



2019

Annual report

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# ABOUT THE COMPANY

CEO's Statement  
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Five-year highlights



# CEO'S STATEMENT

GRI 102-14

## DEAR COLLEAGUES!

*We are pleased to report that we have achieved around 20% of our target gains for 2023 during the first year of Strategy 2022 execution. This is in line with our plan for the five-year cycle. The backbone of our strategy is formed by our operational efficiency programmes, which have proven highly effective, contributing structural gains of \$173 m per year to the Company's financial performance. Cumulative structural gains from Strategy 2022 implementation have exceeded \$200 m per year.*

2019 saw the launch of the active phase of our investment programme for this strategic cycle. This phase included commissioning a new briquetting plant in April, and completing overhauls of BOF No. 2, BF No. 6 and the HSM at NLMK Lipetsk by the year-end. It also included constructing a new beneficiation section at Stoilensky as well as a new stamp-charging unit at Altai-Koks. These projects, though significant, are only a fraction of the Company's ongoing investment programme. It is reassuring to note that when implementing investment projects, NLMK Group remains committed to using the best available technologies to minimize environmental impact.

NLMK Group achieved good progress in its sustainability efforts in 2019. We joined the United Nations Global Compact initiative, pledging compliance with ten fundamental principles on human rights, labour, the environment, and the fight against corruption throughout our operations and in pursuit of our strategy. We also committed to support and promote the UN Sustainable Development Goals (SDGs). NLMK's Board of Directors approved a policy defining

our sustainability principles and objectives, and we conducted our first independent audit of sustainability performance indicators, which can be found in this annual report. These measures underline our commitment to corporate social responsibility.

Our robust performance in 2019 and our solid progress on Strategy 2022 were delivered thanks to high staff engagement and strong teamwork across all of our sites and areas of operation. I would like to thank all the members of our team for their contribution, which gives NLMK Group its leadership position. I would also like to express my sincere gratitude to our shareholders, customers and all of our partners for their belief in NLMK Group as well as for the results that we are able to deliver together.

**Grigory Fedorishin,**  
CEO, NLMK Group





**21%**

of steel produced in Russia

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

**Efficient vertical integration**

100% self-sufficiency in iron ore concentrate, 96% self-sufficiency in iron ore pellets, >100% self-sufficiency in coke, 65% self-sufficiency in scrap, and 65% self-sufficiency in energy

**\$256**

cash cost of slabs

Among top 3 most cost-efficient steelmakers globally

**24%**

EBITDA margin

High profitability regardless of transformation stage

**0.7x**

Net debt/EBITDA

Stable financial position even in the active investment phase while maintaining high dividend payments

**High sustainability standards**

NLMK sustainability KPIs approaching the level of best global practices for the steel industry as a result of the Company's comprehensive initiatives:

Group LTIFR (contractors and employees) stands at **0.86**

Specific air emissions total **20.2 kg/t** (18.9 kg/t<sup>2</sup>)

# ABOUT THE COMPANY

## COMPANY PROFILE

GRI 102-7

NLMK 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-generating equipment and offshore wind turbines.

NLMK operates production facilities in Russia, Europe and the United States. The Company's steel production capacity exceeds 18 m t per year<sup>1</sup>. [GRI 102-4](#)

NLMK has a highly competitive cash cost among global manufacturers and one of the highest profitability levels in the industry. In 2019, the Company generated \$10.6 bn in revenue and \$2.6 bn in EBITDA. Net debt/EBITDA stood at 0.7x. The Company has investment grade credit ratings from S&P, Moody's, Fitch and Expert RA.

NLMK's ordinary shares with a 18.6% free-float are traded on the Moscow Stock Exchange (ticker 'NLMK') and its global depositary shares are traded on the London Stock Exchange (ticker 'NLMK:LI'). The Company's share capital is divided into 5,993,227,240 shares with a par value of RUB 1.

<sup>1</sup> Without overhauls at the Lipetsk site

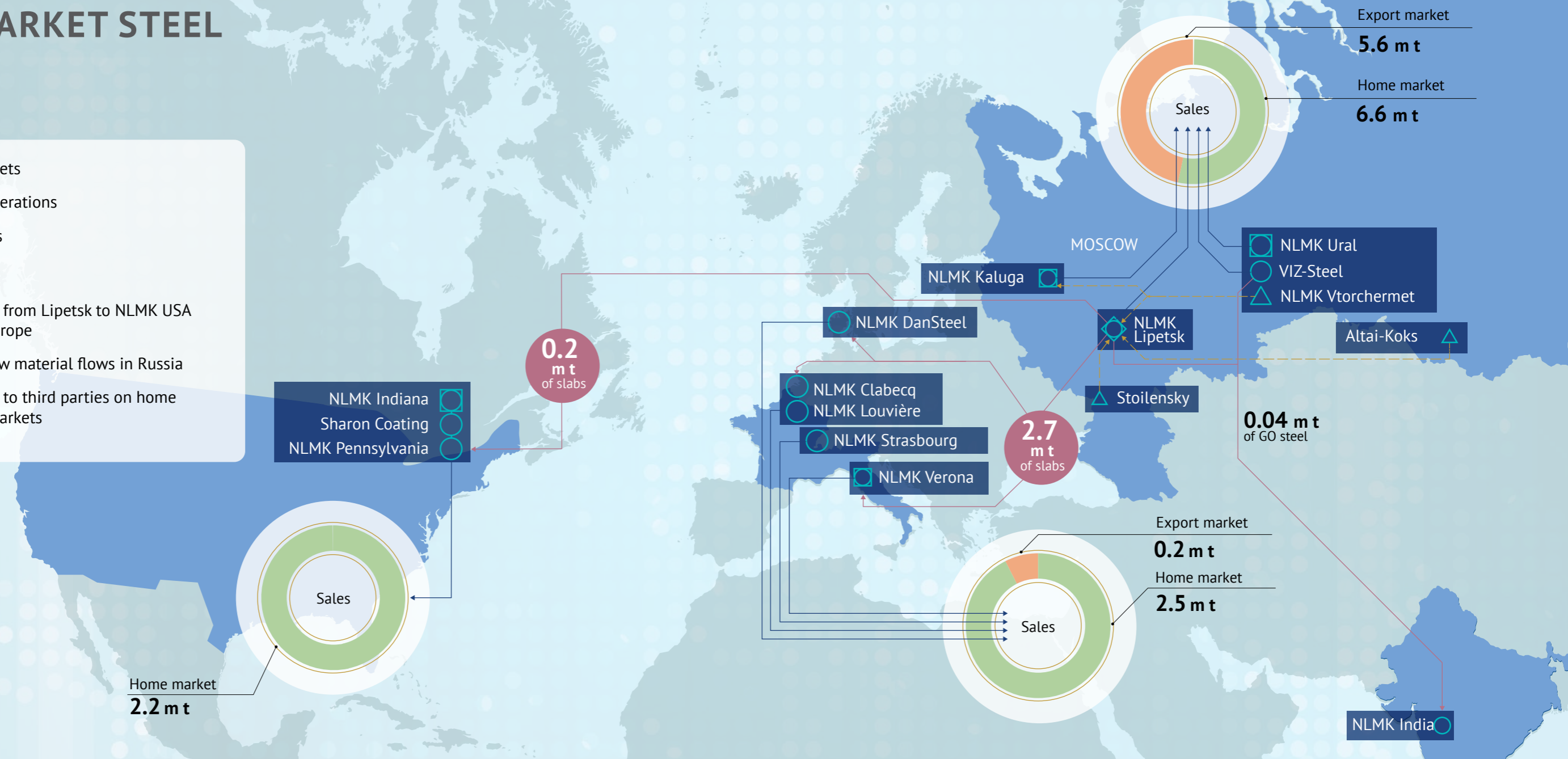
<sup>2</sup> Without crude steel production decrease at the Lipetsk site during overhauls in its BF and BOF operations



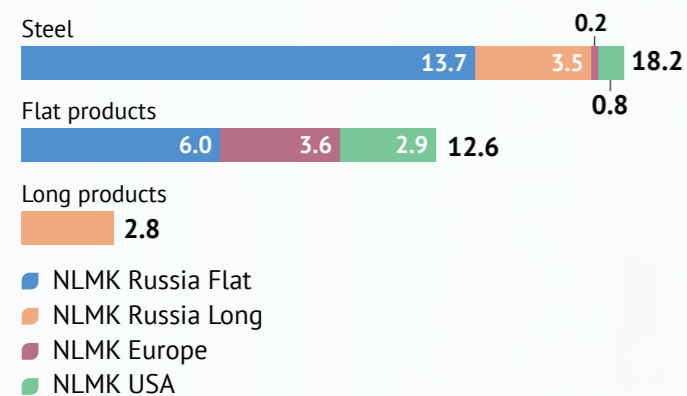
# WHERE WE MAKE AND MARKET STEEL

GRI 102-4, 102-6

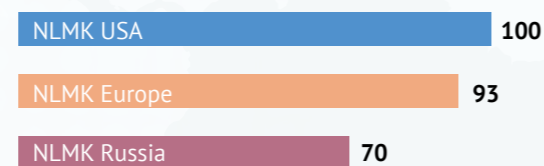
- △ Upstream assets
- ◇ BF & BOF Operations
- Rolling assets
- EAF
- Slab supplies from Lipetsk to NLMK USA and NLMK Europe
- - - Intragroup raw material flows in Russia
- Sales of steel to third parties on home and export markets



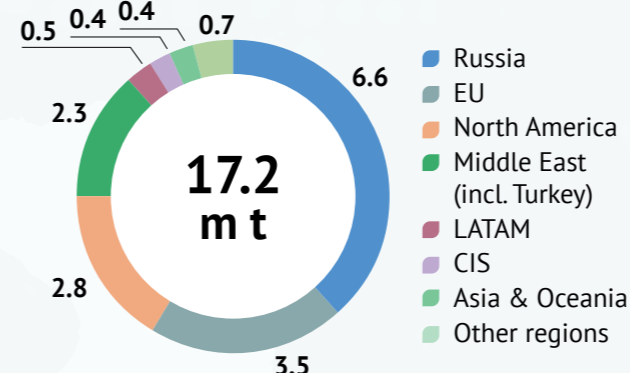
## NLMK PRODUCTION CAPACITIES, M T



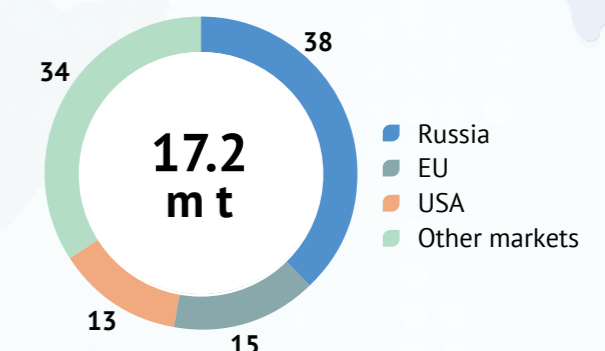
## SHARE OF FINISHED STEEL SALES TO HOME MARKETS<sup>1</sup>, %



## SALES IN 2019, M T<sup>1</sup>



## STEEL PRODUCT SALES BY MARKET, %



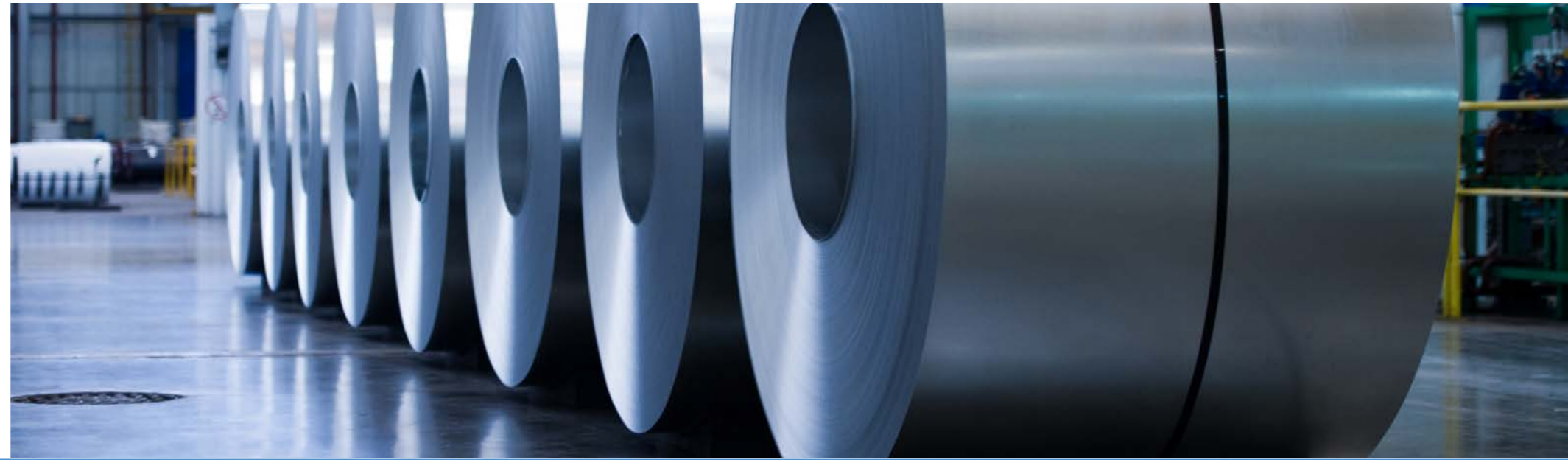
<sup>1</sup>sales with NBH

# 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

### MINING

#### Production sites

- Stoilensky
- Dolomit
- Stagdok

#### Functions

- Covers the Group's demand for raw materials

#### Products

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

#### Headcount

- **7,100 people**

#### Consumers

- Internal: NLMK Lipetsk
- External: steelmakers, road construction, and agriculture

#### Production capacity<sup>1</sup>

- Iron ore concentrate.....**17.9 m t**
- Sinter ore.....**1.0 m t**
- Pellets.....**7 m t**

#### Production

- Iron ore.....**18.4 m t** (flat yoy)
- Fluxes.....**6.7 m t** (flat yoy)

#### Sales to the Group's companies

- Iron ore concentrate.....**9.9 m t** (-2% yoy)
- Pellets.....**6.9 m t** (+3% yoy)
- Sinter ore.....**1.0 m t** (-33% yoy)
- Limestone.....**2.9 m t** (+1% yoy)
- Dolomite.....**1.6 m t** (-10% yoy)

#### Sales to external customers

- Iron ore concentrate.....**0.5 m t**
- Pellets.....**0.1 m t**
- Limestone.....**1.0 m t** (+10% yoy)
- Dolomite.....**0.9 m t** (+6% yoy)

#### Financials

- Revenue.....**\$1,315 m** (+9% yoy)
- EBITDA.....**\$977 m** (+10% yoy)
- Investments.....**\$218 m** (+59% yoy)

#### 2019 fact

NLMK Group has launched construction on new vertical mills that will operate using the new vertical grinding technology at Stoilensky. The new technology and other solutions will boost iron content from 65% to 68.5%, increase ore processing capacity from 38 m t in 2019 to 42 m t per year, and increase iron ore concentrate production from 17.9 m t in 2019 to 20 m t per year by 2021, thus increasing the production of iron ore raw materials for NLMK by 12%.

