by control services, are promptly analyzed in accordance with the Group's procedure, and, if necessary, measures are taken to resolve these issues.

Political engagement

NLMK Group does not finance any political party or movement or their representatives. However, NLMK Group recognizes the right of its employees to take part in political activity after hours, if it is not related to the discharge of their duties. In no way whatsoever a political or social stance of employees may be regarded as a political or social stance of NLMK Group.

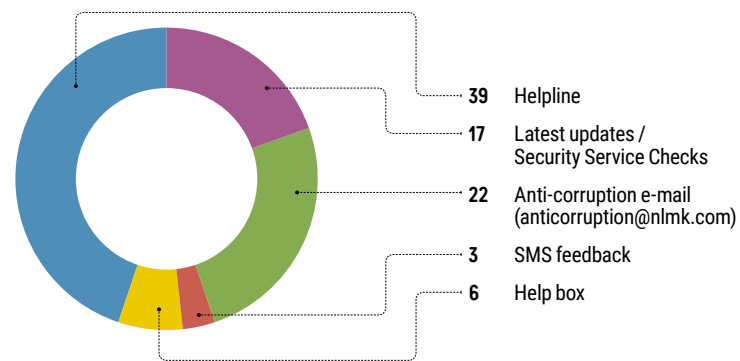
Anti-corruption hot line

The Company has introduced a number of feedback mechanisms for collecting and analyzing information on the facts of impending or accomplished corruption and fraud, unethical and unfair behaviour and other wrongdoings (anti-corruption hotline):

- A 24-hour helpline (for calls from the Lipetsk site dial 06, for long-distance and international calls dial +7 (4742) 44-07-30)
- Help Box mail box for written notifications (Lipetsk)
- Written notifications sent to 2 Metallurgov sq., Lipetsk 398040, (you can address your letter to a specific person and mark it "personal")
- SMS feedback centres: telephone numbers of production sites
- Personal meetings with executives
- Management feedback section on the corporate portal
- Anti-corruption e-mail anticorruption@nlmk.com
- E-mail for questions related to ethics and receiving gifts in excess of a certain amount (ethics@nlmk.com).

All requests are promptly analyzed in accordance with the procedure adopted by the Group, and corrective measures are taken if necessary.

NUMBER OF COMPLAINTS VIA FEEDBACK CHANNELS IN 2018, PCS.



2018 performance

In 2018 more than 2,000 employees, whose duties relate to the areas, subject to corruption and fraud risks, took a distance-learning course on Conflict of Interest. [GRI 205-2](#)

More than 3,000 employees of the Group's Russian companies passed the conflict of interest declaration procedure, confirmed that they had familiarized themselves with the provisions of the Code of Corporate Ethics, Anti-Corruption Policy and Regulations on Prevention, Detection and Settlement of a Conflict of Interest. The rest of the Company's employees were given sight of the applicable internal documents when these documents were enacted or when they were hired. [GRI 205-2](#)

All business partners are informed about the principles of good conduct in the process of accreditation and when the contract is concluded. In 2015-2018, a total of 8,469 accredited and potential business partners - suppliers of products, works and services - were informed about these principles. [GRI 205-2](#)

Each complaint with signs of corrupt actions or intentions received through feedback channels is thoroughly checked by the Security Service, the Risk Management and Internal Control Department and the HR Department. Of the 87 complaints received in 2018 via feedback channels, the information was partly or fully confirmed on 26 of them, and systemic corrective measures were taken. [GRI 205-3](#)

Corruption and fraud facts confirmed in 2018, dealt with, among other things, the unfair behaviour of suppliers, the provision of false information, unethical behaviour, as well as deliberate actions against property and resources for personal gain.

According to the results of official inspections and investigations in 2018, 7 employees of the Company were brought to disciplinary responsibility; employment relationships were terminated with 21 employees; 10 complaints were filed with local police departments. [GRI 205-3](#)

Following the complaints received through the help line, qualification of five business partners was cancelled; in three cases, the qualification status of the supplier was revised.

There were no court cases on corruption against NLMK Group or its employees during 2018.

Plans for 2019 and midterm

The Company's plans for countering corruption and fraud and introducing good business practices include further developing all existing internal corporate documents and improving the efficiency of existing measures.

Internal Audit Commission

Item 1, Article 85 and Item 1, Article 78.1 of the Federal Law "On Joint-Stock Companies" stipulate that public companies must have a risk management and internal control system in place. It also states that an internal audit commission can be set up only if it is provided for by the Company's Charter.

The Company has an efficiently functioning risk management and internal control system in place, therefore the function of the Internal Audit Commission as a body responsible for carrying out continuous efficient monitoring of financial and business operations no longer was in line with up-to-date requirements. With a view to harmonize the Company's financial and business operations control system and introduce best practices in this area, and taking into account the applicable Russian legislation, the Extraordinary General Shareholders' Meeting held on 21 December 2018 resolved to abolish the Internal Audit Commission, make appropriate changes to internal corporate documents and terminate the powers of members of the Company's Internal Audit Commission early.

The key functions of the Internal Audit Commission, that is auditing the Company's financial and business operations, are, in practice, carried out by the Company's Audit Department (Internal Audit Service), which is responsible for objective internal audits.

The head of the Internal Audit Service is appointed and dismissed by NLMK's President (Chairman of the Management Board) on the basis of the Board of Directors' resolution. Functionally they report to the Board of Directors, and administratively to the President (Chairman of the Management Board) of the Company.

Independent Auditor

The Company engages an independent audit organization to audit and confirm the reliability of NLMK Group's IFRS (International Financial Reporting Standards) consolidated financial statements and NLMK's RAS (Russian Accounting Standards) accounting (financial) statements. In June 2018, NLMK's Annual General Shareholders' Meeting approved PricewaterhouseCoopers Audit (hereinafter - PwC) as the Company's auditor.

Independent auditor is selected from among recognized independent auditors with impeccable professional reputation. The main criteria for selecting an independent auditor are the qualifications of the audit organization, the quality of the services provided, as well as compliance with the audit independence requirements. The candidate to the position of independent auditor is reviewed by the Audit Committee of the Board of Directors and the Board of Directors and is approved by NLMK's Annual General Shareholders' Meeting.

PwC has been the auditor of the Group since 2003. The Board's Audit Committee, responsible for evaluating the efficiency of current independent auditor, was satisfied with the quality of provided services and, following the results of 2016 tenders, recommended the Board of Directors and the General Shareholders' Meeting to re-appoint PwC as the Group's auditor for 2017-2019.

In addition to providing auditing services to confirm the reliability of financial statements, NLMK Group companies may engage PwC and other PwC companies to provide consulting (non-audit) services. The management of NLMK Group and, in particular, the Audit Committee, perform necessary procedures, and is sure that these services do not affect the independence of the auditor and are not related to financial reporting.



COMPLIANCE WITH THE AUDITOR'S INDEPENDENCE PRINCIPLE

► In order to comply with the requirements for audit independence and ensure a high level of professionalism, PwC has several systems that ensure audit independence and maintain a high level of professionalism and quality of the services provided. For example, PwC rotates key audit personnel on a regular basis (at least once in 7 years) with the latest rotation in 2017.

Remuneration of Independent auditor

NLMK's Board of Directors has determined the value of remuneration for the provision of audit (review) services of NLMK's 2018 interim and annual IFRS consolidated financial statements, as well as for the audit of the 2018 RAS statements in the amount of RUB 66,095,814 (VAT excluded) (\$1,051,000).

REMUNERATION PAID TO THE INDEPENDENT AUDITOR FOR 2018 (EXCLUDING VAT)

| Types of services | NLMK Group (with NBH), \$ '000 | including: NLMK, \$ '000 |
|--------------------|--------------------------------|--------------------------|
| Audit and reviews | 2,369.9 | 1,051.0 |
| Non-audit services | 380.1 | 102.5 |
| Total | 2,750.0 | 1,153.5 |

Information for shareholders and investors

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).

Indices that include NLMK shares

- RTS Index
- MOEX Russia Index
- MICEX Metals & Mining Industrial Index
- FTSE Russia IOB Index
- MSCI Emerging Markets and MSCI Russia 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 6.98% of share capital as of 31 December 2018.

The Company's depositary bank is Deutsche Bank Trust Company Americas.

Market capitalization

In 2018, average market capitalization of the Company on the London Stock Exchange was \$15.1 billion (+21% yoy). At the end of 2018, NLMK share price was \$2.29, or \$22.88 per GDS, consistent with capitalization of \$13.71 billion (-10% yoy).

Taxation

1. LEGAL ENTITIES

Chapter 25 'Tax on Organizations' Profit' of the Russian Tax Code governs tax treatment of organizations' revenues received as dividends on shares. Dividends paid to organizations that are Russian 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).

2. 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 general information purposes 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).

| | |
|----------------------------|---|
| 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 Exchange |

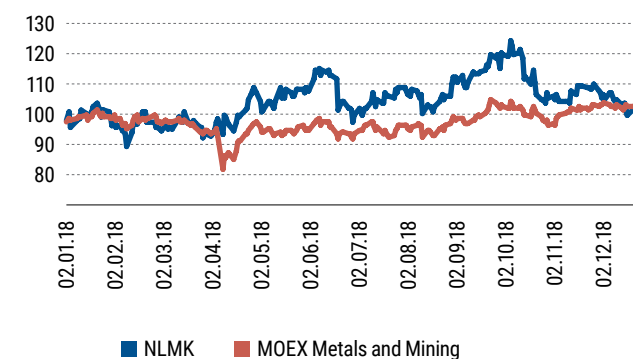
NLMK GLOBAL DEPOSITARY SHARES ON THE LONDON STOCK EXCHANGE

| GDS price (\$) | 2018 | 2017 | % |
|----------------|-------|-------|------|
| Maximum | 27.85 | 25.68 | 8% |
| Minimum | 22.01 | 17.60 | 25% |
| Average | 25.15 | 20.80 | 21% |
| End of year | 22.88 | 25.52 | -10% |

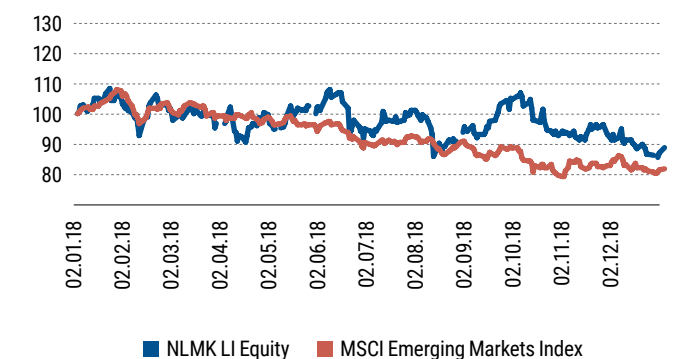
ORDINARY NLMK SHARES ON THE MOSCOW STOCK EXCHANGE

| Share price (RUB) | 2018 | 2017 | % |
|-------------------|--------|--------|-----|
| Maximum | 184.00 | 148.25 | 24% |
| Minimum | 137.95 | 100.70 | 37% |
| Average | 158.05 | 122.09 | 29% |
| End of year | 157.42 | 147.22 | 7% |

NLMK SHARES ON THE MOSCOW STOCK EXCHANGE (INDEX, 01.01.2018 = 100)



NLMK SHARES ON THE LONDON STOCK EXCHANGE (LSE), (INDEX, 01.01.2018 = 100)



Dividends

Dividend Policy

According to the dividend policy, effective on 31 December 2018, 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 the Company shareholders in line with the Board's recommendations.

Dividends on GDS

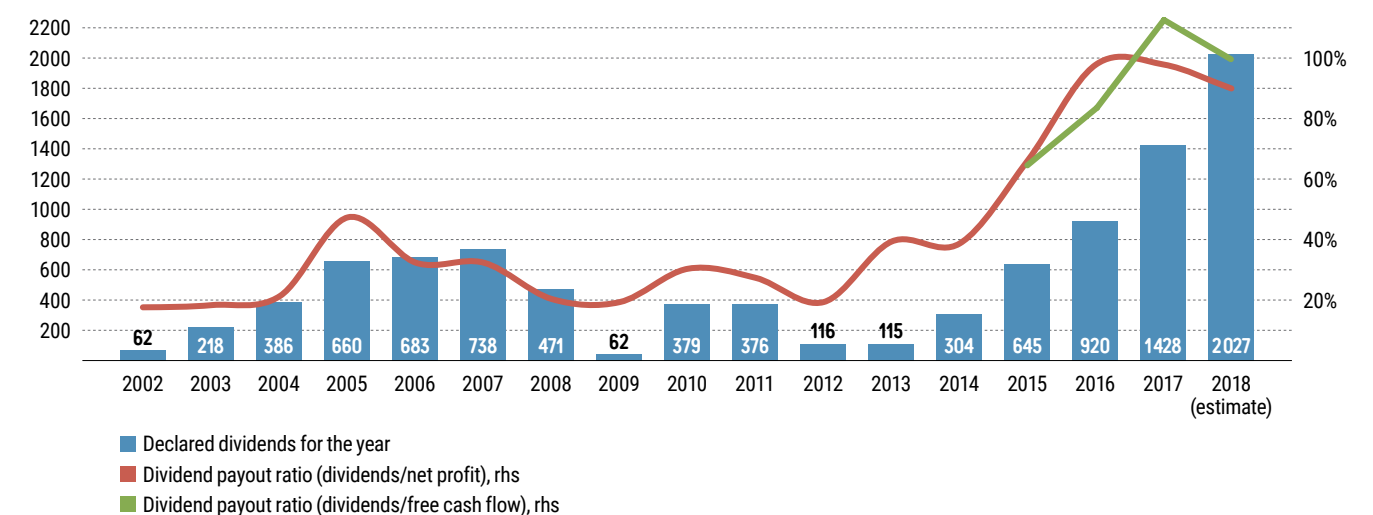
Any dividends paid on shares certified by GDS will be declared and paid to the Depositary in rubles or foreign currency, converted into US dollars by the Depositary (in the case of dividend payment in a currency other than US dollars), and distributed to the holders of GDS, net of fees and Depositary expenses.

Events after the reporting date

The Board of Directors recommends that NLMK's Annual General Shareholders' Meeting pay (declare) 2018 dividends for ordinary shares in the amount of RUB 22.81 in cash per ordinary share (taking into account the interim dividends in the amount of RUB 17.01 per ordinary share, the outstanding amount to be paid in dividends is RUB 5.80 per ordinary share), which is equivalent to 102% of NLMK Group's 2018 free cash flow.

On 1 March 2019, the Board of Directors approved updated NLMK Dividend Policy, which is available on the Company's website.

NLMK DIVIDEND PAYMENTS, \$ M





Corporate documents

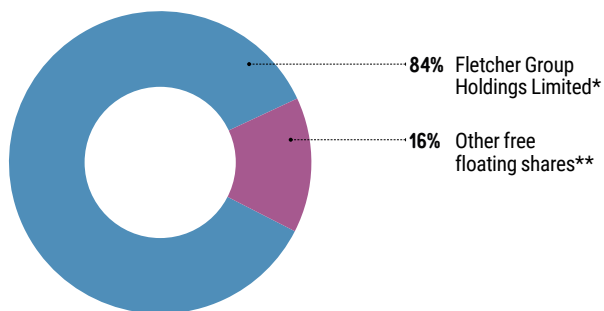
The Group’s corporate documents, including NLMK Charter, are available at www.nlmk.com.

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’s 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’s website, 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.

Equity structure

EQUITY STRUCTURE
AS OF 31 DECEMBER 2018



* 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

Financial calendar for 2019

| Date | Event |
|---------------------|---|
| 18 January | Q4 and 12M 2018 NLMK Group Trading update |
| 7 February | Q4 and 12M 2018 NLMK Group IFRS consolidated financial results. Conference Call |
| 13 February | RAS (Russian Accounting Standards) 2018 Financial Results for the Group’s Major Companies |
| 1 March | Meeting of the Board of Directors. Recommendations of the Board of Directors on Q4 2018 dividend payments |
| 4 March | Capital Markets Day |
| 15 April | Q1 2019 trading update |
| 19 April | Annual General Shareholders’ Meeting (Q4 2018 Dividends Declaration) |
| 15 April – 23 April | Meeting of the Board of Directors. Recommendations of the Board of Directors on Q1 2019 dividend payments |
| 22 April – 26 April | Q1 2019 Financial Results (IFRS). Conference Call |
| 3 June – 7 June | Extraordinary General Shareholders’ Meeting (Q1 2019 Dividends Declaration) |
| 15 July | Q2 2019 Trading Update |
| 22 July – 26 July | Q2 2019 IFRS Financial Results. Conference Call |
| 22 July – 26 July | Meeting of the Board of Directors. Recommendations of the Board of Directors on Q2 2019 dividend payments |
| 23 – 27 September | Extraordinary General Shareholders’ Meeting (Q2 2019 Dividends Declaration) |
| 15 October | Q3 2019 Trading Update |
| 21 – 25 October | Q3 2019 Interim IFRS Financial Results. Conference Call |
| 21 – 25 October | Meeting of the Board of Directors. Recommendations of the Board of Directors on Q3 2019 dividend payments |
| 16 – 20 December | Extraordinary General Shareholders’ Meeting (Q3 2019 Dividends 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@rnr.ru
Website: <http://www.a-rnr.ru/>

Depositary bank

Deutsche Bank
Trust Company Americas
New York Headquarters
60 Wall St., New-York, NY, 10005 USA
London Office
Winchester House
1 Great Winchester Street
London EC2N 2DQ
UK

Contacts

London: +44 20 75476500
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E-mail: adr@db.com

Valery Loskutov

Corporate Secretary
Telephone: +7 (4742) 44 49 89
E-mail: loskutov_va@nlmk.com

Investor Relations

Telephone: +7 (495) 504 05 04
E-mail: ir@nlmk.com [GRI 205-53](#)

Stakeholder dialogue



Our approach to stakeholder engagement

Maintaining transparent, trust-based stakeholder engagement over the long term is the foundation on which NLMK Group's sustainable development is built.

In developing our approach to managing stakeholder engagement we are guided by international and corporate standards, and we strive to determine and take into account the interests and needs of the Company's key stakeholders. The general principles for our communication and engagement with stakeholders can be found in our Corporate Ethics Code, Corporate Governance Code, Supplier Code of Conduct, Anti-Corruption Policy, Human Rights Policy, and other NLMK corporate documents, published on NLMK's website. [GRI 102-43](#)

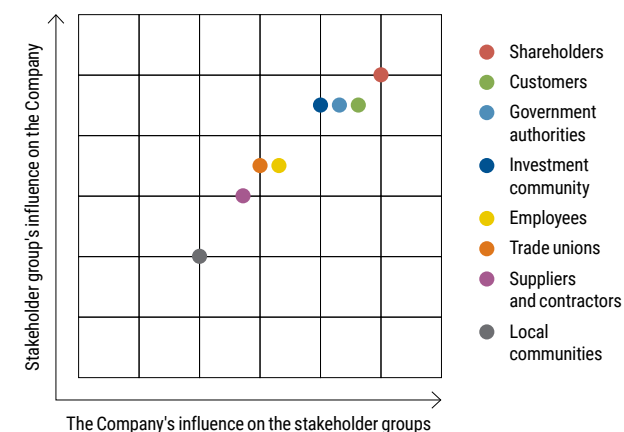
Key NLMK stakeholder groups comprise Company employees; shareholders and the investment community; Company clients; foreign, national and regional government authorities; local communities; suppliers and contractors; and trade unions. [GRI 102-40](#)

Various Company divisions are involved in stakeholder engagement: Public Relations, Human Resources, Investor Relations and Capital Markets, Government Relations, and Sales and Procurement.

NLMK keeps a list of stakeholders and prioritizes them according to the mutual influence and convergence of respective interests. The Company's stakeholder map is based on the needs and interests of stakeholders and NLMK, as well as expert assessments from the Company's management, and is regularly reviewed. The stakeholder map saw no significant changes during the reporting period compared to 2017. [GRI 102-42](#)

NLMK uses various means to engage with stakeholders, thereby allowing the Company to rapidly identify risks and new opportunities when working together with stakeholders. In 2018 the Company continued to have an active dialogue with all stakeholders. [GRI 413-1](#)

NLMK STAKEHOLDER MAP IN 2018



RESULTS OF STAKEHOLDER ENGAGEMENT [GRI 102-44](#)

Consumers

Importance for NLMK:

Consumers of NLMK products are manufacturers in various regions and industries: steelmaking, construction, the automotive industry, machine-building and shipbuilding, and pipe manufacturing. Our transparent relations with consumers serve to increase their satisfaction and loyalty and result in increased sales of NLMK products.

Stakeholder interests:

- Meeting contractual obligations
- Providing high-quality products
- Developing a product range policy
- Competitive prices
- Timely and reliable deliveries

Forms of engagement:

- Developing sales channels network
- Monitoring consumer satisfaction
- Organizing coordinating councils
- Addressing customer complaints
- Conducting and participating in public events, business meetings, and negotiations
- Conveying information through the media and publications on our website

NLMK endeavours to create a client-centred system, which can track and predict changes in consumer demand and satisfy our clients' evolving needs.

The Company employs a variety of sales channels, including rapidly growing online sales. Sales managers in all divisions work with the Company's clients every day. The overall coordination of sales is carried out by NLMK's Sales Department.

Key results in 2018:

1. Quicker handling of client complaints.
2. Organizing 83 coordinating councils; the results were used to improve the quality of future products and services.
3. Developing an online store and expanding the store to other regions where NLMK operates. 10% of clients transitioned to online sales services.
4. Participation in key industry events: Metal-Expo 2018, the CWIEME Energy and Machine-Building Exhibition, EuroBLECH 2018, and WIRE (an exhibition of metalware, wire, and production equipment and technologies).

RESULTS OF STAKEHOLDER ENGAGEMENT

Employees

Importance for NLMK:

Our workforce is key to the Company's stability, and to ensuring that the business operates and grows successfully.

Stakeholder interests:

- Decent compensation and an incentive system
- Potential for professional development and career growth
- Comfortable, safe workspaces
- Compliance with employment laws and other regulations

Forms of engagement:

- Organizing regular trainings in safety techniques and implementing programmes to improve working conditions
- Introducing social support for employees and their families and for retirees (former employees)
- Providing continuing education, training and staff development programmes
- Regular meetings with various levels of management
- Monitoring employee engagement
- Reviewing messages submitted via the telephone hotline, company portal, and text messages
- Informing employees about Company activities and opportunities for professional growth through company newsletters, magazines, NLMK TV, and social media

A key goal of our engagement with staff is to create a highly qualified and motivated team of employees, a vital component behind NLMK's leading industry position. HR departments in every NLMK division manage staff engagement.

The Company creates a decent working environment for its employees and continues to develop its financial and non-financial incentive systems. NLMK runs a variety of employee training programmes, including ones organized as part of NLMK Corporate University.

The Company strives to increase employee engagement through improving feedback channels, teambuilding activities, and social support.

Key results in 2018:

1. NLMK Group Social Programmes: Assessing Employee Satisfaction study.
2. Approval of the NLMK Group Employee Health corporate programme.
3. Launching a corporate volunteering programme, including social and environmental projects.
4. Organizing the international #TeamNLMK contest, with over 500 employees participating. The contest, entitled Hazard-Free Heroes, was based on the theme of occupational health and safety.
5. During the reporting period 1,000 employees submitted questions and requests through the corporate portal.

For additional information see the Corporate Communications and Our Employees sections.

Shareholders and the investment community

Importance for NLMK:

Shareholders own our business and influence the course of NLMK's development. The Company strives to safeguard their interests.

To ensure that NLMK remains an attractive investment, the Company aims to provide the investment community with information about our performance that is as complete and up-to-date as possible.

Stakeholder interests:

- Consistent improvement in the Company's financial and non-financial performance
- Growth in the Company's value
- Management transparency and disclosure
- Investment attractiveness and stability

Forms of engagement:

- Disclosing information in various public sources
- Organizing visits for investors to Group sites
- Participating in Russian and international investment conferences
- Conducting business meetings, both one-on-one and in groups
- Conducting Investor Days in which the Company's senior management team participate
- Conducting Annual Anonymous Investor Perception Studies

The key goals of our engagement with investors and shareholders are to establish and maintain long-term connections, and to communicate financial and non-financial performance as well as the Company's development plans.

The Investor Relations department is responsible for engaging with the investment community and shareholders.

Key results in 2018:

1. Capital Markets Day 2018, where issues important to the investment community were discussed and outcomes of engagements were presented.
2. Around 200 meetings with investors.
3. Three investor visits to NLMK, Stoilensky, and NLMK Kaluga production sites.
4. General Shareholders' Meetings.

For additional information see the Information for Shareholders and Investors section.

Government authorities

Importance for NLMK:

As a large international manufacturing company with a presence in eight countries and five regions of the Russian Federation, NLMK encounters government regulations in various areas of its operations every day. Against the background of intense competition and market volatility a stable regulatory environment, which provides opportunities for long-term planning and stable business management, is essential.

Stakeholder interests:

- Compliance with legislative requirements
- Meeting tax obligations
- Developing regions where the Company operates
- Increasing social engagement in areas where the Company operates
- Reducing the environmental footprint

Forms of engagement:

- Conducting meetings with representatives of foreign, national, regional, and municipal state authorities
- Participating in advisory bodies, expert working groups, and public hearings
- Engaging through industry-specific and public associations
- Annually disclosing to governments information about payments
- Participating in policy-making processes in accordance with procedures stipulated by law

A key goal of our engagement with government authorities is to reduce risks and create favourable conditions for the Company to operate and develop within the regulatory environment. The Company, represented by its Department for Government Relations, hence engages on an ongoing basis with the state and its representatives at all government levels on various issues, and manages regulatory risks and opportunities in each country and region of operation.

An important component of the Company's approach is to formalize work by the Company's functional subdivisions on relevant issues concerning engaging with government authorities. This helps functional experts work more efficiently and respond more effectively to various regulatory demands. Currently, the Company has GR business partners working in logistics, the environment, industrial safety, energy, sales and procurement.

Key results in 2018:

1. Wider engagement with state authorities in the EU, US, and other regions where the Company operates through structural changes to subdivisions and the establishment of basic contacts.
2. Preparing an NLMK annual consolidated report of payments to governments in accordance with the United Kingdom's 2014 Reports on Payments to Governments regulations and the EU Directive on financial accountability.
3. Successfully implementing GR projects on tariff regulation, taxation, competition regulations, and environmental protection.

Information on the Group's payments to the state is presented on its official website: nlmk.com

Suppliers and contractors

Importance for NLMK:

The quality of goods and services provided by suppliers and contractors has a direct impact on the quality of our products, as well as the stability of NLMK production processes.

Stakeholder interests:

- Transparent, competitive tender procedures for procuring goods and services
- Meeting contractual obligations
- An efficient feedback and claims system
- A risk management and anti-corruption system

Forms of engagement:

- Conducting preliminary supplier screening
- Developing competitive tender procedures for goods and services
- Conducting negotiations with potential partners
- Organizing work by category managers
- Making feedback forms for counterparties available on the corporate website
- Conducting business meetings with suppliers and participating in conferences and industry associations
- Evaluating and auditing suppliers and contractors to ensure reliability, status, production capacity, and compliance with occupational health and safety and environmental requirements

Long-lasting and mutually beneficial relationships with reliable suppliers and contractors are essential for sustaining operations and fulfilling the Group's obligations. Engagements with suppliers and contractors are managed by the NLMK procurement team.

The Group's priorities are to ensure that goods and services are of high quality, that the correct goods are purchased at the right time, and that procurement is as competitive and transparent as possible.

Most of the Company's tender procedures are conducted electronically using the SAP SRM system, which ensures that procurement operations are transparent.

Key results in 2018:

1. Creation of a single service centre and unified procurement management within the Company.
2. The Company won the Competitive Procurement Leader award in the Digitalized Procurement Processes category. The awards ceremony took place in Moscow at the National Corporate Procurement 2018 Summit.
3. 56 audits of suppliers of goods and services.
4. The volume of goods and materials purchased from third parties for the Group's Russian companies amounted to RUB 197.9 billion.

For additional information see the Supply Chain Management section.

RESULTS OF STAKEHOLDER ENGAGEMENT

Local communities

Importance for NLMK:

The long-term stability of NLMK's business depends, in large part, on the socioeconomic stability of the regions where we operate. NLMK's contribution to developing local communities has a positive impact on stakeholder loyalty as well as the Company's overall reputation.

Stakeholder interests:

- The Company contributing to solving problems in local communities
- Jobs for local people
- Safe production practices and a limited environmental footprint
- A conscientious approach to doing business

Forms of engagement:

- Conducting dialogues with representatives of local communities to inform them about the Company activities in the regions where we operate
- Publishing corporate reports
- Publishing information via the media and on our website
- Organizing thematic conferences and events

NLMK Group is one of the largest employers and taxpayers in the regions where we operate.

The Company has an interest in increasing living standards for local people and involving them in the Group's social and environmental initiatives. NLMK conducts public hearings and surveys the local population to ascertain what it needs. It organizes various volunteer and charity programmes which expand in scope and grow more effective every year.

The HR Department and Government Relations conduct local community development activities.

Key results in 2018:

1. RUB 507 million was invested in external social programmes.
2. The Steel Tree grant programme expanded its geographical reach.
3. Over 50 volunteer events were held, aimed at solving problems in local communities.

For additional information see the Developing Local Communities section.

Trade unions

Importance for NLMK:

Trade unions are important partners for NLMK, providing workers with social welfare and employment-related guarantees.

Stakeholder interests:

- Compliance with employment legislation and protecting employee interests
- Compliance with the sectoral tariff agreement
- Compliance with the terms of collective bargaining agreements

Forms of engagement:

- Conducting collective bargaining
- Signing collective bargaining agreements and joint declarations
- Working together on various commissions and committees
- Holding employee conferences

The key areas of NLMK's work with unions include signing collective bargaining agreements and other agreements intended to ensure decent working conditions and bonus and compensation systems. Effective engagement with trade unions helps bolster NLMK's image as an employer.

The main trade union with which NLMK interacts is NLMK's primary labour organization, the Russian Ore Mining and Smelting Union. Through its HR Department, the Company works with union representatives on an ongoing basis.

Key results in 2018:

1. Regular meetings with trade union representatives.
2. A joint conference with trade unions on issues related to social and labour partnerships.
3. Training for trade unions on current issues in HR and social policy.

For additional information see the Our Employees section.



Corporate communications

In 2018, NLMK Group completed implementation of a unified internal information space encompassing all 53.3 thousand of its employees across seven countries.

This internal communications system successfully:

- Explains the Group's strategic goals and values to employees
- Facilitates the inclusion of every team member in the continuous improvement process
- Strengthens the Group's brand as an employer
- Delivers information in a timely manner and provides a feedback mechanism
- Ensures convenient access to corporate services
- Develops horizontal links between colleagues

A variety of communications channels function within the Group, and the Public Relations Department has continued to develop these over the course of the reporting year.

Corporate portal

The corporate intranet portal lies at the heart of our internal communications. In 2018, NLMK Group launched a new unified corporate portal which, unlike similar portals in the majority of industrial companies, can be accessed not only by office staff, but by all employees, including shop-floor employees. Today, 31,000 users log on to the portal every month. The number of users has increased by 55% since 2017.

The NLMK Group portal is now a major intranet project hosted on the Bitrix24 platform. The internal communications community has declared it the best internal portal in Russia: last year, it took first place in both the Media Leader and InterCom'2018 competitions.

NLMK-TV

Work continued in 2018 to develop the NLMK-TV corporate television project, with 135 large screens now installed in the Group companies across the various cities in which NLMK Group

operates. These screens are controlled centrally by a unified information system, which delivers targeted information intended for the employees of a given subdivision. NLMK broadcast a record 800 videos during the reporting year.

NLMK PR Partnership Institute

In 2018, a PR Partnership Institute was established for internal NLMK Group communications. More than 20 of the Group's functional areas now have their own PR partner, an employee from the Public Relations Department who is actively involved in addressing the functional area's business issues and providing communications support.

Corporate magazine and newspapers

In 2018, the design and format of all five NLMK corporate newspapers was updated to reflect modern trends. Up to 90% of the material in these newspapers now features direct links to our intranet portal, and an emphasis has been placed on visuals and new presentation formats, expanding the interactive possibilities of traditional communications formats and contributing to the development of internal media. Our corporate magazine, *NLMK*, is published in Russian, English, and French.

Supply chain management



Information on procurement practices is presented for the Group's Russian companies.

Key figures for 2018

197.9 RUB
BN

a total amount of goods and materials purchased
from third parties by Russian companies

56

audits of suppliers
of goods and services
conducted

Material topics

- Supplier environmental assessment

Key events in 2018

- Opening a centralized procurement support office in the city of Lipetsk
- Winner of the Competitive Procurement Leader award in the Digitalized Procurement Processes category at the Russian national Corporate Procurement 2018 Summit

United Nations Global Compact principles

- Principle 8** Businesses should undertake initiatives to promote greater environmental responsibility
- Principle 10** Businesses should work against corruption in all its forms, including extortion and bribery

Global Sustainable Development Goals



An efficient supply chain is key to the sustainable operation of the Group and the fulfilment of NLMK's commitments.

The Group regularly partners with more than 3,500 suppliers of goods and materials as well as contractors, from whom it procures a wide range of goods and services, including equipment, ferroalloys, non-ferrous metals, refractory products, spare parts, etc.

The main principles that govern the Group's procurement activities are:

- A focus on goals, objectives, and outcomes
- Honesty and transparency
- Mutually beneficial cooperation
- Continuous improvement
- Qualified and motivated staff
- Teamwork and commitment to the spirit of the organization
- A proactive approach

OUR TEAM **125**

quality standards for supplied goods and materials. All suppliers and contractors that work at hazardous production facilities at NLMK companies are screened.

In order to work with NLMK Group, it is imperative that suppliers and contractors operate ethically and conscientiously. In this regard, all potential counterparties are invited to familiarize themselves with the Supplier Code of Conduct at the screening stage and to confirm that they agree with its provisions.

The Group also expects its suppliers and contractors to comply strictly with all applicable legal requirements, including environmental protection and occupational health and safety regulations. The checklist developed by the Group for assessing potential contractors hence reflects state requirements for occupational safety and environmental protection, and suppliers and contractors operating at Group sites must meet these requirements.

Evaluating and auditing suppliers and contractors

The Group annually assesses the quality, efficiency, and reliability of all current suppliers and contractors. It also monitors compliance with delivery deadlines throughout the year. If the Group has a negative experience with a supplier, the Group's Conciliation Committee may decide to discontinue its partnership with the supplier or to impose restrictive measures. The procurement team can also work with the supplier to create a development plan aimed at improving the supplier's performance.

Conducting systematic audits of suppliers and contractors that provide services to the Group's Russian companies is another important tool for managing partnerships with contractors. Each year, the Group conducts around 50–80 audits of suppliers and contractors. When drawing up annual audit plans, the Group's specialists take into account critical areas that impact the continuity and safety of production and product quality, including, among others, the contractor's technical equipment, staff competence levels, quality control measures, maintenance and repairs, and compliance with

legal requirements in the spheres of occupational health and safety and environmental protection.

When auditing suppliers of goods, the Group pays special attention to the counterparty's compliance with obligatory standards in the areas of occupational safety and reducing its environmental footprint. Audits of contractors include a more detailed review of issues related to safe working conditions and compliance with environmental regulations.

When auditing contractors that conduct hazardous work or large volumes of work, or companies that are the Group's main contractors, the Group considers the following aspects in detail:

- Availability of equipment
- Provision of human resources
- Provision of technical resources
- Issues related to occupational health and environmental protection.

CONCILIATION COMMITTEE

► The Conciliation Committee is NLMK Group's collegial body that was set up to review situations involving inappropriate, unethical, or unreliable supplier behaviour. Some of the issues that fall within the remit of the committee include violations of the pricing policy, occupational health and safety rules, and environmental protection requirements.

CONCILIATION COMMITTEE

| | 2017 | 2018 |
|---|------|------|
| Number of suppliers on whom partnership restrictions were imposed | 2 | 17 |
| Number of suppliers with whom NLMK Group decided to temporarily suspend relations | 10 | 8 |
| Number of suppliers with whom NLMK Group decided to terminate relations | 56 | 12 |

SUPPLIER AND CONTRACTOR AUDITS

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|
| Total number of audits of suppliers of goods and materials | 33 | 27 | 22 | 35 | 39 |
| Total number of audits of contractors | - | 2 | 1 | 21 | 17 |

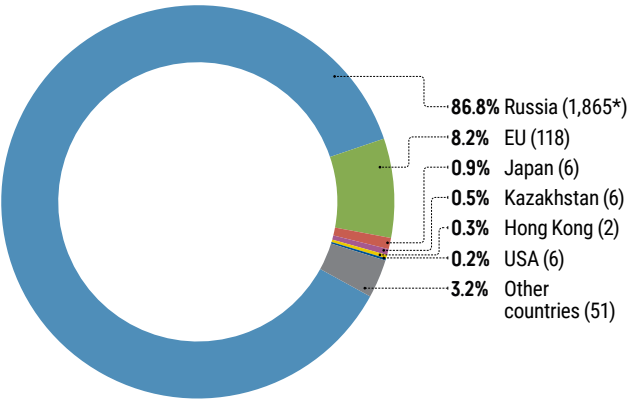
Audits of contractors involve checking that the necessary documents are present and authentic, and also include directly monitoring the work of contractor employees and ensuring that they meet the requirements stipulated on the screening checklist. The contractor's status is determined and a report is prepared on the basis of the audit results. The report should specify the measures necessary to eliminate and prevent the reoccurrence of any identified issues.

For more detailed information about supplier and contractor environmental assessments, see the Supplier Environmental Assessment section of the Environmental Protection chapter.

2018 performance

There were no significant changes in the Group's supply chain structure during 2018. [GRI 102-10](#)

PURCHASES FROM SUPPLIERS OF GOODS AND MATERIALS BY SUPPLIER COUNTRY, % OF TOTAL PROCUREMENT [GRI 102-9](#)



* Number of suppliers
Purchases of goods and materials from third parties by Russian companies

DATA ON THE VOLUME OF PURCHASES BY KEY PROCUREMENT CATEGORY, 2018 [GRI 102-9](#)

| Goods and materials | Volume of procurement, RUB million (excl. VAT) |
|--|--|
| Coal and coal concentrates | 85,447 |
| Raw materials (excluding the main raw material categories) | 32,176 |
| Provision of repairs and maintenance | 24,774 |
| Refractory products | 14,214 |
| Provision of technology | 9,443 |
| Iron ore (concentrate, pellets, and ore) | 8,724 |
| Processing equipment | 7,754 |
| Coatings | 6,580 |
| Grade S petroleum coke, electrode coke, additive coke | 2,514 |
| Fuels and lubricants | 1,892 |

Plans for 2019 and the medium term

The Group's plans to develop its supply chain including updating the regulation governing the organization and conduct of contractor audits, and improving the checklists that are used to screen contractors.

The Group also intends to continue with its work to further automate procurement processes and to centralize the procurement of global categories of materials and raw materials. More specifically, the Group's plans include automating the exchange of primary documentation with suppliers, by establishing either an electronic document management system or the SUS (Supplier Self Service) module within the SAP SRM system. The procurement team also plans to introduce a supplier catalogue management tool, which will allow internal customers to independently select their desired names.





Human rights

Key figures for 2018

0 violations
of human rights were
recorded during
the reporting year

Material topics

- ▶ Non-discrimination
- ▶ Freedom of association and collective bargaining
- ▶ Child labour
- ▶ Forced or compulsory labour

Key events in 2018

- ▶ Approval of the NLMK Group Human Rights Policy
- ▶ Updating the Corporate Ethics Code to reflect issues around respect for human rights
- ▶ Participation in the anniversary roundtable of the Russian Union of Industrialists and Entrepreneurs, entitled Russian Business and Human Rights

United Nations Global Compact principles

- Principle 1** Businesses should support and respect the protection of internationally proclaimed human rights.
- Principle 2** Businesses should make sure that they are not complicit in human rights abuses.
- Principle 4** Businesses should uphold the elimination of all forms of forced and compulsory labour.
- Principle 5** Businesses should uphold the effective abolition of child labour.

Global Sustainable Development Goals



Managing human rights issues

Respecting human rights is a key underlying principle in all NLMK operations. In carrying out its activities, the Company does not tolerate human rights violation related to discrimination based on sex, age, religion, race, ethnicity, physical traits, or identity, or any other form of discrimination. NLMK also devotes particular attention to ensuring the right to freedom of association and collective bargaining, as well as issues concerning child labour and forced or compulsory labour. [GRI 407-1, 408-1, 409-1](#)

Our corporate ethics dictate that we consistently adhere to the generally accepted principles and norms of international law as well as applicable employment laws in all countries of the world, regardless of the business practices in those countries. In its activities, NLMK is governed by the provisions of the following documents:

- The International Bill of Human Rights
- The main conventions of the International Labour Organization (ILO Conventions)
- The UN Guiding Principles on Business and Human Rights
- The UN Global Compact
- Transforming our World: the 2030 Agenda for Sustainable Development (UN)
- The ISO 26000 Guidance on Social Responsibility
- The laws of the Russian Federation and other countries in which NLMK Group companies operate.

Together with international norms, our human rights efforts are regulated by internal corporate documents: NLMK Group's Corporate Ethics Code, Anti-Corruption Policy, and collective bargaining agreements. One important event in the Company's evolving approach to managing these issues during 2018 was approving NLMK Group's Human Rights Policy. The goal of the policy is to ensure that human rights are observed in Group activities everywhere we operate.

HUMAN RIGHTS PRINCIPLES AND THEIR INTEGRATION INTO NLMK GROUP ACTIVITIES

- | | |
|--|--|
| 1 Prohibition of forced labour | 4 Respect for the right to a minimum wage |
| 2 Prohibition of discrimination | 5 Provision of safe working conditions |
| 3 Prohibition of child labour | |

INTEGRATING FUNDAMENTAL HUMAN RIGHTS PRINCIPLES INTO NLMK GROUP ACTIVITIES

| Fundamental principles | Areas of activity |
|--|---|
| Prohibition of forced labour and child labour | NLMK Group only signs employment contracts with individuals that meet the minimum age requirements stipulated by prevailing legislation. The Company does not make use of child labour. The Company also forbids the use of forced labour, penal and military labour, slavery, and human trafficking. All employment at the Company is exclusively voluntary in nature. |
| Prohibition of discrimination | NLMK Group does not tolerate discrimination based on sex, religion, or any other grounds in its staff management activities, including hiring, and adheres to the same principles when determining wages. <i>For additional information see the Our Employees section.</i> |
| Respect for the right to a minimum wage | Ensuring decent working conditions, including competitive salaries, and providing both employees and retirees with a social benefits package are key priorities for NLMK Group. <i>For additional information see the Our Employees section.</i> |
| Support for freedom of association and collective bargaining | NLMK Group fulfils all of the requirements set forth in collective agreements, and regularly engages with trade unions. The Company also ensures that conditions are in place to facilitate the creation of associations to represent NLMK employee interests by making corporate communications tools available and by supporting employee volunteering initiatives. <i>For additional information see the sections Our Employees, Stakeholder Dialogue, and Corporate Communications.</i> |
| Providing safe working conditions | In organizing production, the Company prioritizes the health and safety of its employees above all. The Company's management team monitors and reduces risks associated with hazardous working conditions, increasing safety levels at the production sites of every NLMK company year-on-year. The Company is continuously improving its approaches to environmental policy and energy management, with a view to reducing the negative impacts of production on the environment and on the health of stakeholders. <i>For additional information see the sections Occupational Health and Safety and Environmental Protection.</i> |

In accordance with the Human Rights Policy adopted by NLMK Group, a number of changes were made to the Corporate Ethics Code during the reporting year. Human rights were added to the list of the Company's fundamental ethical values, norms for respecting and protecting human rights were included in appropriate sections of the Corporate Ethics Code, and the bibliography was supplemented with international human rights documents.

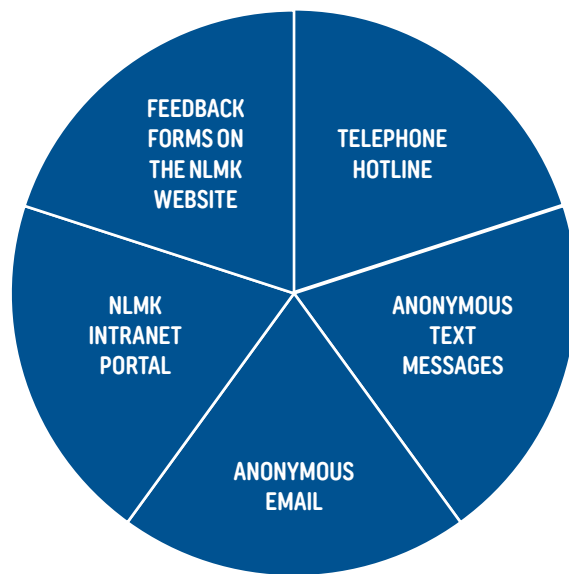
NLMK's efforts to protect human rights in all regions of operation are coordinated by the HR Department, with the involvement, if necessary, of experts from other functional areas of the Company (in particular, the Occupational Health and Safety team), in order to safeguard its corporate interests and to manage risks. The Company's senior management team is always involved in making important decisions.

The Company shares its Human Rights Policy with stakeholders, including employees, subcontractors, and business partners.

The Company welcomes information from all stakeholders about any activities that violate human rights. Employees, clients, contractors, contractors, and other stakeholders can use any feedback channel listed on the official NLMK website.

All messages and complaints are recorded in an aggregated database accessible via the NLMK intranet portal. Each specific instance is examined separately, to ensure that decisions are made on a case-by-case basis. The individual that sends a complaint always receives a written response with an explanation, except in the case of anonymous messages.

HUMAN RIGHTS REPORTING CHANNELS



2018 performance

During the reporting period NLMK recorded no cases of discrimination related to human rights violations [GRI 406-1](#), including violations of the right to freedom of association and collective bargaining or violations concerning child labour and forced or compulsory labour. [GRI 407-1, 408-1, 409-1](#)

NLMK endeavours to improve its competency in human rights, drawing on best practices from colleagues in various industries and international organizations to introduce responsible, fair business principles into our corporate culture.

NLMK therefore participates in organizations which support and foster human rights principles. For example, the Company is a member of the Committee on Corporate Social Responsibility and Demographic Policy of the Russian Union of Industrialists and Entrepreneurs (RSPP). In 2018, the Committee organized a human rights event in which the Group played an active role.

During the reporting period the Company also took part in a major event supported by the UN that included human rights topics.



RUSSIAN BUSINESS AND HUMAN RIGHTS ROUNDTABLE

► On 20 December 2018, NLMK representatives participated in an anniversary roundtable of the Russian Union of Industrialists and Entrepreneurs (RSPP), entitled Russian Business and Human Rights. The roundtable was marking the 70th anniversary of the Universal Declaration of Human Rights. Company representatives learned about fundamental international and Russian standards for human rights and employment relations in business, assessed the practical experience of Russian business leaders in introducing responsible business principles regarding human rights into their corporate practice, and reviewed the results of a comparative analysis of human rights provisions in the Governing Principles for Entrepreneurial Activities and Russian law.

SUSTAINABLE DEVELOPMENT: RUSSIA'S ROLE

► On 15 November 2018, NLMK Group experts took part in a discussion entitled Sustainable development: Russia's role. The purpose of the event was to organize presentations and discussions of the results of current research projects concerning ways to involve the business world in efforts to achieve the UN Sustainable Development Goals (SDG). Taking into account the research and recommendations discussed, in 2019 representatives of the UN Global Compact national network plan to draft and present a collective action plan based on the results of a survey of Russian businesses. The survey asked businesses about their current involvement, as well as the potential for getting major Russian companies involved in achieving the SDGs.

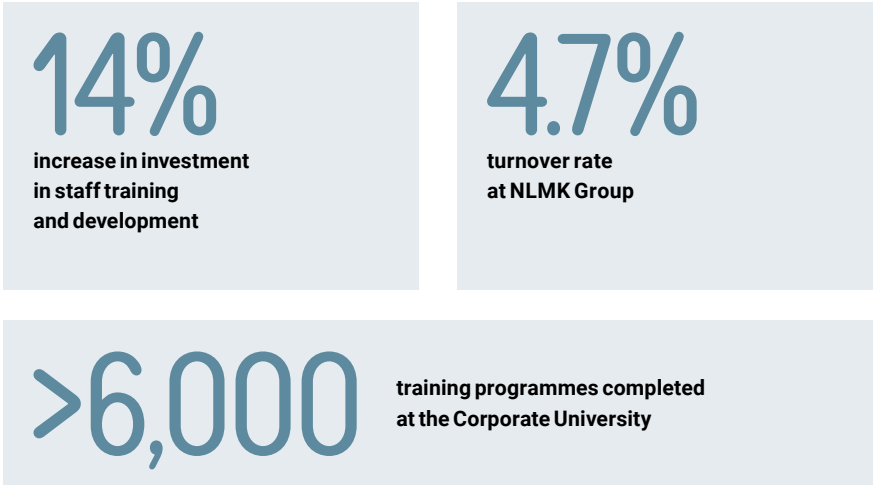
Plans for 2019 and the medium term

Given the international nature of NLMK operations and stakeholders' interest in protecting human rights, the Company will continue to enhance its approach to human rights issues.

In future reporting periods we plan to perform a number of activities aimed at implementing the provisions of NLMK's Human Rights Policy in the operations of all Group companies, including those outside Russia. Another task will be to develop methodological approaches to assessing how well our activities comply with the principles enshrined in the current NLMK's Human Rights Policy. Company representatives will also continue to play an active role in important events dedicated to protecting human rights.



Key figures for 2018



Material topics

- Employment

► Training and education

► Diversity and equal opportunities

Key events in 2018

- Implementation of a staff appraisal system based on NLMK key skills
- Development of the NLMK Employee Health programme
- Launch of a corporate volunteering programme
- Launch of the Corporate University

United Nations Global Compact principles

- Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Principle 6

Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Global Sustainable Development Goals



Our approach to staff management

The Company has set itself ambitious goals to achieve business growth and improve efficiency levels. These goals can only be attained through continuous staff training and development, together with the enhancement of employee incentive systems, which is a key priority of NLMK's human resources policy.

We are committed to applying a unified approach to managing human resources issues, including at our international companies. NLMK Group's Human Resources Department is responsible for all staff-related issues, including hiring and retaining qualified employees, developing systems to reward and motivate them, and developing their professional skills.

NLMK Group conducts staff management activities in accordance with the following internal and external documents:

- The Constitution and Labour Code of the Russian Federation
- International declarations, including the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work
- The NLMK Group Corporate Ethics Code
- Collective bargaining agreements
- General corporate regulations on staff management.

Our key personnel management goals are to attract and retain the best professionals in their field. In order to achieve these goals, the following key areas of HR policy activity were identified for the reporting period:

- Increasing labour productivity
- Creating a decent incentive and reward system
- Improving approaches to NLMK manager training at all management levels
- Involving employees in the continuous improvement process
- Developing a vocational training system
- Continuing to integrate our international companies into the Group's HR processes
- Digitalizing HR processes and implementing best HR practices

The Company works closely with employees, using a variety of communication channels (for more information see the Stakeholder Dialogue section). Particular attention was paid during the reporting period to using the Company's internal magazine and newspapers to engage employees.



PROFESSIONALS ARE THE FUTURE

► In 2018 the third issue of NLMK Group's quarterly corporate magazine was devoted to HR policy issues and key trends in the Company's evolving approach to training and innovation.

The magazine documented ongoing activity around staff development, and also devoted significant attention to progress being made in the development of NLMK Corporate University.

The issue also featured contributions from employees at the Group's Russian and international companies, who spoke about specific aspects of their professions.

Our employees

The average NLMK Group headcount during 2018 was 53.3 thousand people, of whom 50,000 (94%) were employed

at the Company's Russian sites, 2,200 (4%) at European divisions, and 2% in the USA. The average headcount increased by 0.1% during the reporting period; this is the result of the Investment 2022 programme aimed at increasing the volume of steel production by 1 million tonnes. [GRI 102-7](#)

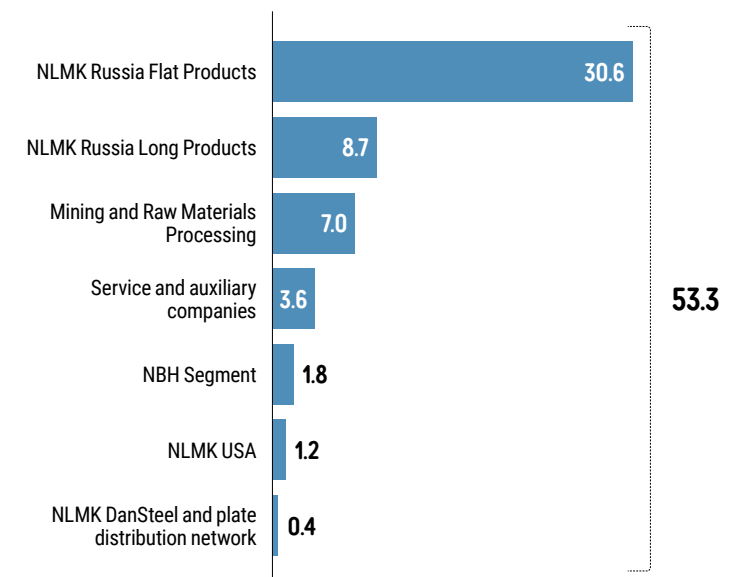
Approximately 97% of NLMK Group employees work under permanent contracts, and around 3% under fixed-term contracts.

The nature of the steel industry is such that the proportion of men among shop-floor employees (76%) outweighs the proportion of women (24%) – this has historically always been the case. As for administration and management staff, women account for 53% of all specialists, 84% of office employees, and 16% of managers.

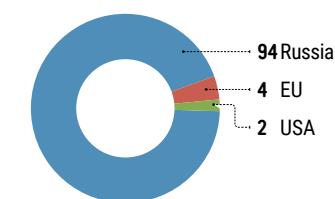
NLMK employees represent various age groups, which attests to the lack of age discrimination in NLMK Group's HR policy. In 2018, 25% of all employees were aged over 50, 55% were aged between 30 and 50, and 20% were under 30. Of those in management positions, 72% were aged between 30 and 50, and 22% were aged over 50.

NLMK is committed to supporting gender diversity within its governance bodies in a way that takes into account the specific nature of the Company's activities. As of 2018, NLMK Group's Board of Directors and Management Board was made up of both men and women.

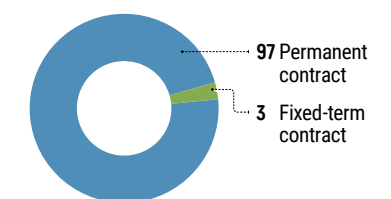
NLMK GROUP* STAFF BREAKDOWN BY SEGMENT IN 2018,
THOUSAND PEOPLE [GRI 102-8](#)



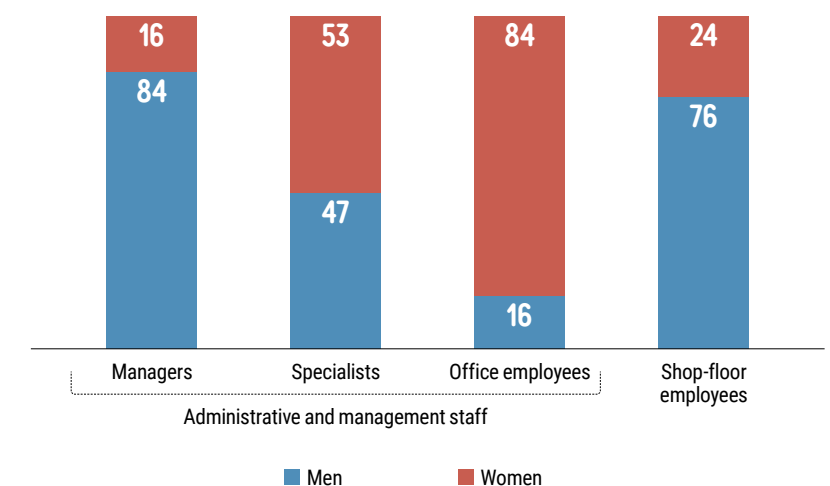
NLMK GROUP* STAFF BREAKDOWN
BY REGION IN 2018, %
[GRI 102-8](#)



NLMK GROUP* STAFF BREAKDOWN
BY CONTRACT TYPE IN 2018, %
[GRI 102-8](#)



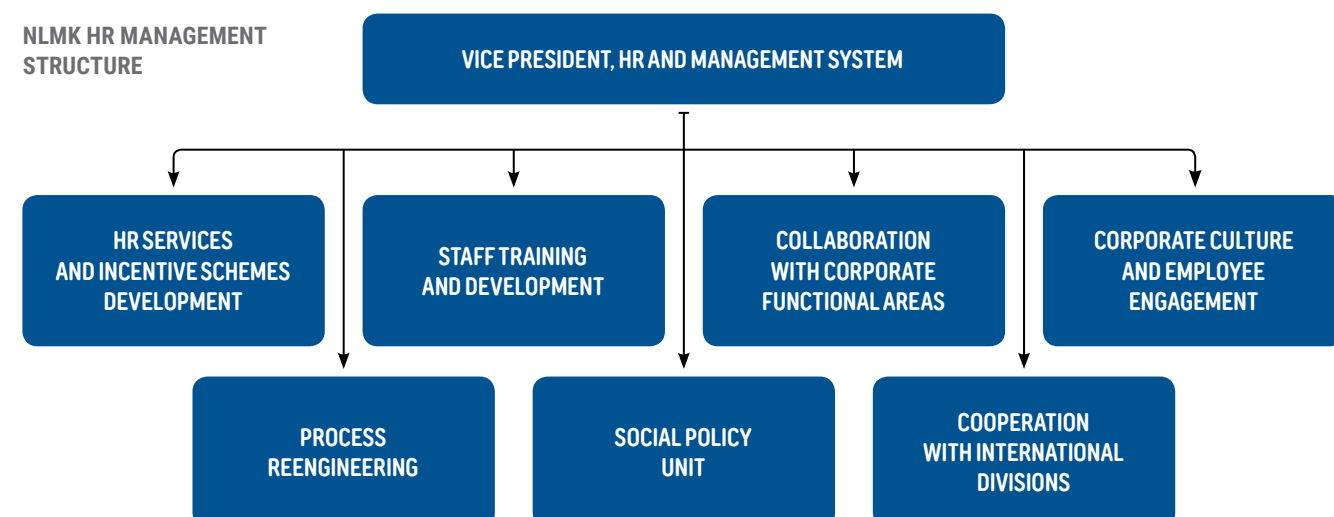
NLMK GROUP** STAFF BREAKDOWN
BY GENDER AND CATEGORY IN 2018, % [GRI 102-8, 405-1](#)



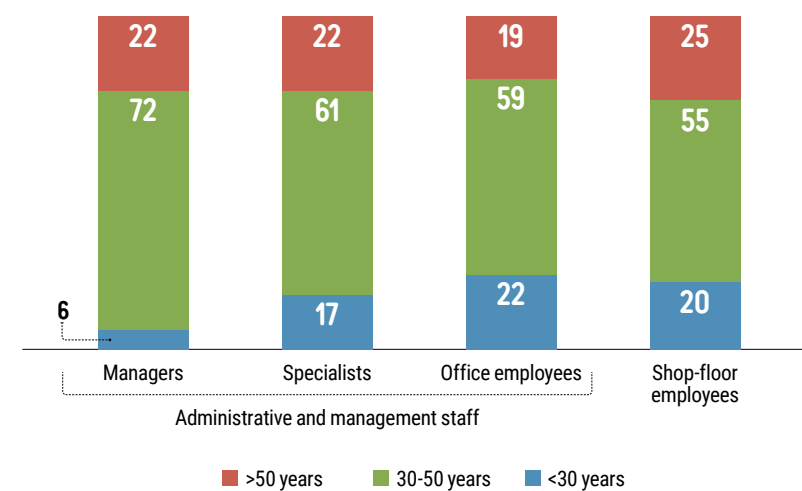
* Average headcount

** Headcount as of 31.12.2018

NLMK HR MANAGEMENT STRUCTURE

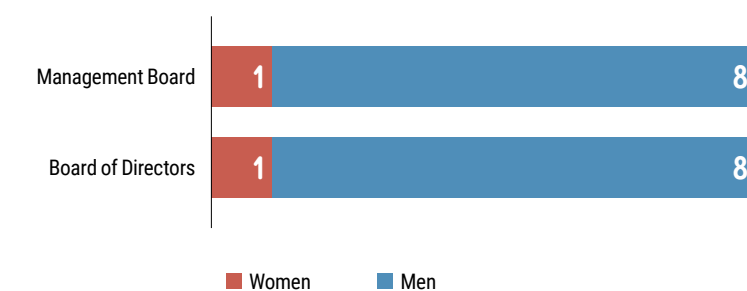


NLMK GROUP* STAFF BREAKDOWN BY AGE
AND CATEGORY IN 2018, % GRI 102-8, 405-1

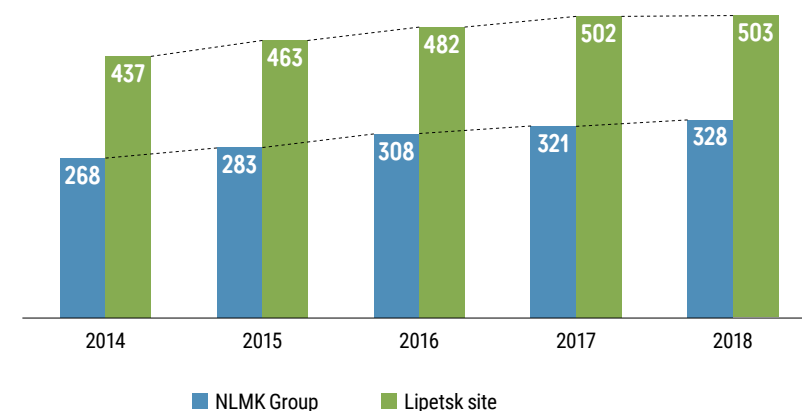


* Headcount as of 31.12.2018

GENDER COMPOSITION OF NLMK GROUP GOVERNANCE
BODIES IN 2018, PEOPLE GRI 405-1



NLMK GROUP LABOUR PRODUCTIVITY, 2014–2018,
TONNES OF STEEL/PERSON



Labour productivity

NLMK invests considerable efforts into improving employees' professional competence, refining the technologies and optimizing business processes. Improving labour productivity remains a strategic priority for the Company, and is a key element of its plan to develop NLMK Production System.

The Company has experienced a stable positive labour productivity trend over the past few years, achieving in 2018 a figure of 328 tonnes of steel per person for NLMK Group.

Turnover

The low employee turnover rate demonstrates the organization's ability to maintain a consistent staff structure. Thanks to our successful efforts over many years to create decent working conditions, financial and non-financial incentive schemes, as well as a system of training and career opportunities, the Group has enjoyed a stable rate of employee turnover, which stood at 4.7% in the reporting period.

Staff recruitment

As part of achieving strong performance, the Company understands the importance of attracting and retaining experienced and highly qualified staff.

When assessing applicants the Company does not tolerate discrimination on grounds of gender, age, or any other factors. NLMK always complies with applicable legal requirements, particularly with respect to the employment of women in hazardous roles. For example, Russian legislation** places restrictions on the use of female labour in hazardous conditions and in situations involving the movement of heavy weights. The Company adheres strictly to these requirements.

In 2018, 6,781 people joined the NLMK team, 60% of whom were hired to replace retired employees. 83% of newly hired employees were employed at the Group's Russian companies. GRI 401-1

** Russian Federation Labour Code of 30 December 2001, No. 197-FZ (edition 11.10.2018), Article 253, Work Subject to Restrictions Regarding the Employment of Women



ROBOTIZING HR FUNCTIONS

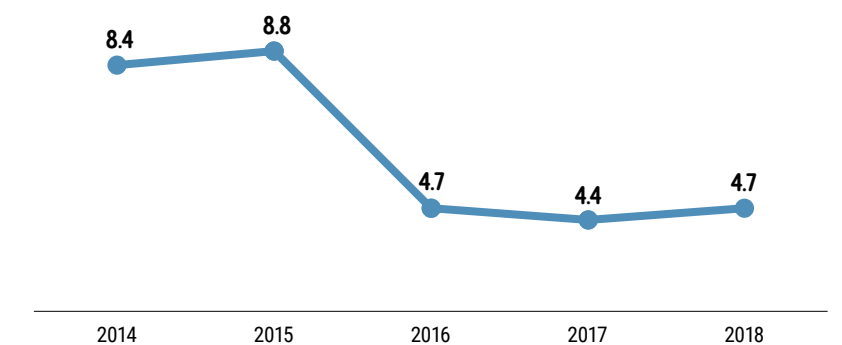
► In 2018, an HR robot was used for the first time at NLMK Lipetsk for the large-scale recruitment of employees to blue-collar positions. Applicants that had responded to open vacancies at NLMK and who were considering employment in a production role were contacted. The robot interviewed over 180 candidates, of whom around 25% either have already taken up positions at the Company or are considering job offers.

The Company created 300 jobs in 2018, the majority of which were linked to increased production and the commissioning of new facilities (65%) and the development of support and auxiliary services (35%).

NLMK is committed to boosting employment in the regions where it operates; we hence prioritize local applicants during the recruitment process.

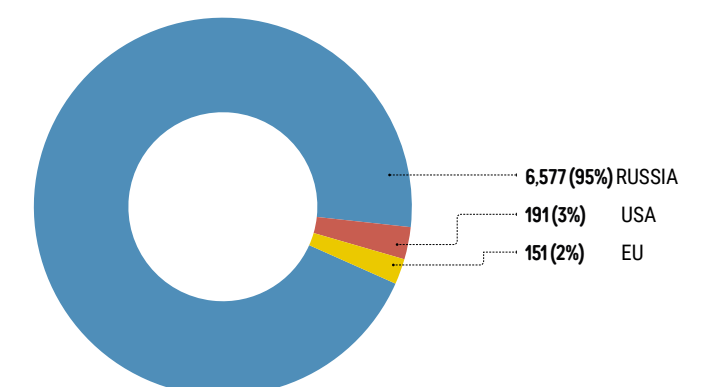
Due to the specific nature of roles in the steel industry, which involve working in hazardous conditions, particular care and attention is paid by recruitment specialists to the employment of people with disabilities. The Company complies with all respective legal requirements in this area.

CHANGES IN EMPLOYEE TURNOVER* AT NLMK GROUP, 2014–2018, % GRI 401-1



* The turnover figure excludes employees dismissed by management and those who died while employed by the organization

NLMK GROUP NEW HIRES BY REGION IN 2018, PEOPLE



Evaluation and remuneration

NLMK Group employees receive competitive remuneration. Financial remuneration for employees consists of a basic salary and a bonus. The NLMK remuneration system has been developed in accordance with the best Russian and international practices. The Company also takes the views of trade union organizations into account when elaborating local remuneration regulations.

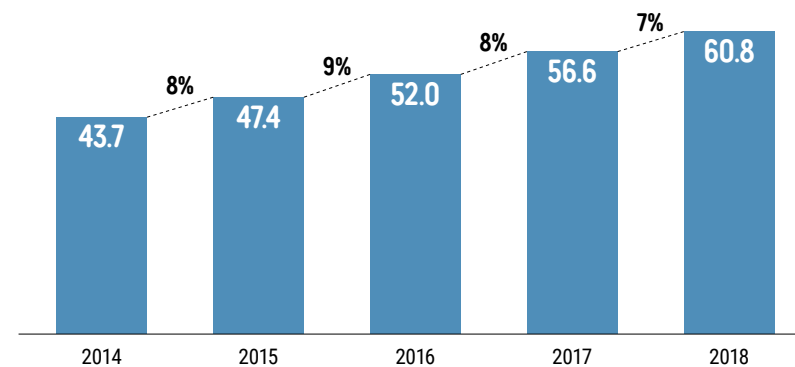
A major project to assess specialist and managerial roles was conducted in 2018. This will, in future, make it possible to determine salary levels on the basis of employees' skills and level of responsibility, as determined by the respective assessment project. The transition to remuneration in accordance with this assessment is planned for 2019.

Each year the Company indexes the basic salary of employee to inflation in the regions of operation. The average salary of NLMK Group employees at Russian companies in 2018 was RUB 60,800 – a 7% increase on 2017. At our international companies, remuneration is determined based on collective bargaining agreements and employment legislation, and also includes annual indexing of income.

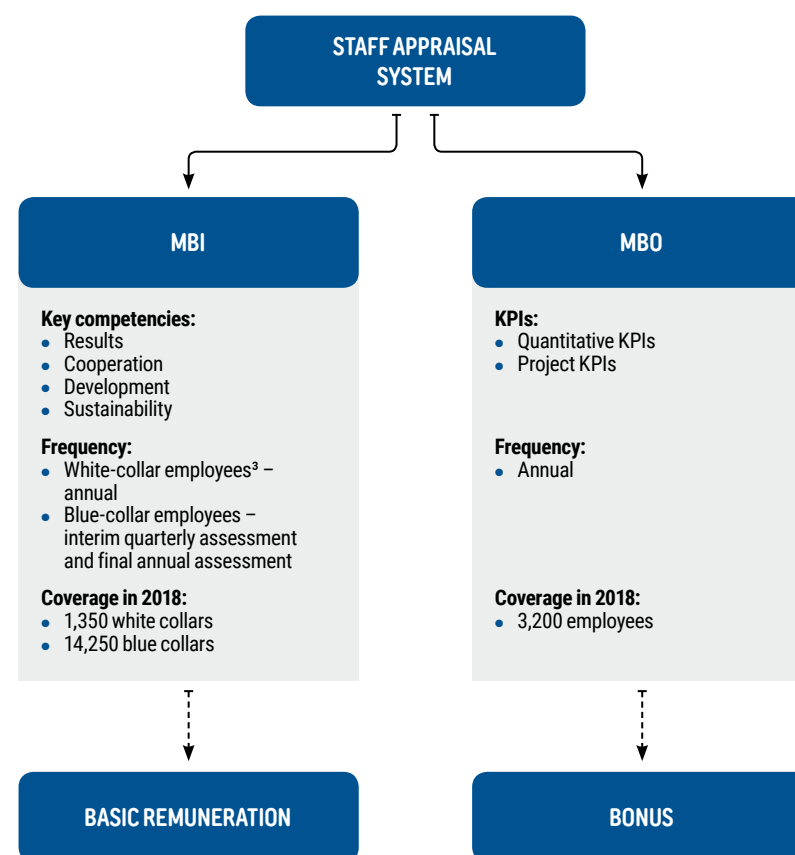
The Company does not tolerate any discrimination on grounds of gender or other factors in the implementation or future development of its remuneration system.

NLMK employs a systematic approach to assessing and determining remuneration levels for all employee categories. Employee performance is managed using two key tools: MBI¹ and MBO².

AVERAGE EMPLOYEE SALARY AT NLMK GROUP'S RUSSIAN COMPANIES, 2014–2018, THOUSAND RUB/PERSON



NLMK GROUP STAFF APPRAISAL SYSTEM



¹ MBI (merit-based increase) is a system for assessing employee performance on an individual basis

² MBO (management by objectives) is a bonus system which focuses on the achievement of objectives

³ Managers, specialists, and office employees

In 2018, much effort was put into implementing the staff appraisal system, with the aim of boosting individual employee salaries at NLMK's Russian companies based on MBI assessment results. A differentiated review of the basic remuneration, based on performance assessments, provides a means for encouraging employees to work effectively in order to facilitate reaching production targets, developing employee potential, motivating efficient and high-performing employees, and ensuring that salaries remain competitive with those of other employers.

In the next reporting period NLMK Group plans to extend the system to 100% of employees at its Russian companies. A pilot trial of the system is planned in 2019 for specialists and managers at our international companies, with the system set to cover all employees in this category by 2021.

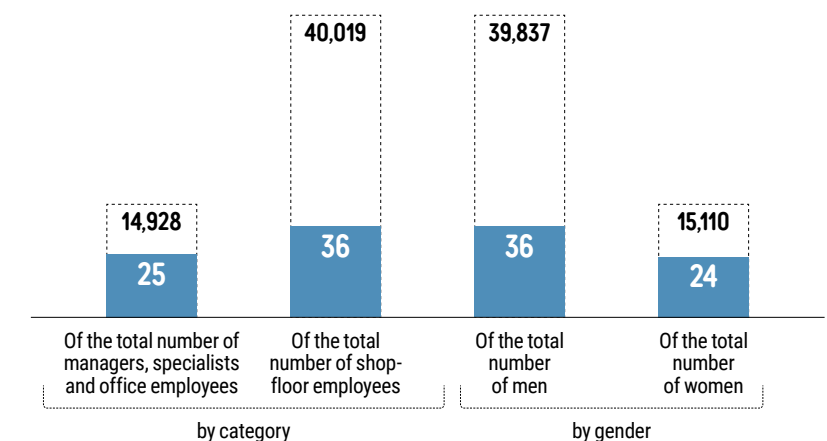
Assessments of specialists and managers to determine the variable component of their salary is conducted every year based on the KPIs specified by the MBO policy. The bonus for employees not covered by the MBO system is also determined monthly on the basis of their attainment of approved performance indicators.

Key achievements in developing the staff appraisal system in 2018 included:

- Completion of position grading and using the results to develop a competitive remuneration system.
- Transitioning from 'flat' annual indexing of the fixed component of salaries to a system of individual salary growth, based on performance assessment results.
- Cascading of the MBO system to line manager level (foremen and managers of working groups and sections).
- Introducing at our international companies the principles and approaches used to appraise specialists and managers at Russian companies, under the MBO system.

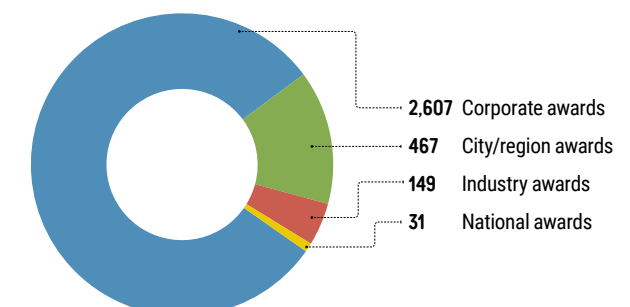
In 2018, 17,931 NLMK Group employees (33% of all staff) underwent official performance reviews. [GRI 404-3](#)

PROPORTION OF NLMK GROUP EMPLOYEES WHO RECEIVED A REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEW, BY CATEGORY AND GENDER, % AS OF 31.12.2018 [GRI 404-3](#)



AWARDS RECEIVED BY NLMK EMPLOYEES

- More than 3,200 NLMK Group employees received awards in 2018.



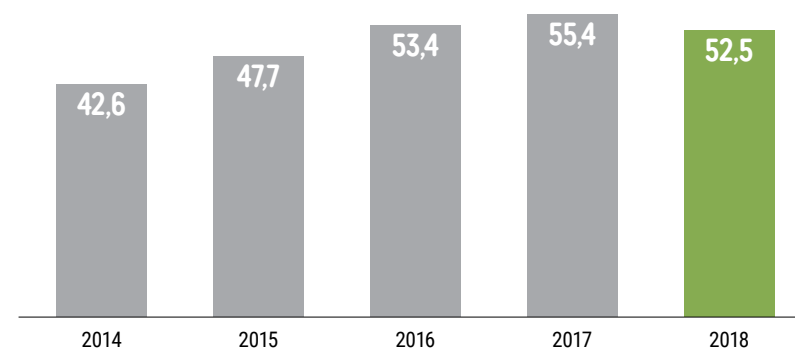
Training and development

Employee proficiency and qualifications are an important factor in ensuring sustainable development at NLMK. A key objective for the Human Resources Department vis-à-vis staff development and training is to ensure that employees receive the necessary level of training in vocational knowledge and skills in order to enable them to perform at a high level.

For this reason, NLMK invests considerable resources in the training and development of its employees. Investment allocated to staff training measures in 2018 amounted to RUB 301.8 million, a 14% rise on the amount allocated in the previous reporting period. Much of this increased investment went on vocational training and internal conferences, as prescribed by strategies in Fixed Asset Management System Development and Operational Efficiency, and on increasing the provision of in-house training.

The staff training and development process comprises a number of stages, which include not only educational programmes for Company employees, but also work with potential future employees: students from secondary and higher educational institutions.

NUMBER OF TRAINING COMPLETED BY NLMK GROUP EMPLOYEES, 2014–2018, MAN-TRAININGS, THOUSAND



Cooperation with educational institutions

As part of its work with schools, the Company carries out a wide range of informative and educational activities and competitions, including organizing trips to its companies and encouraging the study of technical subjects, holding competitions and quizzes about metalworking, and supporting the most promising students and their teachers.

We work closely with vocational training and higher education institutions, proposing changes to course content to reflect NLMK practices, organizing various types of work experience at Group sites, operating funded programmes for teachers and students, and conducting additional and dual education programmes.

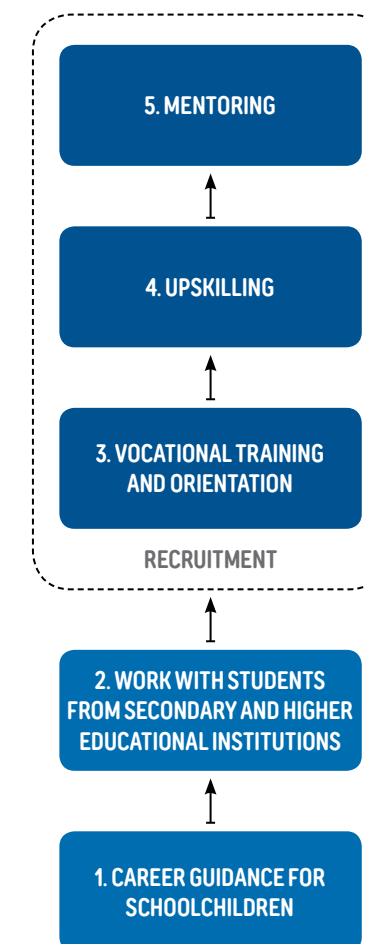
Effective cooperation with schools and institutions of secondary and higher education not only allows us to attract young professionals that

are already familiar with the working life at NLMK, but also to ensure that the Company is perceived as being an attractive employer in the regions where we operate.

Vocational training GRI 404-2

Given the nature of the Company's operations, a significant role is played by vocational training and orientation programmes for NLMK employees. These programmes include trainings that qualify employees to access production sites and work with equipment, together with specialist vocational training. Training takes place at NLMK's own sites or in collaboration with certified third-party training institutions. For example, the Lipetsk site has an educational centre that holds state-licensed trainings in over 300 occupations.

STAFF TRAINING AND DEVELOPMENT PROCESS AT NLMK



We also invest significant financial resources and efforts into vocational training for employees in corporate functional areas. In response to the results of vocational skills assessments, a centralized training programme is being developed, aimed at improving skills and eliminating deficiencies in key competencies.