### NLMK RUSSIA FLAT

#### Production sites

- NLMK Lipetsk
- 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, and grain-oriented and non-grain-oriented steel

#### Production capacity

- Steel.....**13.7 m t**
- Flat products...**6.0 m t**

#### Headcount

- **30,800 people**

#### Consumers

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

#### Production

- Coke<sup>2</sup>.....**5.9 m t** (-9% yoy)
- Pig iron.....**11.7 m t** (-12% yoy)
- Steel.....**12.0 m t** (-10% yoy)
- Commodity semis.....**7.8 m t** (-20% yoy)
- Rolled products.....**5.7 m t** (flat yoy)

#### Sales to external customers

- Commodity pig iron.....**0.5 m t** (-43% yoy)
- Slabs.....**3.1 m t** (+11% yoy)
- Hot-rolled steel.....**2.5 m t** (+9% yoy)
- Cold-rolled steel.....**1.6 m t** (+8% yoy)
- Galvanized steel.....**0.8 m t** (-3% yoy)
- Pre-painted steel.....**0.4 m t** (-2% yoy)
- NGOs.....**0.3 m t** (-10% yoy)
- GOES.....**0.3 m t** (-2% yoy)

#### Sales geography

- Russia (49% of sales), Turkey and the Middle East, North America and LatAm, Asia and Oceania, European Union, and the CIS

#### Intragroup slab sales

- Supplies to NLMK USA.....**0.2 m t** (-84% yoy)
- Supplies to NLMK Europe:.....**2.7 m t** (-10% yoy)

#### Financials

- Total revenue.....**\$7,327 m** (-16% yoy)
- EBITDA.....**\$1,490 m** (-36% yoy)
- Investments.....**\$854 m** (+64% yoy)

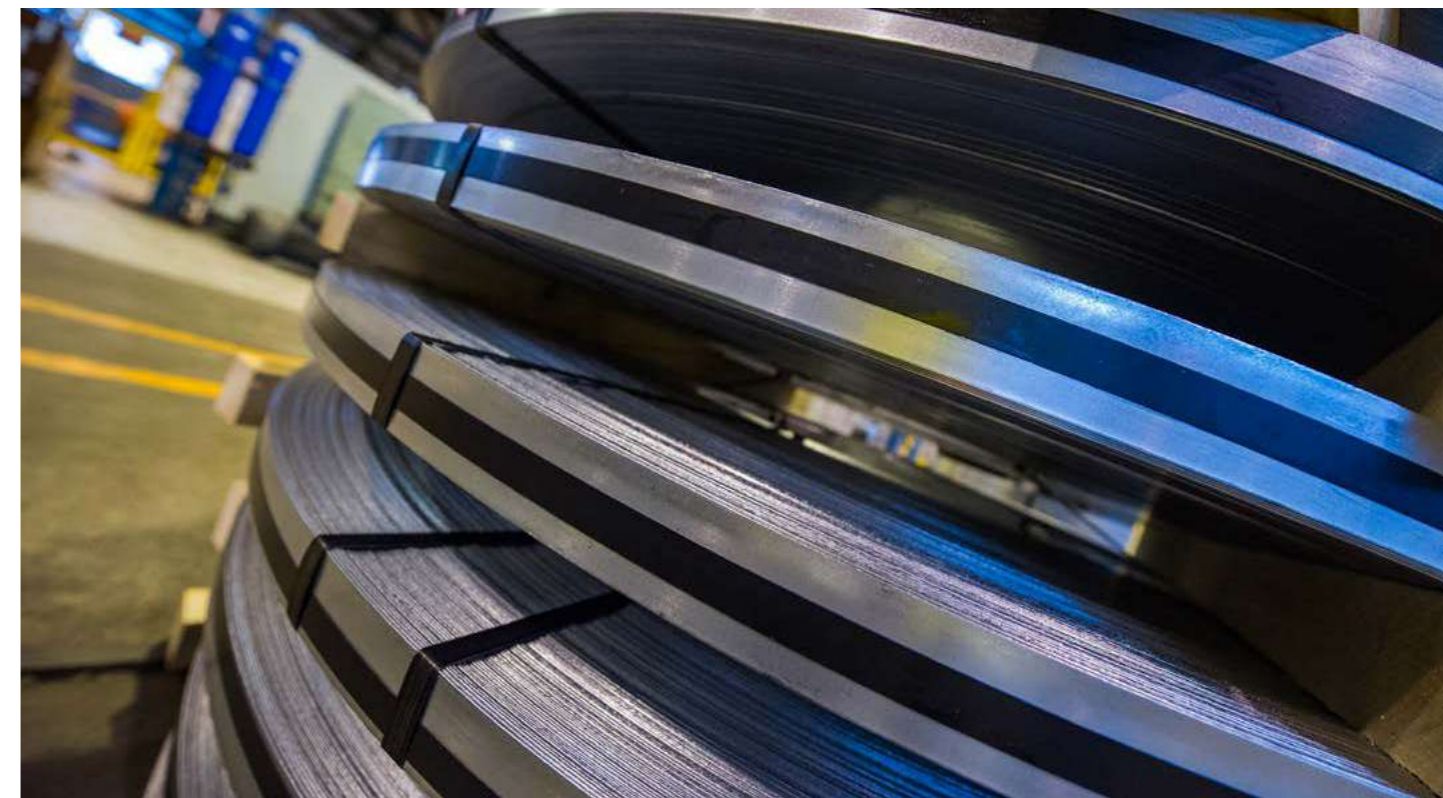
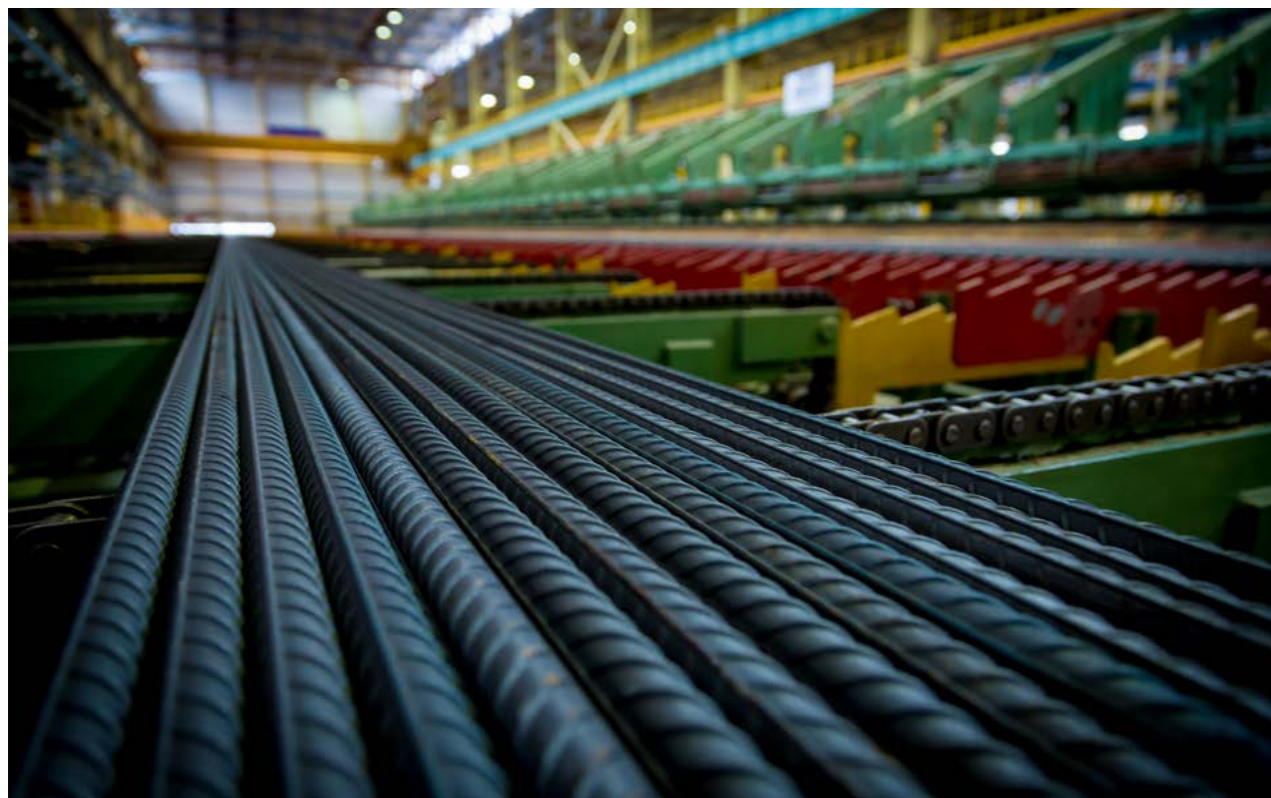
#### 2019 fact

NLMK Lipetsk has relaunched Blast Furnace No. 6 (BF No. 6) following large-scale upgrades. As a result, the furnace's maximum output increased by 8% to 3.4 m t of pig iron per year. A new air treatment system captures 99.9% of dust particles, keeping residual dust content at the level of best available techniques (BAT) of 5 mg/m<sup>3</sup>. All of the blast furnace gas formed as a by-product in the manufacturing of pig iron is used for energy generation at NLMK's cogeneration plant, while blast furnace slag is processed into construction materials. Total capex for the project amounted to over RUB 35 bn.

<sup>1</sup> Hereinafter, current capacities are based on current shifts and product mix without the impact of overhauls.

<sup>2</sup> 6% moisture.





## NLMK RUSSIA LONG

### Production sites

- NLMK Vtorchermet scrap collecting facilities
- NLMK Ural
- NLMK Kaluga
- NLMK Metalware

### Functions

- Processes scrap for the Group's steel-making facilities in Russia
- Produces long products and metalware

### Products

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

### Production capacity

- Steel..... **3.5 m t**
- Long products..... **2.8 m t**

### Headcount

- **8,600 people**

### Consumers

- Construction and machine building

### Production

- Scrap processing... **2.2 m t** (-10% yoy)
- Steel..... **2.8 m t** (-15% yoy)
- Long products..... **2.2 m t** (flat yoy)
- Metalware..... **0.3 m t** (+9% yoy)

### Sales to external customers

- Billets..... **0.3 m t** (-60 yoy)
- Long products..... **2.3 m t** (+4% yoy)
- Metalware..... **0.3 m t** (+11% yoy)

### Sales geography

- Russia (70% of sales), the European Union, Turkey, the Middle East, and North Africa

### Financials

- Total revenue..... **\$1,757 m** (-18% yoy)
- EBITDA..... **\$89 m** (-60% yoy)
- Investments..... **\$50 m** (+39% yoy)

### 2019 fact

*NLMK Ural launched an advanced energy facility to supply the plant with power and heat. The project will enable the company to significantly reduce expenditure on these resources.*

*The plant used to source heat and power externally. The new energy facility will cover all of the plant's heat needs and half of its power needs, while curbing NLMK Ural GHG emissions by 4,000 tpa.*

## NLMK USA

### Production sites

- NLMK Pennsylvania
- NLMK Indiana
- Sharon Coating

### Functions

- Produces flat steel

### Products

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

### Production capacity

- Steel..... **0.8 m t**
- Flat products..... **2.9 m t**

### Headcount

- **1,200 people**

### Consumers

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

### Production

- Steel..... **0.7 m t** (+7% yoy)
- Flat products..... **2.1 m t** (-5% yoy)

### Sales

- Hot-rolled steel..... **1.2 m t** (-7% yoy)
- Cold-rolled steel... **0.5 m t** (-5% yoy)
- Galvanized steel... **0.6 m t** (+6% yoy)

### Sales geography

- 100% of steel sold in USA

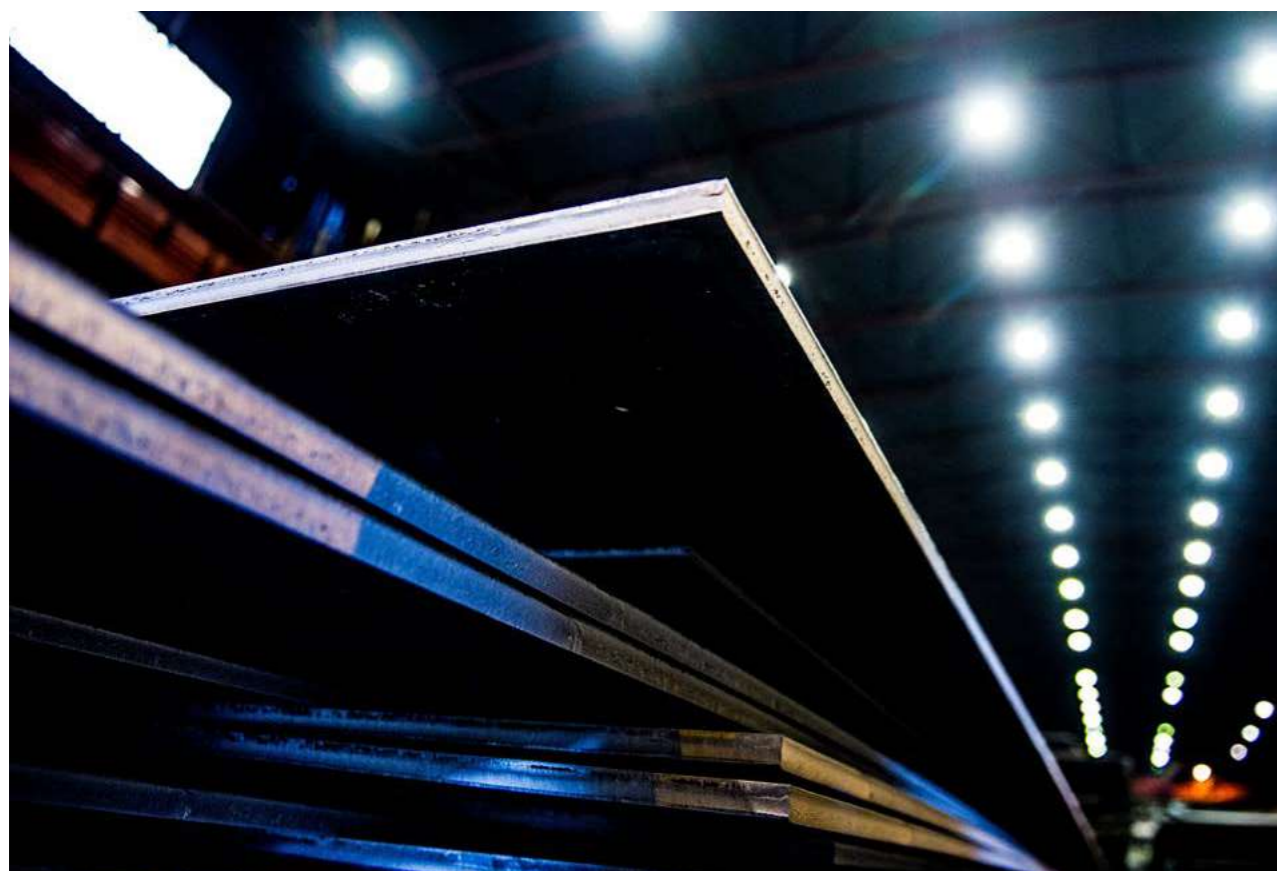
### Financials

- Total revenue..... **\$1,715 m** (-20% yoy)
- EBITDA..... **-\$37 m** (-115% yoy)
- Investments..... **\$37 m** (+85% yoy)

### 2019 fact

*NLMK USA switched to third party supplies of slabs due to a 25% duty.*





## NLMK EUROPE STRIP

### Production sites

- NLMK La Louvière<sup>1</sup>
- NLMK Strasbourg<sup>1</sup>

### Functions

- Produces flat steel from slabs coming from the Lipetsk site

### Products

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

### Production capacity

- Flat products.....**2.2 m t**

### Headcount

- **900 people**

### Consumers

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

### Production

- Flat products.....**1.6 m t** (+11% yoy)

### Sales

- Hot-rolled steel.....**1.3 m t** (+11% yoy)
- Cold-rolled steel.....**0.04 m t** (+13% yoy)
- Galvanized steel.....**0.2 m t** (flat yoy)
- Pre-painted steel.....**0.1 m t** (+5% yoy)

### Sales geography

- 93% of steel sold in EU

### 2019 fact

*NLMK La Louvière has embarked on a project to revamp its hot strip mill, expanding production of thinner, stronger and more eco-friendly steel.*

*With this upgrade, NLMK La Louvière will increase production from 1.7 m t to 2.2 m t per year by 2022 with a bigger share of the niche HRC market in the EU.*

## NLMK EUROPE PLATE

### Production sites

- NLMK DanSteel
- NLMK Clabecq<sup>1</sup>
- NLMK Verona<sup>1</sup>

### Functions

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

### Products

- Niche steel semis, and plates, including Q&T

### Production capacity

- Steel.....**0.2 m t**
- Plate.....**1.4 m t**

### Headcount

- **1,200 people**

### Consumers

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

### Production

- Steel.....**0.2 m t** (-21% yoy)
- Flat products.....**1.1 m t** (-13% yoy)

### Sales

- Plate.....**1.1 m t** (-13% yoy)

### Sales geography

- 93% of steel sold in EU

### 2019 fact

*DanSteel launched an accelerated cooling system at its hot-rolling plate mill. The new cooling system coupled with other development projects will boost the production of niche premium plate from the current 0.1 m t to 0.35 m t per year.*

*Thermomechanical rolling enables the production of plates with improved weldability while enhancing strength and toughness. Improved weldability is especially important in the production of underwater foundations for wind towers that operate in aggressive maritime environments.*

<sup>1</sup>. Part of NLMK Belgium Holdings (NBH)



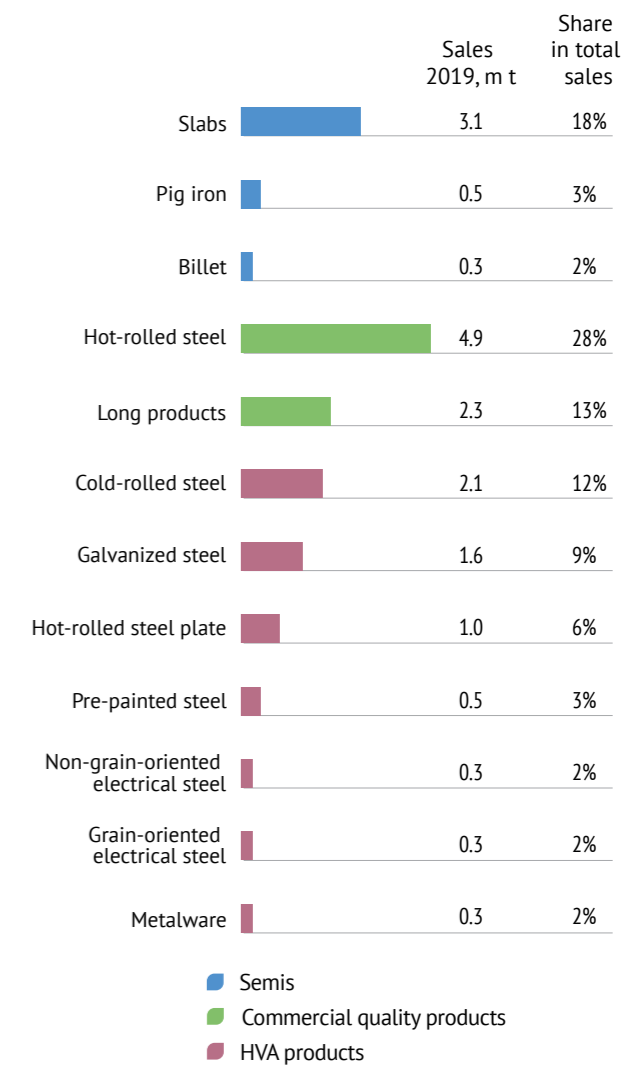
# 17.2 m t<sup>1</sup>

NLMK steel product sales

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 83% of total output, while long steel used in construction makes up 17% of production.

## WHAT WE MAKE AND MARKET GRI 102-2

### NLMK SALES IN 2019



<sup>1</sup>. With NBH

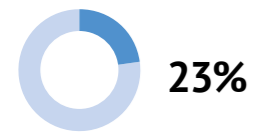


OUR PRODUCTS



Semis

SHARE OF TOTAL SALES



Pig iron and semi-finished steel products for further processing: slabs are processed into flat steel products; billets are processed into long steel products.