A modular programme aimed at improving sales and negotiation skills was launched in 2018. The following key development areas were identified: planning, business negotiation techniques, and key risks affecting the negotiating process. The programme, which consists of four modules, has promoted the development of sales and negotiating skills through training sessions customized to reflect the nature of the Company and the strategic objectives of the Sales functional area. Training groups

comprised employees from NLMK's Russian and international companies. The programme was launched in the first quarter of 2018 and came to an end in the fourth quarter. Between modules, programme participants spent 4–6 weeks independently practicing their skills, working with actual Company clients.

During the reporting period work began on developing and implementing

another vocational training programme for the Finance and Economics functional area. Participants in this programme set themselves the goal of developing their skills in three key competency groups: business planning and analysis, managerial accounting and reporting, business performance (KPI) management and efficiency improvement programmes.

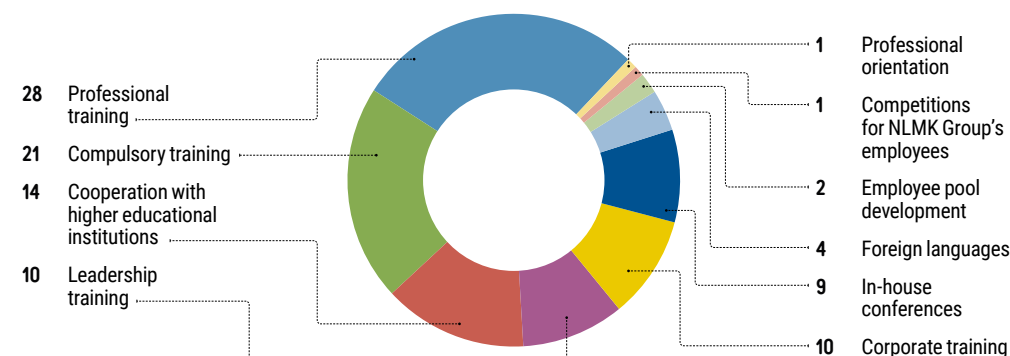


VOCATIONAL COMPETITIONS

► NLMK regularly holds corporate events for employees, timed to coincide with professional holidays, sporting events, and vocational competitions. In 2018, for example, the Company helped organize the WorldSkills Russia 2018 vocational skills competition as part of a cooperation agreement with the international non-profit movement WorldSkills Russia, which operates under the auspices of the Russian Ministries of Education and Labour and the Agency for Strategic Initiatives. WorldSkills is an international non-profit movement, which aims to enhance the prestige of vocational professions and to develop vocational education (for more information go to <https://www.worldskills.org/>).

The regional stage of the WorldSkills Russia 2018 Young Workers Championship took place over three days at 13 vocational education institutions in the Belgorod Region. 100 secondary and higher education students, as well as representatives from NLMK Group companies, took part in competitions testing 15 different skills. The competitions were refereed and judged by over 130 specialists from throughout Russia. Chemical analysis technician Irina Dorokhina, an employee at Stoilensky, won the regional round of the WorldSkills Russia 2018 Young Workers Championship in the Laboratory-Based Chemical Analysis skills category.

INVESTMENT IN NLMK GROUP RUSSIAN COMPANIES BY TYPE OF TRAINING PROGRAMME IN 2018, % GRI 404-2



Functional training for the Finance and Economics area was developed by a group of internal and external experts to systematically improve employees' key vocational competencies. The main objective of this training was to create financial expertise within the Group. One of the distinguishing features of the programme was its combination of on-site exercises and e-learning, including online webinars and homework tasks. This enabled programme participants to develop their skills without having to spend significant periods away from work.

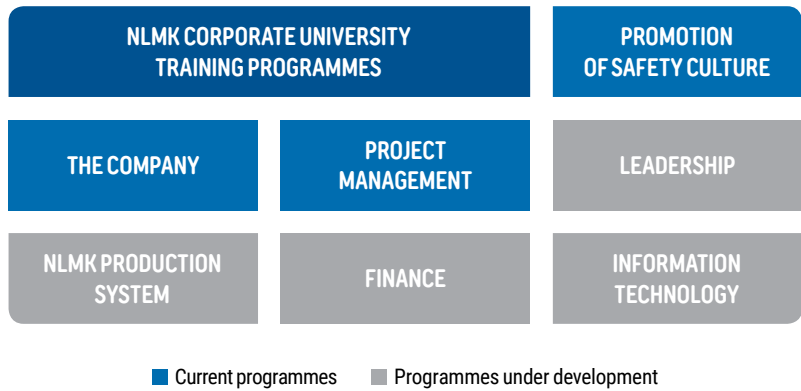
Within nine months of the programme, over 750 training transactions (person/training session) had been completed. More than 10 hours of training videos on various topics, teacher presentations, and textbooks and materials for self-study are currently available for programme participants to use independently.

NLMK also devotes particular attention to other areas of training, which are particularly important for business development, such as language learning. During the reporting period the Company conducted a corporate programme providing training in English. By boosting the share of employees with English language skills, we help improve Company employees' access to global best practices in the industry and enable NLMK Group's international divisions to share experiences more extensively. The corporate English language-training programme attracted 200 participants in 2018, a figure which is expected to rise to 350 in 2019.

Management training GRI 404-2

NLMK continues to develop its internal management training process. Since 2017 a structural subdivision of the Company, the Corporate University, has taken on the role of training and developing Company managers, while at the same time promoting a strategic vision for Group management vis-à-vis training. The Corporate University is a source of internal competencies in priority areas for the Company, and is also a strategically important tool for developing employees in accordance with NLMK's long-term objectives.

STRUCTURE OF NLMK CORPORATE UNIVERSITY TRAINING PROGRAMMES



Training at NLMK's Corporate University is based around nine fundamental programmes: The Company, Leadership, Project Management, Promotion of a Safety Culture, NLMK Production System, Managerial Standards, Production System Tools, Finance, and Information Technology. In 2018, three of these training programmes were conducted by in-house coaches, including senior NLMK managers and key experts. A total of 148 coaches worked on the programmes in 2018.

The remaining Corporate University modules are under development. Over 6,000 employees underwent Corporate University training in 2018.

In addition to management training at the Corporate University, we launched an internal programme for the Company's middle management in 2018, as part of efforts to cultivate a talent pool. The programme consists of a number of modules, and is chiefly based on the NLMK corporate skills that are essential for effective management.



BUILDING THE CORPORATE UNIVERSITY COMPLEX

- ▶ NLMK Group is in the process of building a multifunctional cultural and education centre in the city of Lipetsk, which will also house NLMK's Corporate University. A transformable exhibition space of up to 300 m² will create new possibilities for showcasing work by talented NLMK employees. The new building will also feature a 600-seat concert hall. 2018 saw the completion of construction work on the Corporate University's ground floor. The centre is expected to open at the end of 2019.

Vocational training programmes are also held at NLMK's international companies, which employ the same approach as the rest of the Group. Special attention was devoted in 2018 to training managers at international companies.

Employees at NLMK's international companies participated in regular strategic sessions of various functional areas. During the reporting year our international companies participated in a Company-wide event to improve sales skills.

Materials from three training programmes were translated into English during this period. These materials were used to train employees working in our international divisions. The Company also plans in the future to regularly translate the Corporate University materials, in order to provide access to training for all Group employees working at our international companies.

Preparing a talent pool

Ongoing work to develop the Company's talent pool is aimed at identifying, training, and promoting members of the pool.

The basic goal is to ensure that the Company's needs are met to the fullest extent possible regarding its ability to fill vacant positions with trained employees, and at the same time provide for the needs of NLMK Group employees by enabling them to build a successful career within the Company.

Employee support GRI 404-2

NLMK takes a responsible approach to helping its employees progress in their chosen careers within the Company, and provides them with free training to enable them to switch specializations. Should an employee wish to switch specialization, we are ready to help them acquire new skills. The Company offers employees the opportunity to independently apply for funded training to gain new qualifications and progress in their careers at NLMK.

Former NLMK employees that are highly skilled and who possess unique experience have the opportunity to act as expert consultants, passing on their knowledge and experience to new Company employees on the basis of a paid services agreement.

Social policy

NLMK Group's internal social policy is a key tool for supporting high levels of employee engagement; it also helps create additional labour market advantages. Since 2017 the management of social policy issues has fallen within the remit of the Human Resources function, thus facilitating a more effective development of social projects and a sharper focus on employee needs. One of the main aims of the Company's internal social policy is to support NLMK's HR strategy and sustainable development goals.

In 2018 NLMK's Management Board approved NLMK Group Employee Health corporate programme; a working group to implement the programme was also created. The programme aims to preserve and develop health capital* within the Company, both by improving infrastructure to help maintain good health and by personally motivating employees and managers at NLMK Group's Russian companies. According to the World Health Organization's factor-based model of health capital, employee health is highly correlated with lifestyle choices.

NLMK Group Employee Health programme will place a special emphasis on events that motivate employees to

lead healthy lifestyles. The programme is supervised by the Group's Vice President for HR and Management System and Vice President for Occupational Health and Safety and the Environment. Specific KPIs have been established for the programme. The module on personal health awareness has been included in the training programme for NLMK Group's talent pool. GRI 403-6

Social support

NLMK Group has developed social support measures for its employees that are intended to boost their motivation and satisfaction levels. We are committed to constantly improving the content of these measures, as well as the conditions under which they are provided.

Total social investment by NLMK Group in 2018 stood at RUB 2.73 billion, out of which RUB 2.44 billion was allocated to social support programmes for NLMK Group employees.

Social support measures are regulated by collective bargaining agreements:

- Medical services for employees and their children, including as part of voluntary medical insurance schemes.
- Providing hot meals on-site.
- One-off financial aid for employees and members of their families, as well as a system of compensation payments.

NLMK GROUP EMPLOYEE HEALTH PROGRAMME

| | |
|--------------------|---|
| WORKING CONDITIONS | <ul style="list-style-type: none"> • Healthy eating • Improving social conditions at work • Optimizing work-life balance |
| LIFESTYLE | <ul style="list-style-type: none"> • Health training sessions • Digitalization to promote a healthy lifestyle • Getting employees involved in sport and healthy living |
| MEDICINE | <ul style="list-style-type: none"> • Improving the effectiveness of occupational medicine • Improving the voluntary medical insurance system • Developing preventative and wellness programmes |

* Health capital refers to the combined physical and mental health of employees, which determines their ability to work and to contribute to the organization's production potential

- Organizing mass cultural and sporting events and creative competitions.
- Providing transport to and from the workplace.
- Housing programmes (at some NLMK Group companies).
- A non-state pension programme (at some NLMK Group companies).
- A comprehensive support programme for retired employees.

NLMK provides additional benefits for employees which are aimed at supporting their health, improving working conditions, caring for their families, and various corporate events are also organized.

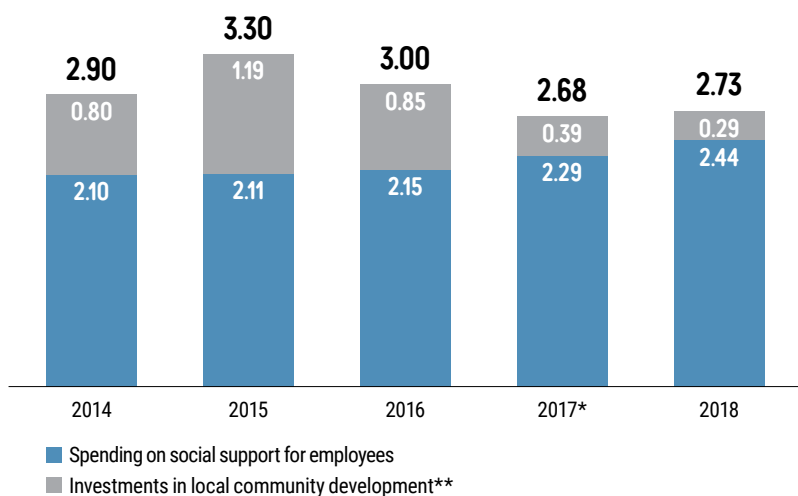
The NLMK housing programme operates in a number of areas. In cases established by internal regulations, the Company will reimburse the cost of privately rented accommodation as part of a compensation package, help employees to purchase their own homes by reimbursing a portion of interest payments on a mortgage, and organize the provision of service apartments and hostel beds.

During the reporting period, 487 employees received compensation for privately rented accommodation, 72 families of NLMK Group employees were able to purchase an apartment in the cities of Lipetsk and Kaluga on favourable mortgage terms, and 137 people were living in subsidized corporate accommodation.

The corporate loyalty programme for NLMK employees was also enhanced in 2018, in partnership with a bank that services payroll projects at major Russian companies. Under the programme, employees have access to discounts and special offers from retailers in the cities where the Group has major companies: Lipetsk, Stary Oskol, and Moscow. Employees can also suggest retail partners with whom they would like discounts to be agreed. In addition, the programme offers NLMK employees a concierge service for booking various services.

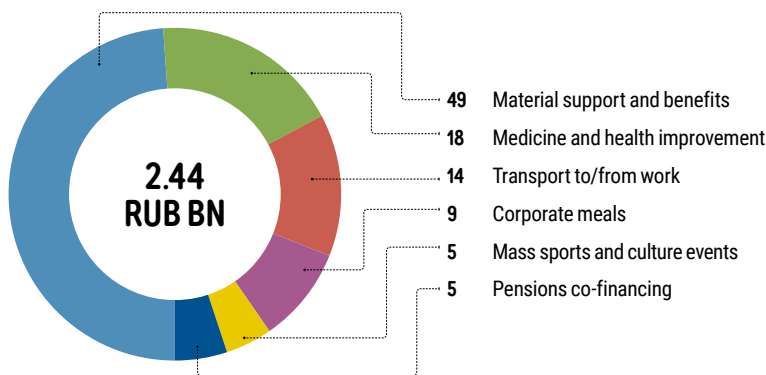
NLMK Group employees can participate in non-state pension programmes at companies with additional contributions made by the Company. These programmes provide employees with additional pension payments once they become eligible to receive their pension. [GRI 404-2](#)

NLMK GROUP'S SOCIAL SPENDING AT ITS RUSSIAN COMPANIES, 2014–2018, RUB BN



* The 2017 data were updated due to the adjustment of the accounting methodology.
 ** For more information about investments in the development of local communities, please refer to the Development of Local Communities section.

SOCIAL SPENDING FOR EMPLOYEES AT NLMK GROUP'S RUSSIAN COMPANIES IN 2018 BY AREA, %



As part of the NLMK Group Employee Health programme, preparations were made in 2018 to transition to a unified, comprehensive voluntary medical and accident insurance programme. In order to determine the nature of the services to be offered, the employee sickness rate was analysed and three critical categories were identified:

- Respiratory diseases
- Cardiovascular diseases
- Diseases affecting the musculoskeletal system. [GRI 403-10](#)

According to plans which have been drawn up for the programme, as part of their voluntary health insurance package,

employees will be able to take advantage of an in-depth preventive medical examination, including follow-up care to prevent or treat identified diseases. They will also receive a package of additional services, including an initial remote consultation, the option of a remote consultation with the Russian Federation's leading clinics, and assistance in obtaining quotes for technologically advanced medical care. The programme will launch in 2019. [GRI 403-6](#)

A unified approach to employee vaccinations, which uses common criteria to select the vaccine to be used, was applied for the first time in 2018. As a result of the programme, over 50% of Group employees were vaccinated.

Our employees

Medical services at NLMK Group companies are provided by three infirmaries and 29 medical centres. Employees are also able to undergo treatment at health resorts and to take restorative holiday time, either at NLMK's 10 resorts and spas or in other regions of the country. [GRI 403-3](#)

An audit of corporate medical assets was conducted in 2018; its results will serve to establish ways in which the Group's medical assets could be more effectively managed in 2019. [GRI 403-3](#)

Our international companies likewise actively implement social programmes for their employees, including insurance and healthcare programmes. NLMK Pennsylvania, for example, has worked with a trade union organization to implement a programme entitled 'Benefits for Your Life'. This programme provides employees and their families with access to a variety of medical services on favourable terms, additional paid leave according to their length of service, and other social services.

Staff satisfaction survey

Each year, NLMK Group monitors the opinions of its employees, asking them for feedback about working conditions and internal communications. An additional detailed staff satisfaction survey was conducted during the reporting period, entitled 'NLMK Group Social Programmes: Assessing Employee Satisfaction'. Almost 16,000 employees from a number of NLMK Group's Russian companies completed it. The survey pinpointed a number of potential improvements to social programmes, including healthcare provision and the organization of corporate events. The survey also revealed that employees were interested in participating in corporate volunteering programmes, and identified volunteering areas that were of the most relevance and importance to staff.

The survey results were taken into consideration by the HR Management functional area during the implementation of social policy projects; the NLMK Group Employee Health programme in particular was designed with the results of the survey in mind. The Company plans to conduct a staff satisfaction survey for social programmes at least once every three years.

Trade unions and collective bargaining agreements

With respect to its HR policy, the Company complies fully with the requirements set forth in collective bargaining agreements and holds regular meetings with representatives from trade unions. Collective bargaining agreements are in force at all Group companies, including at our international companies. As of 2018, collective bargaining agreements covered 100% of employees at NLMK Group's Russian companies.

Measures were taken in 2018 to develop parameters for unifying the conditions under which key benefits are offered.

Supporting retired employees

NLMK Group devotes special attention to employees that have retired from the Company. In addition to giving them regular financial assistance, we also provide them with additional social programmes. Further information about the measures and programmes implemented by NLMK

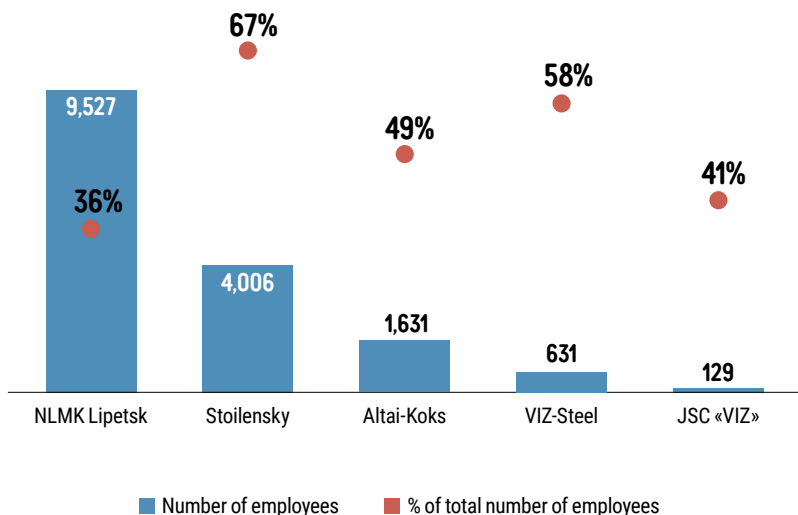
for the benefit of its retired employees can be found in the Developing Local Communities section.

Volunteering

In 2018, NLMK's vision for corporate volunteering was reviewed by the Management Board. Three key areas for developing the concept were determined for all Group companies:

- The environment: including taking action to clean up and improve NLMK sites and environmentally sensitive areas, eco-quests for children and young people, and eco-expeditions
- Healthy living: including events to promote healthy lifestyles, and involving local people in regions where NLMK operates in accessible sporting events, and furnishing sports facilities
- Social assistance: assistance for vulnerable groups, including helping children, pensioners, and people with disabilities, and providing urgent assistance for urgent community needs without employer involvement, among others.

NUMBER OF EMPLOYEES AT NLMK GROUP RUSSIAN COMPANIES THAT PARTICIPATED IN THE 2018 SATISFACTION SURVEY



NLMK GROUP'S EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS, 2014–2018, % [GRI 102-41](#)

| NLMK Group region | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|------|------|------|------|------|
| Russia | 100% | 100% | 100% | 100% | 100% |

An NLMK Volunteers community was created on the internal NLMK portal in 2018, giving employees a place where they can exchange volunteering ideas. Between May and December 2018, over 500 employees took part in volunteering sessions in Lipetsk, Yekaterinburg, Revda, and Zarinsk.

In 2018 the Company held its first events to mark International Charity Day (5 September) and International Volunteer Day (5 December). NLMK plans to hold more of these events on an annual basis.

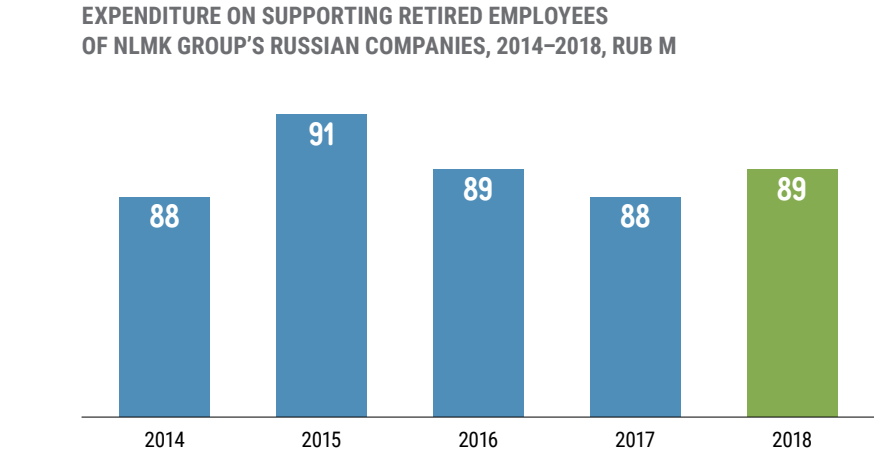
International Charity Day on 5 September was marked with events at various Group sites. On 8 September, for example, NLMK organized an environmental volunteering event in Lipetsk entitled ‘Green Hearts’. Around 200 people took part in the event, including activists from NLMK’s volunteering division, participants in the Young Leader programme, employees at NLMK companies, and members of their families. At the end of the event, participants were presented with NLMK volunteer certificates.



ON THE WINGS OF GOOD: A VOLUNTEERING PROJECT BY NLMK EMPLOYEES

► Led by Alexander Nosyrev, a SERS* electrician at NLMK, a team of volunteers renovated an old aviary at a hatchery for birds of prey at the Galichya Gora nature reserve in the Lipetsk Region. The new aviaries will house young birds that are threatened with extinction and which have been entered into Russia’s Red Book of rare and endangered species. The Galichya Gora hatchery is an important centre for environmental education, and provides comprehensive care for rare birds, including returning them to their natural habitat.

* SERS: steelmaking equipment repair shop



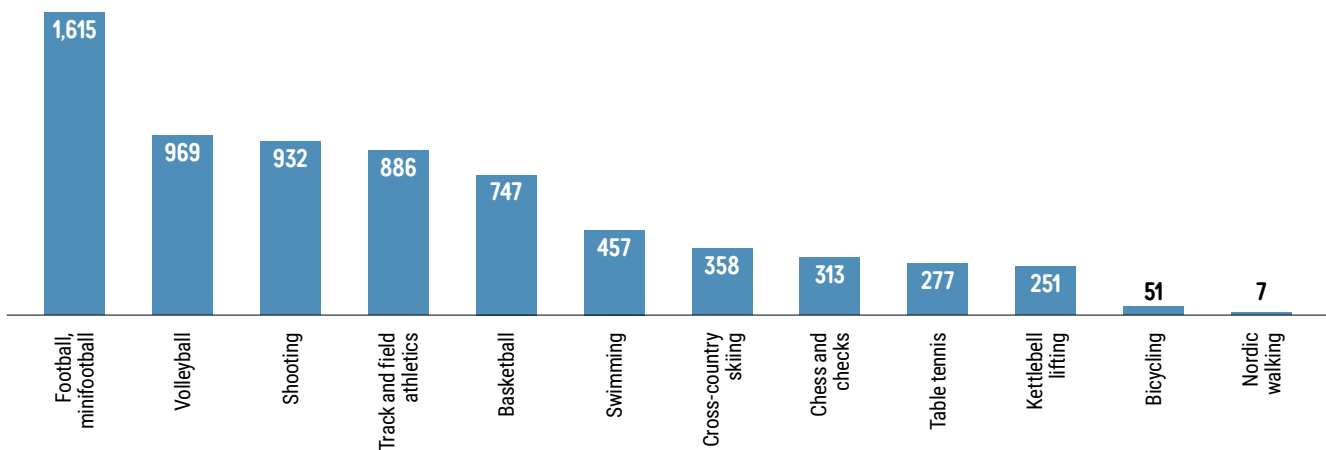
As part of International Volunteer Day, a trip was organized for NLMK corporate volunteers from Lipetsk to visit Soul Bazaar, Russia’s largest charity fair. The fair has been held in Moscow just before the start of the Christmas and New Year celebrations since 2010, and 36 companies and 40 non-profit organizations took part in 2018. Corporate volunteers from NLMK joined volunteers from Soul Bazaar and a team from the Jewish Museum and Tolerance Centre on a visit to the sites of non-profit organizations, as part of a trip intended to introduce participants to key areas of non-profit activity.

Corporate sport

NLMK Group is committed to ensuring that its employees have access to everything they need to do sports. The Company supports sports halls and centres on the sites of its companies, maintains corporate sports facilities, hires external halls and facilities for team sports, provides employees with subscriptions to swimming pools and gyms, and arranges employee discounts at fitness centres. Corporate contests and tournaments are held on a regular basis. The 4th NLMK Group Corporate Games were held in 2018 in Lipetsk, welcoming 270 representatives from each Russian company to compete



CURRENT COVERAGE OF EMPLOYEES AT NLMK GROUP’S RUSSIAN COMPANIES BY TYPE OF SPORT, 2018, PERS.



in 10 different disciplines. Around 400 employees pass Russia’s Ready for Labour and Defence physical fitness test every year.

The Company spends around RUB 40 million annually on organizing sporting activities for employees, holding popular sporting events, and maintaining sports facilities.

Employees at our international companies also regularly take part in sporting events. In 2018 at NLMK Strasbourg, for example, employees participated in the Ekiden Marathon, a relay event, for the third time.



Plans for 2019 and the medium term

Human resources management is a key element influencing NLMK Group’s development. Accordingly, we plan to take an active approach to human resources development, refining our existing strategies and implementing new initiatives and technologies. Starting in 2019, and following our project to evaluate specialist and managerial roles, we plan to determine salaries on the basis of employee grade. We plan to increase the number of Group employees included in the MBI key skills appraisal and MBO bonus systems.

The Company will continue to work not only to improve its training programmes to develop employees’ vocational skills, but also to build the Company’s talent pool.

With respect to internal social policy, we plan to develop a regulatory document in 2019 with the key goal of formalizing the Company’s approaches to social issues.

Work to implement the NLMK Group Employee Health programme will continue in 2019 with the introduction of accident and critical illness insurance for all employees at NLMK Group’s Russian companies, together with other projects. The Company’s plans for 2019 also include setting up an NLMK Group Corporate Volunteering Council, whose mandate will include examining employee initiatives on a competitive basis.



Occupational health and safety

Key figures for 2018

-31%

The injury rate reduction
the Group and its contractors

\$125.5 M

invested in the development
of safe production

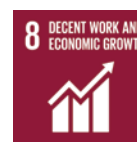
Material topics

- Occupational health and safety

Key events in 2018

- The Provisions on OHS incidents, which regulate issues related to workplace safety, were approved
- The top three risk categories at NLMK Group production sites were identified and projects to minimize risks in these categories were developed
- 'Safe behaviour' is now included in the list of criteria evaluated during an employee's annual review

Global Sustainable Development Goals



Our approach to managing occupational health and safety GRI 403-1

Occupational safety is an absolute priority for NLMK Group. The Group's strategic goal is to achieve a zero injury rate at all companies by continuously improving the occupational health and safety (OHS) management system.

The Group's approach is based on strict compliance with Russian and international OHS regulations, the introduction of best practices, monitoring key risk factors, and the maintenance and development of a safety culture among NLMK employees and contractors. Occupational health and safety are integral components of a large-scale project to develop NLMK Production System.

To ensure a high level of safety at work, the Company is guided by a set of internal principles that shape the OHS culture throughout the Group.



In order to implement these principles, the Group undertakes to:

- Effectively identify and minimize existing unacceptable risks, thus controlling the level of risk to the life and health of the Group's employees and contractors
- Constantly increase the competencies of managers, employees, and contractors in the area of occupational health and safety
- Comply with Russian and international OHS regulations
- Ensure that OHS indicators are made available.

OHS issues are regulated at all management levels within NLMK Group. The Group ensures that all NLMK employees and contractors are involved in measures to improve workplace safety.

The President (Chairman of the Management Board) plays a key role in regulating the Group's approach to production safety. He determines the Company's OHS development strategy and approves the foundational document, the OHS Policy.

In order to analyse the effectiveness of the OHS management system, the Management Board receives a monthly report containing information about accidents at work over the past month, together with general information on OHS initiatives and activities. In addition, at Management Board level, the results of accident investigations are reviewed, decisions are made to launch corporate measures within the Company, and the attainment of OHS KPIs is reviewed.

The Vice President for Occupational Health and Safety and the Environment manages OHS issues at all Group companies, including international ones. Each of the Group's companies has an OHS team. Dedicated occupational safety teams operate in the factory shops of the largest companies. All participants in the OHS management structure, including international companies, collaborate to ensure that a unified approach is adopted to improving safety at all NLMK companies.

The main document governing NLMK's OHS management system is the OHS Policy, which was approved by the Group's President in 2015.

In 2018, the Provisions on OHS Incidents were approved. These regulate the procedure for dealing with incidents, the operation of the alert system, and the procedures for recording incidents, and for conducting investigations and implementing remedial measures. Since autumn 2018, the approved provisions have functioned as a single regulatory document for the entire NLMK Group, including international companies. The provisions do not have to be adapted to each specific company in the Group.

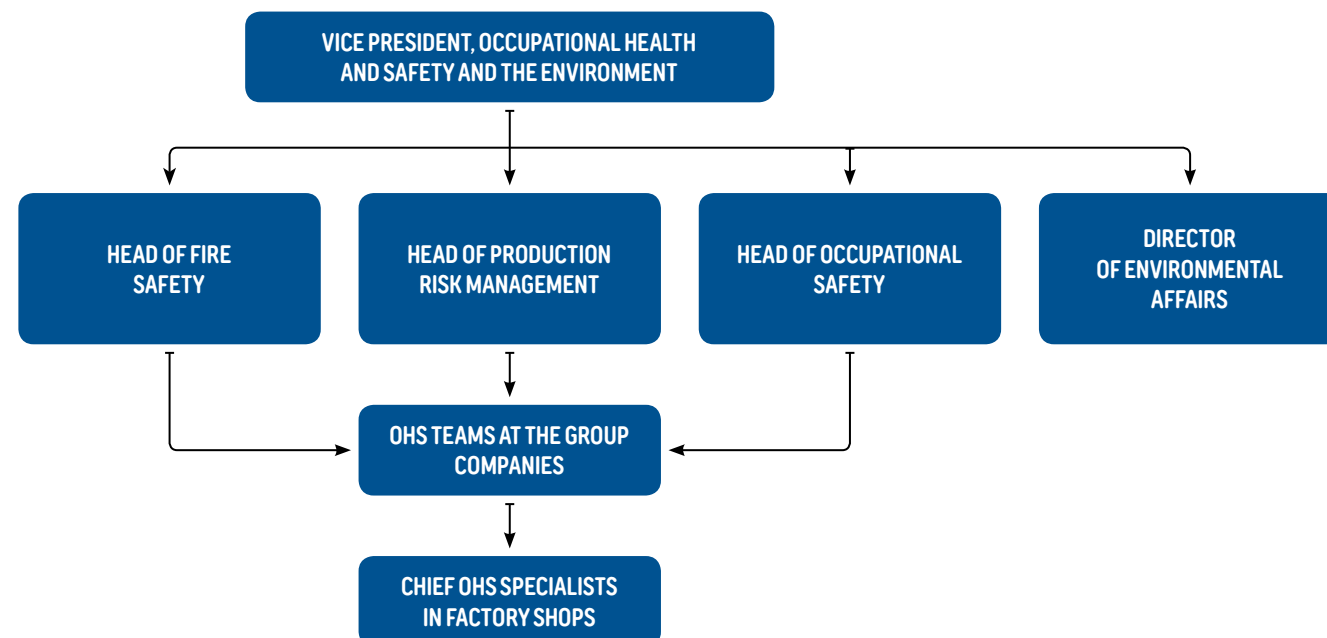


THE LIST OF CORPORATE DOCUMENTS ALSO INCLUDES:

- ▶ Occupational health and safety risk management regulations
- ▶ Fire safety regulations
- ▶ Regulations on machine enclosures
- ▶ Road safety regulations
- ▶ Regulations governing the safe operation of lifting equipment
- ▶ Contractor management regulations
- ▶ Regulations governing working at height

The OHS standards are approved in accordance with existing corporate regulations at company level. The Group is currently elaborating a classification system for regulatory documents, including OHS documents, in order to systematize the scope and levels of influence of different groups of documents.

OHS MANAGEMENT STRUCTURE



Efficacy of OHS efforts

Since 2018, our main focus has been on developing a culture of safety at NLMK. Particular attention has been paid to improving the level of safe behaviour by conducting both internal and external training sessions for Group employees and contractors.

The Group has established the following areas as being strategic objectives:

- Zero fatal accidents involving employees and contractors
- Achieving by the end of 2022 a total Lost Time Injury Frequency Rate (LTIFR)* among employees and contractors of not higher than 0.5
- Raising awareness among staff vis-à-vis personal safety.

As part of the strategy a list of projects and programmes to be implemented has been developed for each separate area of OHS.

The Group has developed a KPI system for tracking progress in improving the effectiveness of OHS management. For each level of employee, starting with the Group President, a performance indicator is established that is associated with a decrease in the LTIFR. At company level, business performance is also defined by an absence of recurring critical incidents over the past 36 months.

Safe behaviour at production sites is included in the list of criteria used to evaluate employees. These criteria affect the level of an employee's remuneration as well as their future career development (for more information see the Our Employees section).

OHS investments

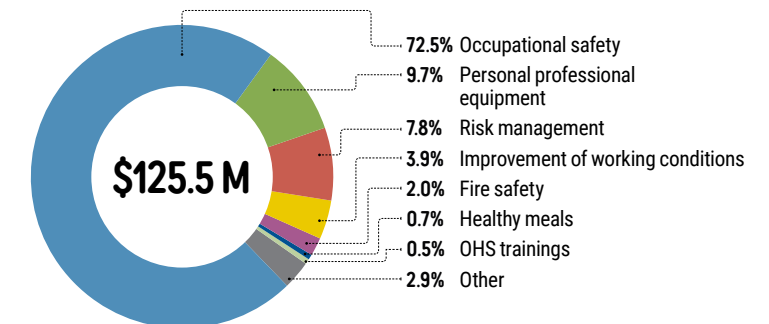
The Group invests annually in this area in order to attain the goals that are defined within the OHS Strategy rapidly and to a high standard.

In 2018, OHS costs were up by 28% on the previous reporting period, amounting to around \$125.5 million.

Each NLMK Group company submits its planned measures and projects to monitor OHS risks for review by the Investment Committee on an annual

* The LTIFR indicates the frequency of accidents that lead to loss of working time (not including fatalities). The formula for calculating this rate is as follows:
the number of accidents with loss of working time * 1,000,000 / actual amount of time worked by all employees

BREAKDOWN OF OCCUPATIONAL HEALTH AND SAFETY INVESTMENTS



basis. As part of the Maintenance and Major Repairs Programme, the Investment Committee determines the allocation of funds for OHS projects. A detailed implementation schedule is prepared for each project, and a risk assessment is conducted.

During the reporting period, a number of projects dedicated to improving production safety were implemented in the following main areas:

- Occupational health and safety
- Risk management
- Fire safety
- Improving working conditions for employees.

Management system and certification

NLMK is committed to establishing an OHS management system that operates effectively and covers 100% of employees and contractors. As of the end 2018, the number of employees covered by the OHS management system was 54,879, or 100% of the headcount. Furthermore, in 2018 the Company achieved a 100% coverage of contractor employees under the OHS management system.

The Group also certifies the OHS management system at individual companies. NLMK Verona, NLMK DanSteel, NLMK Strasbourg, NLMK Lipetsk, and VIZ-Steel are all certified for compliance of OHSAS 18001:2007. Over 30,000 employees were covered by an OHS management system certified by a third party. In 2018, a working group was set up to

achieve ISO 45001:2018 certification. By the end of the reporting period, our international company NLMK DanSteel was certified under the new ISO 45001:2018 standard.

OHS risk assessment

NLMK Group applies a risk-orientated approach to OHS management. In 2018 an incident analysis was conducted for each subsidiary, and the following top-three risk categories were identified at the Group:

- Moving and rotating mechanisms
- Work at height
- Falling objects.

By analysing incident statistics, the Group was able to determine the course that it should pursue to develop its OHS efforts: a project focusing on operational risk assessment was launched within the Production System.

During the reporting period measures aimed at minimizing identified risks began to be implemented. In particular, 80% of production operations at the Russian companies of NLMK Group, where the level of risk is higher, have been transformed in order to minimize the risk of incidents. Efforts to minimize and eliminate risks in the workplace will continue in 2019.

Staff training and engagement

The Group conducts all OHS training programmes prescribed by state regulations. NLMK also implements additional measures to bolster the safety culture at the Group and to improve employee engagement.

Since 2017 all of the Group's companies have been running a corporate training programme entitled *In Search of Safety*; its aim is to involve employees in the hazard identification and risk assessment process. Under this programme, company employees identify potential workplace risks, and area managers evaluate risks identified by employees in order to elaborate further measures to minimize or eliminate them. A target indicator of 100% coverage of NLMK Group companies, including foreign assets, was set for the programme, and this figure was achieved during the reporting period. New Group employees are trained in this programme during their first 10 days on the job. In 2018, 14,682 employees across all Group companies participated in the programme.

The Group has implemented Promotion of Safety Culture training programme, which was developed at the NLMK Corporate University (see the Our Employees section). The main aim of the programme is to create a unified vision of OHS management that is shared by leaders at all levels within NLMK Group, and thereby improve the culture of safe behaviour and create and maintain safe working conditions at the Group. In 2018, the managers of all companies, over 6,000 employees, were trained under this programme.

In order to raise employee awareness surrounding occupational health and safety, the Group hosts an OHS conference every year. Participants traditionally include OHS team managers and employees, including from NLMK's foreign locations, as well as representatives from trade unions. The conference examines the current issues and challenges facing OHS teams, and discusses potential solutions and initiatives in the field of OHS.

In addition, Group representatives regularly take part in OHS conferences and seminars organized by various international and Russian organizations. For example, each year NLMK participates in conferences and seminars held by the Worldsteel Association (WSA) to share best OHS practices with mining and steel companies.

As part of its activities the Group seeks to integrate innovative technologies, not only into production processes, but also into other areas of activity, including occupational



NEW TECHNOLOGIES TO PROMOTE SAFETY

- The SAP Forum 2018, an annual event, was dedicated to business projects that take advantage of virtual reality. NLMK presented a new business solution: using HTC Vive virtual reality headset technology to monitor processes at companies. The system can track the location of employees, determine whether they are in danger, and train new employees in the skills they need to work at a company. This is an innovative solution that also provides a virtual space in which to simulate a non-standard situation where an employee must make the right decision to avert dangerous consequences.

health and safety. For example, in 2018 a programme was elaborated and implemented to improve the quality of theoretical OHS training using advanced technologies (computer-based learning, simulators, virtual reality, and effective media materials).

Emergency preparedness and incident reporting

NLMK prioritizes efforts to prevent and respond to emergencies. Each company has developed regulations on preventing and managing the consequences of both man-made and natural disasters. The schedule of planned emergency training sessions for 2018 included sessions on fires, gas leaks, acid/alkali spills, molten zinc leaks or spillages, and power outages.