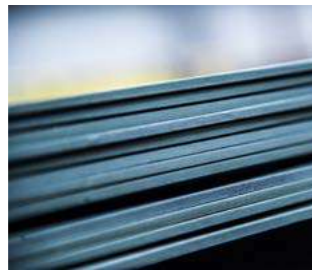
A wide range of semis, both standard and niche products with specific chemical composition, physical properties, and dimensions

CONSUMERS

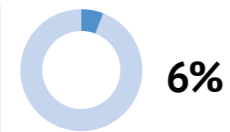
Steelmaking, pipe industry

SITES

NLMK Lipetsk, NLMK Kaluga



Plate



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.

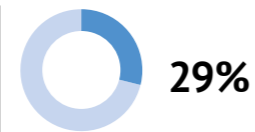
Produced at NLMK Group's European sites from slabs supplied by NLMK Lipetsk

Lifting and transport equipment, offshore wind turbines, drilling platforms, shipbuilding, pipelines, boilers, and tanks for aggressive environments (pressure, temperature, load, etc.)

NLMK DanSteel, NLMK Clabecq, NLMK Verona



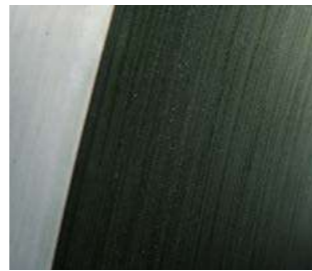
Hot-rolled steel



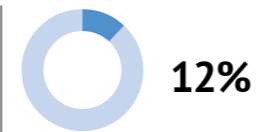
Flat steel products that have been hot-rolled. A wide range of hot-rolled steel in sheets and coils with a variety of performance characteristics

Pipe industry, steel structures, shipbuilding, machine building, high-pressure vessels, yellow machinery, commercial, and residential and infrastructure construction

NLMK Lipetsk, NLMK La Louvière, NLMK Indiana, NLMK Pennsylvania



Cold-rolled steel

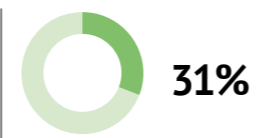
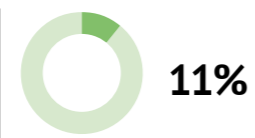
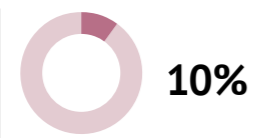
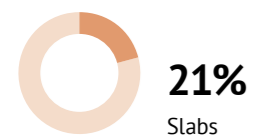


Flat steel products that have been cold-rolled. A wide range of cold-rolled steel sheets and coils with a variety of performance characteristics, including niche high-ductility products

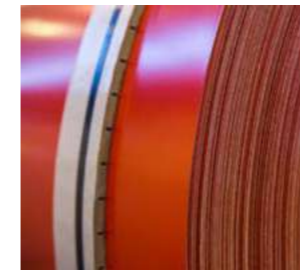
Automotive industry, machine building, pipe industry, yellow machinery and white goods, and commercial, residential and infrastructure construction

NLMK Lipetsk, NLMK La Louvière, NLMK Pennsylvania

MARKET SHARE<sup>1</sup>

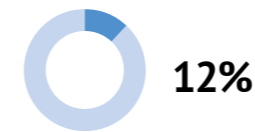


<sup>1</sup> NLMK shares of apparent consumption Global market European market Russian market



Coated steel

SHARE OF TOTAL SALES



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

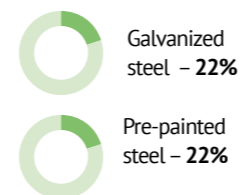
CONSUMERS

Automotive industry, yellow and white goods, construction, and facing materials

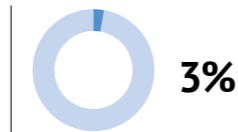
SITES

NLMK Lipetsk, NLMK Strasbourg, Sharon Coating

MARKET SHARE<sup>1</sup>



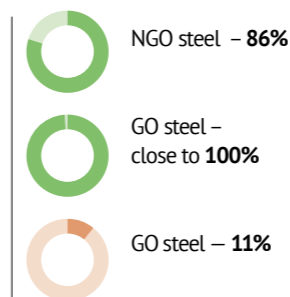
Electrical steel



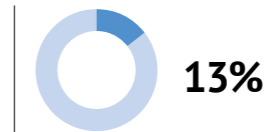
Dynamo (non-grain-oriented) and transformer (grain-oriented) electrical steel. Includes a range of standard products with conventional properties, and unique high-permeability steel (HGO). Available in coils, strip, and sheets

Electrical machines, transformers, power engineering, and instrument making

NLMK Lipetsk, VIZ-Steel



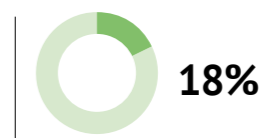
Long products



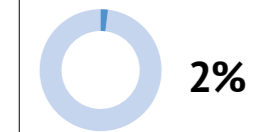
Rebar in rods and coils, wire rod, and sections

Construction

NLMK Ural, NLMK Kaluga



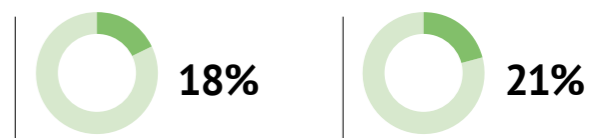
Metalware



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

Construction and machine building

NLMK Metalware

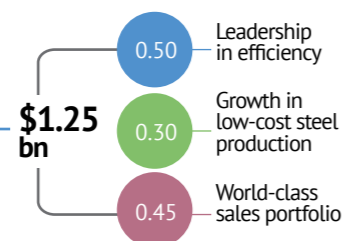


# STRATEGY 2022

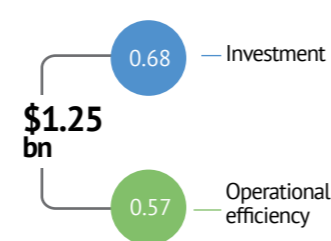
Strategy 2022 is predicated on enhancing NLMK Group's competitive advantages through boosting operational efficiency across the entire production chain, growing cost-efficient steel production, enhancing vertical integration into key raw materials, increasing sales of high value-added (HVA) products,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

## PROJECTED STRATEGY 2022 EBITDA GAINS

### BY GOAL



### BY TOOLS



## STRATEGY 2022 GOALS

Additional EBITDA gain from all projects:  
**\$1.25 bn**

Conservative leverage: target net debt/EBITDA ratio of  
**1.0-1.5x**

Annual capex on average  
**\$0.9 bn per year**

Stable positive free cash flow

Focus on growth in the Company's shareholder value

Dividend distribution: 100% of free cash flow with normalized capital expenditure at \$0.7 bn per year for dividend calculation

Minimal environmental footprint and ensuring safe operations

## KEY ELEMENTS OF STRATEGY 2022

### 1

#### Leadership in operational efficiency

Goal: Focus on operational efficiency and working towards best production practices; global leadership in the cash cost of steel production.

Target structural EBITDA gain  
**\$0.5 bn**

Capex over the strategic period  
**\$0.05 bn**

### 2

#### Growth in low-cost steel production

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

Target structural EBITDA gain  
**\$0.3 bn**

Capex over the strategic period  
**\$1.0 bn**

### 3

#### World-class sales portfolio

Goal: Growth of steel product sales; growth of high value-added (HVA) product output and sales.

Target structural EBITDA gain  
**\$0.45 bn**

Capex over the strategic period  
**\$1.1 bn**

### 4

#### Leadership in sustainability and safety

Goal: Minimizing environmental footprint and ensuring safe operations.



# STRATEGY IN ACTION

## OPERATIONAL EFFICIENCY

**+\$570 m pa**  
target EBITDA gain by 2023

Goal: Reduce cash cost and increase output across the entire integrated value chain.

### KEY PROJECTS AT THE GROUP'S RUSSIAN DIVISIONS

- NLMK Russia Flat Products (+\$69 m): we managed to improve the performance of the blast furnaces, an important task during the overhauls of BF No. 6 and BOF No. 2. Significant gains were also achieved by projects to optimize coal charge at Altai-Koks, the additional production of slabs and hot-rolled products, a reduction in the output of non-conforming products in rolling production, an increase in the turnover of railcars, and energy projects. As for electrical steels, the segment demonstrated strong results in terms of the GO steel magnetic properties due to operational efficiency projects.
- Stoilensky (+\$62 m): an optimization programme brought us more than 800,000 t of concentrate and 200,000 t of pellets versus the level of 2018.
- NLMK Russia Long Products (+\$17 m): optimization of energy and slag processes in the electric steel shop, lower consumption of electrodes, ferroalloys, and additional materials, pricing optimization at NLMK Vtorchermet, and additional rolling capacity.

**+\$173 m**  
total EBITDA gain in 2019 (vs. 2018)

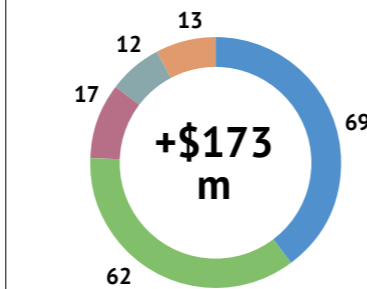
Not only did we manage to achieve the targets set for the year, but we also ensured the sustainability of the result thanks to employee proactivity and engagement as well as through the transformation of our corporate culture.

Across all sites, we have seen positive trends in employees getting involved in generating ideas. In 2019, we received more than 20,000 initiatives from the Group's Russian companies. A total of 78% of the initiatives were implemented. These results were largely achieved by expanding the coverage of the NLMK Production System (PS) and creating infrastructure to promote continuous improvements.

Another challenge in 2019 was the launch of the PS project across functional areas. This makes the Production System practices not only production-oriented, but also universal and applicable to various functional areas such as Logistics, Energy, HR, Investment, and Repair. Next year, we expect to continue collaborating with various functional areas.

**30%**  
progress vs. the 2023 target in 2019

### EBITDA GAIN BY SEGMENT IN 2019, \$ M



- NLMK Russia Flat
- Mining
- NLMK Russia Long
- NLMK USA
- NLMK EU

The creation of the unique Bank of Ideas information system for submitting initiatives has allowed us to boost the activity and involvement of employees in continuous improvements. The initiative system is widely used at all the Group's Russian companies. Now all NLMK Group employees are connected to the Bank of Ideas, with more than 1,000 employees visiting it daily.

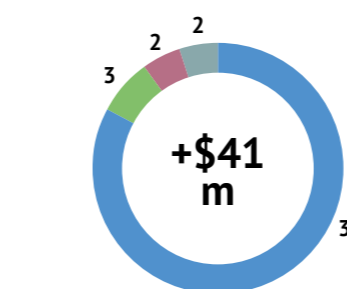
## INVESTMENTS

**+\$680 m pa**  
target EBITDA gain by 2023

Goal: growth in low-cost steel production and growth of premium product output and sales

In 2019, NLMK Group embarked on a project to increase steelmaking capacities by 1 m t to 14.2 m t per year at the Lipetsk site, while increasing self-sufficiency in electricity and maintaining 100% self-sufficiency in iron ore raw materials. The Group completed a number of major projects during the reporting year.

### EBITDA GAIN BY SEGMENT IN 2019, \$ M



- Mining
- NLMK EU
- NLMK Russia Flat
- NLMK Russia Long

Following major overhauls, Blast Furnace No. 6 (BF No. 6) was put into operation at NLMK Lipetsk, the flagship site of NLMK Group.

The BF No. 6 overhaul is one of the key projects of Strategy 2022. The furnace capacity was increased by 8%, reaching 3.4

**+\$41 m**  
total EBITDA gain in 2019 (vs. 2018)



m t of pig iron per year. After the upgrade, the new aspiration systems will capture up to 99.9% of dust, providing residual dust content of 5 mg/m<sup>3</sup>, which corresponds to the level of best available technologies.

All the blast furnace gas generated during the smelting of pig iron is used to power the co-generation plant, and blast furnace slag is transformed into products for the construction industry.

The furnace is equipped with a modern automated control system with an integrated artificial intelligence programme. Such a system can independently choose the unit's optimal operation modes, which boosts the efficiency of the blast furnace process.

Basic Oxygen Furnace No. 2 (BOF No. 2), a steelmaking unit with capacity of more than 3 m t per year, was also put into operation after a major overhaul. A new state-of-the-art dust and gas collection unit was launched together with the BOF.

**6%**  
progress vs. the 2023 target in 2019

The BOF No. 2 overhaul is the first stage of large-scale upgrades in steelmaking operations. The next stage, which will begin in Q2 2020, will focus on BOF No. 3, another unit with the same capacity.

The upgrading of steelmaking capacities will increase the shop's productivity by 15% to 10 m t of steel per year.

Once implemented, the project will also make it possible to use BOF gas to power the new utilization co-generation plant, which is scheduled to be built at NLMK Lipetsk.

We also continue to develop the sales of niche plate produced at NLMK DanSteel. In 2019 an accelerated cooling system was commissioned. The goal of this project is to increase sales of niche products by 250,000 t by 2023. The full effect is expected to be achieved by 2022.

## LEADERSHIP IN SUSTAINABILITY AND SAFETY

Goal: Minimize environmental footprint and ensure safe operations.

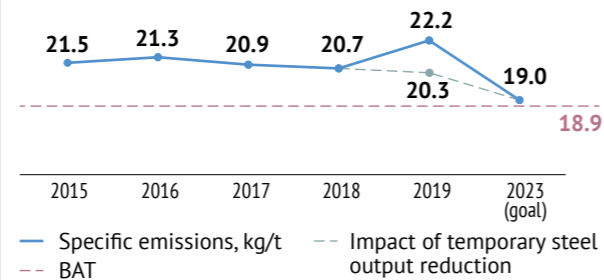
Leadership in sustainability and safety remains a priority for NLMK Group. Priority areas include:

- Further minimization of our environmental footprint, including a reduction in specific emissions per tonne of steel at NLMK Russia to the level of the EU best available technologies
- Further reduction of injury rate to LTIFR<sup>1</sup> 0.5 for our own employees and contractors
- High level of social protection and employee engagement.

Specific emissions increased in 2019 due to the lowest steel output in five years (-10% yoy) during the major overhaul of steelmaking units at the Lipetsk site. There is no risk of missing the target for specific emissions when the planned Strategy 2022 steel output is reached with the emission reduction measures that have been implemented.

In 2019, the Group's LTIFR index increased to 0.76 for employees and 1.22 for contractors. Total LTIFR for NLMK Group increased to 0.86, an 11.69% increase against 2018. The increase is due to improved incident registration among contractors as well as an increase in the number of contractors who work at NLMK Group's sites and perform work with a higher risk level.

NLMK LIPETSK SPECIFIC EMISSIONS IN 2015-2019, 2023 TARGET

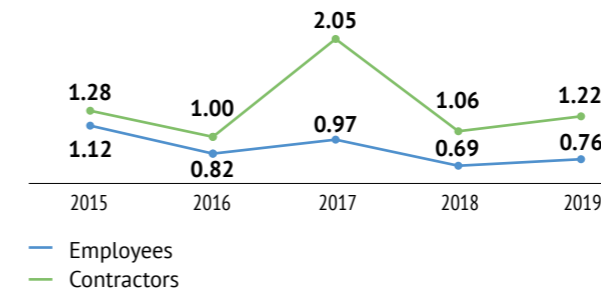


In order to decrease the index in further periods the following areas will be prioritized:

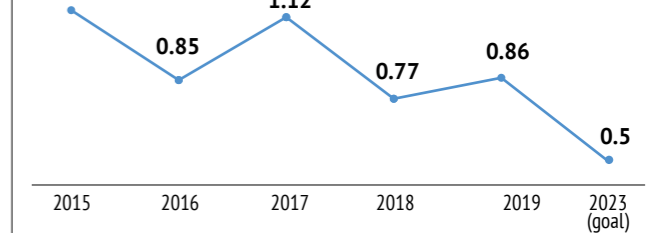
- Personnel injury risk management system: risk assessment and managing injury risk reduction, including measures to systematically reduce the risks of working at heights
- Implementing a safety culture: defining safe behaviour rules and promoting safe conduct among personnel
- Developing the OHS role model: developing a new system for managing occupational injury risks.

Please see the *Occupational health and safety* section for more details regarding OHS.