In accordance with the Provisions on OHS Incidents, approved in 2018, NLMK adopts a no-blame policy. This prescribes that the Group does not apply any disciplinary sanctions against employees or contractors that report accidents and injuries at work. To enable employees to contact the OHS team promptly, NLMK companies publish information sheets that provide contact details of responsible persons. [GRI 403-2](#)

According to the Provisions on OHS Incidents, critical incidents that endanger the lives of employees and contractors should immediately be brought to the attention of the OHS Vice President. Serious injuries and incidents should be reported within 24 hours.

At the Group's companies heads of OHS teams conduct regular inspections, during which any employee or contractor can ask a question or put forward

a suggestion. The Group also has an OHS hotline (details are available on the corporate portal) that any employee or contractor can use to send messages and questions related to OHS.

Partnerships with contractors

Our OHS standards fully apply to contractors that partner with NLMK. Information about contractors is taken into account when calculating incident statistics and setting targets, as well as when planning OHS training and awareness activities.

In 2018, a corporate regulation on OHS and environmental management by contractors was adopted, setting forth how to comply with safety requirements when working with contractors. Local standards for companies were developed, training events were held, and contractor employees were notified in accordance with this regulation.

Collaboration between NLMK and contractors begins at the preparatory stage and continues throughout the period during which work is conducted.

NLMK regularly evaluates contractors involved in the production process at companies for compliance with OHS requirements, in accordance with a specially developed methodology. Based on the results of the evaluation, a rating is awarded that may affect whether the Group decides to continue working with the contractor in question. The Group provides tools for motivating contractor employees to comply with OHS rules.

Partnership lies at the heart of the Company's strategic approach to working with contractors. Where a contractor is exposed to certain

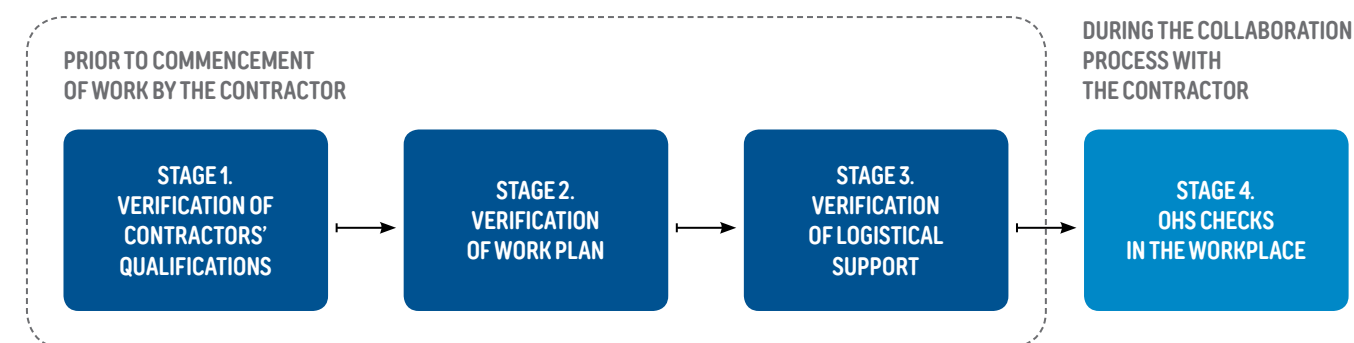
OHS risks, the Company can help improve the OHS system so that the working relationship with the contractor can continue going forward.

As part of the contractor management process, OHS specialists actively collaborate with the Department of Internal Control and Risk Management, the procurement service, and the Safety Department.

Assessing the maturity of the OHS system

NLMK has implemented a unified approach to the internal evaluation of the OHS system. Each year, OHS team employees complete maturity assessment reports. This report is a tool that is used to assess the extent to which the OHS approaches that are in place at each company comply with corporate regulations. A quantitative assessment of the Group's compliance with each of the existing corporate regulations is compiled based on these reports. In the event of there being any inconsistencies, remedial measures are developed and changes are made to the current approach to OHS management. To improve the quality of OHS system assessments, the Group is working to establish an internal institute of OHS auditors.

OHS VERIFICATION PROCESS FOR CONTRACTORS



2018 performance

In 2018 the Group carried out extensive work to reduce injury and occupational illness. In addition to improving the OHS management system, developing partnerships with contractors, and implementing training activities, during the reporting period NLMK actively promoted the development of a safety culture through internal employee engagement channels. For example, in 2018, one issue of the corporate magazine was devoted entirely to the topic of OHS, as was the annual #TeamNLMK competition.

Work-related incidents

Thanks to efforts to improve the NLMK safety system, including developing methods for responding to emergencies and incidents at work, we are able to minimize the consequences of incidents when they occur.

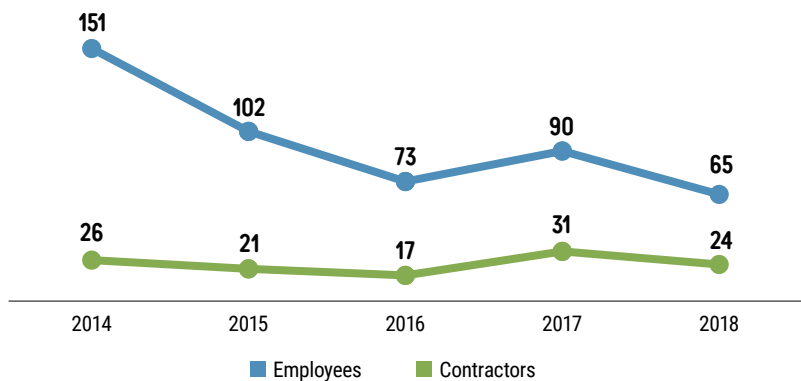
In 2018, 287 injuries were reported at NLMK Group companies, of which 89 resulted in disability and injury to employees and contractors, including fatal and severe injuries.

The system for recording work-related injuries at NLMK Group is based on common industry specific methods that have been adopted by the Worldsteel Association. NLMK regularly provides the WSA with relevant statistics in order to access comparative information for the industry.

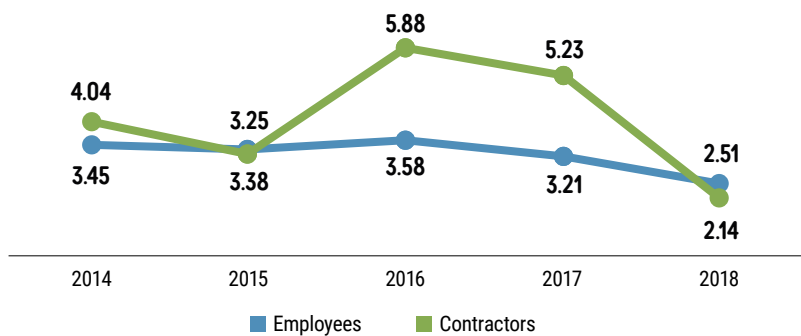
The main indicator used by the Group is the LTIFR, which is calculated on a monthly basis for each subsidiary, taking into account data for both NLMK employees and contractors. During the reporting period, the LTIFR dropped to 0.77, a 31% reduction on the figure for 2017.

The Group also keeps records of all work-related injuries and determines the TRIFR, which is calculated every month for each subsidiary, with data on contractors included. In 2018, the TRIFR fell to 2.14 for Group employees and 2.51 for contractors, which indicates a decline in the total number of injuries across all Group companies. The Group identified

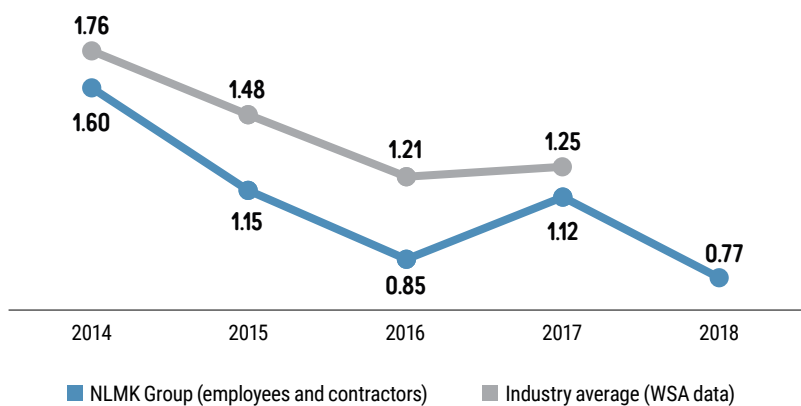
WORK-RELATED ACCIDENTS RESULTING IN INJURY TO NLMK GROUP EMPLOYEES AND CONTRACTORS, 2014–2018 GRI 403-9



TRIFR* (RIS) FOR NLMK GROUP EMPLOYEES AND CONTRACTORS GRI 403-9



NLMK GROUP'S LTIFR COMPARED WITH THE INDUSTRY AVERAGE GRI 403-9



* The TRIFR is the Total Recordable Injury Frequency Rate, an indicator of the total frequency of recorded work-related accidents (including deaths, accidents leading to disability, and injuries requiring treatment). It is calculated on the basis of the method adopted by the Group for determining recordable injuries (RIs).

and eliminated the systemic causes of work-related injuries that occurred.

The Company deeply regrets three fatal accidents that occurred at its sites in Lipetsk and Noviye Sergi in 2018. The accidents were investigated to identify the root causes and re-evaluate the relevant risks. In order to avoid such accidents in the future, the Company developed an action plan consisting of close to 60 projects.

An important outcome of the reporting period was the fact that there were no fatalities among contractors.

“SAFETY BEGINS WITH EACH OF US” GRI 403-4

In the spring of 2018 occupational health and safety was the key topic highlighted in the NLMK corporate magazine. The aim of this initiative was to develop a safe production culture and to draw attention to OHS issues throughout NLMK Group. Employees shared stories from their working lives, while aspects of the Company's policy relating to OHS requirements for contractors were highlighted separately. The issue also featured an interactive game entitled Little Steelmaker for the children of employees, which was designed to help teach the importance of safety at work from an early age.



HAZARD-FREE HEROES INTERNATIONAL COMPETITION GRI 403-4

In 2018 the theme for the annual #TeamNLMK international competition was occupational health and safety. Employees were asked to find a creative way to highlight the importance of safety rules and to explain how staff can ensure not only their own safety, but also that of their relatives, friends, and colleagues. Competition winners were chosen and presented with awards. One of the main prizes was a trip to France.

Plans for 2019 and the medium term

Going forward we will continue to implement programmes and measures to improve safety, reduce injuries, and develop a culture of safety among the Group's employees and contractors. Zero fatal accidents will be NLMK's key goal in upcoming periods.

We will continue to carry out planned activities to minimize and eliminate the top-three risk categories identified during the current reporting period. The Group will continue to hold training programmes for NLMK employees and contractors through its Corporate University.

The Group also plans to establish an internal audit institute for assessing the effectiveness of the OHS system at its companies, and intends to develop a regulation governing LOTO (log-out tag-out) systems to ensure control over hazardous energy sources at NLMK companies.





Developing local communities

Key figures for 2018

2.7 RUB
BN

NLMK's total social
investment

289 RUB
M

NLMK's total investment in external
social programmes

>5,000

people participated
in grant-funded Steel Tree
projects

Material topics

- ▶ Indirect economic impacts
- ▶ Local communities

Key events in 2018:

- ▶ Transformation and expansion of the Steel Tree grant competition.
- ▶ Implementing measures to facilitate sustainable development in the regions where NLMK Group operates, including through collaborations with relevant non-profit organizations.

Global Sustainable Development Goals



Our approach to managing external social activities GRI 203-2

As a major extraction, steelmaking, and steel product manufacturing company, NLMK has a significant impact on the environment as well as local communities. The Company’s extractive and production capacity is located in cities and regions across Russia, Denmark, Belgium, Italy, France, and the USA. GRI 203-2

Local community engagement and the implementation of projects that fall under NLMK’s external social policy are coordinated by the Social Policy Unit within the Human Resources Management functional area, together with the Government Relations.

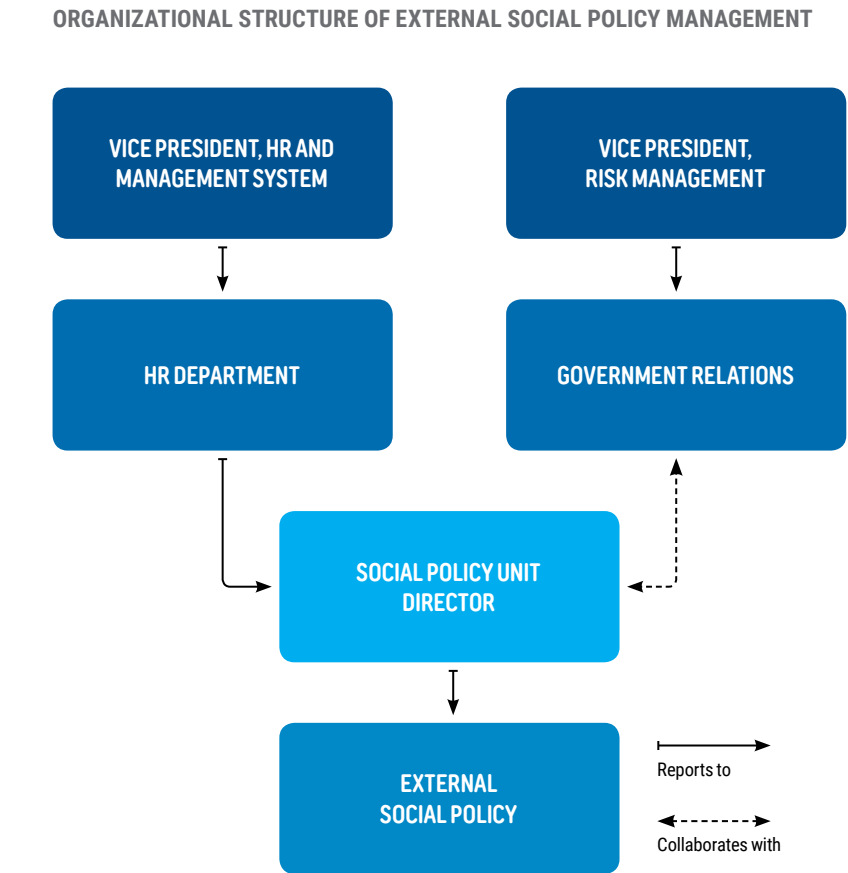
The chief aim of these subdivisions in terms of developing local communities is to determine common interests shared by the Company, employees, local communities, and governmental and local administrative bodies related to the sustainable development of the Company and the regions in which it operates, and creating a pleasant environment for both employees and local communities.

NLMK’s social and charity activities to support and develop the regions in which it operates are pursued chiefly in collaboration with the Company’s social partner, the Miloserdnye (Compassion) charity fund for social assistance.

The Miloserdnye Fund is a long-standing trusted partner of NLMK in the Lipetsk and Belgorod Regions and in Altai Territory. The Sverdlovsk Region is home to the Care, Assistance, and Compassion charity fund, which supports the development of sport, the preservation of the cultural heritage, and provides assistance to pensioners and veterans.

Over 30,000 people benefit from the Miloserdnye Fund each year. Miloserdnye implements charity projects in the following key areas:

- **Assistance for veterans:** supporting veterans’ organizations and former NLMK employees in their retirement, providing assistance



in obtaining medicines and reimbursing treatment costs.

- **Health:** providing assistance with paying for expensive operations, targeted funding for medical organizations, passes to health resorts for children with disabilities and wheelchair users.
- **Sport:** building and refurbishing sports facilities, funding children’s and young people’s sports schools, purchasing equipment.
- **Children:** supporting children’s homes and residential schools, conducting charity campaigns for children.
- **Science and culture:** supporting gifted children (winners of science Olympiads and music and art competitions), creative groups, libraries, museums, and art galleries.

- **The environment:** purchasing specialized equipment, feed, and medicines for use in nature reserves and parks, forests, and veterinary practices.
- **Cultural development:** funding charity concerts, drama festivals, and holiday events for residents of Lipetsk and the Lipetsk Region.
- **One-off assistance:** providing one-off assistance to public organizations, municipal institutions, and citizens affected by terrorist attacks or natural or man-made disasters.
- **Steel Tree:** a grant competition for social and environmental public initiatives.
- **Help Your Neighbour:** a project that provides food for people in need.



The Miloserdnye Fund has received a number of awards: it was named Benefactor of the Year by the Lipetsk Chamber of Commerce and Industry, and is also a two-time recipient of the Golden Badge for Services to the City of Lipetsk. In 2017, the Chairman of the Miloserdnye Fund Board, Sergey Melnik, was presented with Lipetsk Municipality’s highest honour, the Mitrofan Klyuev medal, for his many years of charity work.

The fund may have some outstanding achievements to its name, but it is nevertheless continuing to evolve. One important step in 2018 was the launch of the fund’s new website, which enables visitors to make their own social contribution via a crowdfunding platform.

NLMK also operates various volunteering and charity programmes and conducts research on the needs of local communities in areas where it has a presence, determining these through surveys and public hearings, as well as various internal corporate communication channels.

NLMK is committed to enhancing the tools it uses to collaborate and engage with communities.

TOOLS FOR ENGAGING WITH AND DETERMINING THE NEEDS OF LOCAL COMMUNITIES GRI 413-1

| Measure | Description |
|---|--|
| Assessment of existing social programmes | NLMK regularly analyses ongoing social programmes in order to determine their impact and audience reach, and to obtain feedback from the intended beneficiaries. |
| Direct engagement via internal communication channels | Given that many NLMK Group companies are the main employers in their respective areas, and that a significant proportion of the regional population work for them, the social needs of local people can be determined with the help of internal communication channels, including telephone hotlines, text messages, and the intranet portal. The portal can be used to leave messages, which a specialist then responds to; these messages can be read and commented on by all portal users. <i>For more details about the internal communication channels used, see the Stakeholder Dialogue section.</i> |
| Working with local authorities | The Company works with regional and local authorities that are fully aware of the current needs and requirements of local communities in the regions where the Company operates. Using this information, NLMK collaborates with representatives from these authorities to develop social initiatives that meet the needs of local communities. <i>For additional information see the Stakeholder Dialogue: Government Authorities section</i> |
| Public hearings | NLMK holds public hearings, which are primarily devoted to environmental issues. The results of these hearings help NLMK identify the needs of local communities and to take their opinions into account as it conducts its business. |

2018 performance

Each year, NLMK allocates significant resources to social programmes in a variety of areas. NLMK Group allocated RUB 288 million to external social programmes, including support for veterans and retired employees.

Development of mass and children's sports

The development of sport for all and children's sport is a priority within the Company's social activity. NLMK provides everything that is necessary for Company employees, their family members, and indeed local communities to be able to take part in sport, allocating resources to the upkeep of sports facilities and providing assistance to children's and young people's sporting academies and groups, as well as sports clubs and promising athletes.

For example, NLMK covers all costs for the Lipetsky Metallurg sports club in Lipetsk, and for Olympic Reserve School No. 13 for Children and Young People, which emerged around the club. The school trains world-class athletes in skeet shooting: around half of the current Russian skeet shooting team are former students.

A total of RUB 64 million was allocated to developing sport for all and children's sport in 2018, or 22% of the Company's total investment in external social programmes.

Supporting veterans and retired employees

NLMK places considerable emphasis on supporting veterans and retired employees. This includes organizing regular trips and other cultural events, regular exhibitions of creative work by veterans, and sporting tournaments and healthy lifestyle activities. One important aspect of our work with veterans is computer training, which helps elderly people use computers, mobile apps, and the Internet to find useful information, access electronic

services, and communicate with family and friends online.

In order to strengthen ties between generations, NLMK works with local veterans organizations and trade unions to host meetings with veterans, organize visits to war memorial sites, and give lessons in brave conduct in schools and colleges.

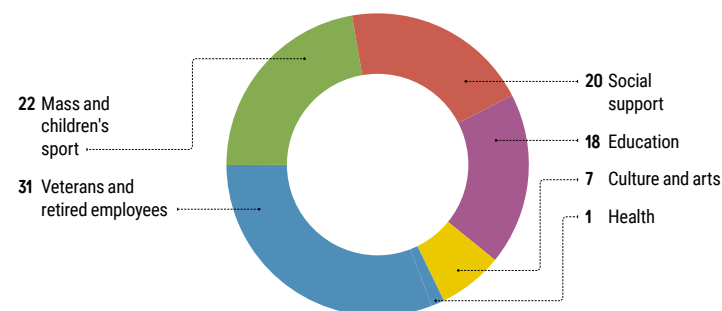
A total of RUB 89 million was allocated to support veterans and retired employees in 2018, which accounts for 31% of NLMK's total investment in external social programmes.

Developing education

The main areas of scientific and educational development pursued in NLMK's social policy comprise multifaceted support for relevant educational institutions in the regions where NLMK operates, and support for high-quality technical education for young people. The Company provides targeted funding for scientific and educational activities in educational institutions, and also organizes and sponsors conferences dedicated to scientific research, as well as scientific and technical competitions for students. In order to introduce the next generation of employees to the Company, NLMK organizes open houses and trips to production facilities for schoolchildren, as well as industrial internships at NLMK facilities for students from relevant educational institutions. NLMK also finances a range of grants.

The Company also allocates significant resources to improving facilities at nursery schools, schools, secondary schools, vocational institutions, children's centres for the creative arts, children's homes, and residential schools.

INVESTMENT IN EXTERNAL SOCIAL PROGRAMMES, 2018, %



In 2018, a total of RUB 53 million was allocated to developing science and education in regions where NLMK operates; this represented 18% of the Company's total investment in external social projects.

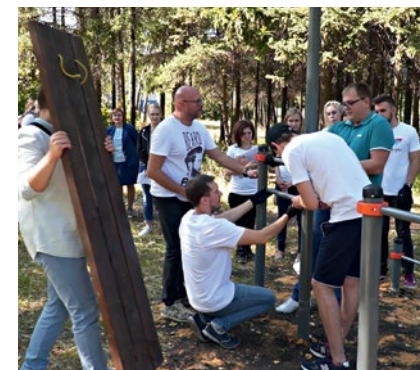


GRANTS FOR TOP STUDENTS

NLMK's grant programme, which has been in place since 2000, is aimed at supporting and developing students' academic potential while at the same time growing NLMK's long-term talent pool. As part of this programme, in 2018 the best students from Lipetsk State Technical University (LGTU) and Voronezh State University (VGU) received additional monthly student grants from the Company. The recipients were 30 of the top students from LGTU and 10 of the top students from VGU. All recipients will be offered priority employment opportunities at NLMK after completing their university studies.

GRANTS FOR DEVELOPING CHILDREN'S PLAY AND DEVELOPMENT FACILITIES

As part of the Steel Tree programme, in 2018 a number of projects put forward by finalists in the Young Leader of Altai-Koks 2018 competition were implemented,



helping to furnish children's play areas in nursery schools in Zarinsk, Altai Territory. The winning projects were proposed by Roman Neklyudov and Irina Kanaeva, and included the cosmetic refurbishment and equipping of play and development areas in Zarinsk's nursery schools. The projects were financed by a grant from NLMK's social partner, the Miloserdie Charity Fund. In addition, around 200 Zarinsk inhabitants took part in the fund's campaign to raise money for the projects, as did the city administration.



VOLUNTEERING PROJECTS IN EDUCATION

As part of a volunteering initiative, NLMK employee Maxim Moiseev organized an urban educational festival called Let's Be the First to Know! The festival included fascinating live talks in the TED and PechaKucha formats on interesting and topical subjects concerning personal development, societal development, and technology. The Quantorium children's technology park was the venue for a volunteer educational event entitled Science Battle. The main aim of the event was to stimulate children's interest in physics and chemistry. It took the format of a contest pitting chemists against physicists, during which children had the chance to take part directly in preparing and conducting experiments in these two entertaining sciences.

Social support for regions where NLMK operates

The main priorities of NLMK's external social programmes include support for socially vulnerable groups and determining and facilitating solutions to issues currently affecting the regions where NLMK operates.

As part of its social support measures, the Company provides targeted assistance to those in need. It also supports social initiatives and helps involve employees and interested citizens in the process of resolving social issues, including through holding grant competitions.

Charity activity is pursued at a number of the Company's international companies through specially organized Charity Councils. A vision for corporate charity activity is also actively implemented, under which employees are given the opportunity to make their own personal contribution to resolving specific social issues by becoming volunteers. [GRI 413-1](#)

In 2018, NLMK's US subdivision carried out another campaign to collect food to help families in need at Thanksgiving. In total around 2,500 kilograms of food were collected, 400 kilograms more than last year.



STEEL TREE GRANT COMPETITION

In 2017 the Steel Tree grant competition was launched in Lipetsk by NLMK Group's social partner, the Miloserdie Charity Fund. The competition offered local employees the opportunity to develop their own programmes to support the environment and to obtain grants to fund them.

In the previous reporting period, Steel Tree attracted considerable attention and became popular among local citizens; the project was also highly praised by the Lipetsk Municipality, which remarked on its social importance.

This success enabled the contest not only to continue, but also to offer support for a wider range of projects in 2018. During the reporting period the grant programme encompassed not only environmental but also social initiatives, including in relation to healthcare. Contest winners won grants of up to RUB 300,000 for their proposals.

In 2018 an opportunity to participate in the grant competition was offered to both employees at the Lipetsk site and to residents of Lipetsk and the Lipetsk Region. Employees at NLMK's companies in Stary Oskol and Zarinsk were also able to participate for the first time. Over 60 projects were put forward, of which 22 received grants. Of the projects which received grants, 21 have now come to fruition, and the final project is underway. The contest is scheduled to be rolled out to Sverdlovsk Region in 2019.

PROGRAMME TO HELP CHILDREN AT NLMK INDIANA, USA

► In 2018, NLMK provided financial support to the non-profit organization Hoosier Burn Camp in Indiana, USA. The camp provides support to children that have suffered physically and emotionally as a result of sustaining severe burns. It organizes holidays for injured children at health camps and runs projects to provide them with psychological support.

NLMK also provides situational assistance: in the event of an emergency in a region where NLMK operates, the Company provides financial and human resources to normalize the situation and to help those affected. Following winter storms and destructive events on some islands in the Caribbean in 2018, for example, specialists from NLMK's European division visited some of their major clients, producers of corrugated plate in Guadeloupe.



Company representatives performed a detailed inspection of the island of Dominica and identified the worst-affected regions. NLMK provided assistance that was chiefly used to help repair the roof of the island's central hospital.

In 2018, a total of RUB 58 million was allocated to social support in the regions where NLMK is active, which amounted to 20% of the Company's total investment in external social programmes.



HELP YOUR NEIGHBOUR

► In December 2018 a joint project to collect food for charity was launched in Lipetsk with NLMK's social partner, the Miloserdiye Charity Fund, the Give Food! charity fund, and the Pokupayka supermarket chain. The Give Food! project allows local people to buy food and then use special boxes provided in supermarkets to donate it to those in need, or alternatively to pay for a selection of products online. An important positive effect of the programme is that it directly involves local inhabitants in charity activity. One of the project's unique features is the way that it brings together large and medium-sized businesses, non-profit organizations at the federal and regional level, NLMK employees, and the whole city of Lipetsk.

Supporting healthcare

Projects in this area aim to support the development of medical centres, including through procuring essential healthcare equipment, and to provide targeted assistance for the seriously ill, including by helping pay for expensive operations, medicines, and rehabilitation.

A healthcare initiative from the Miloserdiye Fund received federal support. In 2018, using the funds from the Presidential Grants Foundation grant, Miloserdiye Fund organised a project entitled Healthy People, Strong Nation. As part of the project, over 4,000 people aged over 60 in the Lipetsk Region were screened for cancer.

A total of RUB 4 million was allocated to supporting healthcare in 2018, or 1% of the Company's total investment in external social programmes.

Developing culture and arts

As part of efforts to support culture and the arts, NLMK Group provides assistance to organizations that promote cultural history and education in regions where NLMK operates, and makes financial contributions to the preservation and proper maintenance of cultural and architectural monuments and other sites of cultural and historic value.

NLMK also supports the activities of corporate museums, including NLMK's Novolipetsk Museum in Lipetsk, the Demidov Centre in Revda, Sverdlovsk Region, and museum sites at Stoilensky and Altai-Koks. Over 21,000 people visited our corporate museums in 2018, 28% of whom were schoolchildren.

In order to formulate a strategy for developing its corporate museums, NLMK organized a trip for its specialists and managers to a Russia-wide thematic conference entitled A Factory of Spaces, hosted by some of the best museums in the country and the industry. As part of a collaboration with the Blagosfera Centre for the Development of Social and Cultural Initiatives and Charity Activity, NLMK employees attended a guided tour of some of Moscow's public buildings (the Nekrasov Library and the ZIL Cultural Centre).

A total of RUB 20 million was allocated to developing culture and the arts in 2018, which amounted to 7% of the Company's total investment in external social programmes.



MUSEUM PROJECTS: DEMIDOV CENTRE, REVDA, SVERDLOVSK REGION GRI 203-1

► The Demidov Centre is a regional non-profit cultural centre. It includes a museum which records the history of the development of Demidov products in Revda. The museum exhibition consists of nine rooms devoted to the Demidovs, their contribution to the development of the Ural Region, their charity work, and the history of their enterprise (the Revda Works, now NLMK Ural, which the city was built around), as well as to metal and ornamental casting, military achievements, and wooden architecture. The exhibition attests to the charity work carried out by the five generations of owners of the Revda Works. The museum has been awarded the Onesim Claire Prize, as well as a certificate from the International Demidov Foundation.



SUPPORTING CULTURAL TRADITIONS AND VALUES

► The Miloserdiye Charity Fund, NLMK's social partner, provides the Martha and Mary Centre for Children with Special Needs (The Elizabethan Garden) with charity aid to support projects to provide material and psychological assistance to children. Teachers, psychologists, and speech therapists work with children at the centre to help them acquire essential skills.

NLMK is also helping to fund the construction of the Church of the Intercession in Lipetsk's Left Bank district. Since construction work began on the church in 2006, the Company has provided around RUB 3 million in charity contributions to help with the acquisition of building materials and components for a heating system. NLMK has also helped the diocese of Lipetsk craft cupolas and crosses for the church.

NLMK has supported the work and development of the Demidov Centre since it was founded, and provides management and financial resources to help create a strategy for the centre, expand its exhibitions, publish books, and organize events. The Demidov

Centre has welcomed around 60,000 visitors over the past 10 years. In 2018 the museum and cultural centre won in the Best Programme to Promote the Development of Local Communities category of the Regional Leaders in Corporate Charity Activity competition.

Plans for 2019 and the medium term

We are committed to ensuring the continued development of the regions in which NLMK operates. In order to do this, the Company plans to refine its approach to implementing social policy. More specifically, one of our priority objectives for 2019 is to develop and approve a corporate social policy, which will help formalize and unify existing practices within the Company.

We also plan to transform and expand the scope of existing social programmes in order to maximize their potential social and environmental impacts on local communities. For example, in 2019 we intend to launch our Steel Tree grant competition at four production sites in the Sverdlovsk Region, and also involve local inhabitants of Stary Oskol and Zarinsk in the project.



Environmental protection

Key figures 2018

\$80 M

allocated to investment projects with an environmental impact

97%

of water in production is recycled and reused

89%

of generated waste is reused (not including mining waste: overburden and tailings)

Material topics

- ▶ Water
- ▶ Discharge and waste
- ▶ Biodiversity
- ▶ Emissions
- ▶ Waste
- ▶ Supplier environmental assessment
- ▶ Environmental compliance

Key events in 2018

- ▶ Rehabilitation of over 22 hectares of Stagdok and its subsequent transfer to Lipetsk Municipal District
- ▶ In 2018 the the volume of specific emissions fell by 0.6 kg/t due to the implementation of Environmental Programme

United Nations Global Compact principles

- Principle 7** Businesses should support a precautionary approach to environmental challenges
- Principle 8** Businesses should undertake initiatives to promote greater environmental responsibility
- Principle 9** Businesses should encourage the development and diffusion of environmentally friendly technologies

Global Sustainable Development Goals



Awards

- ▶ NLMK won a gold medal in the 100 Best Organizations in Russia: Environment and Environmental Management contest
- ▶ NLMK Group was one of the winners of the international Environmental Culture: Peace and Reconciliation contest; the Group's Steel Tree volunteer programme won in the Social Initiatives Aimed at Promoting an Environmental Culture category
- ▶ At the annual Metal-Expo in 2018, NLMK received a silver medal for its project to refit its coke chemical capturing units to integrate coke gas streams from coke batteries Nos. 1, 2, 5, and 6
- ▶ Altai-Koks won the Environmental Activity and Resource Saving category in the 15th High Social Performance Mining and Metallurgical Enterprise Industry Competition
- ▶ For the second consecutive year NLMK Kaluga was a winner in the regional Eco Organization 2018 competition, taking first place among major corporations in the Protecting Environmental Safety and Preserving a Healthy Environment category

Our approach to managing environmental protection

The efficient use of natural resources and having a responsible attitude towards the environment are important aspects of NLMK’s work. The Company objectively assesses environmental risks and is committed to minimizing them. It allocates significant resources to various environmental programmes and the implementation of innovative technologies.

NLMK adopts a comprehensive approach to environmental management, focusing on improving energy efficiency, reducing air emissions by upgrading equipment, reusing and processing waste, conserving water resources, and rehabilitating contaminated land.

Environmental policy

Our environmental policy is a high-level Company document that reflects the responsible and sound approach that NLMK takes to managing activities relating to environmental protection and safety. Our policy also confirms the commitment of our subsidiaries to a number of principles, including adhering to Russian and international environmental protection standards, minimizing the risk of environmental impacts, and disclosing information about the environmental activity of the Group’s companies.

Organizational structure

The Company is committed to ensuring that all industrial processes are eco-efficient and conform to best global practices.

NLMK’s senior management team is actively involved in the environmental management process. The Group’s President and Board of Directors review environmental performance on an annual basis. The Management Board’s Investment Committee is also directly involved in reviewing NLMK’s Environmental Strategy and Environmental Programme. The Investment Committee includes all vice-presidents and directors of NLMK companies. The Investment Committee devotes special attention to the results of the annual environmental assessment, approves the investment budget for projects aimed at reducing environmental impacts, and oversees the investment budget for the Environmental Programme and its execution.

The Environmental Department coordinates environmental management as part of the unified corporate occupational health, safety, and environment system, including managing environmental risks and implementing advanced environmentally friendly technologies.

Each Group company has an environmental protection expert,

ENVIRONMENTAL MANAGEMENT STRUCTURE



responsible, among other, for implementing systems that assess the maturity of environmental indicators and improve environmental management.

Targets and key performance indicators

NLMK recognizes the importance of efficient environmental management. As part of its Environmental Programme 2022, which is reviewed and supplemented annually following risk assessment, the Company has developed objectives that include the following:

- Minimizing the impacts that the Group’s Russian and international companies have on the environment, and complying with all applicable environmental standards and environmental risk management commitments
- Reducing discharges into bodies of water across Group companies
- Increasing the waste reuse rate at NLMK Group to 96%
- Reducing specific emissions at NLMK Group’s Russian assets to 18 kg/tonne of steel
- Ensuring that specific emissions of greenhouse gases remain below the industry average.

Certification

NLMK works continuously to systematize its environmental management operations in accordance with modern international standards. An environmental management system operates within NLMK Group, which enables it to identify and monitor the environmental aspects of its activity.

The ISO 14001:2015 standard has been implemented at 14 of the Group’s facilities. The certified companies include:

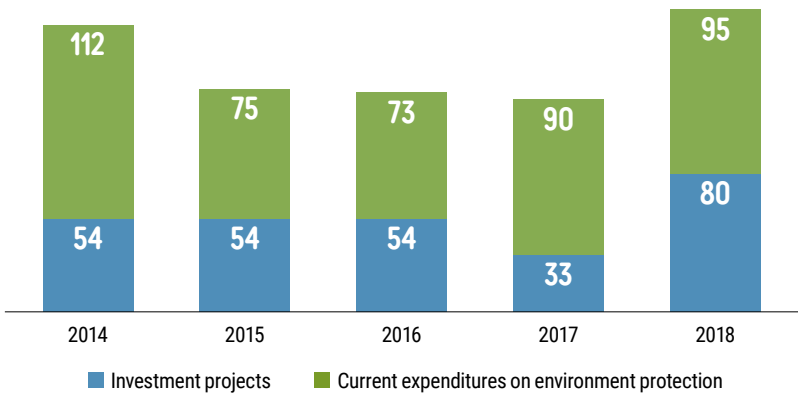
- NLMK Lipetsk
- VIZ-Steel
- Altai-Koks
- Dolomit
- NLMK Kaluga
- NLMK Metalware
- NLMK Ural
- Stagdok
- Stoilensky
- NLMK Verona
- NLMK DanSteel
- NLMK Clabecq S.A.
- NLMK La Louvière
- NLMK Strasbourg.

In order to ensure a systematic approach to environmental management at the Group’s facilities, monitoring and recertification audits for compliance with ISO 14001:2015 are carried out on a regular basis.

Investment in environmental protection

Each year NLMK Group commits significant resources to ensuring the accident-free operation of equipment

NLMK GROUP EXPENDITURES ON ENVIRONMENTAL PROTECTION, 2014–2018, \$ M



and the implementation of investment projects that have an environmental impact. Expenditure on environmental management over the reporting period totalled \$175 million, a significant proportion of which was allocated to NLMK Lipetsk.

Monitoring and control

The Company conducts internal audits to assess environmental impacts. It also has a production control system in place. Internal environmental audits involve the comprehensive monitoring of operations at NLMK companies, including treatment facility performance tests, measures to reduce the environmental impacts of generated waste, and implementing an environmental production plan to reduce specific air emissions.

In order to monitor the implementation of resolutions, prevent non-compliance with effluent discharge standards, and monitor sources of emissions and atmospheric quality at NLMK companies, environmental production monitoring procedures are implemented, with support from accredited laboratories. These procedures have been agreed with state supervisory bodies and are regulated by legal documents.

Supervisory bodies conduct regular annual audits, both scheduled and unscheduled, of Group companies to ensure compliance with Russian legislation as well as stakeholder expectations. A total of 81 audits were carried out by local environmental supervisory bodies

in 2018. No significant fines or non-monetary sanctions were imposed on NLMK Group over the reporting year, and no legal proceedings were brought against the Group related to seeking compensation for damage to the environment or to third parties.

NLMK also engages employees at all levels in the environmental monitoring process, by giving them an opportunity to register in an online system where they can note and propose solutions to issues associated with environmental safety and support for environmental welfare.

Training

As a Company that is committed to improving the efficiency of its activities and reducing its impact on the environment, NLMK Group works to boost the environmental protection skills and competencies of its employees.

The Company devotes special attention to fostering a culture of environmental awareness among employees at its companies and in communities in the regions where it operates. A series of educational initiatives and materials, including the Key Rules for Protecting the Environment document and Protecting the Environment distance training course, has been developed for the benefit of all Company staff. Special environmental protection training consists of modules covering the use of dust and gas cleaning facilities and treatment equipment, how to eliminate situations which could lead to environmental issues, and waste handling.

ENVIRONMENTAL POLICY OBJECTIVES

- Ensuring that industrial processes are eco-efficient
- Emulating global best practices for environmental impacts and resource use
- Becoming an industry leader in specific environmental impact indicators



ALL EMPLOYEES ARE PERSONALLY INVOLVED IN RESPONDING TO ENVIRONMENTAL ISSUES

► In order to continuously improve environmental management an internal environmental improvement system (IEIS) has been implemented at 10 companies of the Group, including the Lipetsk site and Stoilensky. This is the only project implemented by steel producers in Russia that harnesses assistance from employees to identify and prevent potential environmental incidents on a continual basis. Monitoring parameters are determined at each facility and its surrounding territory, and then monitored by employees. Once identified, potentially harmful situations are photographed and entered into a computer system. The individual responsible is identified, and a timeframe established for eliminating the potential threat.