LTIFR TREND, NLMK GROUP BY EMPLOYEES AND CONTRACTORS, 2015-2019



LTIFR TREND, NLMK GROUP, EMPLOYEES AND CONTRACTORS TOGETHER, 2015-2019



<sup>1</sup> LTIFR – Lost Time Injury Frequency Rate



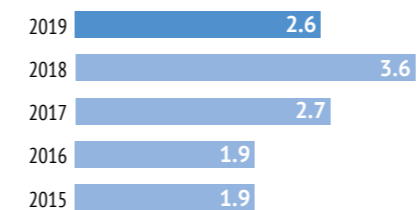


# KEY PERFORMANCE INDICATORS

## FINANCIAL PERFORMANCE

### EBITDA

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



EBITDA decreased due to narrowing price spreads

### EBITDA MARGIN

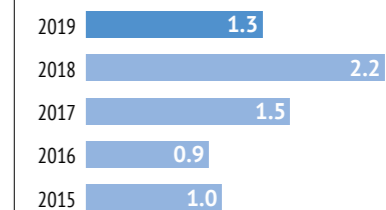
Profitability of the Company's operations before interest, taxes, depreciation and amortization, %



EBITDA margin decreased due to narrowing price spreads

### NET PROFIT

NLMK Group's profit after income and expense, \$ bn



Net profit decreased by 40% yoy due to the decrease in EBITDA and higher effective income tax rate

## BUSINESS MODEL EFFICIENCY

### CRUDE STEEL PRODUCTION

Total crude steel production of all NLMK Group facilities, m t



A decrease in crude steel production was expected amid capital repairs at NLMK Lipetsk BF and BOF operations

### STEEL PRODUCT SALES

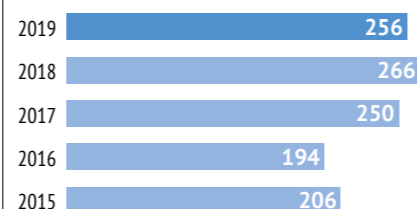
Total sales of steel products to external consumers of all NLMK Group facilities, m t



Sales expectedly decreased by 2% yoy following the decline in production output

### SLAB CASH COST

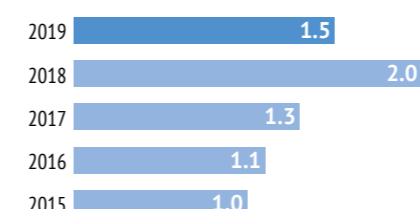
Consolidated cash cost for slab production at NLMK Lipetsk, \$/t



Slab cash cost decreased by 4% yoy to \$256/t due to operational efficiency projects and vertical integration in raw materials

### FREE CASH FLOW

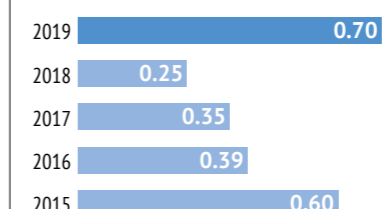
Net cash flow after investment and interest payments refers to cash that the Company can use to strengthen liquidity, repay liabilities, pay dividends, or for other corporate needs



Free cash flow decreased with a reduction in cash flow from operating activities and higher capex as part of Strategy 2022

### NET DEBT/EBITDA

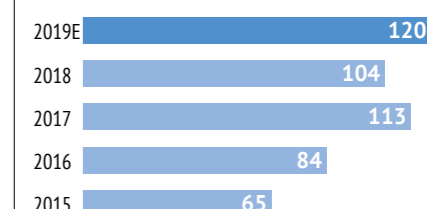
The Company's financial debt adjusted for the value of liquid assets, and then divided by EBITDA, characterizes the Company's debt leverage. Used as a trigger to determine the share of dividends to be paid



Increased due to the implementation of the investment programme as a part of Strategy 2022, coupled with a cash outflow towards dividend payments

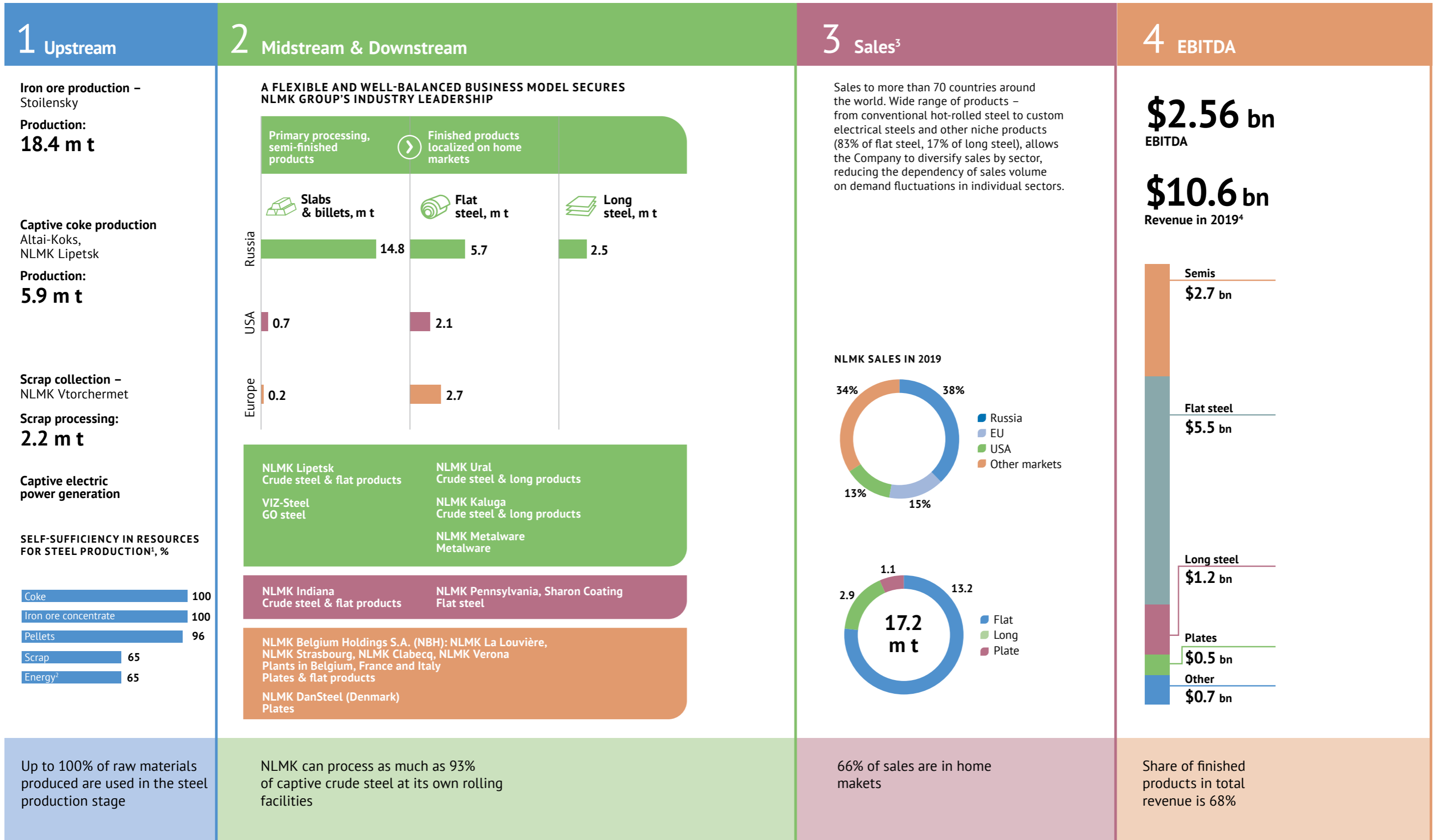
### DIVIDEND PAYOUT RATIO

Cash paid to shareholders as a percentage of free cash flow, %



Dividends payout is more than 100% from FCF, in line with the dividend policy

# NLMK GROUP'S BUSINESS MODEL



<sup>1</sup> Russian assets  
<sup>2</sup> Lipetsk site

<sup>3</sup> With NBH  
<sup>4</sup> Without NBH



# UPSTREAM

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

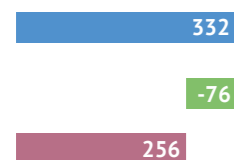
Up to 100% of raw materials produced are used in the steel production stage further along the value chain.

## NLMK ADVANTAGES

### Iron ore

Stoilensky is one of the most efficient iron ore producers in the world and is located 250 km from the Group's main production facility in Lipetsk. Stoilensky's iron ore reserves are upward of 5 bn t.

### IMPACT ON THE REDUCTION IN STEEL CASH COST PER TONNE IN 2019, \$/T



- Lipetsk slab cash cost
- Impact of vertical integration
- Consolidated NLMK slab cash cost

### Captive coke production

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

### NLMK scrap collection

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

### Electric power generation

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

Iron ore concentrate cash cost: \$12.8/t.

Total coke production: 5.8 m t (-0.56 m t yoy), covers more than 100% of NLMK Lipetsk's needs.

### Development in 2019

In 2019, Stoilensky gained an additional +0.5 m t of concentrate yoy from introducing high-pressure grinding technology (HPGRs). The gain amounted to 2.2 m t of concentrate for the entire period of HPGRs operation.

NLMK has begun expanding pelletizing capacity at Stoilensky to 8 m t of pellets per year. Stoilensky will upgrade several transformation stages of the current pelletizing plant: it will build

### 2019 facts and figures

Iron ore production: 18.4 m t (+0.3% yoy), including:

- 7.0 m t of pellets (+0.3 m t yoy)
- 10.4 m t of commercial concentrate (+0.3 m t yoy)
- 1.0 m t of sinter ore (-0.5 m t yoy)

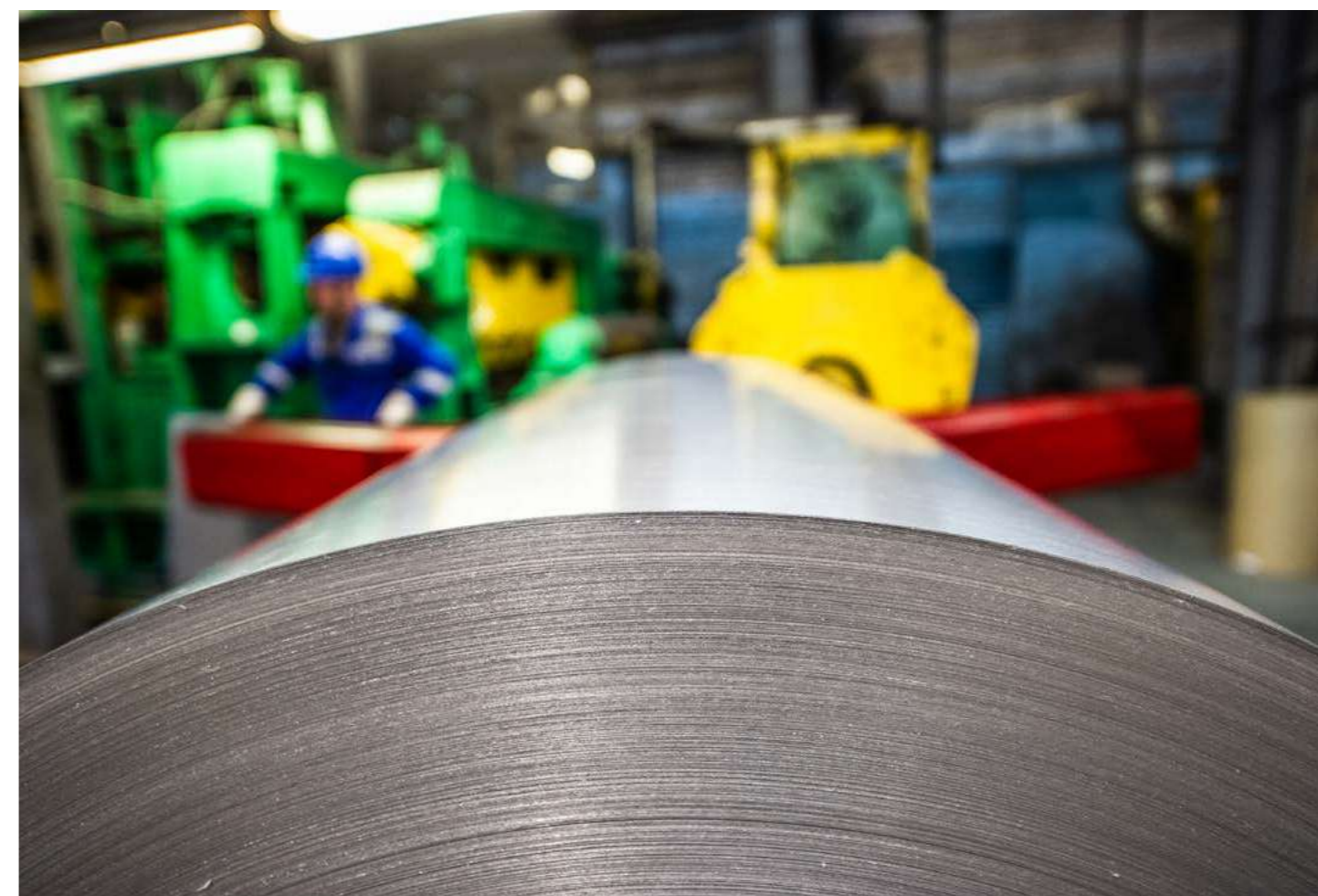
The output of iron ore concentrate totalled 17.9 m t. Part of this volume is used for pellet production.

an additional grinding facility, introduce a new filtration technology, upgrade the gas flow pattern of the induration machine, and update the control systems suite with the use of digital technologies.

The company plans to boost ore production and beneficiation capacity by 12% against the 2019 level via upgrades of Stoilensky's other transformation stages to ensure the stable supply of raw materials to the pelletizer after it reaches its target output level by 2021. This will enable the company to increase its ore processing capacity from 38 m t to 42 m t per year and to increase its concentrate output from 17.9 m t to 20 m t per year.

Stoilensky has begun construction on a new stage (Stage 3) of its thickening unit, a hydro engineering facility that dewateres the slurry, and thickens the solids, before transporting them to dedicated tailings pits. The separated water is recycled and returned into the process. This project will enable Stoilensky to fully switch to a more efficient system of processing, transporting, and storing waste ore after beneficiation in 2020. The new thickening unit will also ensure the stability of beneficiation operations as production is ramped up in 2021. At the same time, specific water consumption and the tailings area will be reduced by several times over.

NLMK Group has started operating its briquetting plant, a facility

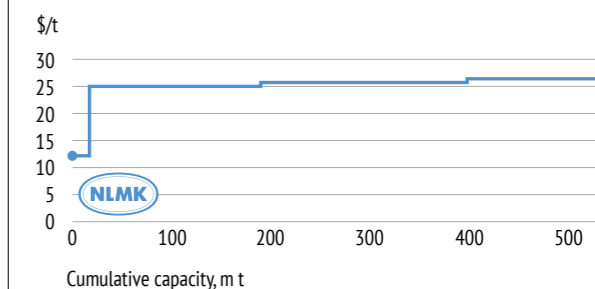


to manufacture metallurgical briquettes out of blast furnace waste. The production technology was developed in-house by NLMK. The new production facility has total capacity of 700,000 t of briquettes per year. The technology is based on an eco-friendly roasting-free pressing method. The resulting briquettes are used as feedstock for hot metal production and partially substitute primary iron ore and coal raw materials. The briquetting plant is also based on best available technologies (BAT) and is a great example of eco-friendly resource-saving operations that help to boost our efficiency at the same time.

In 2019, NLMK launched a green coke and chemical by-product recovery complex. The project help to increase the production of raw materials for the chemical industry and the agricultural sector, and halve the shop's air emissions. The new complex was built using BAT. Purified coke oven gas is used as fuel for the coke ovens themselves and for the site's power plants.

NLMK Group continued to introduce stamp charging technology at its operating Coke Oven Battery No. 5 at Altai-Koks, the most advanced coke oven battery. The project will boost coke quality, reduce the cost of its production, and improve the environmental footprint of operations.

### GLOBAL IRON ORE CONCENTRATE CASH COST IN 2019<sup>1</sup>

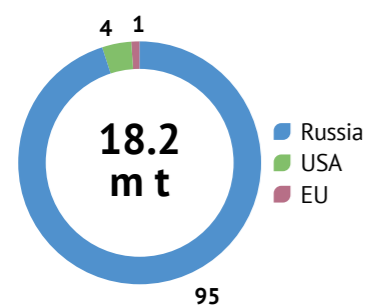
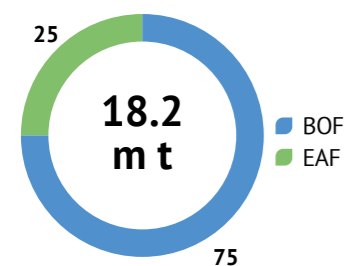


<sup>1</sup> Source: Bloomberg.

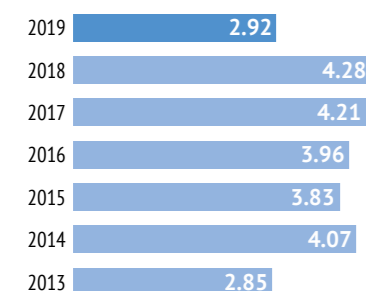
# MIDSTREAM

Leading-edge equipment and finely tuned business processes enable the production of high-quality cost-efficient steel products. NLMK Group's steel production capacity amounts to 18.2 m t 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 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 36%. NLMK Group enjoys sustainable cost leadership through its unique business model that ensures high utilization rates, efficient vertical integration and upgraded production capacities. The production cost of Lipetsk steel in 2019 was \$256/t, with the industry average of \$397/t.

### Sales vs. further processing

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

### High capacity utilization

An expansive product offering and availability of the Company's rolling facilities in the regions of consumption, i.e. Russia, Europe and the United States, enable NLMK to exceed a 90% capacity utilization rate throughout the cycle.

### 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.

## Development in 2019

Following large-scale upgrades, NLMK Lipetsk has relaunched Blast Furnace No. 6 (BF No. 6)

In 2019, NLMK Group embarked on a large-scale overhaul of its steelmaking facilities, namely BOFs and associated de-dusting equipment in BOF Shop No. 2 at the Lipetsk production site. The overhaul will increase the shop's productivity by 18% from 8.5 m t to 10 m t of steel per year and cut air emissions by 70%. It is a two-phase project. In 2019, the first phase of the overhaul was already finished with the relaunch of BOF No. 2, a steelmaking facility with a capacity of over 3 m t per year. The launch of a new dust and gas collection system in line with BATs was tied in with the relaunch of the BOF.

The use of advanced environmental and energy-saving solutions will reduce the Company's environmental footprint and will result in a 2.5-fold increase in gas purification efficiency. Despite the growth in output, these operations will be practically emission-free. The next stage is scheduled to begin in Q2 2020, and will cover the overhaul of a similar facility, BOF No. 3

## 2019 facts and figures

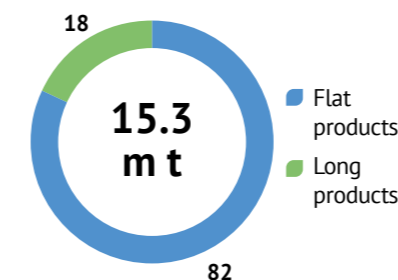
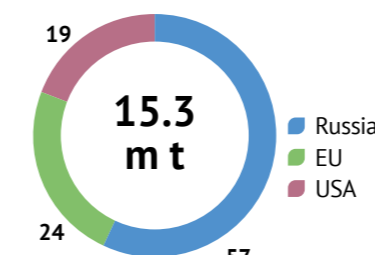
- Steel output: 15.7 m t (with NBH)
- Slab cash cost of the Lipetsk site: \$256/t

# 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 total production capacity of finished products standing at 15.3 m t, NLMK can process as much as 93% of captive crude steel at its own rolling facilities.

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

## ROLLING CAPACITY BREAKDOWN<sup>1</sup>, %



## Development in 2019

NLMK Lipetsk started its new furnace for preheating slabs before rolling at Mill 2000. The new reheating furnace increased NLMK Lipetsk's hot-rolled steel output by 110,000 t (+2%), reduced energy consumption by 50%, and almost halved air emissions. The new walking-beam reheating furnace replaced the outdated pusher-type furnace and boosted productivity by 23% to 2.25 m t per year. The furnace's advanced control system based on a learning mathematical

## 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 according to international standards.

### Optimal production footprint

Due to the location of NLMK Group's rolling operations in strategic markets, 66% 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 fluctuations in local demand.

### Diversification of sales

An expansive geographical breakdown of sales and a flexible marketing policy create a global footprint, with the ability to divert sales of steel products to the most attractive market, ensuring the 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.

## 2019 facts and figures:

- Finished steel output (with NBH): 13 m t (-0.1 m t yoy).
- Growth in sales to home markets +8% vs. 2018.
- Sales to more than 70 countries around the world.
- Flat steel accounts for 82% of total steel production, long steel accounts for 18%.

algorithm is able to adjust the heating process to steel grades without human intervention. With the new unit up and running, all of NLMK Lipetsk steel for hot-rolling goes through processing in new generation high performance resource-saving furnaces.

In 2019, NLMK Lipetsk started commercial deliveries of S500MC and S550MC high-strength HRC (yield strength 500 and 550 MPa) to the Russian market. These steel products are used in the manufacturing of dump truck bodies, scrap trucks, truck chassis, cranes and other special purpose machinery. The use of high-strength steel in structures enables a 20% increase in carrying capacity, reduced weight, and lower fuel consumption per tonne of cargo.

NLMK commissioned its accelerated cooling system at NLMK DanSteel's hot-rolling plate mill in Denmark. The new equipment will fundamentally change the Company's product mix and increase the share of niche plate, including for offshore wind power generation and pressure vessels. The new accelerated cooling system is in line with the hot-rolling mill. Thermomechanical rolling allows the production of plates with improved weldability while enhancing their strength and toughness. Improved weldability is especially important in the production of underwater foundations for wind towers that operate in aggressive maritime environments. The new cooling system will boost the production of niche premium plate from the current 0.1 m t to 0.35 m t per year.

<sup>1</sup> With NBH



# INNOVATIONS

The Company engages in research and innovation based on the needs of its customers and an analysis and development of promising steelmaking technologies. NLMK Group adopts an approach based on computer and physical simulations and the use of advanced tools and methods to test laboratory prototypes before starting full-scale experiments on industrial equipment. This approach helps reduce project implementation costs, catalyse the development and adoption of innovative solutions, and minimize innovation-related risks.

To achieve the Strategy 2022 goals, the Company has set up a corporate Centre for Research and Development

(R&D Centre) as part of its innovation activities. The centre has core capabilities and resources required to create digital and physical prototypes of new products and manufacture them at the Group's facilities. The main laboratory research facility is located at the Lipetsk site while computer modelling and premium coatings development capabilities are based in Belgium.

NLMK interacts actively with the innovation ecosystem, creating consistent mechanisms for cooperation with venture funds, development institutions, and technology parks both in Russia and abroad. These activities aim to establish a continuous flow of projects and integrate the most economically and strategically suitable solutions at NLMK Group's sites.

## RESEARCH AND DEVELOPMENT

The Company's efforts to expand its product portfolio are anchored in the R&D development strategy, which was approved by the NLMK Board of Directors in 2018. The Company is actively developing its process base to regulate project management approaches in order to successfully implement R&D and innovation projects.

# MARKET REVIEW

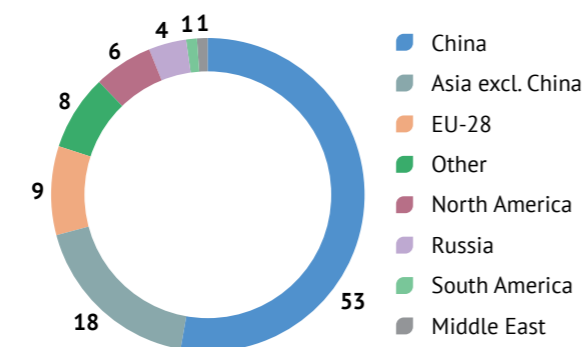
Global steel output grew by 3% yoy in 2019 to 1.87 bn t according to the Worldsteel Association. Average global capacity utilization was 83%.

**The global steel market was on the rise in 2019, supported by China**

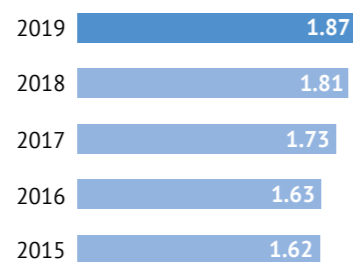
Steel production in China (50% of global steel output) increased by 8% yoy to 992 m t. Global apparent steel consumption grew by 4% yoy to 1.77 bn t, and by 9% yoy to 910 m t in China.

At the same time, exports from China fell by 7% yoy to 64 m t, driven by strong domestic demand for steel and a plan to improve the environmental situation during the winter period.

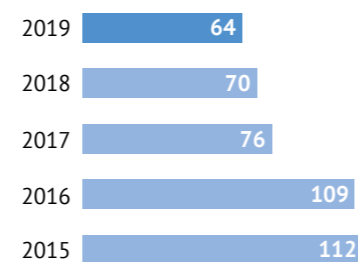
STEEL PRODUCTION BY REGION, %



GLOBAL STEEL PRODUCTION, BN T



EXPORTS FROM CHINA, M T



## US market

- Steel production in the US increased by 2% yoy to 88 m t in 2019, with capacity utilization at 81%.
- Steel consumption declined by 1% yoy to 99 m t in 2019 amid lower demand from the pipe industry as well as the machine building automotive, and energy sectors.
- Imports of steel products fell by 17% yoy to 25 m t amid Section 232 restrictions, while exports decreased by 15% yoy to 7 m t.

## EU market

- Steel production declined by 5% yoy to 160 m t.
- Apparent consumption of steel in the EU in 2019 dropped by 3% yoy to 164 m t due to weak consumption in the automotive, machine building, and white goods sectors.
- Imports of flat and long steel fell by 14% yoy to 25 m t, while exports decreased by 1% yoy to 20 m t.

## Russian market

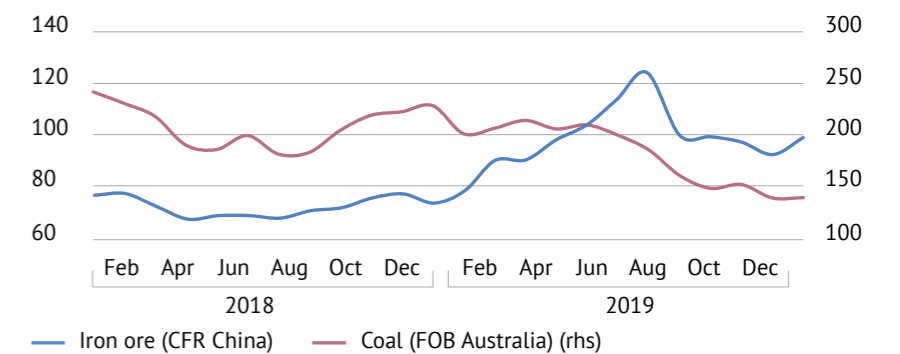
- Driven by growth in the construction and energy sectors, apparent consumption of finished steel grew by 5% yoy in 2019.
- Steel output in Russia in 2019 remained flat at 72 m t, while imports of rolled steel grew by 7% yoy, reaching 6.2 m t, and exports of finished steel declined by 16% yoy to 12 m t.

Source: Bloomberg, Worldsteel, Eurofer, Metal Expert. Preliminary data.

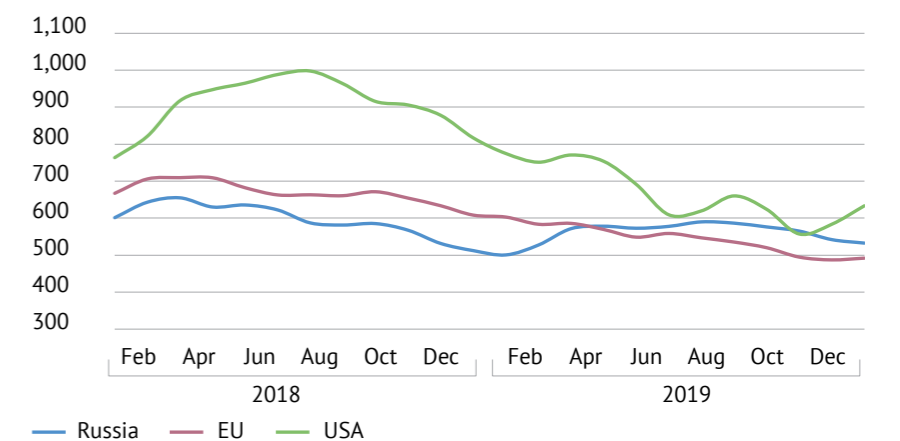
## PRICE TRENDS

Average global coal prices declined by 11% yoy due to weak demand in India and import restrictions in China. Ore prices grew by 34% yoy due to supply disruptions from Brazil and Australia. Market prices for flat products in the US decreased by 23-27% yoy and reached their lowest level in the beginning of Q4 2019, followed by a gradual recovery. In Europe, prices fell by 15-20% yoy on average, but starting from mid-Q4, this region has also seen a recovery in prices. On the Russian market, steel product dollar prices declined by 3-6% yoy following global quotes. The more gradual decline in prices is associated with the high growth rate of demand for steel on the Russian market.

GLOBAL RAW MATERIAL PRICES, \$/T



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



Source: Bloomberg

# 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 also by the principles of the UN Global Compact.

### NLMK GROUP'S VALUES GRI 102-16

Value	Description
<b>Continuous improvement of processes</b>	<ul style="list-style-type: none"> <li>Continuous improvement of processes and technologies to ensure the sustainable production of steel products that help improve the quality of life</li> </ul>
<b>Client-oriented approach</b>	<ul style="list-style-type: none"> <li>Production of unique premium quality steel products and development of engineering solutions that help our customers be on the cutting edge of innovation and be leaders in their markets</li> </ul>
<b>Absolute priority of the health and safety of our employees</b>	<ul style="list-style-type: none"> <li>Unwavering commitment to protecting the 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</li> </ul>
<b>Ensuring equal opportunities for employee development</b>	<ul style="list-style-type: none"> <li>Ensuring equal opportunities for the professional and personal growth of our employees and motivating our employees to be proactive and innovation-driven</li> </ul>
<b>Sustainable use of resources</b>	<ul style="list-style-type: none"> <li>Sustainable use of resources and the pursuit of the best available environmental and energy efficiency standards, which we also expect our partners to comply with</li> </ul>
<b>Active approach to social responsibility</b>	<ul style="list-style-type: none"> <li>Active approach to social responsibility and care for cultural legacy in the regions where we operate</li> </ul>

NLMK Group's sustainability values:

- Creating long-term shareholder value
- Promoting employee health, wellbeing, and development
- Being environmentally responsible
- Creating value for consumers
- Conducting business in accordance with high ethical standards
- Developing, providing support for, and respecting the interests of local communities
- Information transparency

A number of NLMK Group's internal documents regulate sustainability measures. A more detailed list of these documents can be found further in the text of this Report.

Sustainability management is integrated into NLMK Group's corporate governance system and is carried out at all the Group's companies, including international ones. Sustainability issues consistently feature on the agenda of NLMK Group's leadership. The Board of Directors, the Board's committees, CEO (Chairman of the Management Board), and the Management Board determine strategic growth priorities 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 matters concerning sustainability report to these vice presidents.

The Group's functional areas and teams are directly responsible for executing the tasks assigned to them and for the local management of sustainability issues at the Group's companies.

### NLMK GROUP'S SUSTAINABLE DEVELOPMENT PRIORITIES

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



# SUSTAINABLE DEVELOPMENT POLICY

In 2019, NLMK's Board of Directors approved the Company's Sustainable Development Policy. This Policy defines the Group's principles, goals, and objectives in matters concerning sustainable development as well as the mechanism for managing the relevant agenda at the level of the Board of Directors. In particular, the Board's Strategic Planning Committee is responsible for determining the Company's goals and strategy for minimizing its environmental footprint, including greenhouse gas emissions, and reviewing and approving the relevant investment programme. The Board's Audit Committee monitors the completeness of sustainability disclosures.



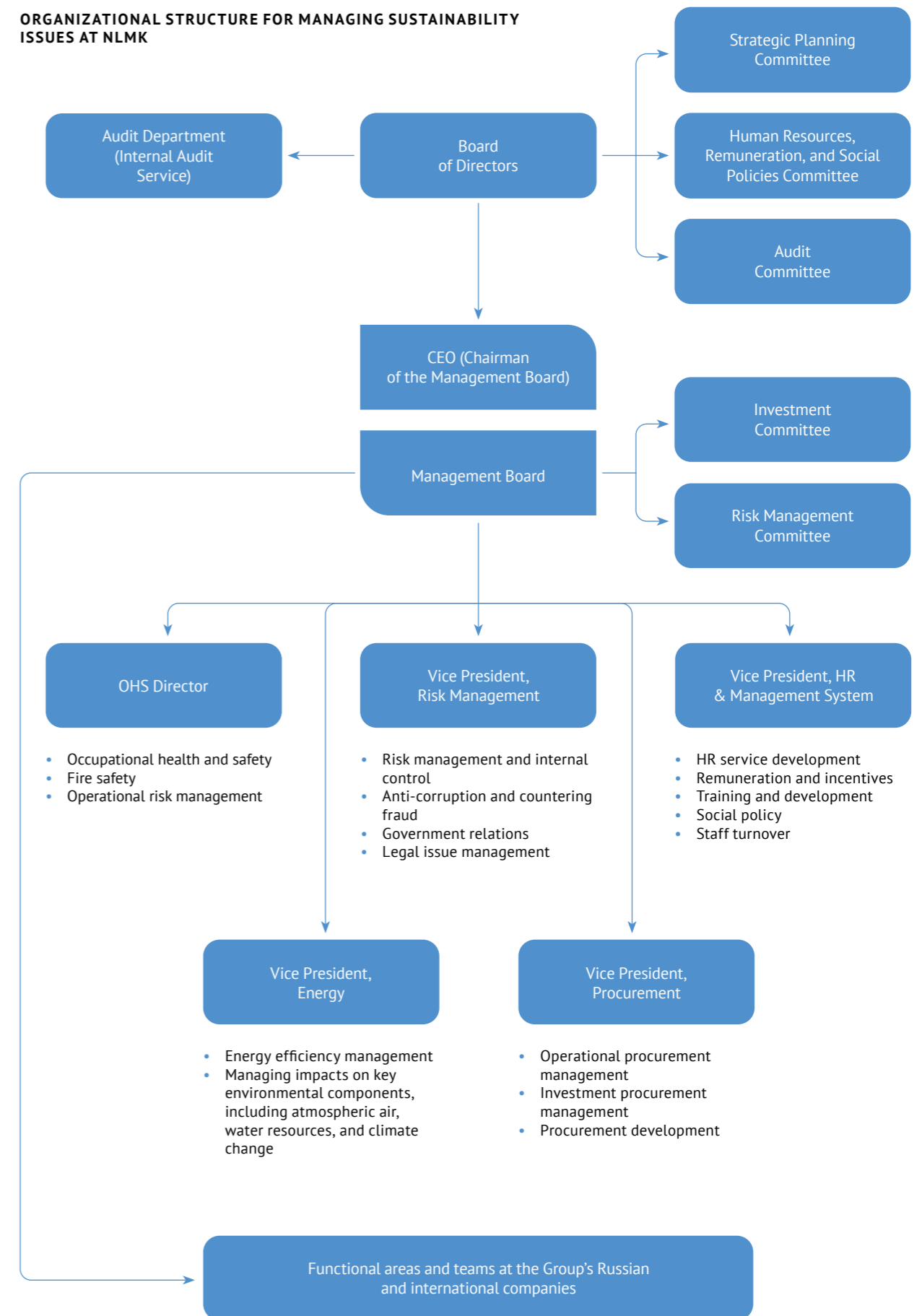
## SUSTAINABILITY AGENDA MANAGEMENT AT THE BOARD OF DIRECTORS LEVEL

Board Committees	Key aspect of sustainability
<b>Strategic Planning Committee</b>	<b>Environment</b> <ul style="list-style-type: none"> <li>Emissions, including greenhouse gases</li> <li>Discharges and waste</li> <li>Use of resources</li> <li>Biological diversity</li> </ul>
<b>Human Resources, Remuneration, and Social Policies Committee</b>	<b>Social</b> <ul style="list-style-type: none"> <li>Operational health and safety</li> <li>Training and development</li> <li>Social policy</li> <li>Diversity and equal opportunities</li> <li>Non-discrimination</li> <li>Local communities</li> </ul>
<ul style="list-style-type: none"> <li>Board of Directors</li> <li>Human Resources, Remuneration, and Social Policies Committee</li> <li>Audit Committee</li> </ul>	<b>Governance</b> <ul style="list-style-type: none"> <li>Corporate governance</li> <li>Business ethics</li> <li>Anti-corruption</li> </ul>
<b>Strategic Planning Committee</b>	<ul style="list-style-type: none"> <li>Sustainable development risk assessment</li> </ul>
<b>Human Resources Remuneration, and Social Policies Committee</b>	<ul style="list-style-type: none"> <li>Integration of sustainable development KPIs in the remuneration system</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>Performance monitoring and sustainability reporting</li> </ul>

The Board of Directors approved the relevant changes to the regulations on Committees, and the changes to the Regulations on the Board of Directors were approved at NLMK's Extraordinary General Shareholder Meeting. For more information, see the *Corporate Governance* section.