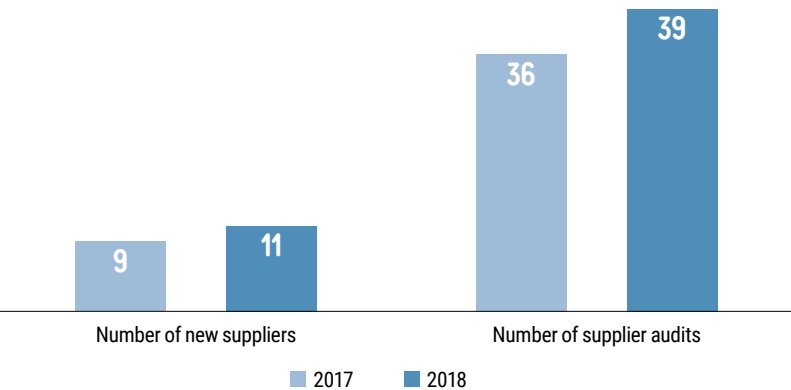
The IEIS is an example of how environmental management processes can be improved and environmental safety safeguarded through the personal involvement of all staff members. In 2018 major training sessions for middle managers on the organization and functioning of the IEIS were conducted at Stoilensky, Stagdok, and Dolomit by environmental protection specialists from NLMK Group companies. All employees at NLMK Group’s Russian companies can now use the IEIS to analyse issues and to formulate a plan for eliminating them.

Supplier environmental assessment

A qualifications procedure for all suppliers has been introduced within NLMK Group, which covers compliance with environmental standards. The environmental criteria for assessing suppliers are set out in NLMK Group’s regulatory documents.

One of the key environmental criteria that the Group employs in assessing suppliers is compliance with Russian environmental legislation. All suppliers of raw materials, supplies, and equipment to NLMK Group, as well as suppliers of services (contractor organizations), undergo assessments for compliance with Russian environmental legislation as part of qualification and audit procedures. Contractors who, following the qualification and audit procedures, have been found not to meet the established criteria are not permitted to supply raw materials, supplies, or equipment, or to provide services to NLMK Group companies. In 2017–2018, 100% of new

SUPPLIERS OF FEEDSTOCK, MATERIALS, AND EQUIPMENT TO NLMK GROUP SCREENED USING ENVIRONMENTAL CRITERIA DURING AUDITS GRI 308-1



SUPPLIERS SUBJECT TO MEASURES TO IMPROVE ENVIRONMENTAL COMPLIANCE FOLLOWING AUDITS (% OF TOTAL AUDITS CONDUCTED) GRI 308-2

| INDICATOR | 2017 | 2018 |
|-------------------------|------|------|
| Number of new suppliers | 69 | 80 |



service providers were screened using environmental criteria. For contractor organizations, assessments are based on an internal document entitled Standard Environmental Protection Requirements for Contractor Organizations, which was approved in 2016. GRI 308-1

Compliance with Russian environmental legislation by qualified suppliers is assessed at the NLMK Group through supplier audits, which serve to confirm that supplier activities comply with

the environmental criteria applied by NLMK Group. These audits also confirm that suppliers’ environmental impacts are not significant enough to indicate non-compliance – this would lead to a decision to break off relations with the contractor. In addition, all products supplied to NLMK companies come with safety data sheets, which regulate potential hazards associated with handling products and prescribe respective necessary precautions.

Membership and participation in organizations

NLMK works with the world’s largest steel producers to establish an effective dialogue on issues surrounding the rational use of natural resources. In particular, NLMK Group collaborates with the World Steel Association (WSA) through participating in awareness-raising events on environmental management related to the Company’s operations. As part of its collaboration with the WSA, the Company collects and submits data on sustainable development indicators on an annual basis. In 2018 NLMK Group signed the Sustainable Development Charter, which articulates the commitment of WSA members to treating steel as a key element in a sustainable world and their willingness to be guided by environmental, social, and economic sustainability principles.

With a view to promote sustainable development principles, Stoilensky became one of the first NLMK Group companies to join the German Climate Technology Initiative (DKTI) and the International Climate Initiative (IKI) in Russia. As part of this collaboration, a project is being implemented across a number of companies to introduce the best available technology. At the request of environmental protection agencies in Russia and Germany, this work is being coordinated by the German Corporation for International Cooperation (GIZ).

As of the end of 2018, NLMK was in TOP 10 most environmentally responsible Russian mining and steel companies according to a World Wildlife Fund (WWF) report. The main aim of the report published by WWF Russia was to rank Russian companies according to transparency in matters of environmental responsibility. The research examines the activity of 33 major companies, and has been published since 2015, with the support of the UN Development Programme, the Global Environment Facility, and the Russian Ministry of Natural Resources and the Environment.

Water resources

GRI 303-1, 303-2

Water is an essential resource for NLMK Group's industrial processes. The Group is committed to reducing the volume of water that it consumes, and devotes considerable efforts to lowering its water intake volumes in favour of reusing water. The Group's companies are likewise focused on reducing the volume and improving the quality of wastewater produced.

Water withdrawal

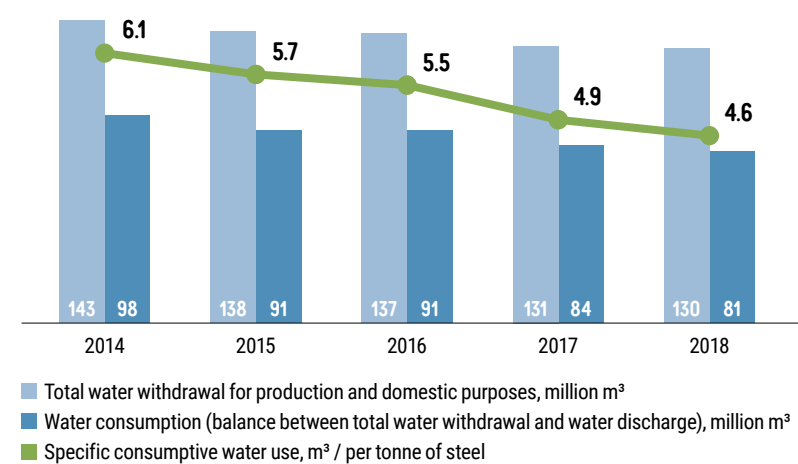
GRI 303-1, 303-2

NLMK companies withdraw a small proportion of their water from external sources for production and drinking purposes (less than 4% of the Group's total water consumption). For industrial water supplies, the companies use water from surface water bodies, underground sources, and rainfall. NLMK Group companies do not use wastewater from other organizations, or water from municipal supply systems for industrial processes. Stoilensky, Stagdok, Dolomit, NLMK Metalware, Vtorchermet NLMK, NLMK Verona, and NLMK Strasbourg do not withdraw water from surface water bodies. The Group companies do not withdraw water from wetlands included on the Ramsar List of Wetlands of International Importance, or from water bodies located within environmental conservation sites.

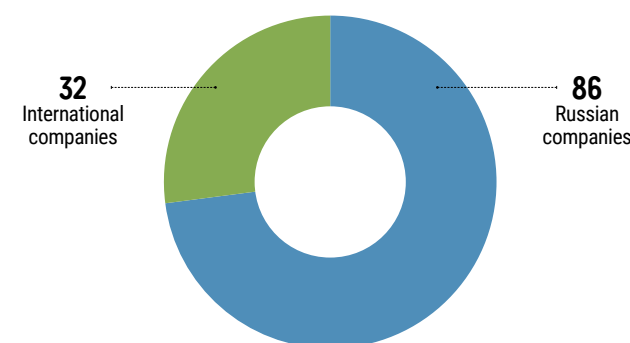
The water bodies that supply NLMK's companies are assessed as being not particularly vulnerable owing to their size, role, or status as being rare, threatened, or endangered. The companies withdraw water in accordance with current permits and have no significant impact on the water sources in question. Water withdrawal by NLMK Group companies does not exceed 2.5% of the average annual water flow volume. [GRI 303-5](#)

NLMK nonetheless devotes considerable efforts to reducing its water withdrawal year-on-year, via equipment upgrades. The volume of water withdrawn for production purposes in 2018 was 884,000 m³ lower than in the previous year, thanks to measures to reduce the water supply to the recycling system at the Altai-Koks thermal power station.

TOTAL VOLUME OF WATER CONSUMED BY NLMK GROUP, 2014–2018 [GRI 303-3, 303-5](#)



TOTAL VOLUME OF WATER WITHDRAWN FOR NLMK GROUP PRODUCTION NEEDS BY REGION, 2018, M M³ [GRI 303-3](#)



TOTAL VOLUME OF WATER WITHDRAWN FOR NLMK GROUP PRODUCTION NEEDS BY SOURCE, 2014–2018, THOUSAND M³ [GRI 303-3](#)

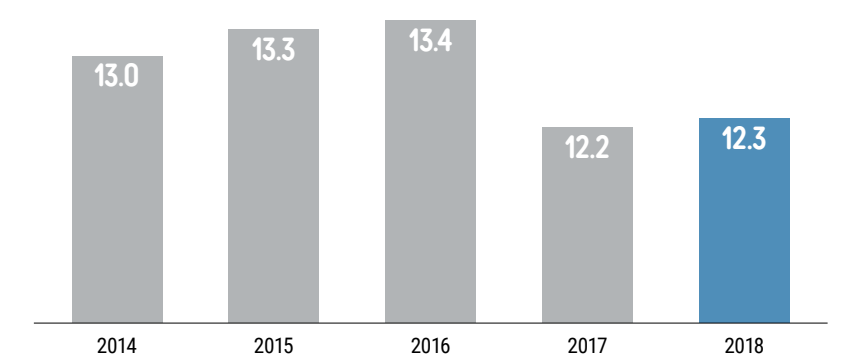
| SOURCE TYPE | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|----------------|----------------|----------------|----------------|----------------|
| Surface water | 67,680 | 63,153 | 61,513 | 60,896 | 60,107 |
| Ground water | 62,078 | 59,424 | 62,383 | 57,839 | 57,714 |
| Rainwater collected and stored by organization | 264 | 155 | 118 | 75 | 105 |
| GROUP TOTAL | 130,022 | 122,732 | 124,015 | 118,810 | 117,926 |

Water recycled and reused

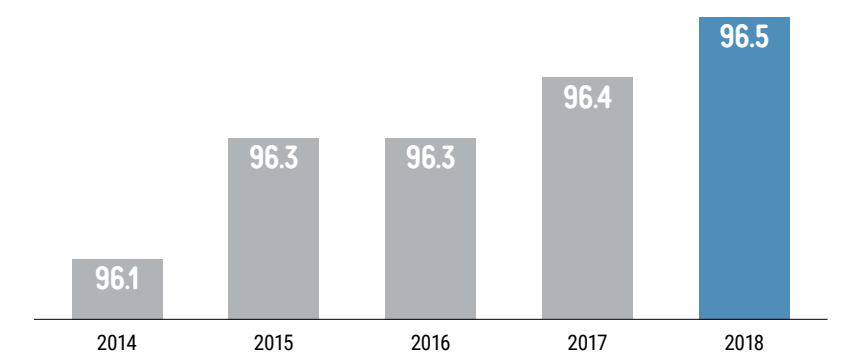
In order to reduce their negative impact on water resources, the majority of NLMK Group companies are equipped with water recycling systems.

Water recycling solutions have been established at NLMK, Altai-Koks, VIZ-Steel, NLMK Kaluga, Stoilensky, NLMK Ural, NLMK Metalware, NLMK DanSteel, NLMK Indiana, NLMK Pennsylvania, NLMK Sharon Coating, NLMK Verona, NLMK Clabecq, and NLMK La Louvière. These solutions include both local systems for individual facilities and entirely self-contained subsidiary-wide systems, and facilitate a reduction in both water withdrawal and industrial wastewater discharges into surface bodies of water.

WATER WITHDRAWAL (CONSUMPTION FROM WATER UTILITIES) FOR THE POTABLE WATER SUPPLY AT NLMK GROUP COMPANIES, 2014–2018, M M³ [GRI 303-3](#)

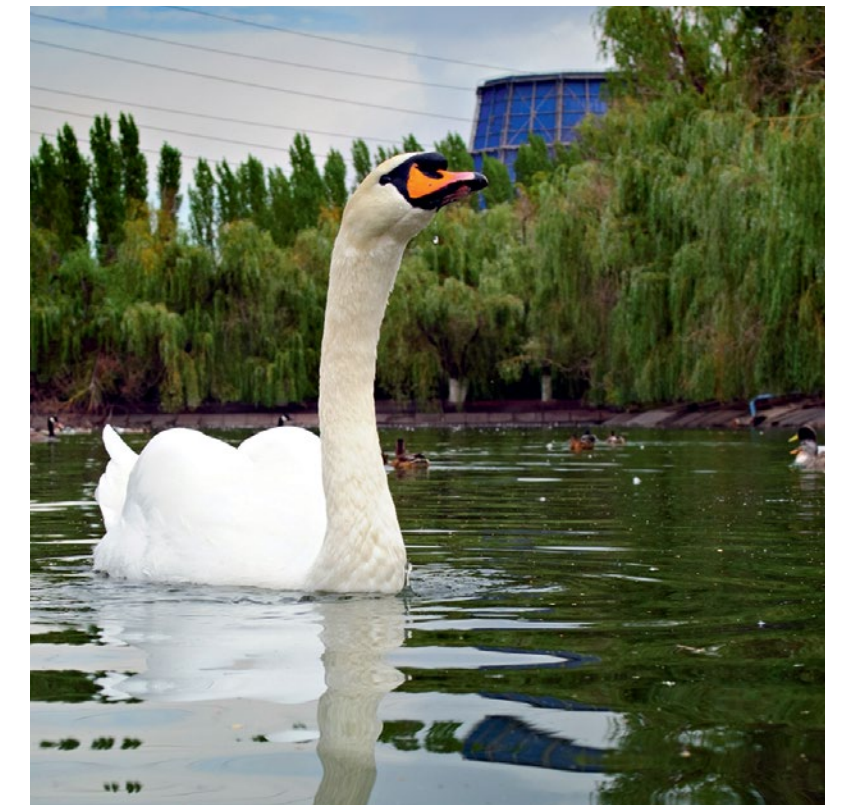


PROPORTION OF RECYCLED WATER IN TOTAL WATER CONSUMPTION BY NLMK GROUP COMPANIES, %



SWAN LAKE ENVIRONMENTAL PARK – A NATURAL INDICATOR OF THE CLEAN ENVIRONMENT

► Swan Lake Environmental Park was created by NLMK employees in 1978. It is the only bioindicator in Russia and the former Soviet Union that is situated on the territory of an industrial site. The lake is filled with process water from the Lipetsk site that has undergone treatment following its use in production. The environmental park is now home to 51 species of ornamental birds (415 birds in all). Filled with process water from Novolipetsk's recycling system, the lake is also inhabited by fish – this helps ensure that the waterfowl have a natural diet.



Discharge

Reducing the level of discharge into bodies of water across NLMK companies is one of the objectives of the Environmental Programme 2022.

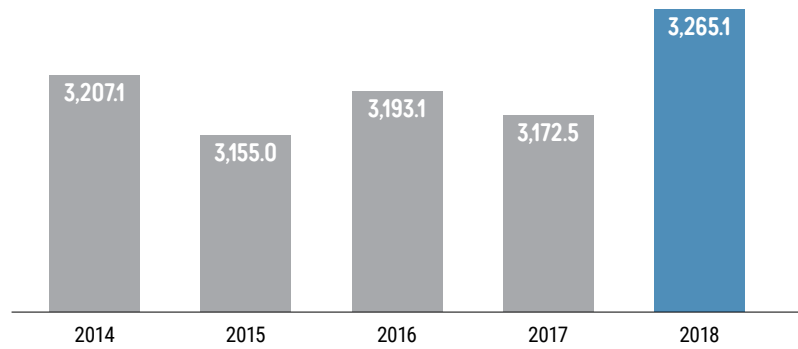
An overall decline in the volume of pollutant discharges was observed in 2017–2018, thanks to the introduction of a series of measures to reduce the discharge of domestic wastewater into water bodies in 2018.

Each company makes use of water purification and treatment technologies, whereby the quality of wastewater, as well as water used for industrial and domestic purposes, is processed to meet the standards set by applicable regulations. Appropriate methods are applied according to the type of wastewater in question (mechanical purification, oil/water interceptors, biological purification, decontamination). All discharges have a concentration of total dissolved solids of less than 1,000 mg/l. No discharges are made without preliminary treatment. [GRI 303-4, 306-1](#)

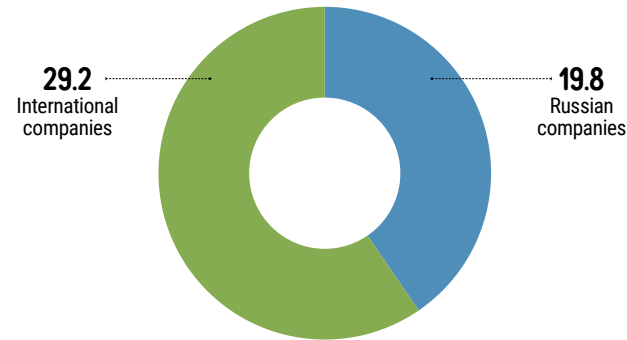
USING THE BEST AVAILABLE WASTEWATER PURIFICATION TECHNOLOGY

► Wastewater at the coke shop at NLMK’s Lipetsk site is purified by a biochemical facility that was built using the best available technology. The technology has made it possible to purify wastewater to a high degree, removing up to 95% of nitrites and nitrates and enabling water to be reused in the closed water recycling system. More than RUB 2 billion has been invested in the project.

VOLUME OF RECYCLED WATER AT NLMK GROUP COMPANIES, M M³



TOTAL VOLUME OF DISCHARGE BY NLMK GROUP, INCLUDING RUSSIAN AND INTERNATIONAL COMPANIES, 2018, M M³ [GRI 303-4, 306-1](#)



TOTAL VOLUME OF DISCHARGE BY RECEIVING WATER BODY, 2014-2018, THOUSAND M³ [GRI 303-4, 306-1](#)

| INDICATOR | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|--------|--------|
| Total volume of water discharge for NLMK Group | 44,915 | 45,194 | 46,479 | 47,342 | 48,953 |
| into surface water bodies, including rivers, lakes, reservoirs, and canals | 42,899 | 43,151 | 44,391 | 45,238 | 46,830 |
| including into seas and oceans | 233 | 194 | 217 | 246 | 297 |
| transferred to third-party organizations for treatment | 2,016 | 2,043 | 2,088 | 2,104 | 2,123 |
| Discharge of pollutants, tonnes | 295 | 15,509 | 16,223 | 15,710 | 14,612 |

Air emissions

NLMK Group devotes considerable efforts to reducing its air emissions and has set a target of reducing specific air emissions to 18 kg/tonne of steel by 2022.

In order to attain these targets, the Group is implementing a range of measures to upgrade its purification equipment and transition to using the best available technology (BAT). More specifically, over the past three years, NLMK Group has completed 11 major projects to reduce dust emissions, investing around RUB 1.7 billion in total. As a result of these measures, by the end of the year the Company was operating over 500 modern dust and gas purifying facilities, which not only capture more than 98% of substances, but also feed these back into production.



LIPETSK – ONE OF RUSSIA’S CLEANEST STEELMAKING CENTRES

► Since 2014 Lipetsk, which is home to NLMK Group’s largest asset, has been officially recognized as being the ‘cleanest’ steelmaking city in Russia, according to data from Russia’s Federal Service for Hydrometeorology and Environmental Monitoring (Roshydromet). Thanks to environmental protection measures implemented at the Lipetsk site, the Integrated Air Pollution Index (IAPÍ)* in the city of Lipetsk fell by a factor of more than 10 between 2000 and 2018.

* The IAPÍ indicator, which was developed and calculated by Roshydromet, is used by the Russian Ministry of Natural Resources and the Environment to conduct scientific assessments of air pollution in Russian cities.

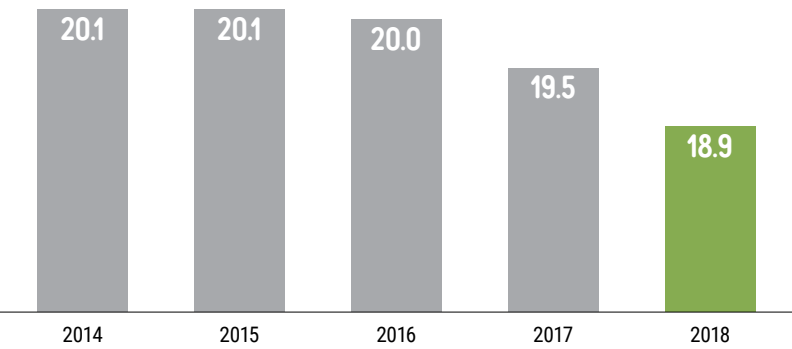
MAIN PROJECTS UNDERWAY AS PART OF ENVIRONMENTAL PROGRAMME 2022

| SITE | MEASURE | STATUS | IMPACT |
|---------------|--|--------|--|
| Lipetsk site | Installation of new environmental protection equipment to purify dust emissions in the sinter shop | ✓ | ► 15-fold reduction in dust at the facility ► All captured dust reused in production ► Degree of purification matches that produced of the BAT |
| | Installation of 12 bag filters in the refractory shop | ✓ | ► 16% reduction in dust emissions ► Residual concentration of dust following purification meets the highest standards for dedusting systems in modern steelmaking (fewer than 10 mg/nm³) |
| | Overhaul of the dedusting unit (ATU-24) in the refractory shop | ➔ | ► Over 90% reduction in dust emissions at the facility ► Performance of dedusting system rose by 20% to 240,000 m³/h |
| | Installation of electrostatic precipitators and high-performance bag filters conforming to modern standards in the sinter, blast furnace, and refractory shops | ✓ | ► Repeated reuse of all captured dust as feedstock in production ► 6% reduction in gross dust emissions ► Concentrations reduced to within permissible levels at the enterprise’s sanitary protection zone |
| Altai-Koks | Overhaul of the car dumper dedusting system at coal blending unit No. 1 by installing bag filters in accordance with the BAT | ✓ | ► Return of captured coal dust to production ► Reduction of dust emissions at source by a factor of 2.3 |
| NLMK DanSteel | Replacement of combustion system in the normalizing furnace | ✓ | ► Eightfold reduction in NOx emissions, to 46 mg/m³ |

✓ – Completed ➔ – In progress

In 2018 the total volume of air emissions fell by 2,200 tonnes, thanks to the implementation of atmospheric protection measures under the Environmental Programme. The volume of specific emissions fell by 0.6 kg/t.

SPECIFIC AIR EMISSIONS BY NLMK GROUP, 2014–2018, KG/T GRI 305-7



BUILDING THE MOST ENVIRONMENTALLY FRIENDLY STEEL SMELTING SHOP IN EUROPE

► In 2018 NLMK began work to refit exhaust ducts at its BOF facilities. The new high-capacity filters, which are built from special high-strength materials, are capable of capturing virtually all metal dust and graphite. This can then be fed into the system as a raw material in pig iron production. The new gas purification system is essential for preventing fugitive emissions, which are inevitable in steel production. Refitting the BOF facilities will help make the plant's smelting shop the most productive and environmentally friendly one in Europe.

VOLUME OF SIGNIFICANT AIR EMISSIONS BY NLMK GROUP BY SUBSTANCE TYPE, THOUSAND TONNES GRI 305-7

| INDICATOR | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------------|---------------|---------------|---------------|---------------|
| TOTAL | 324.6 | 324.2 | 331.7 | 333.9 | 331.7 |
| NOx emissions per unit of production, kg/t | 18.2 1.1 | 22.0 1.4 | 24.8 1.5 | 27.1 1.6 | 27.2 1.6 |
| SO ₂ emissions per unit of production, kg/t | 28.2 1.8 | 27.7 1.7 | 28.9 1.7 | 31.8 1.9 | 31.7 1.8 |
| Particulate matter emissions per unit of production, kg/t | 25.5 1.6 | 25.4 1.6 | 25.2 1.5 | 25.7 1.5 | 24.4 1.4 |
| CO emissions per unit of production, kg/t | 248.5 15.5 | 244.6 15.3 | 249.2 15.0 | 245.7 14.4 | 244.7 14.0 |
| Volatile organic compounds | 2.2 | 2.5 | 2.6 | 2.6 | 2.7 |
| Hazard class-1 substances, tonnes | 2 | 2 | 1 | 1 | 1 |

Greenhouse gas emissions

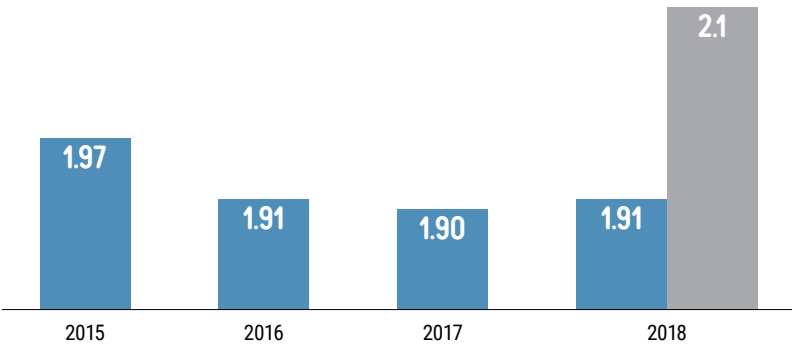
NLMK Group is aware of the potential consequences of climate change, and is committed to reducing greenhouse gas emissions by implementing measures to reduce the specific consumption of non-renewable fuels and to boost energy efficiency.

Although Russian law does not require the disclosure of information about greenhouse gas emissions, in 2018 NLMK took the decision to publish this information in its Annual report. The total volume of direct and indirect CO₂ emissions (Scope 1 and Scope 2) was 33.4 million CO₂ equivalent in 2018.

GRI 305-1, 305-2

This figure, which is above the industry average, was achieved through projects to reduce our specific consumption of non-renewable fuels and other resources. Strategy 2022 includes plans to implement projects to develop in-house power generation within NLMK Group, for example by using by-product gases from steel production. This will allow NLMK Group to reduce indirect greenhouse gas emissions.

SPECIFIC EMISSIONS OF GREENHOUSE GASES BY NLMK GROUP, 2015-2018, T/T STEEL GRI 305-4



■ Specific CO₂ emissions (direct and indirect), t/t steel
■ Industry-average specific CO₂ emissions (direct and indirect), t/t steel

¹ Specific CO₂ emissions 2018 dynamics as compared with 2017 is driven by the increase in the share of pig iron production in the total production volumes
² Industry-average specific CO₂ emissions (direct and indirect) from Science Based Targets: <https://sciencebasedtargets.org/sda-tool>



Waste handling and efficient use of natural resources

Waste management

NLMK Group’s waste-handling operations are orientated towards key modern steelmaking trends: minimizing waste generation and increasing the proportion of waste that is processed, reused, and safely disposed of. For example, a priority of the Environmental Programme 2022 is to increase waste utilization at NLMK Group to 96% (not including mining waste: overburden and beneficiation tailings).

NLMK Group utilizes some of the waste generated at its sites in the course of its own activities, and transfers some for reuse by specialist organizations that hold relevant licences.

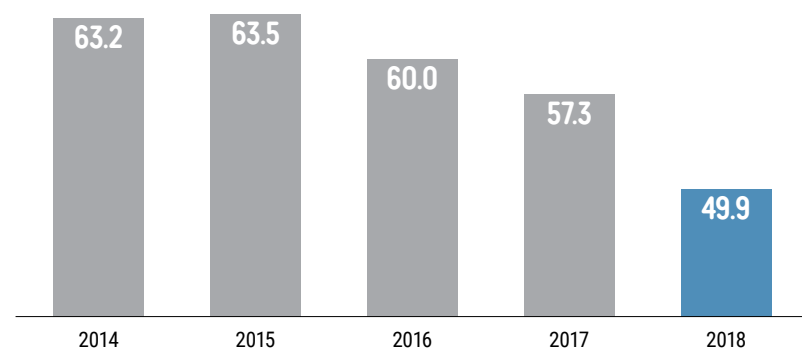
NLMK Group companies are reducing the volume of waste that they generate. For example, NLMK Lipetsk site includes a facility that processes wooden pallets. In 2018 the facility processed over 12,000 tonnes of wood waste, resulting in a reduction in the volume of wooden packing waste recycled with the involvement of external organizations, and reduced timber procurement for the production of chips. Over RUB 46 million was invested in the project.

Potential impacts on the environment are minimized through compliance with safe waste-handling standards and implementing corresponding measures. At NLMK Pennsylvania, for example, four hydrochloric acid reservoirs have been replaced and brought into use on the pickling line, with the aim of preventing hazardous substances from polluting soil.

The overall volume of waste generated in 2018 dropped by 13% (more than 7 million tonnes), due to the reduced generation of mining waste at Stoilensky. The volume of waste recycled rose by 43,000 tonnes, while the volume of waste discharged fell by 22,000 tonnes.

Around 97% of waste generated by NLMK Group falls into the hazard class 5 (non-hazardous). This waste category has virtually no impact on ecosystems and requires no special handling measures.

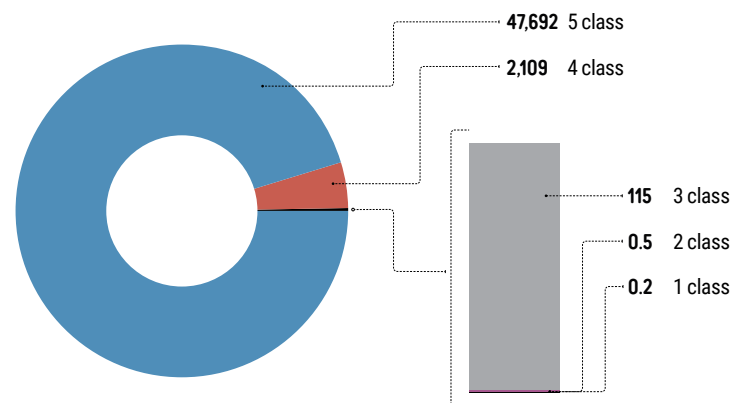
TOTAL WASTE GENERATED BY NLMK GROUP, 2014–2018, THOUSAND TONNES GRI 306-2



TOTAL SPECIFIC WASTE GENERATED BY NLMK GROUP, 2014–2018

| INDICATOR | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------|-------|-------|-------|-------|
| Specific waste generation, t/t | 3.9 | 4.0 | 3.6 | 3.4 | 2.9 |
| Recycled (recycled and decontaminated) waste, '000 tonnes | 10,073 | 9,254 | 9,080 | 7,774 | 7,816 |
| including by NLMK companies, '000 tonnes | 9,322 | 8,541 | 8,360 | 6,743 | 6,627 |
| including by external organizations, '000 tonnes | 751 | 713 | 720 | 1,031 | 1,189 |
| Waste recycling not including mining waste, % | 94 | 96 | 94 | 87 | 89 |
| Discharged waste, '000 tonnes | 139 | 174 | 133 | 154 | 132 |

WASTE GENERATED BY NLMK GROUP BY HAZARD CLASS, 2018, THOUSAND TONNES GRI 306-2



Production lifecycle

NLMK Group companies produce steel products that can be fully assimilated into the environment once they are no longer of use to consumers. In this regard ferrous metal products are a valuable raw material that can be reused in steelmaking.

All steel produced by NLMK Group companies can be recycled and reprocessed. Around 25% of steel produced is made using scrap ferrous metals; this makes the steel produced by NLMK Group companies part of a closed-cycle economy.

VTORCHERMET NLMK – A LEADER IN SCRAP FERROUS METAL REPROCESSING

► One NLMK Group company, Vtorchermet NLMK, is an industry leader in scrap metal processing technology. It collects and processes scrap ferrous metals, and supplies NLMK Ural, NLMK Kaluga, and NLMK Lipetsk with 85% of the high-quality scrap metal they need for steelmaking. The scrap metal that arrives at Vtorchermet NLMK receives a second life in the form of products that are in high demand across various industries: rebar, steel duct, brackets, wire, fixing products, and flat-rolled products. Processing scrap metal helps both rid the environment of scrap and significantly reduce consumption of natural resources and energy. Vtorchermet NLMK is a member of RUSLOM.COM, an organization with a mission and objectives that include safeguarding Russia’s access to raw materials and environmental safety by returning recycled resources to the economy and creating a high-tech and efficient sector for handling scrap metal and industrial and consumer waste.

Biodiversity

NLMK Group conducts operations on both industrial lands and residential areas. The Company's activities have no direct significant impact on biodiversity.

GRI 304-2

NLMK group production sites are not located on industrial sites that are leased; more specifically, they are not located on sites that are situated on environmentally protected land or on land with a high biodiversity value. GRI 304-1 NLMK Group activity does not pose any threat to animal and plant species registered on the IUCN Red List or in the Russian Red Book, or to species threatened with extinction. GRI 304-4



REHABILITATION OF LAND AT STAGDOK

In October Stagdok completed the return of over 22 hectares of rehabilitated land to Lipetsk Municipal Region. The Commission for the Acceptance of Rehabilitated Land signed a certificate confirming that Stagdok had fulfilled all applicable state requirements related to the rehabilitation of land disturbed by limestone extraction. Since 2012 Stagdok has restored the soil layer and planted more than 216,000 saplings on former extraction sites. Biological rehabilitation work was carried out on close to 110 hectares of land in 2012–2018.

The Company regularly implements measures targeted at rehabilitating the land disturbed by the activity of its extractive companies (Stagdok, Dolomit). The treatment of deposit sites includes phased rehabilitation work to restore the landscape and its plant cover and to enable plants to grow again in the soil. NLMK Group allocates over RUB 400 million to these projects every year. GRI 304-3



RUB 6.3 MILLION ALLOCATED TO VOLUNTEER PROJECTS AS PART OF STEEL TREE INITIATIVE

NLMK Group is committed to promoting a culture of environment awareness in conjunction with ensuring high environmental management standards in the regions where it operates. It aims to achieve this by training local residents in project management, and grants for this are made available by the Miloserdiye charitable fund. The grants are used to fund volunteering initiatives aimed at resolving current issues that local residents face. In 2018 NLMK began funding seven projects as part of the Steel Tree initiative, all proposed by residents from Lipetsk and the surrounding region.

The Steel Tree initiative was launched in 2017, and has enabled young residents of Lipetsk to implement 11 environmental projects with financial support from NLMK's Miloserdiye charitable fund. In 2018 the programme was rolled out to the residents of Zarinsk and Stary Oskol. Since the start of 2018, 42 ideas for creating a healthy urban environment and implementing social, environmental, and educational initiatives have been put forward to the competition commission, and the commission has approved the allocation of seven grants worth over RUB 2 million. The approved projects include the removal of rubbish from Studenovsky Quarry; the laying of trails on its land for use in mountain biking training sessions; the restoration of a spring in the village of Krutie Khutora in the Lipetsk Region; the creation of an arboretum in Aviators Park and a sensory wellbeing garden in Bykhanov Gardens; and organizing an environmental river patrol and clearing rubbish from coastal areas.

Plans for 2019 and the medium term

NLMK GROUP IS PLANNING TO IMPLEMENT SIGNIFICANT ENVIRONMENTAL PROTECTION INITIATIVES IN FUTURE REPORTING PERIODS UNDER ITS ENVIRONMENTAL PROGRAMME 2022:

| Name of initiative | Projected environmental impact |
|---|---|
| <div>1. Major overhaul of blast furnace No. 4, including the refitting the dedusting system and replacing hot-blast stoves</div> <div>2. Major overhaul of blast furnace No. 6, including refitting the dedusting system and replacing hot-blast stoves</div> <div>3. Overhaul of BOFs No. 2 and 3 with off-gas ducts and fitting BOF shop No. 2 with systems for capturing and cleaning fugitive emissions</div> <div>4. Overhaul of the dedusting system on the cast-house floor of blast furnace No. 3</div> <div>5. Overhaul of dedusting systems to capture fugitive emissions in the mixer section of BOF shop No. 1</div> <div>6. Overhaul of dust and gas purification unit ATU-24 in the refractory shop</div> <div>7. Construction of a new facility for water-free cooling of all slag generated by BOF shop No. 1</div> <div>8. Technical refit of the slag granulation facility at blast furnace No. 6</div> | Reduction in gross air emissions by 6,000 tonnes annually |
| Name of initiative | Projected environmental impact |
| <div>1. Construction of a section for the annual production of 700,000 tonnes of steelmaking briquettes</div> <div>2. Regeneration and preparation of investments in the metal casting shop</div> | Integration of waste into the recycling process |
| Name of initiative | Projected environmental impact |
| <div>1. Major overhaul (technical refit) of local treatment facilities</div> | Compliance with permissible discharge standards following purification, and removal of specific substances from domestic wastewater from NLMK and the left-bank area of Lipetsk at local treatment facilities |



Energy efficiency

Key figures 2018

591.1 PJ

total energy
consumption
in 2018 (-1.9% y/y)

Specific energy intensity
of steel production at
the Lipetsk site fell by

0.4%

Material topics

- Energy

Key events in 2018

- 60 MW turbine generator No. 5 was commissioned at the Lipetsk co-generation plant
- A number of initiatives were implemented to improve energy efficiency at the Group sites

United Nations Global Compact principles

- Principle 7** Businesses should support a precautionary approach to environmental challenges
- Principle 8** Businesses should undertake initiatives to promote greater environmental responsibility
- Principle 9** Businesses should encourage the development and diffusion of environmentally friendly technologies

Global Sustainable Development Goals



7 AFFORDABLE AND
CLEAN ENERGY



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION

Steelmaking is an energy-intensive industry. NLMK Group is continually seeking ways to make production more energy efficient.

This includes identifying and applying integrated solutions to ensure a reliable supply of energy resources and reduce expenditure, and using energy sparingly in order to minimize environmental impact.

Our approach to managing energy efficiency

NLMK Group has developed and implements an energy policy that sets the following goals with respect to energy efficiency:

- Attaining a minimum, technologically, and economically sound level of specific energy intensity and production costs
- Leadership in the use of advanced energy saving technologies

NLMK Group's energy policy determines the principles, actions, and obligations of the Company's managers and employees with respect to attaining these goals.

Since 2014 the Company has also pursued a unified technology policy for managing the energy resources of NLMK Group's facilities in Russia.

The policy focuses on the most progressive technical solutions, equipment, and technologies for improving the reliability, efficiency, and safety of energy resource performance. The policy also sets out priorities and rules for applying the technical solutions discussed within it with respect to the utilization of energy facilities, the implementation of new construction

programmes, and comprehensive technical refits and overhauls of energy assets belonging to NLMK Group companies, together with the innovative and promising development of these companies.

The Vice President and subordinate subdivisions work to frame the principles and strategic goals for improving the energy efficiency of production and to develop energy facilities, in addition to monitoring the attainment of these goals. Each year the directors of NLMK Group companies determine a list of initiatives for improving energy efficiency and the target figures for the fulfilment of plans to ensure the sound use of energy resources.

A key performance indicator for improving energy efficiency is the specific energy intensity of production (Gcal/tonne of products produced). The targets for key performance indicators are determined on the basis of statistical data, an analysis of the potential for process improvements, and the results of a comparative analysis containing similar statistics and breakdowns, both within and outside the Company.