Leadership in sustainability and safety is one of the four main goals of NLMK Group's Strategy 2022, and the changes that have been implemented will contribute to the successful achievement of this goal. The changes are in line with best international practices and stakeholder requirements, and confirm NLMK Group's commitment to the principles and objectives of the UN Global Compact, to which the Company is a party.

## ORGANIZATIONAL STRUCTURE FOR MANAGING SUSTAINABILITY ISSUES AT NLMK







# 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, which aim to address significant economic, social, and environmental issues faced by the global community.

We believe that the Group makes a valuable contribution to the achievement of global sustainability goals by engaging in responsible business and targeted activities that aim to reduce its environmental footprint, supporting local communities, and ensuring safe and decent working conditions.

## NLMK GROUP'S CONTRIBUTION TO ACHIEVING UN SUSTAINABLE DEVELOPMENT GOALS

UN Goal	NLMK Group's contribution
 <p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p><b>Ensure healthy lives and promote wellbeing for all at all ages</b></p> <ul style="list-style-type: none"> <li>Implementing programmes aimed to help employees stay healthy and increasing the availability and quality of medical services for employees</li> <li>Informing the Group employees and contractors about occupational safety rules</li> <li>Implementing training programmes in occupational health and safety</li> <li>Implementing initiatives aimed at reducing water consumption, pollutant emissions, and overall waste</li> </ul> <p><i>See the following chapters of the Report: Our team, Developing local communities, Occupational health and safety, Human rights, Environmental protection, Supply chain management</i></p>
 <p><b>4 QUALITY EDUCATION</b></p>	<p><b>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</b></p> <ul style="list-style-type: none"> <li>Implementing training and development programmes to enhance professional skills of employees</li> <li>Implementing external social programmes aimed to support education in the regions where the Company operates</li> <li>Cooperating with educational institutions to improve the quality of training programmes and vocational training for future employment opportunities</li> </ul> <p><i>See the following chapters of the Report: Our team, Developing local communities</i></p>
 <p><b>6 CLEAN WATER AND SANITATION</b></p>	<p><b>Ensure availability and sustainable management of water and sanitation for all</b></p> <ul style="list-style-type: none"> <li>Introducing water recycling systems</li> <li>Implementing water treatment technologies</li> <li>Reducing water intake through equipment upgrades</li> <li>Monitoring and disclosing information on the use of water resources</li> </ul> <p><i>See the following chapters of the Report: Environmental protection</i></p>
 <p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p>	<p><b>Ensure access to affordable, reliable, sustainable, and modern energy for all</b></p> <ul style="list-style-type: none"> <li>Improving energy efficiency</li> <li>Transitioning to captive energy generation</li> <li>Consuming energy from secondary resources</li> <li>Monitoring and disclosing information on the volume of energy consumed</li> </ul> <p><i>See the following chapters of the Report: Energy efficiency</i></p>

UN Goal	NLMK Group's contribution
 <p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<p><b>Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all</b></p> <ul style="list-style-type: none"> <li>Fulfilling tax obligations</li> <li>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</li> <li>Creating jobs in the regions where we operate</li> <li>Implementing training and development programmes to enhance employees' professional skills</li> <li>Ensuring decent and safe working conditions</li> <li>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</li> <li>Ensuring the transparency of procurement procedures</li> <li>Supplier's Code of Business Conduct, which is binding for all counterparties</li> <li>Evaluating supplier compliance with applicable occupational health and safety standards as part of auditing and qualifying suppliers and contractors</li> <li>Implementing initiatives to minimize the Group's environmental footprint</li> </ul> <p><i>See the following chapters of the Report: Our team, Developing local communities, Occupational health and safety, Human rights, Supply chain management, Environmental protection</i></p>
 <p><b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b></p>	<p><b>Ensure sustainable consumption and production patterns</b></p> <ul style="list-style-type: none"> <li>Increasing the efficiency of natural resource usage</li> <li>Recycling ferrous scrap</li> <li>Implementing a series of measures aimed at improving energy efficiency and the efficiency of resource use and reducing the environmental footprint of operations</li> <li>Upgrading equipment and improving technology in order to minimize their negative impact on human health and the environment</li> </ul> <p><i>See the following chapters of the Report: Environmental protection</i></p>
 <p><b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b></p>	<p><b>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels</b></p> <ul style="list-style-type: none"> <li>Countering corruption and fraud and preventing conflicts of interest</li> <li>Introducing NLMK employees to the Code of Corporate Ethics and Anti-Corruption Policy</li> <li>Introducing counterparties to the Supplier's Code of Business Conduct</li> <li>Creating and continuously improving efficient corporate governance practices</li> <li>Creating and developing a system of government relations</li> <li>Ensuring human rights protection</li> <li>Complying with applicable laws, including occupational practices</li> <li>Openly interacting with stakeholders and informing stakeholders about the Company's positive and negative impacts</li> <li>Creating feedback channels</li> <li>Monitoring and regular reporting on the management of environmental aspects and disclosing information about legal non-compliance, including with environmental protection and labour laws</li> </ul> <p><i>See the following chapters of the Report: Corporate governance, Operational control and risk management, Information for shareholders and investors, Environmental protection</i></p>
 <p><b>17 PARTNERSHIPS FOR THE GOALS</b></p>	<p><b>Strengthen the means of implementation and revitalize the global partnership for sustainable development</b></p> <ul style="list-style-type: none"> <li>Cooperating with government authorities to ensure that the interests of local communities are taken into account in decision-making</li> <li>Disclosing information about payments to the state budgets</li> <li>Concluding partnerships with NGOs to implement programmes which aim to develop local communities</li> <li>Supporting sustainability initiatives implemented by Russian and international industry organizations</li> <li>Strengthening partnerships with other companies in the industry</li> <li>Investing in the regions where the Company operates (volunteer and charitable projects as well as social support)</li> <li>Promoting sustainable development practices as part of stakeholder engagement (including through a regular environmental assessment of suppliers)</li> <li>Publishing non-financial reporting in accordance with the GRI standards</li> <li>Developing practices of non-financial information collection throughout the Group</li> </ul> <p><i>See the following chapters of the Report: Information for shareholders and investors, Developing local communities, Environmental protection, Supply chain management, About the Report</i></p>



# GENERATING ECONOMIC VALUE

By implementing its activities in various areas of sustainable development, NLMK Group generates additional value for its stakeholders. In 2019, the volume of distributed economic value amounted to \$11,111 m<sup>1</sup>.



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

Indicator	Stakeholder group	2016	2017	2018	2019
<b>Generated direct economic value</b>		<b>7,684</b>	<b>10,104</b>	<b>12,069</b>	<b>10,578</b>
Revenue		7,636	10,065	12,046	10,554
Revenue from financial investments	Wide range of stakeholders	39	29	21	18
Income from sale of assets		9	10	2	6
<b>Distributed economic value</b>		<b>(7,065)</b>	<b>(9,773)</b>	<b>(11,565)</b>	<b>(11,111)</b>
Operating expenses	Wide range of stakeholders	(5,255)	(6,994)	(7,967)	(7,516)
Employee wages and other payments and benefits paid to employees	Employees	(824)	(960)	(979)	(970)
Payments to providers of capital		(667)	(1,354)	(1,946)	(2,169)
- including dividends paid	Shareholders and investors	(583)	(1,285)	(1,890)	(2,120)
- including interests paid to creditors		(84)	(69)	(56)	(49)
Payments to government	Government authorities	(307)	(454)	(662)	(445)
Community investments	Local communities	(12)	(11)	(11)	(11)
<b>Non-distributed economic value</b>		<b>619</b>	<b>331</b>	<b>504</b>	<b>(533)</b>

<sup>1</sup>. 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 a number of industry associations and relevant commissions and committees, they also head some of them, which allows the Group to play an active role in shaping the views and values of the business community.

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

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

Association/Initiative	NLMK Group's status
<b>World Steel Association, an international association of iron and steel product manufacturers</b>	<ul style="list-style-type: none"> <li>Membership in the Association</li> <li>2018 signatory to the Sustainable Development Charter of the World Steel Association</li> <li>Participation in conferences and seminars enabling the sharing of best practices in occupational health and safety</li> <li>Provision of information about sustainability indicators</li> </ul>
<b>UN Global Compact</b>	<ul style="list-style-type: none"> <li>Participant in the Global Initiative</li> </ul>
<b>Russian Union of Industrialists and Entrepreneurs</b>	<ul style="list-style-type: none"> <li>Membership in the Management Bureau and the Board</li> <li>Chairmanship of the Commission on Metals</li> <li>Participation in other Commissions and Committees, including: the Commission on Mining, the Committee on Corporate Social Responsibility and Demographic Policies, the Committee on Vocational Training and Qualifications, the Committee on Competition Development, and Committee on Ecology and Environment Management</li> </ul>
<b>Russian Steel</b>	<ul style="list-style-type: none"> <li>President and Vice President of the Association</li> <li>Membership in all commissions of the Association, including the Commission for protection of labour, industrial and environmental safety</li> </ul>
<b>European Steel Association (EUROFER)</b>	<ul style="list-style-type: none"> <li>Membership in the Association and on the Board</li> <li>Participation in working groups</li> </ul>
<b>Council of Electricity Consumers of the Russian Federation</b>	<ul style="list-style-type: none"> <li>Membership in the Council</li> </ul>
<b>Expert Council of the Committee on Transport and Construction of the State Duma of the Russian Federation</b>	<ul style="list-style-type: none"> <li>Participation in the Council as an expert</li> </ul>
<b>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)</b>	<ul style="list-style-type: none"> <li>Party to the Partnership</li> </ul>
<b>Anti-Corruption Charter of Russian Business</b>	<ul style="list-style-type: none"> <li>Party to the Charter</li> </ul>
<b>Steel Construction Development Association</b>	<ul style="list-style-type: none"> <li>Participation in the Association</li> </ul>

# 2019 PERFORMANCE REVIEW<sup>1</sup>

- Sales decreased to 17.1 m t (-3% yoy) due to lower steel output amid major repairs.
- Revenue decreased by 12% yoy to \$10.6 bn amid falling steel product prices and lower sales due to major repairs at the NLMK Lipetsk BF and BOF facilities.
- EBITDA totalled \$2.6 bn (-29% yoy) given a decrease in revenue and narrower steel/raw material spreads. EBITDA margin was down to 24% (-6 p.p. yoy).
- Free cash flow totalled \$1.5 bn. The 25% decline yoy is associated with a decrease in EBITDA and growth in capex as part of Strategy 2022.

## OPERATING PERFORMANCE

**Steel output<sup>2</sup>** decreased by 10% yoy to 15.7 m t amid capital repairs at the NLMK Lipetsk BF and BOF facilities, and low demand for billets on export markets.

**Sales<sup>3</sup>** decreased by 3% yoy to 17.1 m t, following a decline in production output, which was partially offset by selling off stocks that had accumulated by the end of 2018 at the beginning of the year.

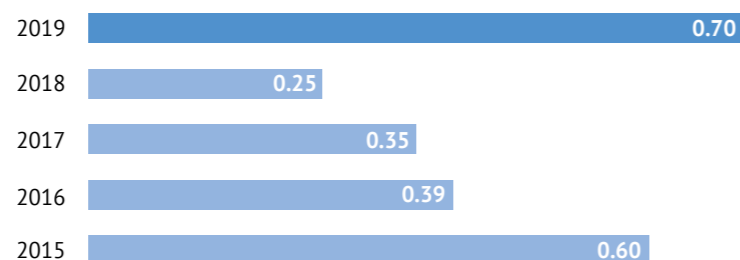
**Sales breakdown:** Finished steel sales increased by 3% yoy, up to 11.1 m t. HVA sales increased by 2% yoy to 5.1 m t. The share of HVA in the sales portfolio grew by 1 p.p. to 30%.

**Sales by region:** Sales on home markets (with NBH) increased to a record high of 11.4 m t (+7% yoy) due to an increase in Russian sales. U.S. sales decreased by 3% yoy due to lower demand for uncoated flats. Sales of NLMK's European companies remained flat yoy.

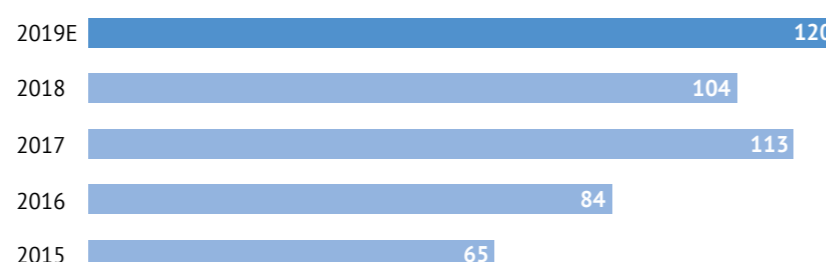
### EBITDA MARGIN, %



### DEBT LEVERAGE (NET DEBT/EBITDA)



### DIVIDENDS PAYOUT, % OF FCF



### SALES VOLUME, M T



## FINANCIAL PERFORMANCE

### Revenue

Revenue totalled \$10.55 bn (-12% yoy). The increase in the share of finished and HVA products in the sales mix partially offset the 10% yoy reduction in average sales prices and the decrease in steel product sales volumes.

The share of finished steel in revenue grew to 68% (+3 p.p. yoy). The share of HVA products totalled 38% (+2 p.p. yoy) amid lower sales of semis.

The Russian market's share of revenue grew by 7 p.p. yoy to 41%, driven by a 15% yoy increase in steel product sales on the Russian market. The shares of the US (18%) and the EU (18%) were down by 3 p.p. and 1 p.p. yoy, respectively.

The share of the Group's revenue from sales on its home markets (Russia, the US, and the EU), including NBH JV sales, grew by 5 p.p. yoy to 71%.

### EBITDA<sup>4</sup>

EBITDA declined by 29% yoy to \$2.56 bn due to the narrowing of steel/raw material price spreads, which was partially offset by an improvement in the product portfolio structure and operational efficiency gains.

### Net profit

Net profit decreased by 40% yoy in 12M 2019 due to a decrease in EBITDA and higher effective income tax rate (NLMK USA loss).

*"The overall situation on steel product markets in 2019 was rather challenging. H2 2019 saw prices fall below the cycle average. The dive was so deep that we estimate that 80% of global steel production was loss-making. The margins in the sector were further pressured by increasing prices for raw materials.*

*"Given the low phase of the market, NLMK carried out major overhauls at its blast furnace and BOF operations, resulting in a 3% yoy reduction in steel sales in 2019.*

*"NLMK Group revenue in 2019 decreased by 12% yoy. EBITDA was \$2.6 bn, which is 29% lower than the previous year. The major factor that drove down our financial performance was the decline in prices for steel products. EBITDA margin decreased by 6 p.p. yoy to 24%.*

*"In 2019, we saw the first gains from Strategy 2022. The total structural EBITDA gains from operational efficiency programmes and investment programme projects exceeded \$200 m pa (relative to the 2018 cost base).*

*"The net debt/EBITDA ratio reached 0.7x. The growth was associated with the active implementation phase of our investment programme as part of Strategy 2022, and a higher dividend payout in line with NLMK's new Dividend Policy adopted in March 2019.*

*"Free cash flow totalled \$1.5 bn. A positive free cash flow and keeping the net debt/EBITDA ratio below 1.0x enabled NLMK management to recommend that the Company's Board of Directors pay out Q4 dividends in the amount of RUB 5.16 per share.*

*"Additional information is available in the Company's press release on 12M 2019 IFRS financial results and in five-year highlights on our website."*

**Shamil Kurmashov,**  
NLMK Group CFO

<sup>1</sup> Excluding NBH, unless otherwise specified  
<sup>2</sup> Steel output with NBH  
<sup>3</sup> Consolidated sales are given excluding NBH

<sup>4</sup> EBITDA used in NLMK's financial releases is calculated as operating profit before equity share in the results of joint ventures, impairment of non-current assets and losses from fixed asset retirement, adjusted for depreciation and amortization. EBITDA is not an indicator of operating profit, operating activity, or liquidity under IFRS, and NLMK discloses it because equivalent indicators could be used by investors and analysts. That said, NLMK's EBITDA should not be viewed on a standalone basis, or in place of profit before tax, or cash flows from operations, as defined by IFRS, or as an indicator of operational efficiency, or as the sum of free cash funds that NLMK can invest into business development. NLMK's EBITDA margin and EBITDA might not be comparable to similar indicators disclosed by other companies as there are no commonly accepted rules for calculating them. For instance, NLMK's EBITDA is calculated similar to what is termed as Adjusted EBITDA<sup>4</sup> at other companies, as NLMK's EBITDA excludes other profit/loss items in addition to interest payments, income tax, depreciation, and amortization.



**Free cash flow**

Free cash flow decreased by 25% yoy to \$1.5 bn with a reduction in cash flow from operating activities and higher capex as part of Strategy 2022. Operating cash flow decreased by 4% yoy to \$2.6 bn, driven by the reduction in EBITDA, which was partially offset by the release of cash from working capital.