Certification

The Company operates an 'umbrella' energy management system, as approved by certificate No. ENMS 598731, which encompasses 10 Group sites:

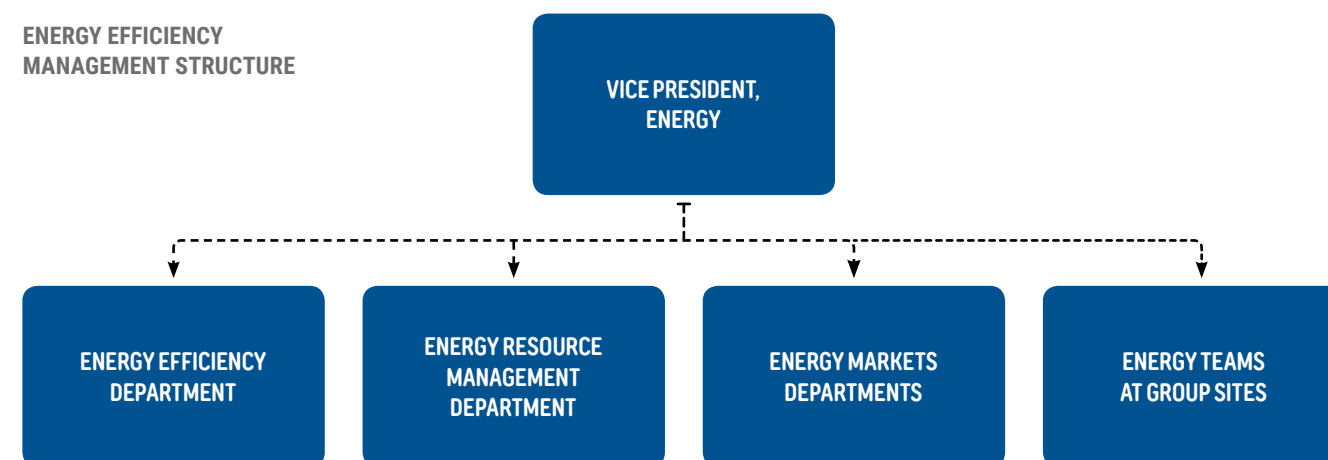
- NLMK Lipetsk
- VIZ-Steel
- Altai-Koks
- Dolomit
- NLMK Kaluga
- NLMK Metalware
- NLMK Ural
- Stagdok
- Stoilensky
- NLMK DanSteel.

All the companies are certified under international standard ISO 50001:2011.

Membership and participation in organizations

NLMK Group is a member of the Russian Association of Energy Consumers, a non-commercial partnership that aims to protect the interests of member companies on industry platforms and within federal bodies that regulate energy development.

ENERGY EFFICIENCY MANAGEMENT STRUCTURE



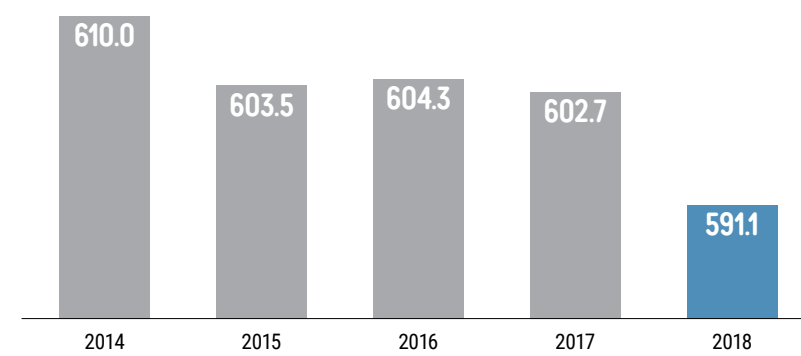
Energy resource consumption in 2018

N LMK Group uses a variety of non-renewable energy resources in its production activities.

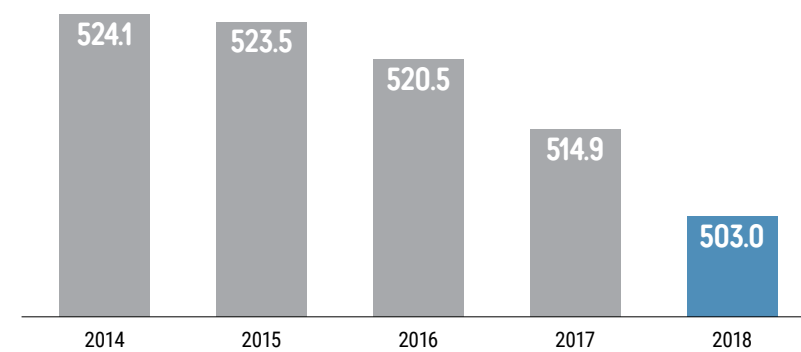
Approximately 17% of all energy consumed comes from natural gas and more than 43% from coal.

In 2018 total energy consumption within the Company stood at 591.1 PJ, which represented a fall in consumption compared to 2017 (reduction by 11.6 PJ). This reduction was achieved thanks to the introduction of energy saving initiatives.

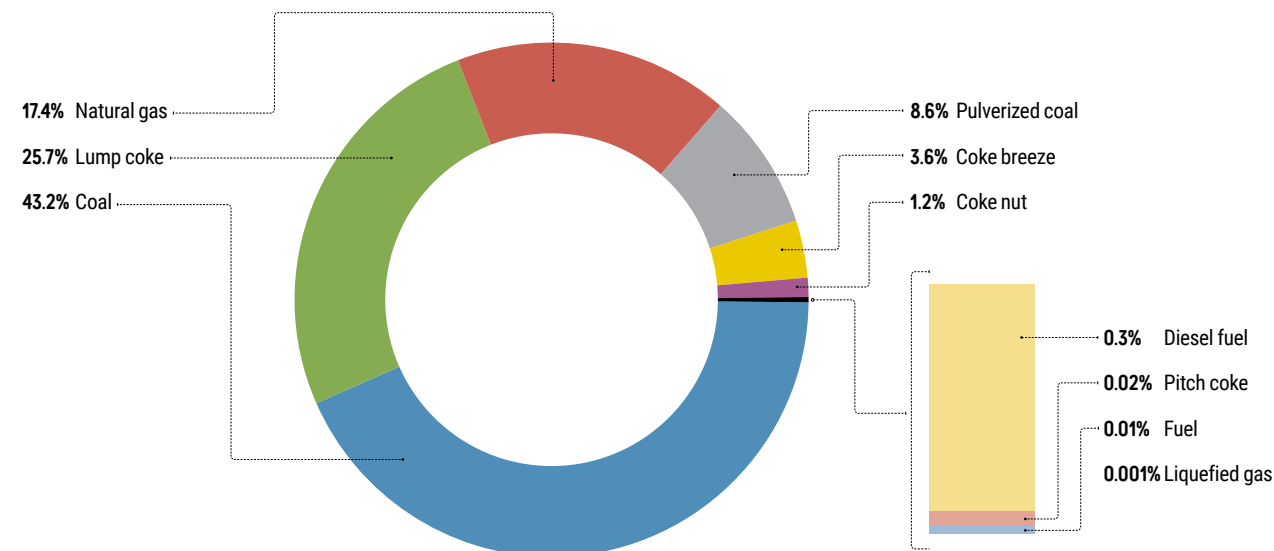
GROSS ENERGY CONSUMPTION BY NLMK GROUP, 2014–2018, PJ [GRI 302-1](#)



CONSUMPTION FROM NON-RENEWABLE SOURCES, NLMK GROUP, 2014–2018, PJ [GRI 302-1](#)



CONSUMPTION FROM NON-RENEWABLE SOURCES BY TYPE, NLMK GROUP, 2018, % [GRI 302-1](#)



CONSUMPTION FROM NON-RENEWABLE SOURCES BY TYPE, NLMK GROUP, 2014–2018, PJ [GRI 302-1](#)

| FUEL TYPE | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------|---------------|---------------|---------------|---------------|---------------|
| Coal | 238.64 | 240.85 | 237.48 | 234.77 | 217.49 |
| Lump coke | 147.43 | 138.83 | 138.37 | 134.51 | 129.06 |
| Natural gas | 103.44 | 102.81 | 104.13 | 91.73 | 87.28 |
| Pulverized coal | 10.60 | 15.55 | 18.10 | 28.40 | 43.30 |
| Coke breeze | 17.37 | 18.05 | 18.35 | 18.47 | 18.18 |
| Coke nut | 4.42 | 5.33 | 1.97 | 5.27 | 6.05 |
| Diesel fuel | 1.75 | 1.68 | 1.61 | 1.56 | 1.50 |
| Pitch coke | 0.18 | 0.18 | 0.20 | 0.13 | 0.09 |
| Fuel oil | 0.11 | 0.13 | 0.26 | - | - |
| Petrol | 0.10 | 0.09 | 0.08 | 0.08 | 0.06 |
| Liquified gas | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| TOTAL | 524.05 | 523.51 | 520.54 | 514.93 | 503.02 |

CONSUMPTION, GENERATION, AND SALES OF ELECTRICITY AND THERMAL ENERGY BY NLMK GROUP, 2014–2018, PJ [GRI 302-1](#)

| INDICATOR | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|-------------|-------------|-------------|-------------|
| Electricity and thermal energy obtained for consumption | | | | | |
| Total electricity consumption | 82.6 | 77.1 | 80.7 | 84.8 | 84.9 |
| Thermal energy consumption | 3.3 | 2.9 | 3.1 | 3.0 | 3.1 |
| TOTAL | 85.9 | 80.0 | 83.7 | 87.8 | 88.0 |
| In-house electricity and thermal energy generation | | | | | |
| Electricity | 47.3 | 50.2 | 47.0 | 46.3 | 49.4 |
| Thermal energy from steam | 21.3 | 23.8 | 22.9 | 22.8 | 21.0 |
| Thermal energy from hot water | 8.6 | 8.0 | 8.2 | 7.5 | 7.7 |
| TOTAL | 77.2 | 82.1 | 78.1 | 76.6 | 78.1 |
| Electricity and thermal energy sold to external consumers | | | | | |
| Electricity sold | 7.5 | 7.1 | 6.3 | 7.1 | 6.1 |
| Electricity transferred | 5.3 | 5.2 | 5.2 | 5.1 | 4.9 |
| Thermal energy sold | 3.2 | 2.9 | 3.0 | 2.9 | 3.1 |
| TOTAL | 16.0 | 15.3 | 14.5 | 15.1 | 14.1 |

SPECIFIC ENERGY INTENSITY* AT NLMK LIPETSK, 2014–2018, GCAL/T [GRI 302-3](#)

| INDICATOR | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------|------|------|------|------|------|
| Specific energy intensity | 5.72 | 5.66 | 5.60 | 5.49 | 5.47 |

* Specific energy intensity = (energy consumption during steel production/extraction and processing of raw materials, J) / (steel production/extraction and processing of raw materials, t)
Types of energy resources used in calculation: Procurement: coking coal, pitch coke, lump coke, coke breeze, pulverized coal, natural gas, fuel oil, thermal energy from hot water, steam, electricity, oxygen (NLMK Kaluga), thermal energy from chemically purified water (VIZ-Steel).
Sale: coke breeze, nut coke, chemical products, blast furnace gas, steam, thermal energy as hot water, oxygen, nitrogen, compressed air, industrial water, hydrogen, and commercial iron.

Captive electricity generation

Reduced expenditure on energy is achieved through implementing respective optimization initiatives and by increasing the proportion of electricity generated in-house.

The maximum utilization of the available volume of recycled energy resources is one of the main challenges faced by NLMK Group; overcoming this challenge will make it possible to not only minimize expenditure, but also to reduce our environmental impacts by reducing greenhouse gas emissions.

NLMK Group's total installed generating capacity in the reporting period stood at 722 MW, including 522 MW at the Lipetsk site and 200 MW at Altai-Koks.

Electricity is generated at the Company's captive power plants which are mostly powered by recycled fuel gases from steel production.

Over half of electricity consumed at the Lipetsk site and 100% of electricity consumed at Altai-Koks is generated using NLMK Group's captive resources.

The use of recycled energy resources to generate electricity is another tool that can be used to boost energy efficiency and the eco-friendliness of production. The Lipetsk site in particular generates electricity using by-product gases from coke and blast furnace production processes as fuel.

CAPTIVE ENERGY GENERATION AT NLMK GROUP'S FACILITIES

CAPTIVE ELECTRICITY GENERATION AT NLMK COMPANIES

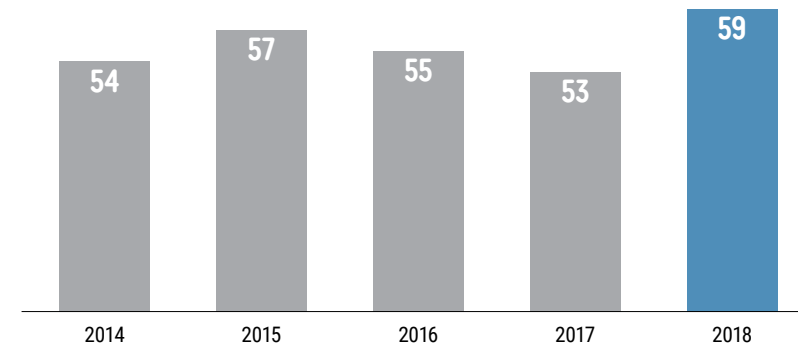
NLMK LIPETSK: 522 MW

- **Co-generation plant:** fuel – coke oven gas, blast furnace gas, natural gas
- **Recovery co-generation plant:** fuel – blast furnace gas, natural gas
- **Top pressure recovery turbine station:** no fuel is used; instead, electricity is generated from excess pressure caused by blast furnace gas

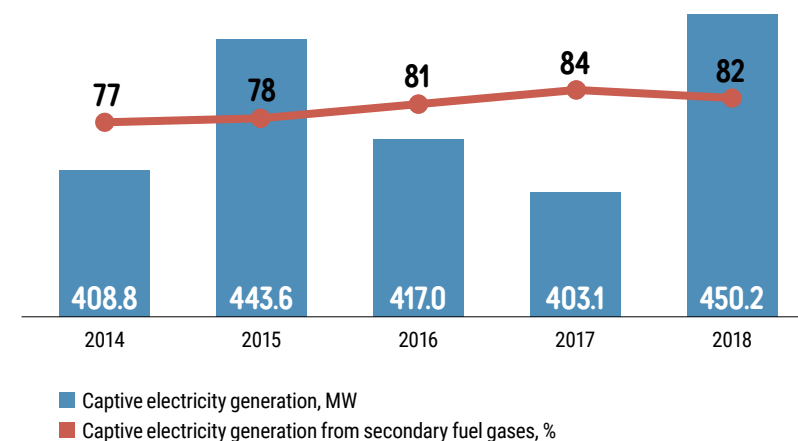
ALTAI-KOKS: 200 MW

- **Co-generation plant:** fuel – coke oven gas

SHARE OF CAPTIVE ELECTRICITY IN TOTAL ELECTRICITY CONSUMPTION AT NLMK LIPETSK, 2014–2018, %



CAPTIVE ELECTRICITY GENERATED AT NLMK LIPETSK, 2014–2018



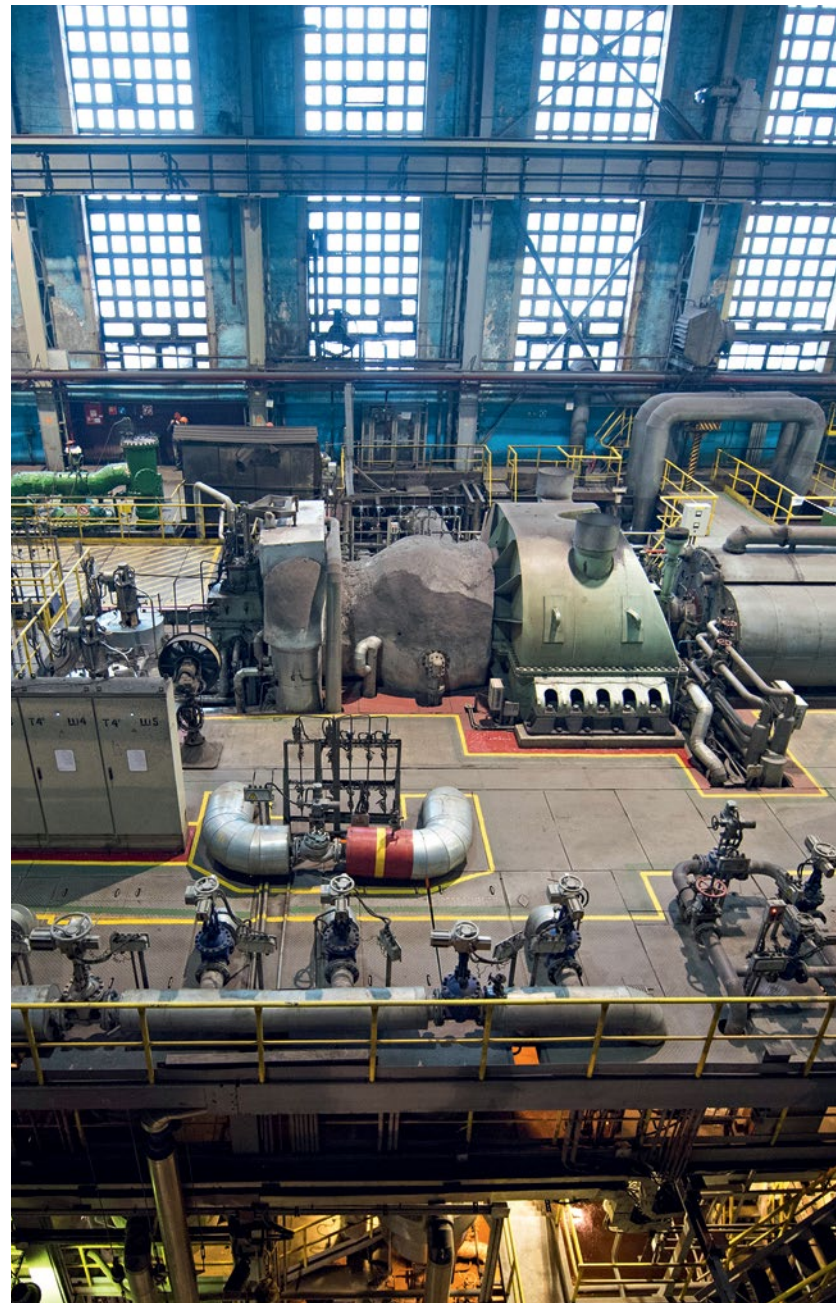
ENERGY INTENSITY REDUCTION AT VIZ-STEEL

- During 2018, VIZ-Steel was able to reduce the specific energy intensity of its grain-oriented steel production to 7.28 Gcal/t: a 3.8% reduction on the same period in 2017, which cut its energy costs by RUB 4.1 million.

Initiatives taken by VIZ-Steel as part of a resource-saving programme include optimizing the performance of the water supply system to the steam reforming line of its gas production unit, refurbishing the steam supply system to thermal units at its cold rolling shop, and replacing pump equipment used in the purifying of industrial wastewater. Thanks to adopting an integrated approach to overcoming the challenges of boosting energy efficiency over the past five years (2014–2018), the specific energy intensity of production at VIZ-Steel has fallen by 9%.

NLMK GROUP BOOSTS CAPTIVE ENERGY GENERATION TO 59%

► NLMK Group put into operation the new 60 MW turbine generator No. 5 at the Lipetsk site's co-generation plant. The commissioning of the turbine generator increased the reliability of the site's energy supply, reduced the cost of energy by 3%, and increased the share of captive energy generation from 53% in 2017 to a record 59% in 2018 of total electricity consumption. The new turbine generator replaced a unit with a similar capacity, launched in 1958, which has reached the end of its service life. 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. While the overhaul was underway, an additional quantity of energy was purchased in order to meet the needs of the Lipetsk site. NLMK Engineering, one of the leading design institutes in the Russian steel sector, was the general designer of the project. The total investment in the project exceeded RUB 1.8 billion.



Implementing energy saving measures

With the goal of boosting energy efficiency, NLMK Group has performed a range of initiatives over the reporting period, which resulted in the improved management of energy resource consumption and energy costs control at each stage of production processes and initiatives.

For example, measures were implemented in 2018 to upgrade and adjust the performance of boilers in co-generation plants and the recovery co-generation plant at the Lipetsk site,

thereby allowing additional volumes of blast furnace gas to be reused. Initiatives to optimize the loading and configuration of heat supply networks at the Lipetsk site and electricity supply systems were implemented at both Stoilensky and the Lipetsk site.

In order to reduce thermal energy loss during transportation via shut-off valve insulation, a plan to install thermally insulated covers on shut-off valves was developed and implemented in pilot mode at NLMK Kaluga and VIZ-Steel.

A project was also developed within NLMK Group to replace pumping equipment with more energy efficient

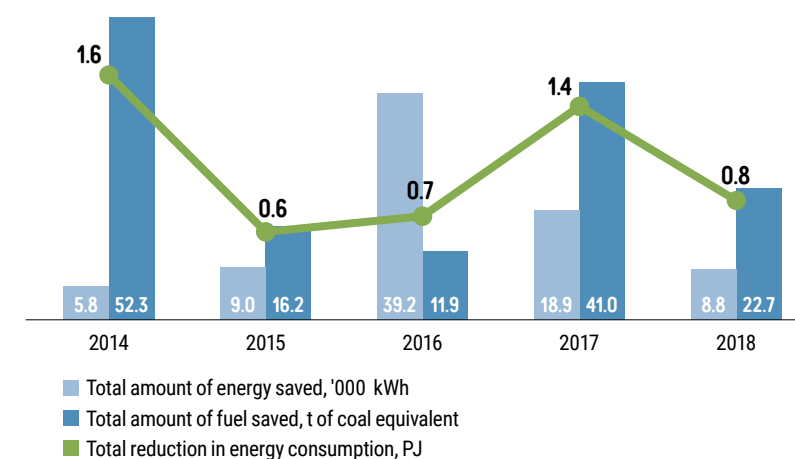
alternatives. As part of this project, measures to install new more energy efficient pumping equipment and to optimize the feeding of existing pumping equipment have been carried out at the Lipetsk site, NLMK Ural, and Altai-Koks co-generation plant.

In February 2018 the new turbine generator No. 5 was commissioned at the Lipetsk site's co-generation plant. The turbine generator was built to replace obsolete equipment that had reached the end of its service life.

OPTIMIZATION INITIATIVES UNDERTAKEN BY NLMK GROUP IN 2018

| KEY AREAS AND INITIATIVES | Outcomes 2018 (full-year effect) |
|--|---|
| Increased efficiency of fuel gas use in electricity generation: <ul style="list-style-type: none"> Lipetsk co-generation plant. Increased surface area of the hot stove of boiler No. 1, upgrading boiler units No. 2 and 3, with changes to the air delivery system for combustion Lipetsk recovery co-generation plant. Increased surface area of the water economizer for boiler No. 3 | Reduced natural gas consumption |
| Supply and configuration optimization for energy resource transport networks to companies: <ul style="list-style-type: none"> Lipetsk thermal power shop. Installation of condensate traps to remove condensate from lower portions of steam supply pipelines Lipetsk, oxygen shop, blast furnace No. 1. Adjusting the hydraulic performance of heat supply systems of oxygen shop 1 buildings, using ZuluThermo Lipetsk thermal power shop. Reducing the length of the heat pipeline to water supply shop sludge pumps. Decommissioning the back-up heat pipeline along the ferroalloy heat pipeline VIZ-Steel. Modification of heat supply system to cold rolling shop Lipetsk, Stoilensky. Decommissioning of underused transformer substations | Reduction in thermal energy used as steam and hot water |
| Optimization of equipment performance for the production of process gases: <ul style="list-style-type: none"> Lipetsk, oxygen shop. Optimization of rectification in ASU No. 9, increase of argon production by ASU Nos. 5 and 9, increase in oxygen production efficiency of ASU Nos. 4 and 5 | Reduction in electricity consumption and increase in liquid argon sales |
| Reduction in thermal energy losses during transportation through shut-off valve insulation: <ul style="list-style-type: none"> VIZ-Steel. Installation of insulation covers on steam line valves | Reduction in thermal energy consumption |
| Deployment of energy efficient pump and compressor equipment: <ul style="list-style-type: none"> Lipetsk. Replacement of drainage pumps with more energy efficient alternatives; modifying pump unit performance NLMK Ural, energy shop, light wire station. Replacement of pumps | Reduction in electricity consumption |

REDUCTION IN ENERGY CONSUMPTION AS A RESULT OF ENERGY SAVING INITIATIVES (PROGRAMMES) AT NLMK LIPETSK, 2014–2018 GRI 302-4



STAGDOK INCREASES ENERGY SUPPLY RELIABILITY

► Work was completed at Stagdok on a 6 kV double overhead power transmission line that will provide electricity to process facilities in the open-pit mine as well as to the crushing and beneficiation plant. The new addition is modern, safe, and has optimal capacity. A factory assembled transformer substation and equipment were acquired to enable drilling, extraction, and stripping work to be performed continuously at the mine. This also improved the reliability of the electricity supply and reduced electricity transmission losses.

Plans for 2019 and the medium term

The key initiatives that NLMK Group plans to carry out in 2019 and in the medium term to tackle challenges related to increasing energy efficiency include the following:

- Increasing the utilization efficiency of fuel gases in electricity generation
- Optimizing the supply and configuration of energy resource transportation networks at companies
- Optimizing the performance of process gases producing equipment
- Reducing thermal energy losses during transportation through shut-off valve insulation
- Commissioning energy efficient pump and compressor equipment
- Reaching 64% share of captive electricity in total electricity consumption at NLMK Lipetsk

At NLMK Ural, the construction of a 4 MW energy complex is planned in the town of Nizhniye Sergi, using co-generation facilities and a peak water-heating boiler. This will eventually enable purchased energy to be replaced with energy that is generated in-house. In the town of Beryozovsky, the construction is set to begin on a 6.5 MW peak water-heating boiler with a co-generation plant, to replace an ineffective existing boiler.

The work to refit the recovery co-generation plant with a turbo-blower, which will supply blast furnace No.7, is nearing its completion; the existing electrical blower is put on stand-by.



OUTSOURCING

- NLMK Group and the German company Linde Group have signed an agreement to build a new air separation unit (ASU), which is capable of producing 72,000 m³ of gaseous oxygen per hour. This will increase process gas production capacity by 20%. The gases will then be used in all areas of steel production. The EUR 100 million project is being financed using funds from Linde Group. The new outsourced facility will provide a reliable supply of oxygen, nitrogen, argon, and noble gases, together with a projected increase in steel production volumes. The new facility will lower costs and boost the efficiency of production processes. The new equipment is not only 50% more productive than the older air separation units, but it also enables gases to be obtained at the required pressure without the additional use of separate compressor equipment. The new facility is planned to be commissioned in the fourth quarter of 2021.

Appendices

GRI table

[GRI 102-55]

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| Disclosure 102-1 Name of the organization | | About NLMK, Company profile, Company profile, p. 13 |
| Disclosure 102-2 Activities, brands, products, and services | | About NLMK, Company profile, What we make and market, p. 23 |
| Disclosure 102-3 Location of headquarters | | About NLMK, About the Report, Contact details, p. 11 |
| Disclosure 102-4 Location of operations | | About NLMK Company profile, Company profile, p. 13 About NLMK, Company profile, Where we make and market steel, p. 14 |
| Disclosure 102-5 Ownership and legal form | The organizational structure of the Company can be found on its website https://www.nlmk.com/ru/about/group-structure/ The legal form of all companies belonging to NLMK Group is presented in "About the Report" section. | |
| Disclosure 102-6 Markets served | | About NLMK, Company profile, Company profile, p. 13 About NLMK, Company profile, Where we make and market steel, p. 14 |
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| Disclosure 102-9 Supply chain | | Our team, Supply chain management, 2018 performance, p. 127 |
| Disclosure 102-10 Significant changes to the organization and its supply chain | In the reporting period, there were no significant changes in the structure and activities of the Company. | Our team, Supply chain management, 2018 performance, p. 127 |
| Disclosure 102-11 Precautionary Principle or approach | | Governance, Corporate governance, Operational control and risk management, Internal control and risk management system, p. 101 |
| Disclosure 102-12 External initiatives | | About NLMK, Sustainability management, Participation in industry associations and external initiatives, p. 57 |
| Disclosure 102-13 Membership of associations | | About NLMK, Sustainability management, Participation in |

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| | | industry associations and external initiatives, p. 57 |
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| 6. REPORTING PRACTICE | | |
| Disclosure 102-45 Entities included in the consolidated financial statements | | About NLMK, About the Report, Scope of reporting, p. 9 |
| Disclosure 102-46 Defining report content and topic boundaries | | About NLMK, About the Report, The process of defining material topics, p. 10 |
| Disclosure 102-47 List of material topics | | About NLMK, About the Report, Material topics, p. 11 |
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| Disclosure 102-51 Date of most recent report | | About NLMK, About the Report, Our approach to preparing reports, p. 9 |
| Disclosure 102-52 Reporting cycle | | About the Report, About the Report, Our approach to preparing reports, p. 9 |
| Disclosure 102-53 Contact point for questions regarding the report | | About NLMK, About the Report, Contact details, p. 11 Governance, Corporate governance, Information for shareholders and investors, Contacts for shareholders, p. 115 |
| Disclosure 102-54 Claims of reporting in accordance with the GRI Standards | | About NLMK, About the Report, Our approach to preparing reports, p. 9 |
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| GRI 203: INDIRECT ECONOMIC IMPACTS | | |
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| Disclosure 203-2 Significant indirect economic impacts | | Our team, Developing local communities, Our approach to managing external social activities, p. 158 |
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| Disclosure 205-1 Operations assessed for risks related to corruption | | Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 109 |
| Disclosure 205-2 Communication and training about anti-corruption policies and procedures | | Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 108,110 |
| Disclosure 205-3 Confirmed incidents of corruption and actions taken | | Governance, Corporate governance, Operational control and risk management, Anti-corruption compliance and fair business practices, p. 110 |
| GRI 300 ENVIRONMENTAL | | |
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| Disclosure 302-3 Energy intensity | The Company considers it unhelpful to calculate the energy intensity indicator for the Group as a whole due to different production specifics at its companies. This indicator is calculated only for the main Russian production site - NLMK Lipetsk | Environment, Energy efficiency, Energy resource consumption in 2018, p. 185 |
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| Disclosure 303-2 Management of water discharge-related impacts | | Environment, Environmental protection, Our approach to managing environmental protection, Monitoring and control, p. 167 Environment, Environmental protection, Water resources, p. 170 |
| Disclosure 303-3 Water withdrawal | | Environment, Environmental protection, Water resources, p. 170, 171 |
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| Disclosure 303-5 Water consumption | | Environment, Environmental protection, Water resources, p. 170 |
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| GRI 103: Management Approach | | Environment, Environmental protection, Our approach to managing environmental protection, p. 166 Environment, Environmental protection, Biodiversity, p. 178 |
| Disclosure 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | | Environment, Environmental protection, Biodiversity, p. 178 |
| Disclosure 304-2 Significant impacts of activities, products, and services on biodiversity | | Environment, Environmental protection, Biodiversity, p. 178 |
| Disclosure 304-3 Habitats protected or restored | | Environment, Environmental protection, Biodiversity, p. 178 |
| Disclosure 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations | | Environment, Environmental protection, Biodiversity, p. 178 |
| GRI 305: EMISSIONS | | |
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| Disclosure 305-2 Energy indirect (Scope 2) GHG emission | | Environment, Environmental protection, Greenhouse gas emissions, p. 175 |
| Disclosure 305-4 GHG emissions intensity | | Environment, Environmental protection, Greenhouse gas emissions, p. 175 |
| Disclosure 305-6 Emissions of ozone-depleting substances (ODS) | NLMK Group companies do not produce, emit or use ozone-depleting substances in its processes, except for the use as a reagent in chemical laboratory analyses in extremely limited quantities, as well as for refuelling compressor equipment, air conditioning and fire extinguishing systems. | |
| Disclosure 305-7 Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions | | Environment, Environmental protection, Air emissions, p. 174 |
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| Disclosure 306-1 Water discharge by quality and destination | | Environment, Environmental protection, Water resources, p. 172 |
| Disclosure 306-2 Waste by type and disposal method | | Environment, Environmental protection, Waste handling and efficient use of natural resources, p. 176 |
| Disclosure 306-3 Significant spills | In the course of the Company's activities in the reporting year, no significant spills were recorded. | |
| Disclosure 306-4 Transport of hazardous waste | NLMK Group's companies do not import or export hazardous waste or ship it internationally. Transportation of waste outside the Group's premises is carried out by specialized organizations with appropriate licenses. | |
| GRI 307: ENVIRONMENTAL COMPLIANCE | | |
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| Disclosure 308-2 Negative environmental impacts in the supply chain and actions taken | | Environment, Environmental protection, Our approach to managing environmental protection, p. 169 |
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| Disclosure 403-2 Hazard identification, risk assessment, and incident investigation | | Our team, Occupational health and safety, Our approach to managing occupational health and safety, p. 151, 153 |
| Disclosure 403-3 Occupational health services | | Our team, Our employees, Social policy, p. 145 |
| Disclosure 403-4 Worker participation, consultation, and communication on occupational health and safety | | Our team, Occupational health and safety, Our approach to managing occupational health and safety, Staff training and engagement, p. 151 Our team, Occupational health and safety, 2018 performance, p. 155 |
| Disclosure 403-5 Worker training on occupational health and safety | | Our team, Occupational health and safety, Our approach to managing occupational health and safety, Staff training and engagement p. 151 |
| Disclosure 403-6 Promotion of worker health | | Our team, Our employees, Social policy, p. 143, 144 |
| Disclosure 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | | Our team, Occupational health and safety, Our approach to managing occupational health and safety, p. 151 |
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| Disclosure 404-2 Programs for upgrading employee skills and transition assistance programs | | Our team, Our employees, Training and development, p. 140, 142, 143 Our team, Our employees, Social policy, p. 144 |

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| Disclosure 404-3 Percentage of employees receiving regular performance and career development reviews | | Our team, Our employees, Training and development, Evaluation and remuneration, p. 139 |
| GRI 405: DIVERSITY AND EQUAL OPPORTUNITY | | |
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| Disclosure 405-1 Diversity of governance bodies and employees | | Our team, Our employees, Our employees, p. 135, 136 |
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| Disclosure 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | | Our team, Human rights, Managing human rights issues, p. 129 Our team, Human rights, 2018 performance p. 131 |
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| Disclosure 408-1 Operations and suppliers at significant risk for incidents of child labour | | Our team, Human rights, Managing human rights issues, p. 129 Our team, Human rights, 2018 performance p. 131 |
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| GRI 413: LOCAL COMMUNITIES | | |
| GRI 103: Management Approach | | Our team, Human rights, Managing human rights issues, p. 129 |
| Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs | | Our team, Stakeholder dialogue, Our approach to stakeholder engagement, p. 117 Our team, Developing local communities, Our approach to managing external social activities, p. 159 |

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RESPONSIBILITY STATEMENT

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

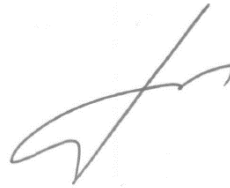
1. Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with IFRS, as of December 31, 2018 and also for the year ended on that data, within balance sheets, profit and loss statements, cash flow statements, equity statements and the statements on the total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

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

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

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

President (Chairman of the Management Board)



G. Fedorishin

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

Lipetsk

«01» March 2019

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

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

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

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

Director of the Internal Audit Department
(The Head of the Internal Audit Service)



M. Makeev

Information about Annual Report 2018 approval procedure

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

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

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

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

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

NLMK companies and affiliates as of 31.12.2018 a.

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

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

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

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

| Name | Item | 2018 | 2017 | Change, % |
|----------------|---------------------|----------|---------|-----------|
| Electro energy | mln kWth | 3061,84 | 3786,21 | -19,1 |
| | mln of RUB with VAT | 4807,1 | 5377,1 | -10,6 |
| Natural gas | mln m3. | 2006,1 | 2142,8 | -6,4 |
| | mln of RUB with VAT | 10694,9 | 11114,8 | -3,8 |
| Heating energy | GCal | 134641,1 | 116604 | +15,5 |
| | mln of RUB with VAT | 219,7 | 182,6 | +20,3 |
| Gas oil | '000 liters | 22942,4 | 23432,2 | -2,1 |
| | mln of RUB with VAT | 1129,3 | 755,3 | +49,5 |
| Benzine | t | 344,2 | 552,3 | -37,7 |
| | mln of RUB with VAT | 17,8 | 26,2 | -32,1 |
| Heating oil | t | 1110,6 | 1107,9 | +0,2 |
| | mln of RUB with VAT | 5,7 | 5,6 | +1,8 |
| Coking coal | '000 t | 4633 | 4218 | +9,8 |
| | mln of RUB with VAT | 53734 | 45643 | +17,7 |

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

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

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

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

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

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

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

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

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

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

REPORT

on compliance with the Corporate Governance Code principles and recommendations

The present report on observance of principles and recommendations of the Corporate Governance Code was studies by the Novolipetsk Steel's Board of Directors at the meeting [MoM No. 262 dd. 15.03.2019].

The Board of Directors confirms that the data given in the present report contain complete and reliable information on observance by the Company of principles and recommendation of the Corporate Governance Code in 2018.

A detailed description of the key aspects of corporate governance model and practices is presented in the "Corporate Governance" section of the Annual Report.