Cash inflow from working capital totalled \$465 m (vs. an outflow of \$261 m during 2018) due to:

- +\$314 m: a decrease in receivables driven by lower steel product sales volumes and prices
- +\$284 m: inventory reduction due to lower prices, lower exports of slabs and long products, as well as inventory optimization across the supply chain
- -\$132 m: decrease in payables

**Investment**

NLMK Group's investment increased by 59% yoy to \$1.1 bn in 12M 2019 in line with the guidance. The growth in investment was associated with the overhauls of the BF and BOF operations at NLMK Lipetsk and the active phase of the investment programme as part of Strategy 2022.

**Dividends**

The Board of Directors recommended NLMK shareholders approve Q4 2019 dividends in the amount of RUB 5.16 per share. Taking into account dividends accrued in Q1-Q3 2019, dividends for 12M 2019 can total RUB 19.4 per share, which is approximately 120% of NLMK Group's free cash flow in 2019.

**Debt leverage**

Total debt in 2019 increased by 28% yoy to \$2.66 bn, which was related to the placement of \$500 m in 7-year Eurobonds. Quarter-on-quarter, the Company's total debt decreased by 1% due to the scheduled repayment of Eurobonds.

Net debt in 2019 reached \$1.79 bn, driven by the implementation of the investment programme as part of Strategy 2022, coupled with a cash outflow towards dividend payments. Net debt/EBITDA stood at 0.7x. Quarter-on-quarter, net debt increased by 3%.

**Segmental performance**

**NLMK Russia Flat**

EBITDA decreased by 36% yoy amid narrower steel/raw material spreads.

**NLMK Russia Long**

EBITDA decreased by 60% yoy, following a narrowing of price spreads, which was partially offset by operational efficiency gains and a weaker ruble.

**Mining Division**

EBITDA increased by 10% yoy following the increase in revenue. EBITDA margin grew to 74%.

**NLMK USA**

EBITDA was -\$37 m against last year's earnings of \$253 m. The indicator took a steep dive due to a narrowing of slab/rolled steel spreads related to rolled product price adjustments and the use of Lipetsk slabs purchased in early 2019, with a 25% import tariff priced into slabs. NLMK USA stopped purchasing Lipetsk slabs in Q2 2019. Excluding import tariffs from the stock, 2019 EBITDA would be +\$27 m.

**NLMK DanSteel and plate distribution network**

EBITDA was \$8 m (vs. a \$17 m loss the previous year), supported by a wider plate/slab price spread and product mix expansion following the implementation of the investment programme.

**JV performance (NBH)**

EBITDA was -\$134 m (-\$111 m, excluding non-operating provisions for NLMK Clabecq accrued in Q2) vs. -\$87 m the previous year, amid narrower rolled product/slab price spreads and lower plate sales.

**SUSTAINABILITY PERFORMANCE**

**Occupational safety**

NLMK Group adopted its OHS strategy in 2019 based on the principles of the global Vision Zero concept and conducted a risk factor analysis for the period of 2014–2019, which will help reduce injury rates and prevent accidents at NLMK facilities on the Strategy 2022 horizon.

**Minimizing environmental footprint and energy efficiency improvement**

The Group allocated \$78 m to green investment projects in 2019. One of the key events of 2019 was the approval by the Group's Board of Directors of the NLMK Group CO<sub>2</sub> Emission Reduction Programme, which aims to reduce specific CO<sub>2</sub> emissions across NLMK Group from 1.96 t/t of steel in 2018 to 1.94 t/t of steel in 2023.

An important step made in 2019 was the launch of a new power plant project, which will use by-product gases from steelmaking processes as fuel. Once this power plant is put into operation, the Lipetsk site's energy self-sufficiency will jump from the current level of 65% up to 94% which, in turn, will make it possible to reduce greenhouse gas emissions (CO<sub>2</sub>) by 650,000 t per year.

Renewable energy sources made up 5.1% of total energy consumption in 2019.

**Our team and local communities**

One of the Company's significant achievements in 2019 was the implementation of a major project to switch to performance-based compensation management. Starting from 2019, more than 90% of NLMK employees switched to this system.



In 2019, the Management Board approved the NLMK Group Social Strategy through 2022.

An employee relocation policy was also developed in 2019 to allow employees to move freely to new work locations in any regions where the Company operates, thus enhancing opportunities for career and professional growth.

In 2019 the Company expanded the geographical scope of its 'Steel Tree' grant competition, which aims to support employees' environmental initiatives and social projects.

**Promoting responsible business practices**

Another important step made in 2019 was the approval of the Sustainable Development Policy, which defines NLMK Group's principles, goals, and objectives in environmental protection, occupational health and safety, ethical, social, economic, and other aspects of sustainable development, and also establishes a mechanism to pursue the related agenda at the level of the NLMK Board of Directors.

On top of that, the Company adopted revised Regulations on the Board of Directors committees in 2019, which put the Board's committees in charge of defining the Company's goals and strategies in mitigating its environmental footprint and enforcing the full disclosure of sustainability information.

**Joining global initiatives**

In 2019, the Company joined the UN Global Compact – a UN global initiative for sustainable development and social responsibility of businesses. By joining the initiative, NLMK Group confirmed its commitment to incorporating the Ten Principles of the UN Global Compact covering human rights, labour, environment, and anti-corruption in its strategies, policies and procedures, and to supporting and sharing the sustainable development goals.

# ABOUT THE REPORT

## OUR APPROACH TO PREPARING REPORTS

NLMK Group's 2019 Annual Report (the Report) discloses information about financial and business operations along with data on the Company's achievements in sustainability management for the period from 1 January 2019 to 31 December 2019. [GRI 102-50](#)

NLMK prepares its Annual Report on a yearly basis. The Report includes information about the Company's sustainability activities in the relevant topic-specific sections. The Company's most recent annual report was published in April 2019. Electronic versions of previous reports can be found on the Company's official website. [GRI 102-51, 102-52](#)

Starting from 2018 the Company uses the recommendations of the Global Reporting Initiative (GRI Standards). The core<sup>1</sup> option was selected for information disclosure. The GRI Content Index listing the disclosures included can be found in the Appendix. [GRI 102-54, 102-55](#)

The Report also covers compliance with the principles of the UN Global Compact to which the Company acceded in 2019 and the OECD Principles of Corporate Governance based on 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.

## SCOPE OF REPORTING

[GRI 102-45](#)

Information about the Group's financial and business activities is disclosed in accordance with its 2019 IFRS consolidated 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.

### SCOPE OF REPORTING ABOUT NLMK OPERATIONS AND SUSTAINABILITY ACTIVITIES

Russia	
<b>NLMK Russia Flat Products</b>	
NLMK Lipetsk	Steel and flat products
VIZ-Steel	GO electrical steel
Altai-Koks	Coke
NLMK Trading SA	Trader (located in Switzerland)
<b>NLMK Russia Long Products</b>	
NLMK Ural	Steel and long products
NLMK Kaluga	Steel and long products
NLMK Metalware	Metalware
Vtorchermet NLMK	Scrap processing
<b>Mining Division (Russia)</b>	
Stoilensky	Extraction and processing of iron ore
Stagdok	Extraction and processing of flux limestones
Dolomit	Extraction of flux dolomite
USA	
<b>NLMK USA</b>	
NLMK Pennsylvania LLC & Sharon Coating LLC	Flat products
NLMK Indiana LLC	Steel and flat products
EU	
<b>NLMK DanSteel and plate distribution network</b>	
NLMK DanSteel A/S	Plate
<b>NBH Segment</b>	
NLMK Clabecq S.A.	Plate
NLMK Verona SpA	Plate
NLMK La Louviere S.A.	Strip
NLMK Strasbourg S.A.	Strip
Service and Supporting Businesses	
NLMK Trade House	Sales of NLMK Group products
Novolipetsk Steel Service Centre (Metallobaza)	Sales of NLMK Group products, manufacturing of plastic and steel products
Ussuriysk Steel Service Centre (Metallobaza)	Sales of NLMK Group products
NLMK Engineering	Design and survey operations
SMT NLMK	Construction
NLMK IT	IT and computing services
NLMK Communications	Telecom services
VIZ	Steel baths
VIZ-Broker	Customs brokerage services
Gazobeton-48	Gas-concrete blocks
NLMK INDIA Service Center Pvt Ltd	Cutting and sales of GO steel
Other	-

<sup>1</sup> The GRI Standards: Core option requires obligatory disclosure of a selected set of indicators from GRI Standard 102 (General disclosures), as well as at least one indicator from the selected topic-specific GRI Standards



# THE PROCESS OF DEFINING MAJOR THEMES

GRI 102-46

In the process of defining the Report's content, NLMK identified significant economic, environmental, and social topics that are of the greatest importance to the Company and its stakeholders. This approach was developed based on the requirements set out in the GRI Standards.

For the preparation of the 2019 Report, the heads of NLMK's functional areas updated the list

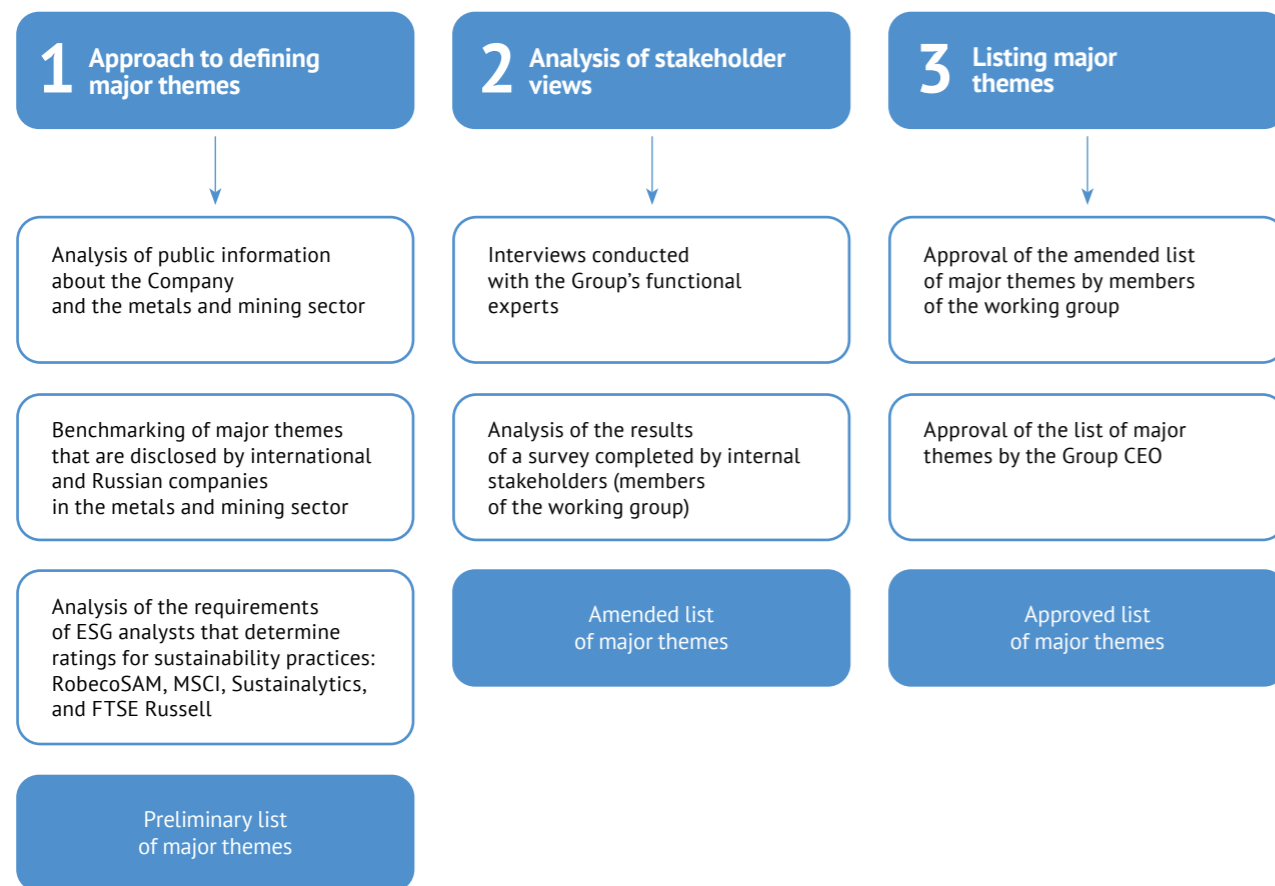
of major themes based on an analysis of stakeholder (shareholders, investors, and analysts) requirements pertaining to the environment, the social sector, corporate governance, local communities, the authorities, market and social trends, and GRI Standards.

A total of 16 major themes were identified and approved based on the analysis, including disclosures from each of the following categories: economic, environmental, and social.

These disclosures were also prioritized on the basis of a survey of internal stakeholders.

The GRI information disclosure requirements were met to the same extent for all topics regardless of their level of materiality. At the same time, topics with a high level of materiality were given special attention: additional detailed information about them is provided in the Report.

## APPROACH TO DEFINING MAJOR THEMES



## MAJOR THEMES GRI 102-47

Topic	Level of materiality	Internal stakeholders	External stakeholders
<b>Economic</b>			
201 Economic Performance	High	✓	✓
203 Indirect Economic Impacts	Medium	✓	✓
205 Anti-Corruption	High	✓	✓
<b>Environmental</b>			
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	✓	✓
<b>Social</b>			
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	✓	✓

## EXTERNAL ASSURANCE

Proper disclosure of qualitative and quantitative information prepared in accordance with the GRI Standards for selected indicators (sample information) has been verified in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits

or Reviews of Historical Financial Information. The independent auditor's opinion on the results of the audit, which provides limited confidence in the sample information, can be found in the Appendix. The independent auditor was AO PricewaterhouseCoopers Audit. GRI 102-56

# METHODOLOGY FOR PREPARING AND REVISING DATA

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. [GRI 102-48, 102-49](#)

Financial information is presented in US dollars or Russian rubles in accordance with the financial reporting system used in the Group. In cases where financial data were recalculated in dollars, the weighted average rate for 2019 was used: USD 1 = RUB 64.74 or the rate on 31 December 2019: USD 1 = RUB 61.91.

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

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

For the sake of comparing data, 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.



The scope of 2019 information disclosure covers both the Group's Russian and international companies, unless the text states otherwise.

In 2019, the Company significantly expanded its disclosure of greenhouse gas emissions, including direct and indirect emissions (in m t) and specific emissions per dollar of revenue generated. In the next reporting periods, the Company plans to continue disclosing this information. Major step in 2019 was disclosure of information about electrical power generated from renewables.

The 2019 Report reveals the Company's approach to managing the tailings storage facility. The decision to add this information to the Report was made in response to the international community's increased concern about dam management following the incident in Brazil in January 2019. The list of health and safety indicators disclosed has also been expanded.

# CONTACT DETAILS

We will be happy to answer additional questions regarding this Report as well as to receive feedback from our stakeholders in order to further develop and improve the content of the Company's future public reports. [GRI 102-53](#)

**Contact person:**  
**Dmitry Kolomytsyn, CFA**  
 Investor Relations and Capital Markets Director  
 Email: [ir@nlmk.com](mailto:ir@nlmk.com)

**NLMK Representative Office in Moscow:**  
 119017 40-3, Bolshaya Ordynka St., Moscow. [GRI 102-3](#)

# FIVE-YEAR HIGHLIGHTS

## FINANCIAL PERFORMANCE<sup>1</sup>, \$ M

Indicator	2015	2016	2017	2018	2019
Revenue	8,008	7,636	10,065	12,046	10,554
Net profit <sup>2</sup>	967	935	1,450	2,238	1,339
EBITDA	1,943	1,943	2,655	3,589	2,564
EBITDA margin	24%	25%	26%	30%	24%
Operating cash flow	1,622	1,699	1,899	2,741	2,623
Investment	595	559	592	680	1,080
Net debt	1,161	761	923	891	1,786
Free cash flow	992	1,092	1,266	2,027	1,523
Dividends, \$ per share	0.1076	0.1535	0.2384	0.3524	-

## OPERATING PERFORMANCE<sup>1</sup>, '000 T

Indicator	2015	2016	2017	2018	2019
Steel output	15,866	16,438	16,850	17,285	15,531
Steel output (with NBH)	16,060	16,641	17,076	17,493	15,696
Steel product sales	15,829	15,925	16,469	17,591	17,069
Finished steel sales	9,793	10,211	10,759	10,762	11,056
Sales to home markets	10,140	10,225	10,650	10,573	11,377

## SUSTAINABILITY PERFORMANCE

Indicator	2015	2016	2017	2018	2019
NLMK Group headcount, '000 people	56.7	54	53.2	53.4	52.8
Labour productivity, t of steel/pers., NLMK Lipetsk	463	482	502	503	448
LTIFR, NLMK Group employees	1.12	0.82	0.97	0.69	0.76
LTIFR, NLMK Group employees + contractors	1.15	0.85	1.12	0.77	0.86
Specific air emissions, kg/t of steel	20.1	20.0	19.5	18.9	20.2 (18.9 <sup>3</sup> )
Specific CO <sub>2</sub> emissions, t/t of steel (Scope 1+2) <sup>4</sup>	2.04	1.98	1.97	1.96	2.04 (1.98 <sup>3</sup> )

<sup>1</sup> Excluding NBH, unless otherwise specified

<sup>2</sup> Net profit attributable to NLMK shareholders

<sup>3</sup> Specific emissions without influence of temporary factors associated with steel output reduction

<sup>4</sup> See the following chapters of the Report: Environmental protection – Greenhouse emissions





# CORPORATE GOVERNANCE

Corporate governance  
Operational control and risk management  
Information for shareholders and investors





## 5 out of 9

Board members are independent directors

The Board of Directors recommended the NLMK Annual General Shareholders Meeting to pay FY2019 dividends of

## RUB 19.4

per share

## RUB 151.9

the average price of NLMK ordinary share on the Moscow Stock Exchange

## \$23.4

average price of NLMK's Global Depositary Receipts on the London Stock Exchange

In 2019, the number of NLMK shareholders increased

## by 2.5x

and by the end of the year exceeded 66,000 (+150% over 2019)

NLMK Group ranked among the top 10 companies with the best disclosure of corporate governance information (*TopCompetence 2019 National Corporate Governance Index*).