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

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

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

| N | Principles of corporate governance | Criteria of corporate governance principles observance evaluation | Status of compliance with a corporate governance principle | Clarification of a deviation from criteria of corporate governance principles observance evaluation |
|--------|--|--|---|---|
| 1.1 | The Company shall provide equal and fair treatment to all shareholders exercising their right to participate in the Company governance. | | | |
| 1.1.1. | The Company creates the most favourable conditions for shareholders to participate in General Shareholders' Meeting as well as conditions to elaborate a grounded stand in terms of General Meeting agenda items, to coordinate their actions as well as a possibility to express their opinions in relation to the items under consideration. | <p>1. The Company's internal document approved by the General Meeting and regulating the General Meeting procedures is publicly available.</p> <p>2. The Company provides an accessible way of communication with the company like a hot line, e-mail or a web-based message board, which allow shareholders expressing their opinion and asking about an agenda in the course of the general meeting preparation. The Company ensured the compliance with the above-mentioned criteria shortly before the convocation of every General Meeting within the reporting period.</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 General Meeting holding and submission of materials for the General Meeting 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 ahead of the date of the meeting.</p> <p>2. The notice of the General Meeting 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 Board of Directors and Audit commission of the Company.</p> | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |

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|--------|--|---|---|--|
| 1.1.3. | In preparation to the General Shareholders' Meeting and its convocation, shareholders had an opportunity to receive information on the meeting and materials therefor, to ask executive bodies and members of the Company's Board of Directors questions and to communicate with each other freely and in a timely manner. | <p>1. In the reporting period shareholders were given a chance to ask members of executive bodies and of the Company's Board of Directors shortly before the convocation and during the Annual General Shareholders' Meeting.</p> <p>2. The opinion of the Board of Directors (including specific opinions entered into the MoM) on each agenda item of the General Shareholders' Meetings held within the reporting period was quoted in the materials to the General Shareholders' Meeting.</p> <p>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> | <div data-bbox="1256 368 1314 453"><input checked="" type="checkbox"/></div> Compliance ensured <div data-bbox="1256 512 1314 571"><input type="checkbox"/></div> Partial compliance <div data-bbox="1256 630 1314 689"><input type="checkbox"/></div> 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> | <div data-bbox="1256 1086 1314 1171"><input checked="" type="checkbox"/></div> Compliance ensured <div data-bbox="1256 1230 1314 1289"><input type="checkbox"/></div> Partial compliance <div data-bbox="1256 1348 1314 1407"><input type="checkbox"/></div> Non-compliance | |

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| 1.1.5. | Every shareholder had an opportunity for unhindered exercise of their voting right in the simplest and the most convenient manner. | 1. The Company's internal document (internal policy) contains provisions according to which every participant of the General Shareholders' Meeting can request a copy of the ballot filled in by them certified by the Counting commission before the end of the respective meeting. | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |
| 1.1.6. | The rules of the General Shareholders' Meeting procedure established by the Company provide for an equal possibility for all persons present at the meeting to express their opinions and ask relative questions. | <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 the Company's management and supervision bodies 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 | |

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|-------|---|---|--|--|
| 1.2 | The shareholders are provided an equal and fair opportunity to participate in the Company's profit by receiving dividends. | | | |
| 1.2.1 | The Company developed and implemented a transparent and obvious mechanism of dividends determination and their payment. | <p>1. The Dividend policy was developed by the Company, approved by the Board of Directors and disclosed.</p> <p>2. If the Company's Dividend Policy uses the Company's statement indicators to define dividends, the respective provisions of the Dividend Policy take into account consolidated financial statement indicators.</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 | |

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|-------|--|--|--|--|
| 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 methods of obtaining profit (income) at the Company's expense, except for dividends and liquidation value, the Company's internal documents establish control mechanisms ensuring timely determination and approval procedure for transactions with persons affiliated with (related to) material shareholders (persons entitled to dispose of the votes attributed to the issuer's voting shares) in cases when such transactions are not legally recognized as interested-party transactions | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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|-------|--|--|--|--|
| 1.3 | Corporate governance system and practice ensure parity for all shareholders owning shares of the same category (type), including minority shareholders and foreign shareholders, and their equal treatment by the Company. | | | |
| 1.3.1 | The Company established conditions for fair treatment of each shareholder by the Company's management and supervisory bodies including conditions ensuring inadmissibility of abuse of minor shareholders by major shareholders. | 1. During the reporting period management procedures of a potential conflict of material shareholders' interests have been effective, and the Board of Directors have paid due attention to shareholders' conflicts. | <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 have not participated in voting within the reporting period. | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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|--------|---|--|--|--|
| 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 the Company's executive bodies and also performs other key functions. | | | |
| 2.1.1. | The Board of Directors is responsible for decision-making in relation to appointment and dismissal from office of executive bodies including undue performance of their duties. The Board of Directors ensures that the Company's executive bodies act in compliance with the approved development strategy and core businesses of the Company. | 1. In line with the Company's Charter, the Board of Directors is entitled to appoint, dismiss from office and define contractual terms and conditions with regard to members of executive bodies. 2. The Board of Directors reviews the report (reports) of the sole executive body and members of the collegial executive body on execution of the Company's strategy. | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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

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|--------|--|---|--|--|
| 2.1.4. | The Board of Directors defines the Company's policy on remuneration and (or) reimbursement of expenses (compensations) to members of the Board of Directors, executive bodies and other key executives of the Company. | <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 executives of the Company.</p> <p>2. During the reporting period the issues related to the mentioned policy (policies) were reviewed at the Board of Directors' meetings.</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 the system of identification transactions related to a conflict of interests and the system of measures aimed at settlement of such conflicts.</p> | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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| 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>2. The Company appointed persons responsible for ensuring compliance with the Information Policy.</p> | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |
| 2.1.7. | The Board of Directors exercises control over the corporate governance practices in the Company and plays a key role in the Company's significant corporate events. | 1. During the reporting period the Board of Directors reviewed the corporate governance practices of the Company. | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |

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|--------|--|--|--|--|
| 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. | <p>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.</p> <p>2. The Annual Report contains information on the key results of evaluation of the Board of Directors' activities performed during the reporting period.</p> | <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. 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 | |

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|-------|--|---|--|--|
| 2.3 | The Board of Directors is an effective and professional governing body of the Company, capable of making impartial independent judgements and decisions that are in the interest of the Company and its shareholders. | | | |
| 2.3.1 | Only persons who have impeccable business and personal reputation, and have the knowledge, skills and experience required to make decisions within the Board of Directors' area of expertise and necessary for the effective performance of its functions, are elected as members of the Board of Directors. | <p>1. The procedure for assessing the efficiency of the Board of Directors adopted in the Company includes an evaluation of the professional qualifications of members of the Board of Directors.</p> <p>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.</p> | <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. In all cases when the General Shareholders' Meeting was held in the reporting period and its agenda included an item on election of the Board of Directors, the Company presented to shareholders the curricula vitae of all the candidates to the Board of Directors, the results of evaluation of the candidates, performed by the Board of Directors (or its Nominating Committee), and information on compliance of the candidate with the independence criteria, in accordance with recommendations No. 102 to 107 of the Code and the written consent of the candidates for election to the Board of Directors | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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|-------|--|--|--|--|
| 2.3.3 | The composition of the Board of Directors is balanced, including the qualifications of its members, their experience, knowledge and business qualities, and enjoys the trust of shareholders. | 1. As part of the procedures for the Board of Directors' evaluation held during the reporting period, the Board of Directors reviewed its own needs in the field of professional qualification, experience and business skills. | <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. 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 | |

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|-------|--|---|---|--|
| 2.4 | The Board of Directors has a sufficient number of independent directors. | | | |
| 2.4.1 | <p>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.</p> | <p>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.</p> | <div> <input checked="" type="checkbox"/> Compliance ensured </div> <div> <input type="checkbox"/> Partial compliance </div> <div> <input type="checkbox"/> Non-compliance </div> | |

| | | | | |
|-------|---|---|---|--|
| 2.4.2 | <p>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> | <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>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 | <p>At least one third of the elected members of the Board are independent directors.</p> | <p>1. At least one third of members of the Board are independent directors.</p> | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |

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

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| 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. 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 | |

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| 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 | 1. |
| 2.6.2. | The rights and obligations of the Board members are clearly worded and stated in the Company's internal documents. | 1. There is a published document in effect in the Company, which clearly defines the Board members' rights and obligations. | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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| 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. In accordance with the Company's internal documents, members of the Board of Directors have the right to access documents and make inquiries regarding the Company and its companies, while the Company's executive bodies shall provide relevant information and documents.</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> | |

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| 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 | |

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| 2.7.3. | The format of the Board meeting is determined by the degree of importance of the agenda items. The most important issues are resolved at meetings held in presence. | 1. The Charter or an internal document of the Company requires that the most significant issues (according to the list specifies in recommendation 168 of the Code) should be considered at Board meetings held in presence. | <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.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, resolutions on most of the issues that are in the competence of the Board of Directors are made by open voting of the members of the Board of Directors participating in the meeting with a simple majority. Exceptions are made for the decisions which have to be made unanimously by all members of the Board of Directors without regard to retired members of the Board of Directors, in accordance with the legislation</p> <p>Considering the high attendance of meetings by members of the Company's Board of Directors and preliminary study of the most important issues by independent directors within the scope of the activities of the Board Committees, the maximum consideration of the opinions of all members of the Board of Directors is ensured.</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 in 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. Partial compliance</p> <p>When the Board of Directors formed the Audit Committee, it was guided by the Board member's professional background, special knowledge and skills in the preparation, analysis, evaluation and audit of accounting (financial) statements, which would enable them to make a significant contribution to the work of the Committee and to improve the Committee decision-making, in addition to being an independent Director. In this way, the necessary expertise of the Audit Committee was achieved. A key role in the work of the Audit Committee is assigned to the independent directors, who constitute the majority of members of the Committee, including the Chairman of the Committee. This structure of the Committee in the opinion of the Company is optimal. The Company is monitoring the situation and will take measures to correct the structure if necessary.</p> <p>2. Compliance ensured</p> <p>3. Compliance ensured</p> <p>4. Compliance ensured</p> |

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| 2.8.2 | <p>For the pre-view of issues related to the development of an efficient and transparent remuneration practice, a Remuneration Committee has been set up which consists of independent directors and is chaired by an independent director who is not the Board Chairman.</p> | <p>1. The Board of Directors has set up a Remuneration Committee, which 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>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> | <div> <input type="checkbox"/> Compliance ensured </div> <div> <input checked="" type="checkbox"/> Partial compliance </div> <div> <input type="checkbox"/> Non-compliance </div> | <p>1. Partial compliance</p> <p>When the Board of Directors formed the Human Resources, Remunerations and Social Policy Committee, it was guided by the Board member's professional background, special knowledge and skills, which would enable them to make a significant contribution to the work of the Committee and to improve the Committee decision-making, in addition to being an independent Director. In this way, the necessary expertise of the Committee was achieved, with most members of the Committee being independent directors, including its Chairman who play the key role in the Committee's work. This structure of the Committee in the opinion of the Company is optimal. The Company is monitoring the situation and will take measures to correct the structure if necessary.</p> <p>2. Compliance ensured</p> <p>3. Compliance ensured</p> |
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| 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. | <p>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> <p>2. The Company's internal documents define the tasks of the Nomination Committee (or another committee performing similar tasks), including, among others, the tasks listed in recommendation 186 of the Code.</p> | <div data-bbox="1256 260 1317 344"><input checked="" type="checkbox"/></div> Compliance ensured <div data-bbox="1256 400 1317 464"><input type="checkbox"/></div> Partial compliance <div data-bbox="1256 520 1317 584"><input type="checkbox"/></div> Non-compliance | |
| 2.8.4 | Considering the scope of activities and risk level, the Board of Directors has made sure that the composition of its committees is fully in line with the Company's business objectives. Additional committees have either been formed or deemed unnecessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, and others). | 1. During the reporting period, the Board of Directors has considered the compliance of its committees' composition with the goals of the Board and objectives of the Company. Additional committees have either been formed or deemed unnecessary. | <div data-bbox="1256 716 1317 801"><input checked="" type="checkbox"/></div> Compliance ensured <div data-bbox="1256 857 1317 920"><input type="checkbox"/></div> Partial compliance <div data-bbox="1256 976 1317 1040"><input type="checkbox"/></div> Non-compliance | |

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| 2.8.5 | The committees are composed in such a way as to enable comprehensive examination of issues under consideration based on various opinions. | <p>1. Committees of the Board are chaired by independent directors.</p> <p>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.</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>Pursuant to the recommendations of the Corporate Governance Code, the Audit Committee and the HR, Remunerations and Social Policy Committee of the Company are chaired by independent directors. Besides the Audit Committee and the HR, Remunerations and Social Policy Committee, formed in accordance with the Corporate Governance Code as a matter of priority, the Board of Directors has formed a Strategic Planning Committee that contributes to the Company's long-term efficiency.</p> <p>2. Compliance ensured</p> |
| 2.8.6 | Committee chairs regularly inform the Board of Directors and its Chairman of their respective Committees' performance. | 1. Within the reporting period the chairs of the Committees regularly reported on their performance to the Board of Directors. | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |

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| 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. | <p>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.</p> <p>2. Results of self-assessment or external assessment of the Board of Directors made within the reporting period have been reviewed at the Board of Directors' meeting in praesentia.</p> | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |
| 2.9.2 | Assessment of performance of the Board of Directors, committees and Board members is made on a regular basis minimum once a year. For independent quality assessment of performance of the Board of Directors minimum once in three years an external company (consultant) is involved. | 1. Independent performance evaluation of the Board of Directors was carried out at least once within the last three reporting periods by an independent auditor (consultant). | <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 2018 a performance evaluation (self-evaluation) of the Company's Board of Directors was carried out.</p> <p>The results of the Board's performance evaluation and recommendations for further improvement of the activities of the Board of Directors, its Committees and individual members were considered at the meeting of the Board of Directors held in person in March 2018.</p> <p>The issue of engaging an external consultant for the Board's performance evaluation is on the agenda of the Human Resources, Remunerations and Social Policy Committee for 2019.</p> |

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| 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. There is a biography of a corporate secretary with the same level of detail as for the Board members and the company's executive management, at the company's Internet site and in the Annual Report.</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 | |

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| 4.1 | Level of remuneration paid by the Company is sufficient to attract, motivate and retain the persons with required expertise and qualification. Remuneration to the Board members, executive bodies and other key executives of the company shall be paid according to the remuneration policy adopted in the Company. | | | |
| 4.1.1 | Level of remuneration paid by the Company to the Board members, executive bodies and other key executives is sufficient to motivate them for efficient performance; it enables the Company to attract and retain competent and qualified professionals. At the same time the company avoids to have a higher than necessary remuneration level as well as unreasonably large gap between remuneration of the persons mentioned above and the company employees. | 1. The Company has adopted an internal document (internal documents) – a policy (policies) on remuneration of the Board members, members of executive bodies and other key executives, which expressly establishes approaches to remuneration paid to these persons. | <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 respective recommendations to the Board of Directors. | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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| 4.1.3 | The Company's remuneration policy contains transparent mechanisms for determining the remuneration of the Board members, members of executive bodies and other key executives of the Company, and regulates all types of payments, benefits and privileges granted to the these persons. | 1. The Company's remuneration policy (policies) contains (contain) transparent mechanisms for determining the remuneration of the Board members, members of executive bodies and other key executives of the Company; and regulates (regulate) all types of payments, benefits and privileges granted to the these persons. | <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 executives of the Company are entitled. This policy can be a part of the Company's remuneration policy. | 1. Remuneration policy (policies) or other internal documents of the Company establish the rules of reimbursement of the Board members' expenses, members of executive bodies and other key executives of the Company. | <input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | |

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| 4.2 | System of remuneration of members of the Board of Directors aligns the financial interests of directors with long-term financial interests of shareholders. | | | |
| 4.2.1 | <p>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.</p> <p>The Company does not use any forms of short-term incentive and additional material incentives for members of the Board of Directors.</p> | 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 | <p>Long-term ownership of the Company's shares is most conducive to bringing the financial interests of the Board members closer together with the long-term interests of shareholders. At the same time, the Company does not stipulate the rights to sell shares by achieving certain performance indicators, and members of the Board of Directors do not participate in option programmes.</p> | 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 | |

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

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

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

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| 5.1.3 | The Company's risk management and internal control system ensures objective, fair and clear understanding of the Company's current state and prospects; integrity and transparency of the Company's statements; and that the risks assumed by the Company are reasonable and acceptable. | <p>1. The Company has adopted an Anti-corruption policy.</p> <p>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.</p> | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |
| 5.1.4 | The Company's Board of Directors takes the necessary measures to ensure that the Company's risk management and internal control system functions efficiently and complies with the principles and approaches determined by the Board of Directors. | 1. During the reporting period, the Board of Directors or the Board's Audit Committee evaluated the efficiency of the Company's risk management and internal control system. Outcomes of this evaluation are included in the Company's Annual Report. | <p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p> | |

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

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| 6.1 | The Company and its activity are transparent for its shareholders, investors and other stakeholders. | | | |
| 6.1.1 | The Company has developed and implemented an information policy, which ensures efficient interaction between the Company, its shareholders, investors and other stakeholders information-wise. | <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 its corporate governance system and practices, including detailed information on observance of the principles and recommendations of the Code. | <p>1. The Company discloses information on its corporate governance system and on the general principles of corporate governance used in the Company, including on the Company's Internet website.</p> <p>2. The Company discloses information on the composition of its executive bodies and the Board of Directors, the independence of the Board members and their membership in the Board Committees (in accordance with the definition set out in the Code).</p> <p>3. If there is a person controlling the Company, the Company publishes a memorandum of the controlling person regarding their plans with regard to the Company's corporate governance.</p> | <input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | <p>1. Compliance ensured 2. Compliance ensured 3. Non-compliance</p> <p>NLMK does not have information on availability of a memorandum, which contains plans in regard to the Company of the person controlling it. If the Company receives from the controlling person statements regarding the Company's corporate governance, the Company undertakes to publish them on its website.</p> |

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| 6.2 | The Company discloses complete, valid and reliable information on the Company in due time to enable the Company's shareholders and investors to make informed decisions. | | | |
| 6.2.1 | The Company discloses information guided by the principles of regularity, consistency and efficiency as well as availability, reliability, completeness and comparability of the information disclosed. | <p>1. The Information Policy of the Company defines approaches and criteria of determining information that can significantly affect the Company's valuation and the value of its securities; it also defines procedures ensuring timely disclosure of such information.</p> <p>2. If the Company's securities circulate on foreign regulated markets the disclosure of significant information in the Russian Federation and in these markets is done simultaneously and similarly during the reporting year.</p> <p>3. If foreign shareholders own a significant quantity of the Company's shares, during the reporting year the information was disclosed not only in Russian but also in one of the most common foreign languages.</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 law does not require such disclosure. | <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. 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 did not refuse to satisfy the shareholders' requests to provide information or such refusals were justified.</p> <p>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 shareholders.</p> <p>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 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 decision-making or in preparing recommendations regarding the material corporate events; the Board of Directors relies on the opinion of the Company's independent directors. | 1. The Company has a procedure ensuring that the independent directors declare their opinion on material corporate events before they are approved. | <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. | <p>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.</p> <p>2. During the reporting period all the material corporate actions underwent an approval procedure prior to their implementation.</p> | <input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance | <p>1. Partial compliance</p> <p>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.</p> <p>2. In the opinion of the Company, no further measures are required at present to protect the rights and legitimate interests of shareholders. The Company is monitoring the system for protecting the rights and legitimate interests of shareholders and will take measures to correct it if necessary.</p> <p>2. Compliance ensured</p> |

| | | | | |
|-------|---|---|--|--|
| 7.2 | The Company provides for such a procedure for material corporate events that enables shareholders to receive full information thereof in due time; to influence such events and guarantees observance and proper level of protection of their rights when such events take place. | | | |
| 7.2.1 | Information on material corporate events is disclosed with an explanation of the grounds, conditions and consequences of such events. | 1. During the reporting period, the Company disclosed information on its material corporate events in a timely and detailed manner including the grounds and timing of such events. | <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>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> | <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>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</p> <p>Before the conclusion of any transaction in which there can be an interest, the Company evaluates all possible circumstances that could lead to the existence of an interest, including those not provided for by law. This approach has proved to be effective in practice, and the Company does not deem it appropriate to provide an expanded list of grounds on which the Board members and other parties are recognized as an interested party in the Company's internal documents. The Company is monitoring the system and will take measures to correct it if necessary.</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 31.12.2018 | |
|------|---------|--|------------------|--|-----------------------|--|-------------------------|----------------------|
| | | | | | | | RUB. | As a % from declared |
| 2018 | 9 month | 6,04 | 21.12.2018 | 36 199 092 529,60 | 83 | from 10.01.2019 to 13.02.2019 (including) | 36 191 049 152,20*** | 99,98*** |
| 2018 | 6 month | 5,24 | 28.09.2018 | 31 404 510 737,60 | 82 | from 13.10.2018 to 19.11.2018 (including) | 31 366 084 855,79 | 99,88 |
| 2018 | 3 month | 5,73 | 08.06.2018 | 34 341 192 085,20 | 111 | from 21.06.2018 to 25.07.2018 (including) | 34 301 558 961,64 | 99,88 |
| 2017 | year | 14,04 (Taking into account paid interim dividends RUB 3,36 per share to be paid) | 08.06.2018 | 84 144 910 449,60 (Taking into account paid interim dividends RUB 20 137 243 526,40 to be paid) | 98 | from 21.06.2018 to 25.07.2018 (including) | 84 048 118 466,99 | 99,88 |
| 2017 | 9 month | 5,13 | 22.12.2017 | 30 745 255 741,20 | 147 | from 10.01.2018 to 13.02.2018 (including) | 30 710 686 414,22 | 99,89 |
| 2017 | 6 month | 3,20 | 29.09.2017 | 19 178 327 168 | 96 | from 13.10.2017 to 17.11.2017 (включительно) | 19 156 619 840,59 | 99,89 |
| 2017 | 3 month | 2,35 | 02.06.2017 | 14 084 084 014 | 77 | from 15.06.2017 to 19.07.2017 (including) | 14 066 792 203,51 | 99,88 |
| 2016 | year | 9,22 (Taking into account paid interim dividends RUB 3,38 per share to be paid) | 02.06.2017 | 55 257 555 152,80 (Taking into account paid interim dividends RUB 20 257 108 071,20 to be paid.) | 98 | from 15.06.2017 to 19.07.2017 (including) | 55 193 828 646,37 | 99,88 |
| 2016 | 9 month | 3,63 | 23.12.2016 | 21 755 414 881,20 | 93 | from 10.01.2017 to 13.02.2017 (including) | 21 729 982 929,32 | 99,88 |

| | | | | | | | | |
|------|---------|---|------------|--|-----|--|-------------------|-------|
| 2016 | 6 month | 1,08 | 30.09.2016 | 6 472 685 419,20 | 55 | from 13.10.2016 to 17.11.2016 (including) | 6 465 117 545,81 | 99,88 |
| 2016 | 3 month | 1,13 | 03.06.2016 | 6 772 346 781,20 | 178 | from 15.06.2016 to 19.07.2016 (including) | 6 764 360 024,41 | 99,88 |
| 2015 | year | 6,95 (Taking into account paid interim dividends RUB 2,43 py6 per share to be paid) | 03.06.2016 | 41 652 929 318 (Taking into account paid interim dividends RUB 14 563 542 193,20 to be paid) | 67 | from 15.06.2016 to 19.07.2016 (включительно) | 41 604 103 401,72 | 99,88 |
| 2015 | 9 month | 1,95 | 21.12.2015 | 11 686 793 118 | 40 | from 09.01.2016 to 12.02.2016 (including) | 11 673 042 713,68 | 99,88 |
| 2015 | 6 month | 0,93 | 30.09.2015 | 5 573 701 333,20 | 50 | from 13.10.2015 to 17.11.2015 (including) | 5 567 172 711,62 | 99,88 |
| 2015 | 3 month | 1,64 | 05.06.2015 | 9 828 892 673,60 | 56 | from 17.06.2015 to 21.07.2015 (including) | 9 817 350 062,10 | 99,88 |
| 2014 | year | 2,44 (Taking into account paid interim dividends RUB 1,56 per share to be paid) | 05.06.2015 | 14 623 474 465,60 (Taking into account paid interim dividends RUB 9 349 434 494,40 to be paid) | 36 | from 17.06.2015 to 21.07.2015 (including) | 14 606 429 478,91 | 99,88 |
| 2014 | 6 month | 0,88 | 30.09.2014 | 5 274 039 971,20 | 40 | from 12.10.2014 to 18.11.2014 (including) | 5 267 886 094,32 | 99,88 |
| 2013 | year | 0,67 | 06.06.2014 | 4 015 462 250,8 | 61 | from 18.06.2014 to 22.07.2014 (including) | 4 010 805 407,24 | 99,88 |

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

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

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

FINANCIAL STATEMENTS

Part 1 – 2018 CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

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

[GRI 102-56]



NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

**AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2018**

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

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Independent auditor's report

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

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Novolipetsk Steel and its subsidiaries (together – the “Group”) as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Our audit approach

Overview



- Overall Group materiality: 123 million US Dollars (USD), which represents 1% of the Group's consolidated revenue
- We conducted audit work at 11 components (entities or business activities, which prepare financial information that is included in the consolidated financial statements) in five countries
- The Group engagement team visited the Group companies in the Russian Federation, Switzerland and the Netherlands and also the joint venture located in Belgium
- Our audit scope covered 92% of the Group's consolidated revenues and 90% of the Group's consolidated total assets
- Key Audit Matter 1 - Management assessment of the carrying value of goodwill, intangible assets and property, plant and equipment
- Key Audit Matter 2 – Determination of the carrying value of the investment in NBH

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

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

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



| | |
|--|--|
| Overall Group materiality | USD 123 million (2017: USD 100 million) |
| How we determined it | 1% of the Group's consolidated revenue |
| Rationale for the materiality benchmark applied | We chose revenue as the benchmark because, in our view, it is the benchmark which objectively best represents the performance of the Group over a period of time while financial results are volatile. We determined overall materiality as 1%, which in our experience is within the range of acceptable quantitative materiality thresholds applied for public companies in the relevant industry. |

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

Key audit matters

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

| Key audit matter | How our audit addressed the Key audit matter |
|---|--|
| <p>1. Management's assessment of the carrying value of goodwill, intangible assets and property, plant and equipment</p> <p><i>Refer to Notes 8 and 9 to the consolidated financial statements</i></p> <p>The Group management performed an analysis of existence of indicators of impairment of the Group's property, plant and equipment (PP&E), intangible assets and goodwill as well as indicators of potential reversal of an impairment loss recognised in prior periods as of 30 September 2018 and updated it as of 31 December 2018. This analysis revealed:</p> <ul style="list-style-type: none"> • high volatility on the market of certain finished products and raw materials; • continuing recovery of the US economy followed by strong prices on steel products; and • price increase for long products. <p>The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment. Indication that an impairment loss</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"> • comparing the key assumptions used within the impairment models to the historic performance of the respective CGUs, approved estimates, and other supporting calculations; • benchmarking the key assumptions used within the impairment models, including price forecasts, inflation and discount rates, against external expert valuations, macroeconomic and industry forecasts, which corroborated their validity; |

| Key audit matter | How our audit addressed the Key audit matter |
|---|--|
| <p>recognised in prior periods may no longer exist or may have decreased has not been identified.</p> <p>The recoverable amount of PP&E, intangible assets and goodwill for each Group's CGU subject to testing was calculated by management as of 30 September 2018 and updated based on the actual performance of these CGUs as of 31 December 2018.</p> <p>Management assessed the recoverable amount being value in use for each such CGU using discounted cash flow models and concluded that no impairment or reversal of previously recognised impairment were required as of 31 December 2018.</p> <p>We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.</p> | <ul style="list-style-type: none"> performing a sensitivity analysis over the key assumptions in order to assess their potential impact on impairment results and ranges of possible outcomes of the recoverable amounts; examining management's assessment of the degree to which steel prices and sales volumes would need to reduce and the discount rates would need to increase, in isolation from other changes in assumptions, before an impairment arises on these CGUs; validating the key assumptions used in the impairment models also as of 31 December 2018; assessing compliance with the requirements of IFRS of the related disclosures in the consolidated financial statements. |

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

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

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

In December 2018, the Group contributed an additional USD 210 million into the share capital of NBH in the form of conversion of a loan previously issued to NBH.

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

Management performed an analysis of the business performance, industry outlook and operational plans. High volatility on the markets of finished goods and raw materials triggered impairment testing of investment in the share capital of NBH. As a result of this testing performed by management, additional impairment loss of USD 87 million was recognized as of 31 December 2018.

Our audit procedures included:

- agreeing the amount of the Group's additional contribution into the share capital to supporting documentation;
- testing management's impairment assessment of the investment in NBH. We performed audit procedures over the impairment models, including:
 - comparing the key assumptions used within the impairment models to historic performance and approved forecasts of the three CGUs within NBH;
 - benchmarking the key assumptions used within the impairment models, including price forecasts, inflation and discount rates, against external expert valuations, macroeconomic and industry forecasts, which corroborated their validity;
 - performing sensitivity analysis over key assumptions (for example, weighted average



| Key audit matter | How our audit addressed the Key audit matter |
|---|--|
| We focused on this area as the amount of contribution made in 2018 and the judgement over impairment of the investment in NBH are significant for the consolidated financial statements taken as a whole. | <p>cost of capital, sales prices and volumes forecasts);</p> <ul style="list-style-type: none">• involving our valuation experts to assess the appropriateness of management's impairment models;• verifying accuracy of the carrying value of the investment in NBH. |

How we tailored our group audit scope

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

The Group's major production facilities are located in the Russian Federation, the USA and Western Europe and the trading company is based in Switzerland. Based on our continuing assessment, we included in our group audit scope the 11 components located in these regions.

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

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



Other information

Management is responsible for the other information. The other information comprises information included in the Group Annual Report for 2018 and the Issuer's Report for the first quarter of 2019, but does not include the consolidated financial statements and our auditor's report thereon. Both of these reports are expected to be made available to us after the date of this auditor's report.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The certified auditor responsible for the audit resulting in this independent auditor's report is
A.S. Ivanov.

7 February 2019
Moscow, Russian Federation

Signed on the original: A.S. Ivanov.

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

Audited entity: Novolipetsk Steel

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

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

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

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

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

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

| | Note | For the year ended 31 December 2018 | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|---|----------|--|--|--|
| Cash flows from operating activities | | | | |
| Profit for the year | | 2,243 | 1,452 | 939 |
| Adjustments to reconcile profit for the year to net cash provided by operating activities: | | | | |
| Depreciation and amortisation | | 577 | 624 | 456 |
| Loss on disposals of property, plant and equipment | | 7 | 1 | 3 |
| Losses on investments | | 2 | 5 | 4 |
| Finance income | 18 | (21) | (29) | (39) |
| Finance costs | 18 | 70 | 87 | 105 |
| Share of results of joint ventures | 4 | 243 | 90 | 61 |
| Income tax expense | 17 | 486 | 371 | 233 |
| Impairment of non-current assets | | 4 | 17 | 14 |
| Foreign currency exchange (gain)/loss, net | 19 | (33) | (17) | 129 |
| Change in impairment allowance for inventories and credit loss allowance of accounts receivable | | 1 | 13 | 14 |
| Changes in operating assets and liabilities | | | | |
| (Increase)/decrease in trade and other accounts receivable | | (258) | (223) | 3 |
| Increase in inventories | | (187) | (262) | (201) |
| Decrease/(increase) in other operating assets | | 7 | - | (9) |
| Increase in trade and other accounts payable | | 177 | 105 | 244 |
| Cash provided by operations | | 3,318 | 2,234 | 1,956 |
| Income tax paid | | (577) | (335) | (257) |
| Net cash provided by operating activities | | 2,741 | 1,899 | 1,699 |
| Cash flows from investing activities | | | | |
| Purchases and construction of property, plant and equipment and intangible assets | | (680) | (592) | (559) |
| Proceeds from sale of property, plant and equipment | | 3 | 10 | 9 |
| Purchases of investments and loans given, net | | (91) | (44) | (79) |
| Placement of bank deposits | | (305) | (1,264) | (989) |
| Withdrawal of bank deposits | | 1,349 | 1,105 | 1,261 |
| Interest received | | 22 | 28 | 36 |
| Acquisition of subsidiary, net of cash and cash equivalents acquired | | (4) | - | - |
| Acquisition of non-controlling interest | | (4) | (1) | - |
| Cash received in the course of bankruptcy proceedings | | - | - | 11 |
| Net cash provided by/(used in) investing activities | | 290 | (758) | (310) |
| Cash flows from financing activities | | | | |
| Proceeds from borrowings | | 470 | 988 | 803 |
| Repayment of borrowings | | (643) | (1,093) | (1,256) |
| Interest paid | | (56) | (69) | (84) |
| Dividends paid to Novolipetsk Steel shareholders | | (1,888) | (1,283) | (583) |
| Dividends paid to non-controlling interests | | (2) | (2) | - |
| Net cash used in financing activities | | (2,119) | (1,459) | (1,120) |
| Net increase/(decrease) in cash and cash equivalents | | 912 | (318) | 269 |
| Effect of exchange rate changes on cash and cash equivalents | | (34) | 9 | (2) |
| Cash and cash equivalents at the beginning of the year | 3 | 301 | 610 | 343 |
| Cash and cash equivalents at the end of the year | 3 | 1,179 | 301 | 610 |
| Supplemental disclosures of cash flow information: | | | | |
| Non-cash investing activities: | | | | |
| Conversion of debt to equity | 4 | 210 | 84 | 139 |

1 Background

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

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

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

As at 31 December 2018, 2017 and 2016, the Parent Company’s major shareholder with 84.03% ownership interest is Fletcher Group Holdings Limited, which is beneficially owned by Mr. Vladimir Lisin.

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

| | Activity | Country of incorporation | Share at 31 December 2018 | Share at 31 December 2017 | Share at 31 December 2016 |
|--|--|--------------------------|---------------------------|---------------------------|---------------------------|
| Russian flat products | | | | | |
| LLC VIZ-Steel | Production of steel | Russia | 100.00% | 100.00% | 100.00% |
| JSC Altai-Koks | Production of blast furnace coke | Russia | 100.00% | 100.00% | 100.00% |
| NLMK Trading S.A. (formerly – Novex Trading (Swiss) S.A.) | Trading | Switzerland | 100.00% | 100.00% | 100.00% |
| NLMK DanSteel and Plates | | | | | |
| Distribution Network | | | | | |
| NLMK DanSteel A/S | Production of steel | Denmark | 100.00% | 100.00% | 100.00% |
| NLMK USA | | | | | |
| NLMK Indiana LLC | Production of steel | USA | 100.00% | 100.00% | 100.00% |
| NLMK Pennsylvania LLC | Production of steel | USA | 100.00% | 100.00% | 100.00% |
| Russian long products | | | | | |
| JSC NLMK-Ural | Production of steel and long products | Russia | 92.59% | 92.59% | 92.59% |
| LLC NLMK-Metalware | Production of | Russia | 100.00% | 100.00% | 100.00% |
| LLC NLMK-Kaluga | Production of long products | Russia | 100.00% | 100.00% | 100.00% |
| LLC Vtorchermet NLMK | Processing of metal | Russia | 100.00% | 100.00% | 100.00% |
| Mining | | | | | |
| JSC Stoilensky GOK | Mining, processing and pelletising of iron-ore | Russia | 100.00% | 100.00% | 100.00% |

1 Background (continued)

Among joint ventures the major is:

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

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

2 Basis of preparation of the consolidated financial statements

(a) Basis of preparation

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

(b) Functional and reporting currency

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

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

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

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

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

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

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

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

3 Cash and cash equivalents

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

4 Investments in joint ventures

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

4 Investments in joint ventures (continued)

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

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

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

| | As at 31 December 2018 | As at 31 December 2017 | As at 31 December 2016 |
|--------------------------|--|--|--|
| Current assets | 969 | 940 | 736 |
| Non-current assets | 562 | 686 | 670 |
| Total assets | 1,531 | 1,626 | 1,406 |
| Current liabilities | (684) | (864) | (560) |
| Non-current liabilities | (673) | (548) | (634) |
| Total liabilities | (1,357) | (1,412) | (1,194) |
| Equity | 174 | 214 | 212 |
| | For the year ended 31 December 2018 | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
| Revenue | 1,837 | 1,539 | 1,221 |
| Net loss | (242) | (122) | (120) |

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

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

4 Investments in joint ventures (continued)

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

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

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

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

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

5 Financial investments

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

The carrying amounts of financial investments approximate their fair values.

6 Trade and other accounts receivable

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

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

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

6 Trade and other accounts receivable (continued)

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

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

7 Inventories

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

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

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



8 Property, plant and equipment

| | Land | Buildings | Land and buildings improvements | Machinery and equipment | Vehicles | Construction in progress | Total |
|---|------------|--------------|------------------------------------|----------------------------|-----------|-----------------------------|--------------|
| Cost at 1 January 2016 | 101 | 1,378 | 1,687 | 4,687 | 219 | 950 | 9,022 |
| Accumulated depreciation and impairment | - | (561) | (1,061) | (2,795) | (153) | - | (4,570) |
| Net book value at 1 January 2016 | 101 | 817 | 626 | 1,892 | 66 | 950 | 4,452 |
| Additions | - | - | - | - | - | 540 | 540 |
| Disposals | - | (1) | (1) | (4) | - | (6) | (12) |
| Transfers | - | 159 | 118 | 526 | 21 | (824) | - |
| Depreciation charge | - | (34) | (46) | (350) | (19) | - | (449) |
| Translation adjustment | 20 | 156 | 115 | 294 | 14 | 198 | 797 |
| Cost at 31 December 2016 | 121 | 1,799 | 2,113 | 5,994 | 266 | 858 | 11,151 |
| Accumulated depreciation and impairment | - | (702) | (1,301) | (3,636) | (184) | - | (5,823) |
| Net book value at 31 December 2016 | 121 | 1,097 | 812 | 2,358 | 82 | 858 | 5,328 |
| Additions | - | - | - | - | - | 585 | 585 |
| Disposals | - | - | (4) | (1) | - | (6) | (11) |
| Impairment | - | - | - | - | - | (8) | (8) |
| Transfers | - | 171 | 110 | 314 | 23 | (618) | - |
| Depreciation charge | - | (52) | (76) | (471) | (18) | - | (617) |
| Translation adjustment | 7 | 58 | 44 | 115 | 4 | 44 | 272 |
| Cost at 31 December 2017 | 128 | 2,057 | 2,328 | 6,533 | 279 | 855 | 12,180 |
| Accumulated depreciation and impairment | - | (783) | (1,442) | (4,218) | (188) | - | (6,631) |
| Net book value at 31 December 2017 | 128 | 1,274 | 886 | 2,315 | 91 | 855 | 5,549 |



8 Property, plant and equipment (continued)

| | Land | Buildings | Land and buildings improvements | Machinery and equipment | Vehicles | Construction in progress | Total |
|---|------------|--------------|------------------------------------|----------------------------|------------|-----------------------------|--------------|
| Additions | - | - | - | - | - | 731 | 731 |
| Disposals | - | (1) | (1) | (3) | - | (4) | (9) |
| Impairment | - | - | - | - | - | (4) | (4) |
| Transfers | 5 | 55 | 37 | 201 | 43 | (341) | - |
| Reclassification to intangible assets (Note 9) | - | - | - | - | - | (24) | (24) |
| Depreciation charge | - | (47) | (76) | (424) | (16) | - | (563) |
| Translation adjustment | (23) | (207) | (147) | (321) | (17) | (167) | (882) |
| Cost at 31 December 2018 | 110 | 1,774 | 1,956 | 5,701 | 266 | 1,050 | 10,857 |
| Accumulated depreciation and impairment | - | (700) | (1,257) | (3,933) | (165) | (4) | (6,059) |
| Net book value at 31 December 2018 | 110 | 1,074 | 699 | 1,768 | 101 | 1,046 | 4,798 |

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

8 Property, plant and equipment (continued)

The Group management made an analysis of impairment indicators of the Group's assets as well as indicators of potential reversal of an impairment loss recognized in prior periods as at 30 September 2018. High volatility on the market of certain finished products and raw materials triggered impairment assessment of some of the Group's assets, which required the reassessment of the recoverable amounts using the income approach based primarily on Level 3 inputs as at 31 December 2018. Goodwill was also tested for impairment as of the same date. Indication of an impairment loss recognized in prior periods may no longer exists or may have decreased has not been identified. As of 31 December 2018 the Group's management did not reveal any additional impairment indicators or indicators of reversal previously recognized impairment loss. Testing for impairment in the comparative periods was also caused by similar factors and was conducted as of 31 December 2017 and 31 October 2016.

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

The table below summarises cash generating units (further – "CGUs") and types of assets, subject to determination of the recoverable amount as of 31 December 2018, major assumptions and their sensitivity used in the impairment models. Sales price is estimated using an average annual growth rate, over the 5-year (31 December 2017: 6-year; 31 October 2016: 7-year) forecast period based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is estimated using an average annual growth rate over the same forecast period based on past performance and management's expectations of market development. Discount rate reflects specific risks relating to the relevant segments and the countries in which they operate. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values. As of 31 December 2018 impairment testing showed that recoverable amount of investment (value in use) in NLMK Belgium Holdings S.A. was below its carrying amount by \$87.

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

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

8 Property, plant and equipment (continued)

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

| 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 p.p. |
| NLMK Pennsylvania LLC | Property, plant and equipment | 11% | Flat products | 737 | -5% | -38% | 9 p.p. |
| JSC Stoilensky GOK | Property, plant and equipment | 15% | Iron ore and pellets | 54 | -44% | -61% | 35 p.p. |
| JSC Stoilensky GOK | Goodwill | 15% | Iron ore and pellets | 54 | -43% | -63% | 33 p.p. |
| JSC NLMK-Ural | Property, plant and equipment | 15% | Long products and semi-finished goods | 461 | -0.1% | -0.4% | 0.2 p.p. |
| LLC NLMK-Kaluga | Property, plant and equipment | 14% | Long-products and semi-finished goods | 467 | -0.4% | -4% | 0.3 p.p. |
| NLMK DanSteel A/S | Property, plant and equipment | 9% | Plate | 692 | -2% | -10% | 2 p.p. |

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

8 Property, plant and equipment (continued)

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

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

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

9 Intangible assets

| | Goodwill | Mineral rights | Industrial intellectual property | Beneficial lease interest | Total |
|---|------------|----------------|--|------------------------------|------------|
| Cost at 1 January 2016 | 229 | 277 | 9 | 9 | 524 |
| Accumulated amortisation and impairment | (14) | (173) | (3) | (1) | (191) |
| Net book value at 1 January 2016 | 215 | 104 | 6 | 8 | 333 |
| Additions | - | - | 11 | - | 11 |
| Amortisation charge | - | (7) | (5) | - | (12) |
| Translation adjustment | 38 | 21 | 2 | - | 61 |
| Cost at 31 December 2016 | 267 | 333 | 23 | 9 | 632 |
| Accumulated amortisation and impairment | (14) | (215) | (9) | (1) | (239) |
| Net book value at 31 December 2016 | 253 | 118 | 14 | 8 | 393 |
| Additions | - | - | 29 | - | 29 |
| Amortisation charge | - | (7) | (6) | - | (13) |
| Translation adjustment | 12 | 6 | 2 | - | 20 |
| Cost at 31 December 2017 | 279 | 351 | 53 | 9 | 692 |
| Accumulated amortisation and impairment | (14) | (234) | (14) | (1) | (263) |
| Net book value at 31 December 2017 | 265 | 117 | 39 | 8 | 429 |
| Additions | - | 1 | 18 | - | 19 |
| Reclassification from property, plant and equipment (Note 8) | - | 24 | - | - | 24 |
| Amortisation charge | - | (4) | (10) | - | (14) |
| Translation adjustment | (41) | (21) | (7) | - | (69) |
| Cost at 31 December 2018 | 238 | 296 | 57 | 9 | 600 |
| Accumulated amortisation and impairment | (14) | (179) | (17) | (1) | (211) |
| Net book value at 31 December 2018 | 224 | 117 | 40 | 8 | 389 |

Mineral rights include a license for iron ore and non-metallic minerals mining of Stoilensky iron-ore deposit in Belgorod Region expiring in 2040, with the carrying value of \$68, \$86 and \$86 as at 31 December 2018, 2017 and 2016, respectively.

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

9 Intangible assets (continued)

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

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

Goodwill impairment testing

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

10 Trade and other accounts payable

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

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

11 Borrowings

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

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

| | As at 31 December 2018 | | As at 31 December 2017 | | As at 31 December 2016 | |
|-------|---------------------------|---------------|---------------------------|---------------|---------------------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Bonds | <u>1,200</u> | <u>1,150</u> | <u>1,346</u> | <u>1,385</u> | <u>1,307</u> | <u>1,325</u> |

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

The Group has complied with the financial and non-financial covenants of its borrowing facilities during the years ended 31 December 2018, 2017 and 2016.

The long-term borrowings mature as follows:

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

Collateral

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

11 Borrowings (continued)

Net debt reconciliation

| | Short-term borrowings | Long-term borrowings | Cash and cash equivalents | Short-term bank deposits | Net debt |
|------------------------------------|-----------------------|----------------------|---------------------------|--------------------------|--------------|
| Balance at 1 January 2017 | (468) | (1,801) | 610 | 898 | (761) |
| Cash flows | 207 | (32) | (315) | 135 | (5) |
| Interest accrued | (88) | - | - | 23 | (65) |
| Foreign exchange difference | (6) | 32 | (3) | (54) | (31) |
| Translation adjustment | (25) | (100) | 9 | 55 | (61) |
| Balance at 31 December 2017 | (380) | (1,901) | 301 | 1,057 | (923) |
| Cash flows | 55 | 199 | 840 | (1,055) | 39 |
| Interest accrued | (77) | - | - | 12 | (65) |
| Foreign exchange difference | (19) | (246) | 72 | 62 | (131) |
| Translation adjustment | 23 | 271 | (34) | (71) | 189 |
| Balance at 31 December 2018 | (398) | (1,677) | 1,179 | 5 | (891) |

12 Shareholders' equity

(a) Shares

As at 31 December 2018, 2017 and 2016, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.

(b) Dividends

Dividends are paid on common shares at the recommendation of the Board of Directors and approval at a General Shareholders Meeting, subject to certain limitations as determined by the Russian legislation. Profits available for distribution to the shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2018, 2017 and 2016, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$4,689, \$5,728 and \$5,024, converted into US dollars using the exchange rates at 31 December 2018, 2017 and 2016, respectively.

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

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

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

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

* Dividends per share are shown in Russian rubles.

12 Shareholders' equity (continued)

(c) Capital management

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

When managing capital, the Group uses the following indicators:

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

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

13 Earnings per share

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

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

14 Revenue

(a) Revenue by product

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

14 Revenue (continued)

(b) Revenue by geographical area

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

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

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

15 Labour costs

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

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

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

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

16 Taxes other than income tax

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

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

17 Income tax

Income tax charge comprises the following:

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

The corporate income tax rate applicable to the Group entities located in Russia, is predominantly 20%. The corporate income tax rate applicable to income of foreign subsidiaries ranges from 10% to 30%.

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

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

17 Income tax (continued)

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

| | As at 31 December 2018 | (Charged)/credited to profit or loss | Translation adjustment | As at 1 January 2018 |
|--|---------------------------|---|---------------------------|-------------------------|
| Deferred tax assets | | | | |
| Trade and other accounts payable | 28 | 11 | (4) | 21 |
| Trade and other accounts receivable | 9 | (2) | (3) | 14 |
| Inventories | 23 | 6 | (6) | 23 |
| Tax losses carried forward | 87 | 56 | 1 | 30 |
| | 147 | 71 | (12) | 88 |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | (331) | 20 | 59 | (410) |
| Other intangible assets | (10) | (3) | 4 | (11) |
| | (341) | 17 | 63 | (421) |
| Total deferred tax liability, net | (194) | 88 | 51 | (333) |
| | | | | |
| | As at 31 December 2017 | (Charged)/credited to profit or loss | Translation adjustment | As at 1 January 2017 |
| Deferred tax assets | | | | |
| Trade and other accounts payable | 21 | (5) | 2 | 24 |
| Trade and other accounts receivable | 14 | (1) | 1 | 14 |
| Inventories | 23 | 22 | 1 | - |
| Tax losses carried forward | 30 | (36) | 1 | 65 |
| | 88 | (20) | 5 | 103 |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | (410) | 15 | (17) | (408) |
| Other intangible assets | (11) | (3) | - | (8) |
| Inventories | - | 11 | - | (11) |
| | (421) | 23 | (17) | (427) |
| Total deferred tax liability, net | (333) | 3 | (12) | (324) |
| | | | | |
| | As at 31 December 2016 | (Charged)/credited to profit or loss | Translation adjustment | As at 1 January 2016 |
| Deferred tax assets | | | | |
| Trade and other accounts payable | 24 | (124) | 74 | 74 |
| Trade and other accounts receivable | 14 | 20 | (9) | 3 |
| Tax losses carried forward | 65 | 149 | (84) | - |
| Other | - | (36) | 20 | 16 |
| | 103 | 9 | 1 | 93 |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | (408) | (21) | (45) | (342) |
| Other intangible assets | (8) | 3 | (3) | (8) |
| Inventories | (11) | 9 | (7) | (13) |
| Other non-current liabilities | - | 4 | (3) | (1) |
| | (427) | (5) | (58) | (364) |
| Total deferred tax liability, net | (324) | 4 | (57) | (271) |

17 Income tax (continued)

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

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

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

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

The Group has not recorded a deferred tax liability in respect of temporary differences of \$1,728, \$1,569 and \$1,448 for the years ended 31 December 2018, 2017 and 2016, respectively, associated with investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

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

As at 31 December 2018, 2017 and 2016, the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that all deductible tax positions which form the basis for income tax returns of the Group companies, are recognised and measured in accordance with the applicable tax legislation.

18 Finance income and costs

| | For the year ended 31 December 2018 | For the year ended 31 December 2017 | For the year ended 31 December 2016 |
|--|--|--|--|
| Interest income on bank accounts and bank deposits | 12 | 23 | 29 |
| Other finance income | 9 | 6 | 10 |
| Total finance income | 21 | 29 | 39 |
| Interest expense on borrowings | (77) | (88) | (104) |
| Capitalised interest | 21 | 23 | 33 |
| Other finance costs | (14) | (22) | (34) |
| Total finance costs | (70) | (87) | (105) |

19 Foreign exchange differences

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

20 Operating leases

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

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

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

21 Segment information

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

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

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



21 Segment information (continued)

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

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

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



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

| | Mining | Russian flat products | Russian long products | NLMK USA | NLMK DanSteel and Plates Distribution Network | Investments in NBH | Elimination of intersegmental operations and balances | NBH 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)

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

| | As at 31 December 2018 | As at 31 December 2017 | As at 31 December 2016 |
|--------------------|---------------------------|---------------------------|---------------------------|
| Russian Federation | 4,731 | 5,512 | 5,242 |
| USA | 310 | 350 | 378 |
| Denmark | 145 | 124 | 103 |
| Other | 12 | 8 | 6 |
| | <u>5,198</u> | <u>5,994</u> | <u>5,729</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 continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. This environment may have a significant impact on the Group's operations and financial position and the future effects of the current economic situation are difficult to predict therefore management's current expectations and estimates could differ from actual results. Management is taking necessary measures to ensure sustainability of the Group's operations.

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

(b) Market risk

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

Interest rate risk

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

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

22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

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

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

Foreign currency risk

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

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

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2018.

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

22 Risks and uncertainties (continued)

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

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

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

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

Sensitivity analysis

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

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

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

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

Commodity price risk

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

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

22 Risks and uncertainties (continued)

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

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

(c) Credit risk

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

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

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

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

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

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

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

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

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

22 Risks and uncertainties (continued)

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

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

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

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

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

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

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

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

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

22 Risks and uncertainties (continued)

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

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

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

| | As at 31 December 2018 | As at 31 December 2017 | As at 31 December 2016 |
|---|---------------------------|---------------------------|---------------------------|
| Bank balances and term deposits | | | |
| AAA-BBB | 1,173 | 199 | 517 |
| BB-B | 4 | 99 | 91 |
| Unrated and cash on hand | 2 | 3 | 2 |
| | 1,179 | 301 | 610 |
| Short-term and long-term bank deposits | | | |
| AAA-BBB | 5 | 724 | 396 |
| BB-B | - | 335 | 502 |
| | 5 | 1,059 | 898 |

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

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

22 Risks and uncertainties (continued)

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

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

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

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

(d) Liquidity risk

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

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

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

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

22 Risks and uncertainties (continued)

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

As at 31 December 2018, 2017 and 2016, the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

(e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, vehicles and commercial (trade) credits. In respect of legislation requirements, the Group purchases compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance and accident insurance for employees of the Group.

23 Related party transactions

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

(a) Sales to and purchases from related parties

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

NBH group companies together are the major customer of the Group. Sales to NBH group are performed by the Russian flat products segment and represent 11.0%, 9.6% and 9.1% of the total sales of the Group for the years ended 31 December 2018, 2017 and 2016, respectively.

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

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

23 Related party transactions (continued)

(c) Financial transactions

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

(d) Financial guarantees issued

As at 31 December 2018, 2017 and 2016, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$309, \$304 and \$255, respectively, which is the maximum potential amount of future payments, payable on demand of the guarantee. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses the probability of cash outflows related to these guarantees, as low.

The maturity of the guaranteed obligations is as follows:

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

(e) Investments transactions

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

24 Commitments and contingencies

(a) Anti-dumping investigations

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

(b) Litigation

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

(c) Environmental matters

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

24 Commitments and contingencies (continued)

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$714, \$629 and \$473 as at 31 December 2018, 2017 and 2016, respectively.

(e) Social commitments

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

(f) Tax contingencies

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

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

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

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

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

(g) Major terms of loan agreements

Certain of the loan agreements contain covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations procedures or bankruptcy of the borrowers, and also require that the borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross-default provisions, as well as to legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies were in compliance with all debt covenants as at 31 December 2018, 2017 and 2016.

25 Significant accounting policies

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

(a) Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

25 Significant accounting policies (continued)

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

Joint ventures

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

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

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

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

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

Disposals of subsidiaries and joint ventures

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

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

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

(b) Cash and cash equivalents

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

25 Significant accounting policies (continued)

(c) Value added tax (VAT)

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

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

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

(d) Inventories

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

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

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

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

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

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

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

Measurement at recognition

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

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

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

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

25 Significant accounting policies (continued)

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

Subsequent measurement

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

Subsequent expenditures

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

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

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

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

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

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

Borrowing costs

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

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

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

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

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

Mineral rights

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

25 Significant accounting policies (continued)

Depreciation

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

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

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

| | |
|---|---------------|
| Buildings and land and buildings improvements | 10 – 70 years |
| Machinery and equipment | 2 – 30 years |
| Vehicles | 5 – 25 years |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (h) "Impairment of non-current assets".

(f) Leasing

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

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

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

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

25 Significant accounting policies (continued)

(g) Goodwill and intangible assets

Goodwill is the difference between:

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

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

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

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

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

Impairment of goodwill

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

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

Disposal of goodwill

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

Intangible assets

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

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

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

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

25 Significant accounting policies (continued)

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

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

Amortisation

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

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

- | | |
|------------------------------------|-------------|
| • Mineral rights | 20-36 years |
| • Industrial intellectual property | 1-10 years |
| • Beneficial lease interest | 80 years |

(h) Impairment of non-current assets

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year if their carrying amount impairment indicators are identified.

Recoverable value measurement

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

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

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

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units), which in most cases are determined as individual subsidiaries of the Group. Estimated cash flows are adjusted in line with the risk of specific conditions at sites and discounted at the rate based on the weighted average cost of capital. With regard to assets that do not generate cash regardless of cash flows generated by other assets, the recoverable amounts are based on the cash-generating unit to which such assets relate.

25 Significant accounting policies (continued)

Impairment loss

The asset's carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets' impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

(i) Provisions for liabilities and charges

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in impairment losses on financial assets in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(j) Income taxes

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

Current tax

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

25 Significant accounting policies (continued)

Deferred tax

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

Deferred tax is not recognised if temporary differences:

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

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

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

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

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

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

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(k) Dividends payable

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

25 Significant accounting policies (continued)

(l) Revenue recognition

Revenue from sales of goods and provision of services

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

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

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

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

(m) Segment information

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, "Operating Segments".

The Group's organisation comprises six reportable segments:

- the Mining segment, which comprises mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, and supplies raw materials to the steel segment and third parties;
- the Russian flat products segment, comprising production and sales of steel products and coke, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanised cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- the Russian long products segment, comprising a number of steel-production facilities combined in a single production system beginning from scrap iron collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- NLMK USA, comprising production and sales of steel products in the United States;
- NLMK DanSteel and Plates Distribution Network, comprising production and sales of plates in Europe and other regions of the world;
- Investments in NBH, comprising production of hot rolled, cold rolled coils and galvanised and pre-painted steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment consist with the principles outlined in significant accounting policies.

25 Significant accounting policies (continued)

(n) Financial instruments

Financial assets

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

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

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

The Group does not have equity financial instruments.

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

Initial recognition of financial assets

Financial investments measured subsequently at fair value are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

Write-off

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

De-recognition

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

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

25 Significant accounting policies (continued)

Modification

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

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

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

Financial liabilities

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

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss, except for the change of the fair value attributable to the change of own credit risk, which is recognized in other comprehensive income.

Borrowings

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

Initial recognition of financial liabilities

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

De-recognition

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

25 Significant accounting policies (continued)

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

Financial guarantee agreements

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

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

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

26 Critical accounting estimates and judgements

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

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

(a) Tax legislation and potential tax gains and losses

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

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

(b) Estimation of remaining useful lives of property, plant and equipment

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

26 Critical accounting estimates and judgements (continued)

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

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

27 New or revised standards and interpretations

The following new standards and interpretations became effective from 1 January 2018:

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

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

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

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

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

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

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

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

27 New or revised standards and interpretations (continued)

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted:

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management estimates that on adoption of IFRS 16 starting 1 January 2019, the Group will recognise lease liabilities in the amount of \$89 in relation to leases which classified as operating leases as of 31 December 2018 under the principles of IAS 17 *Leases*. The weighted average lessee's incremental borrowing rate to be applied to the lease liabilities on 1 January 2019 expected to be 6.45%. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives.

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

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

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

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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

Novolipetsk Steel

Independent auditor's report on financial statements

2018

[Translation from Russian]





Independent Auditor's Report

To the Shareholders and Board of Directors of Novolipetsk Steel:

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

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



Independence

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

Our audit approach

Overview

Materiality

- Overall materiality: Russian Roubles 4, 900 million (RUB m), which represents 1% of the Company's revenue.

Key audit matter

- Impairment of long-term financial investments: investments in «NLMK Overseas Holdings» share capital
-

As a part of planning, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

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

Materiality

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

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

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We chose revenue as the benchmark because, in our view, it is the benchmark which objectively best represents the performance of the Group over a period of time while financial results are volatile. We determined overall materiality as 1%, which in our experience is within the range of acceptable quantitative materiality thresholds applied for public companies in the relevant industry.

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

Key audit matters

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

| Key audit matter | Audit procedures to address the key audit matter |
|--|--|
| <p><i>Impairment of long-term financial investments: investments in NLMK Overseas Holdings' share capital</i></p> <p>The Company's management performs annual impairment tests of financial investments, including investments in the authorized capital of subsidiaries accounted for at cost.</p> <p>If there are impairment indicators, management determines recoverable value of the investments in subsidiaries and compares it with their book value.</p> <p>The recoverable value of participation in NLMK Overseas Holdings that holds interests in its own subsidiaries is calculated as a percentage of its net assets pro rata to the recoverable value of ultimate investees. The latter is measured based on a discounted cash flow model for main manufacturing enterprises and based on net assets for other companies. These models and calculations were prepared as of 31 December 2018. The tests performed by the management detected an increase in the recoverable value of investment in NLMK Overseas Holdings, as a result</p> | <p>We obtained, understood and evaluated the management's impairment testing, and did not identify any additional factors that should have been but were not taken into account during such testing.</p> <p>To review the recoverable value of investments in NLMK Overseas Holdings' share capital based on discounted cash flow models, we performed the following procedures:</p> <ul style="list-style-type: none">• reviewing the discounted cash flow models prepared by the management with involvement of the auditor's valuation expert to assist us with reviewing the approach and assumptions used in the models;• comparing the key assumptions used in the models to the NLMK Overseas Holdings' subsidiaries' performance results in the past reporting periods and to their approved budgets;• benchmarking the key assumptions used in the models, including product sales prices, level of inflation and discount rates against external expert valuations, macroeconomic and industry forecasts;• analysis of management judgments to which the calculation results are the most sensitive <p>As a result of the above procedures, we agreed with the management's position and recovery of full amount of the previously accrued provision.</p> |

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Key audit matter

Audit procedures to address the key audit matter

previously accrued provision in amount RUB 15,160 m was fully recovered.

We focused on this area because of the degree of judgement over the impairment test of investments in subsidiaries and the book value of the assets under consideration are significant.

Other information

Management is responsible for other information. The other information included in NLMK's 2018 Annual Report and the Issuer's Q1 2019 Report, but does not include the financial statements and our auditor's report thereon. Both of these reports are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, due to fraud or error; design and perform audit procedures in response to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control system;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the feasibility of accounting valuations and related disclosures made by the management;
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them on all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the reporting period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is A.S. Ivanov.

15 February 2019

Moscow, Russian Federation

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

Audited entity: Novolipetsk Steel

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

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NOVOLIPETSK STEEL

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NOVOLIPETSK STEEL'S 2018 ACCOUNTING (FINANCIAL) STATEMENTS



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2018 Accounting
(Financial)
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BALANCE SHEET
as at 31 December 2018

Organization **Novolipetsk Steel**
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 million
Address **2, Metallurgov sq., 398040 Lipetsk**

| | CODES |
|--------------------------|------------|
| Form acc. to OKUD | 0710001 |
| Date (date, month, year) | 31.12.2018 |
| acc. to OKPO | 05757665 |
| INN | 4823006703 |
| acc. to OKVED | 24.10.4 |
| acc. to OKOPF/ OKFS | 12247 / 34 |
| acc. to OKEI | 385 |

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

Balance Sheet



2018 Accounting
(Financial)
Statements

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

On behalf of Novolipetsk Steel

O.G. Zarubina

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

February 15, 2019

Balance Sheet



2018 Accounting
(Financial)
Statements

PROFIT AND LOSS STATEMENT
for 2018

Organization **Novolipetsk Steel**
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 million

| | CODES |
|--------------------------|------------|
| Form acc. to OKUD | 0710002 |
| Date (date, month, year) | 31.12.2018 |
| acc. to OKPO | 05757665 |
| INN | 4823006703 |
| acc. to OKVED | 24.10.4 |
| acc. to OKOPF/ OKFS | 12247 / 34 |
| acc. to OKEI | 385 |

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

Income
statement



2018 Accounting
(Financial)
Statements

Form 0710002 p. 2

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

On behalf of Novolipetsk Steel

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

O.G. Zarubina

February 15, 2019

Income
statement



2018 Accounting
(Financial)
Statements

STATEMENT OF CHANGES IN EQUITY
for 2018

Organization **Novolipetsk Steel**
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 million

| | CODES |
|--------------------------|------------|
| Form acc. to OKUD | 0710003 |
| Date (date, month, year) | 31.12.2018 |
| acc. to OKPO | 05757665 |
| INN | 4823006703 |
| acc. to OKVED | 24.10.4 |
| acc. to OKOPF/ OKFS | 12247 / 34 |
| acc. to OKEI | 385 |

1. Changes in equity

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

Statement of changes in
equity



2018 Accounting
(Financial)
Statements

3. Net assets

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

On behalf of Novolipetsk Steel

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

O.G. Zarubina

February 15, 2019

Statement of changes in
equity



2018 Accounting
(Financial)
Statements

STATEMENT OF CASH FLOWS
for 2018

Organization **Novolipetsk Steel**
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 million

| | CODES |
|--------------------------|------------|
| Form acc. to OKUD | 0710004 |
| Date (date, month, year) | 31.12.2018 |
| acc. to OKPO | 05757665 |
| INN | 4823006703 |
| acc. to OKVED | 24.10.4 |
| acc. to OKOPF/ OKFS | 12247 / 34 |
| acc. to OKEI | 385 |

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

Statement of cash flows



2018 Accounting
(Financial)
Statements

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

On behalf of Novolipetsk Steel

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

O.G. Zarubina

Statement of cash flows February 15, 2019



*2018 Accounting
(Financial)
Statements*

EXPLANATORY NOTES TO BALANCE SHEET AND PROFIT AND LOSS STATEMENT

Notes



1. GENERAL INFORMATION

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

Abbreviated Company name: NLMK

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

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

Main activities of the Company are:

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

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

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

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

Board of Directors as of December 31, 2018:

Chairman of the Board of Directors – Vladimir Lisin

Members:

- Oleg Bagrin
- Thomas Veraszto
- Helmut Wieser
- Nikolai Gagarin
- Marjan Oudeman
- Karen Sarkisov
- Stanislav Shekshnia
- Benedict Sciortino



Management Board as of 31 December 2018:

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

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

Information on the risk management, internal control and internal audit is presented at Company's website¹.

Information on the Registrar and the Auditor:

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

The Company's auditor is AO PricewaterhouseCoopers Audit.

Financial and tax accounting

Financial and tax accounting of the Company's business to the extent established by the current legislation is conducted by NLMK Accounting Centre in line with Service Contract No. 91408 dd. 01.02.2011.

The financial statements signing is conducted by O.G. Zarubina - Director of the Direction of Accounting and HR management by virtue of Power of Attorney.

The Company's operational environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. Moreover, the existing tax, currency and customs legislation is subject to various interpretations and thus creates additional difficulties for Russian companies. Such economic environment cannot but influence the Company's business. The Management takes all necessary steps to assure sustainable financial standing of the Company. However, future consequences of the economic situation are difficult to foresee and their influence on the Company's business may differ from today's expectations of the Management.

The main financial risks intrinsic to the Company's operations include market risks, credit risks, currency risks and liquidity risks. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The risk management functions are intended to ensure proper functioning of the Company's internal policies and procedures, in order to minimise these risks. The Company discloses its risks management procedures at its official website of the Company¹.

¹ Presented at the website of NLMK <http://www.nlmk.com>



The Russian legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. In order to meet requirements of the applicable legislation on transfer pricing the Company's Management introduced internal control procedures. In the reporting year, the Company submitted the notice of controlled transactions for 2017 to the tax authority (in 2017 - for 2016).

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

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

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

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

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

The Accounting (financial) statements are prepared in accordance with the accounting and reporting rules applicable in the Russian Federation, specifically the Federal Law "On Accounting" and the Regulation on Accounting and Reporting in the Russian Federation, approved by the Ministry of Finance of the Russian Federation.

The unit of measurement for financial indicators is RUB million without decimal digits. In accounting (financial) statements, negative figures or figures deductible from relevant indicators in order to calculate intermediate or total values, are given in round brackets.

The companies whose names were brought in line with the Civil Code requirements (renaming to Public Company (PJSC), Joint-Stock Company (JSC) or Production Cooperative (PC)) as of the reporting date, are presented with their names changed.

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

2. 1 INTANGIBLE ASSETS

Intangible assets are presented in the balance sheet based on the actual costs of acquisition, manufacture and additional expenses in order to bring assets to a state in which they could be used as intended, less accumulated amortisation.

Amortisation is accrued on a straight-line basis unless the application of another method could be justified by a reliable calculation of expected receipt of future economic benefits from using the intangible asset, including financial result from potential sale of that asset.

When the useful life of an intangible asset is reviewed in order to determine whether its adjustment is required, such adjustment of the useful life is performed in case of significant changes (equal to or exceeding 12 months as compared to the previously defined one) in the period within which the Company plans to use that asset.

Should it be impossible to define the useful life for intangible assets recognised before January 1, 2008, standard amortisation charges are established on the basis of a 20-year term. For similar intangible assets recognised on or after January 1, 2008, amortisation is not charged.



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

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

2. 2 RESULTS OF RESEARCH AND DEVELOPMENT

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

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

Structure of property, plant and equipment (PPE)

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

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

Evaluation basis

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

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

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

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

Depreciation

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

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

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

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

Disposal, writing-off and liquidation

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

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

Construction in progress

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

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

2. 4 FINANCIAL INVESTMENTS

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

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

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

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

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

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

2. 5 INVENTORIES

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

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

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

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

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

The difference between actual cost and accounting value of finished goods is charged to a separate subaccount of account 43 "Finished goods" by product types. Finished goods are written off at accounting price when dispatched. At the same time, deviations related to finished goods sold are written off to sales accounts pro rata to their quantity. Deviations related to the balance of finished goods are written off from the deviations subaccount to finished goods subaccounts by product type at the end of the reporting period, in order to determine their actual cost.

Work-in-progress as of the reporting period end is evaluated at the actual cost based on the cost of work-in-progress at the beginning of reporting period and production costs over the reporting period. The evaluation of work-in-progress by order method of calculation is made on the basis of actual costs incurred.

In the balance sheet, inventories, including work-in-progress, are recognised net of estimated reserves charged quarterly. The method of reserves estimation takes into account the value of identified unused lasting inventories and potential disposal price.

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

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

At the end of the reporting period, long-term assets and liabilities are shown on the balance sheet as short-term ones when their remaining circulation (maturity) period does not exceed 12 months from the balance sheet date.

2. 7 ADVANCE GIVEN FOR NON-CURRENT ASSETS

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

2. 8 CASH AND CASH EQUIVALENTS

Short-term deposits placed for a period not exceeding 90 days are classified as cash equivalents and reported in the financial statements as part of other cash assets. Interest received on cash equivalents is recognised in the statement of cash flows as part of cash flow for the operating activities.

Cash flow amounts in foreign currencies are converted into rubles at the official rate of such foreign currency to ruble established by the Central Bank of the Russian Federation as of the date of payment or cash receipt.

The following items are presented on a net basis as cash inflow (payments) in accordance with the cash flow type within the statement of cash flows:

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

Cash flows from operating, investing and financing activities are included in the same reporting segment identified by the type of activity.

The cash flows necessary to maintain the Company's current business volume are included in current operations. The cash flows associated with the Company's business expansion are included in investing activities.

Proceeds and payments on the investing activities include cash flows related to interest-free loans granted to related parties on the grounds of the economic benefits the Company receives from them as dividends or indirectly.

2. 9 BORROWINGS

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

2. 10 ESTIMATED LIABILITIES

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

The necessity of recognizing other estimated liabilities is subject to consideration by the Company.

2. 11 INCOME AND EXPENSES

The Company's income and expenses are classified as general and other income and expenses.

Sales proceeds are recognised as of the date of title transfer for products, goods, results of works, services rendered (for cash) on the basis of settlement documents presented to the buyers (customers).

Production costs of goods (works, services) sold domestically or exported are defined by straight-line calculation on the basis of types of products and their actual cost. Expenses related to the sales of goods (services, works) and general administrative expenses are recognized in full within cost of sales of goods (services, works) within the reporting period as general expenses.

Expenses on licenses and certificates are included in the cost of goods manufactured (works, services) on a monthly basis by equal amounts during their validity period. Actual expenses related to maintenance and repairs are recognized as current period expenses upon completion of the works.

Income generated from granting temporary use or possession of assets, rights, arising out of patents for inventions, industrial models and other kinds of intellectual property in return for a fee, from holding shares in other entities, interest received from loans given, and other income from securities not related to the Company's core activity is attributed to other income.

The Company makes provisions for inventory impairment, shortage and losses from impairment of tangible assets and financial investments and provisions for bad debts. Estimated reserves are accrued on the account of other expenses.

2. 12 TAXES

Corporate income tax

Profit before tax and taxable profit are determined in accordance with the current legislation of the Russian Federation using various methods for valuation and accounting of income and expenses.

The amount of current corporate income tax is determined using the accounting records based on the amount of provisional profits tax expenses (income) adjusted for permanent tax liability (asset), deferred tax asset and deferred tax liability of the reporting period.

The Company accounts for permanent and temporary differences which are generated based on analytics by comparing of income and expenses as per financial and tax accounting. The data are recorded in the tax registers for accounting differences by groups of uniform items.

Deferred tax assets and liabilities are recorded in the balance sheet as non-current assets and long-term liabilities, respectively.

Consolidated group of taxpayers' (CTG's) consolidated tax base is defined as arithmetic sum of the profits of all CTG participants decreased by the arithmetic sum of all CTG participants' expenses taking into account the provisions of the Tax Code of the Russian Federation.

Settlements with participants in respect of CTG's income tax are included in other receivables (line 1230 "Accounts receivable") and other payables (line 1520 "Accounts payable").



The Company presents individually calculated income tax in line 2410 “Current income tax” of the Statement.

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

Land tax

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

2. 13 ASSETS, LIABILITIES AND OPERATIONS IN FOREIGN CURRENCY

For accounting items denominated in foreign currencies, the official exchange rate of a foreign currency to the Russian rouble as of the date of the transaction is used. In order to prepare financial statements, funds on bank accounts (bank deposits), cash and payment documents, securities (except for shares), accounts receivable and payable (except for advance payments issued and received) and loans denominated, deposits)in foreign currencies are translated into roubles at the exchange rate as at the reporting date.

Exchange rate differences are accounted as part of other income and expenses separately from other kinds of income and expenses including financial results from operations with foreign currency during the period they occurred in.

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

| | | | | (RUB) |
|------------------|------------------|------------------|------------------|---------|
| Foreign currency | As of 31.12.2018 | As of 31.12.2017 | As of 31.12.2016 | |
| 1 USD | 69.4706 | 57.6002 | | 60.6569 |
| 1 EUR | 79.4605 | 68.8668 | | 63.8111 |

2. 14 SEGMENT INFORMATION

The Company owns assets only on the territory of the Russian Federation and is a sole integrated operating facility for production and sale of steel iron and steel products.

The Company identifies reporting segments based on the type of activity. Key indicators are revenue revenue from sale of goods, financial result (profit or loss). The information on assets and liabilities within a reporting segment is not presented, because one segment dominates in the Company’s results in terms of production and revenue.

In addition to key information, revenue indicators, revenue by product, share of export revenue are disclosed separately.

Reporting segment’s information is disclosed using the same valuation techniques as those used for the presentation of similar information in the Company’s financial statements.

Besides, the Company discloses segment information in its consolidated financial statements in line with International Financial Reporting Standards (IFRS), where the Company is included in the Russian flat products segment without further subdivision by product types.



2. 15 CHANGES IN ACCOUNTING POLICIES

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

No significant changes have been made to the accounting policies.

2. 16 COMPARATIVE DATA

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

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

Notes

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

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



3. DISCLOSURE OF SIGNIFICANT INFORMATION

3. 1 INTANGIBLE ASSETS

Availability of intangible assets

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

There are no intangible assets with an indefinite useful life.



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

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

(RUB million)

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

Notes

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



Changes in property, plant and equipment (original value)

(RUB million)

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

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

Non-depreciable property, plant and machinery

(RUB million)

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

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



3. 3 FINANCIAL INVESTMENTS

Availability of financial investments

(RUB million)

2018 Accounting
(Financial)
Statements

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

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

Notes



Changes in financial investments

In March 2018, the Company completed the transaction on selling 100% interest in LLC "Pansionat Metallurg". Revenue from the transaction amounted to RUB 14 million, the carrying value of the disposed investment amounted to RUB 14 million.

In August 2018, the Company acquired 100% shares of OJSC Institute UralNIAS from NLMK Metalware in the amount of RUB 108 million.

In January-April 2018 the Company acquired 42,43% shares of NLMK Engineering in the amount of RUB 214 million, thus increased stake in the share capital to 100%. Due to liquidation of OJSC Maxi-Group and write-off of the loan issued in the amount of RUB 3 383 million, the impairment allowance for the loan issued was reversed in the amount of RUB 3 383 million.

In order to increase net assets, the Company contributed cash to the capital of LLC NLMK Overseas Holdings in the amount of RUB 15 000 million and recognized as financial investments, in accordance with the provisions of point 7 PBU 1/08 "Accounting Policy of a Legal Entity". As a result of the impairment testing performed as of 31 December 2018 - the previously created impairment allowance for the investment in LLC NLMK Overseas Holding was reversed in the amount of RUB 15 160 million. Income from reversal whose income shown in line 2340 "Other incomes" of Statement of financial results.

The Company granted loans to its related parties.

Income from financial investments

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

3. 4 INVENTORIES

Structure of inventories

(RUB million)

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



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

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

3. 5 ACCOUNTS RECEIVABLES AND LIABILITIES

3. 5. 1 Accounts receivables

Structure of accounts receivables

(RUB million)

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

¹ Here and hereafter advances given are presented including VAT.

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

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



Other debtors

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

Notes

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

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



Overdue accounts receivables

(RUB million)

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

3. 5. 2 Accounts payables

Structure of accounts payables

(RUB million)

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

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



Overdue payables

(RUB million)

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

3. 6 CASH AND CASH EQUIVALENTS

(RUB million)

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

Other income and payments from operating activities

(RUB million)

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



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

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

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

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

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

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

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

3. 7 EQUITY AND DIVIDENDS

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



Company shares

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

Shareholders with more than 5% of common stock

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

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

Earnings per share

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

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

Dividends

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

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

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



3. 8 BORROWINGS

Structure of borrowings

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

Bank loans

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

Bank loans

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

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



Corporate loans

(RUB million)

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

¹ Including the interest accrued.

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

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

3. 9 ESTIMATED LIABILITIES

(RUB million)

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

3. 10 INCOME AND EXPENSES

3. 10. 1 Income and expenses from ordinary activities

Income from general activities

(RUB million)

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



Cost of production

(RUB million)

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

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

3. 10. 2 Other income and expenses

Other income and expenses

(RUB million)

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



3. 11 CURRENT INCOME TAX

Calculation of income tax in accordance with PBU 18/02

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

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

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

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



3. 12 INFORMATION BY SEGMENTS

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

(RUB million)

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

(RUB million)

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

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

3. 13 SECURITY OF LIABILITIES

(RUB million)

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

Notes

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



3. 14 INFORMATION ABOUT RELATED PARTIES

3. 14. 1 List of related parties¹

The list of related parties includes the affiliates of the Company¹ in accordance with the Russian legislation as well as related parties categorised as such on other grounds.

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

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

There are no predominant (participating) business entities.

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

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

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

All the companies specified are registered in the Russian Federation.

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

Other related parties

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



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

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

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

¹ Other related parties controlled by NLMK via NLMK Overseas Holdings.

² Novex Trading (Swiss) S.A till 13.08.2018



3. 14. 2 Related party transactions

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

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

Sales to related parties

(RUB million)

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

Purchases from related parties

(RUB million)

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



Receivables

(RUB million)

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

Payables

(RUB million)

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



Dividends received from subsidiaries

(RUB million)

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

Loans granted to related parties

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

(RUB million)

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

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



Outstanding short-term and long-term loans:

(RUB million)

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

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

²Interest loans.

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

(RUB million)

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

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

²Interest-free loans.



Outstanding loans granted under the cash pooling agreement:

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

Income from loans provided:

| (RUB million) | | |
|-----------------------|-----------|-----------|
| Borrower's name | For 2018 | For 2017 |
| Subsidiaries | -- | 1 |
| Other related parties | 24 | 70 |
| Total | 24 | 71 |

Loans received from related parties

The Company received loans from subsidiaries and other related parties.

| (RUB million) | | | | |
|--------------------------|-----------|--------------------------|---------------|---------------------------|
| Lender | For 2018 | | For 2017 | |
| | Received | Repaid | Received | Repaid |
| Subsidiaries | -- | 2 332 | 30 429 | 28 494 ¹ |
| including | | | | |
| Stoilensky GOK | -- | 1 931 | 30 255 | 28 324 |
| Other related parties | -- | 2 652 | 3 689 | -- |
| including: | | | | |
| Novexco (Cyprus) Limited | -- | 2 652 | 3 689 | -- |
| Total² | -- | 4 984¹ | 34 118 | 28 494¹ |

¹ Including the interest accrued.

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



Interest payable:

(RUB million)

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

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

(RUB million)

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

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

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

(RUB million)

| Lender | For 2018 | For 2017 |
|--------------|-----------|-----------|
| Subsidiaries | 72 | 53 |
| Total | 72 | 53 |



Security

The Company stood surety for subsidiaries and other related parties:

(RUB million)

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

Liabilities under the above securities are valid through 2022.

Other transactions with related parties

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

Operations with key management personnel

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

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

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

(RUB million)

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

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

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

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



3. 15 CONTINGENT LIABILITIES

In the ordinary course of business the Company participates in several court proceedings acting as a claimant or a defendant. The Company's management believes that liabilities, which may arise from these proceedings, cannot have a material adverse effect on its financial standing and performance.

Since the Company fulfils the requirements of regulatory authorities for environment protection and takes actions aimed at improvement of environmental situation in the region, at present there are no liabilities related to damage to the environment and its elimination.

The Russian tax law allows various interpretations and is subject to frequent changes. The Company's Management does not rule out some possible disputes with supervisory agencies over transactions that took place in the reporting and previous periods, which could result in changes of performance results. Tax audits may cover three calendar years of business immediately preceding the year of audit. Earlier periods may be subject to auditing under certain circumstances. In the Company Management's opinion, as of 31.12.2018, they interpreted respective legal regulations correctly, and the Company's position in terms of tax laws is going to be stable.

3. 16 SUBSEQUENT EVENTS

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

On behalf of NLMK management

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

O.G. Zarubina

February 15, 2019