NLMK placed first in the *Best level of disclosure of corporate governance practices* category at the RAEX-Analytics annual reports competition.

# CORPORATE GOVERNANCE

## MAJOR THEMES

Anti-corruption

## KEY EVENTS IN 2019

- Dividend Policy updated and approved
- Focus on sustainability aspects in the Board of Directors' activity:
  - Sustainable Development Policy approved
  - Internal documents amended to clarify the ESG functions and tasks of the Board of Directors and its committees

## 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

Effective corporate governance plays a key role in the Company's operations, its successful sustainable development, risk management, and in balancing the rights and interests of shareholders, the Company management, and other stakeholders.

The Company has a well-developed corporate governance system, which is built on best international practices and is fully compliant with the requirements of the prevailing Russian legislation and laws of the countries where the Group companies operate. It functions in line with the OECD Principles of Corporate Governances, the listing rules of the Moscow and London stock exchanges, GRI information disclosure standards, and provisions of the Corporate Governance Code approved and recommended by the Central Bank of Russia.

The functioning of a well-developed corporate governance system that secures the rights of shareholders and potential investors is considered a driving force for enhancing the Company's efficiency and investment appeal.

### Key principles at the core of our corporate governance:

- 1 Sustainable development and long-term growth of return on equity investment
- 2 Commitment to ensuring equal and fair treatment of all shareholders when they exercise 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 non-Russians 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 the 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 the policy of complying with business ethics in conducting its operations

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

## CORPORATE GOVERNANCE STRUCTURE

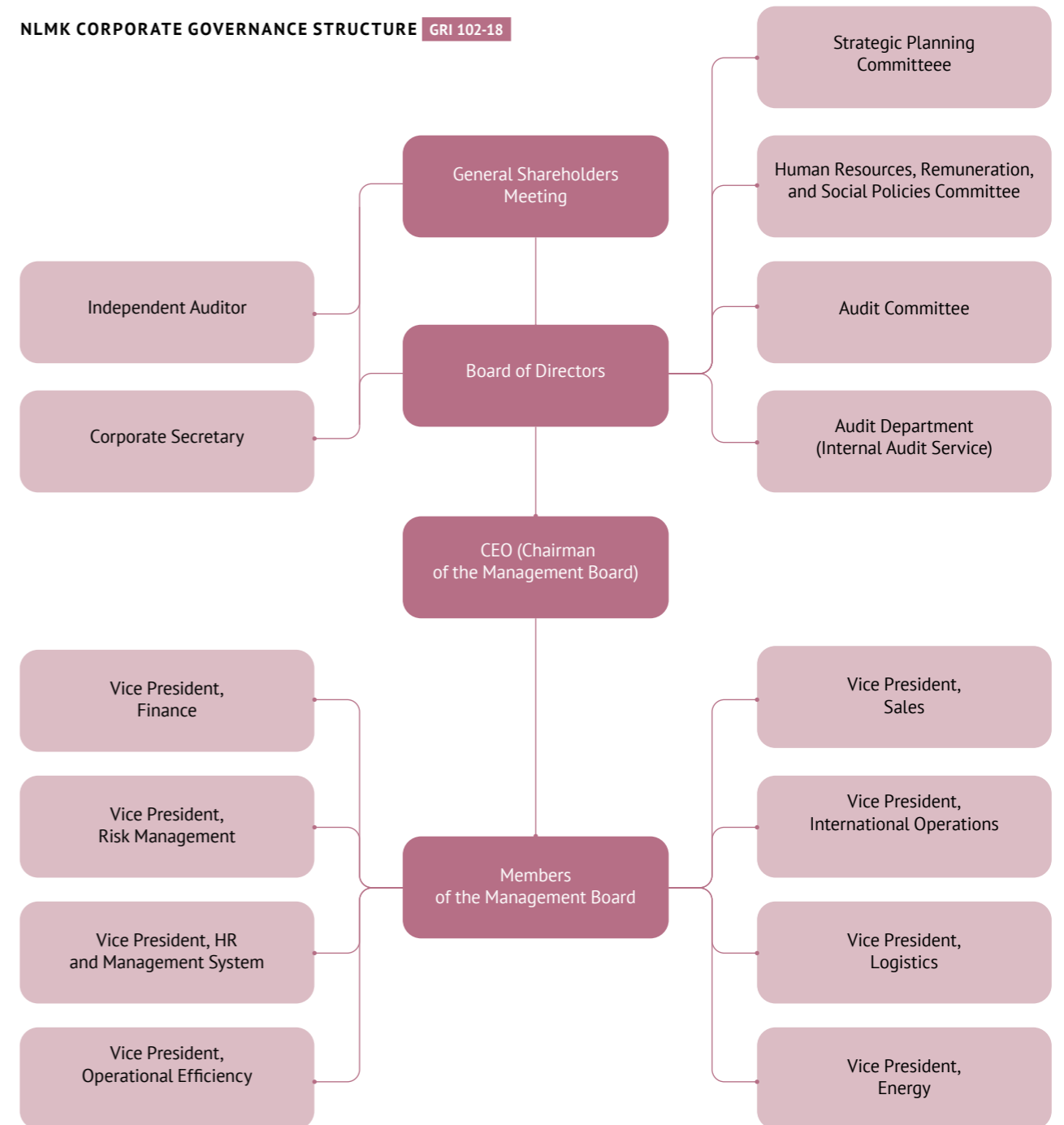
According to existing corporate documents, NLMK corporate governance structure includes:

- The General Shareholders Meeting, which is the Company's supreme governing body that makes decisions on key business issues
- The Board of Directors, which handles the overall management of the Company's activities, excluding issues that fall within the purview of the General Shareholders Meeting according to the NLMK Charter
- Committees of the Board of Directors, which were established to tentatively review key matters concerning NLMK Group's activities and provide assistance to the Board of Directors in devising and reaching decisions within their areas of expertise
- The Company's executive bodies - the CEO (Chairman of the Management Board) and the Management Board which manage the Company's day-to-day activities and ensure its efficient operation, while implementing the objectives set by the Board of Directors
- The Corporate Secretary, who handles interaction with shareholders, coordinates the Company's activities that aim to protect shareholders' rights and interests and supports the Board of Directors and the Management Board
- The independent auditor, Audit Committee, Internal Control and Corporate Risk Department, Repair and Construction Control Department, and Audit Department (Internal Audit Service), which oversee the Company's financial and economic activities

## IMPROVING CORPORATE GOVERNANCE PRACTICES IN 2019

In 2019, the Company continued to improve its corporate governance system to ensure it complies with international standards.

## NLMK CORPORATE GOVERNANCE STRUCTURE GRI 102-18



The plans for 2019 were implemented in full: changes were made to the Company's internal corporate documents and the time required to prepare public statements was shortened. The date of the General Shareholders Meeting was moved to an earlier date – from June to April.

As for the Company's priorities regarding its sustainable development in accordance with the best international practices, the following activities were carried out to consolidate and implement NLMK Group's principles, goals, and objectives in matters concerning sustainable development, thus confirming the Company's commitment to the UN Goals and reflecting the role of the Board of Directors in this area:

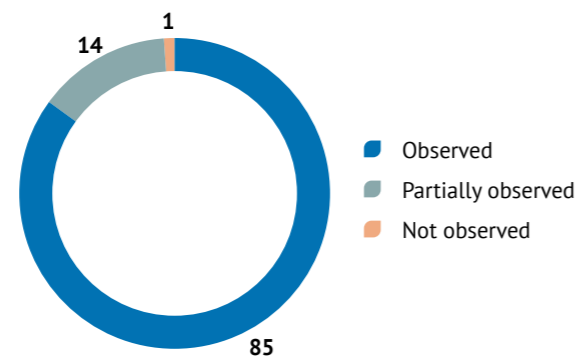
- In October 2019, the Board of Directors approved a number of documents, such as:
  - The Sustainable Development Policy (which defines NLMK Group's sustainability principles, goals, and targets in various sustainability aspects, such as environment, OHS, ethics, social and economic aspects, among

others, as well as the mechanism for oversight of the Company's ESG agenda by the NLMK Board of Directors)

- New revisions of the Regulations on Board committees (according to which the Board's Strategic Planning Committee identifies objectives in minimizing the Company's environmental impact, including greenhouse gas emissions, and reviews and approves the relevant investment programme, while the Board's Audit Committee monitors the completeness of sustainability disclosures).
- In December 2019, the General Shareholders Meeting approved a revised version of the Regulations on the Board of Directors. This document reflects the tasks the Board must implement to ensure compliance with sustainable development principles and to define goals and objectives in matters concerning sustainable development, as well as to monitor their implementation. Also at this meeting, the Regulations on the General Shareholders Meeting and the Regulations on the Board of Directors were amended in accordance with the requirements of existing legislation and the Moscow Exchange's listing rules.
- In March 2019, the Board of Directors approved a new Dividend Policy. Based on the revised Dividend Policy, NLMK Group plans to pay out 100% of its free cash flow to shareholders if its net debt/EBITDA is less than or equal to 1.0x; and 50% of its free cash flow if its net debt/EBITDA is higher than 1.0x. NLMK Group will use a normalized capex of \$700 m pa to calculate its free cash flow for the purpose of dividend payments, even if actual investments are higher.

Based on its 2019 results, NLMK complies to some extent with 78 of 79 principles of the Corporate Governance Code, or 99%. Among them, 67 principles

**COMPLIANCE OF THE NLMK GROUP CORPORATE GOVERNANCE PRACTICES WITH THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE, %**



were fully observed (85%), 11 principles were partially observed, and only one principle was not observed.

The methodology used by the Company to assess compliance with the corporate governance principles set forth in the Corporate Governance Code is based on the recommendations of the Bank of Russia on preparing a report on compliance with the principles and recommendations of the Corporate Governance Code.

The Company placed first in the *Best level of disclosure of corporate governance practices in the 2018 Annual Report* category at the RAEX-Analytics annual reports competition.

The Group continued to use an online voting service at its General Shareholders Meetings in 2019 to allow shareholders to vote regardless of where their rights are registered. The total number of shareholders who took part in the voting and used this service in 2019 increased fivefold. Moreover, since the online voting service was launched in March 2018, the number of shareholders who have used this service has increased more than ten-fold.

Based on a resolution from the Company's Board of Directors, the Annual General Shareholders Meeting on the results of 2018 was video broadcast online and made available to shareholders as part of the e-voting service.

In 2019, the number of NLMK shareholders increased by 2.5 times and by the end of the year exceeded 66,000 (+150% growth over the year). This indicator as well as the growth rate is the highest in the Company's history, which attests to the high level of confidence individual shareholders have in the Company.

**PLANS FOR 2020 AND THE MEDIUM TERM**

In 2020, the Company will continue to analyse the best corporate governance practices and evaluate them in terms of their introduction into the Company's activities. Special attention will be paid to the analysis of rankings and benchmarking, which allows to assess issuers' achievements objectively and to identify practices that might bring the greatest benefit to the Company and are important for its stakeholders. The Company will continue to improve its corporate governance system, including taking into account the recommendations of European Union regulations.

**GENERAL SHAREHOLDERS MEETING**

The Company strives to ensure equal and fair treatment of all shareholders when they exercise their right to participate in the management of NLMK.

NLMK shareholders are given an equal and fair opportunity to participate in the Company's profits by receiving dividends. NLMK ensures equal conditions and equal treatment for all shareholders.

**NLMK GENERAL SHAREHOLDERS MEETING PROCEDURES**

The General Shareholders Meeting is NLMK's supreme governing body that functions based on the legislation of the Russian Federation, the NLMK Charter and the Regulations on the General Shareholders Meeting. The Federal Law 'On Joint-Stock Companies' and NLMK Charter establish a complete list of issues for which the General Shareholders Meeting is in charge of addressing. The procedure for preparing, convening, holding, and summarizing the results of NLMK's General Shareholders Meeting is set forth in the Regulations on NLMK's General Shareholders Meeting published on the Company's official website.

The NLMK Charter and Regulations on NLMK's General Shareholders Meeting contain, among other things, 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 a vote while being absent from the venue where the voting takes place
- The option to complete electronic ballots online.



The notice about the General Shareholders Meeting and documents (materials) to be provided to persons entitled to participate in the General Shareholders Meeting are published in Russian and in English on NLMK's website according to the procedure and within the timeframe established by the NLMK Charter and Russian legislation, at least 30 days before the meeting.

In addition to the mandatory materials required by law, the Company provides 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 posts a map of how to get to the General Shareholders Meeting, a sample form of a proxy that shareholders may issue to their representative for participation in the meeting, and information on certifying such proxy.

The Company also publishes all this information in English to ensure the equal treatment of all shareholders, including non-Russians.

The Company's independent registrar 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 Russian legislation and published on the Company's website.



## THE GENERAL SHAREHOLDERS MEETING'S ACTIVITIES IN 2019

Four General Shareholders Meetings were held in 2019.

The NLMK Annual General Shareholders Meeting on the results of 2018 was held on 19 April 2019. It was attended by shareholders and shareholder representatives holding a total of 91.15% of NLMK's equity, which meets the quorum requirements. During the Annual General Shareholders Meeting, resolutions were passed on the issues envisaged by Item 1, Article 47 of the Federal Law 'On Joint-Stock Companies' as well as on the payment of FY 2018 dividends.

NLMK Extraordinary General Shareholders Meetings were held by absentee ballot.

At the NLMK Extraordinary General Shareholders Meeting held on 7 June 2019, shareholders passed a resolution to pay (declare) Q1 2019 dividends

### NLMK GENERAL SHAREHOLDERS MEETINGS HELD IN 2019

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 EXTRAORDINARY GENERAL SHAREHOLDERS MEETINGS HELD IN 2019

Date	Number of votes held by the General Meeting participants, %
07.06.2019	91.25
27.09.2019	89.61
20.12.2019	89.46

on ordinary shares in the amount of RUB 7.34 per ordinary share, including from profits of previous years.

At the NLMK Extraordinary General Shareholders Meeting held on 27 September 2019, shareholders passed a resolution to pay (declare) H1 2019 dividends on ordinary shares in the amount of RUB 3.68 per ordinary share.

At the NLMK Extraordinary General Shareholders Meeting held on 20 December 2019 shareholders passed a resolution to pay (declare) 9M 2019 dividends on ordinary shares in the amount of RUB 3.22 per ordinary share, including from profits of previous years. They also voted to approve revised versions of the Regulations on the NLMK General Shareholders Meeting and Board of Directors.

Detailed information on the voting results and resolutions passed by the General Shareholders Meetings in 2019 is available on the Company's website.

## BOARD OF DIRECTORS

### NLMK BOARD OF DIRECTORS PROCEDURES

A key component of the Company's corporate governance system that is responsible for the Company's strategic management, the Board of Directors determines the principles of and approaches to the risk management and internal control system, monitors the activities of executive bodies, and has other key functions within the Company. NLMK's Board of Directors reports to the Company's shareholders and is elected by a resolution of the Company's General Shareholders Meeting.

In addition to the main objectives of the Board of Directors stipulated by legislation and the Company's Regulations on the Board of Directors, key importance is attached to such goals and objectives of the Board as assessing political, financial, and other risks, ensuring compliance with corporate governance and sustainable development principles, and monitoring compliance with the Sustainable Development Policy.

Members of the Company's Board of Directors ensure the reliability and stability of the Company's operations, facilitate the adoption of balanced decisions by management, and should be able to make objective independent judgments and decisions that serve the interests of the Company and its shareholders.

The Regulations on the Board of Directors establish the procedure for preparing for and holding meetings of the Board of Directors, which provides members of the Board of Directors with the opportunity to prepare properly for them.

Members of the Company's Board of Directors must 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 enshrined 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 the Board meetings is determined based on the importance of the agenda items. The most important items are resolved at Board meetings held in person, and as a rule, are first reviewed by the Board's committees, thereby ensuring their thorough consideration and informed decision-making. The effectiveness of the Board of Directors is facilitated by the following components:

- Planning activities by approving the meeting schedule
- Efficient composition of the Board of Directors that reflects the optimal balance of qualifications and experience
- Inclusion of independent directors on the Board
- Induction procedures for newly elected members of the Board of Directors
- Annual performance assessment of the Board of Directors and its committees
- Ensuring the succession of the Board of Directors by regularly rotating the Board of Directors while preserving its purview and best practices.

The NLMK Charter and the Regulations on the Board of Directors published on the Company's official website govern the procedures of the Board of Directors.

Information on the activities of NLMK's Board of Directors, including information on its composition, its committees, meetings, and decisions is disclosed on the Company's official website.

## CHAIRMAN OF THE BOARD OF DIRECTORS

**GRI 102-23** The Chairman of the NLMK Board of Directors ensures the efficient functioning of the Board of Directors. The Chairman of NLMK's Board of Directors arranges for the preparation of the Board's schedule, supervises the execution of resolutions passed by the Board, compiles 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 organizing the Board's activities and ensuring that the committees of the Board of Directors function efficiently.

The Chairman of the Board of Directors is elected by its members among themselves by a majority vote of the total number of 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 that the Board of Directors effectively performs its functions, including those related to the protection of shareholders' interests and risk management, the Company's Board of Directors includes independent directors. Independent directors on the Company's Board ensure it takes an objective, balanced approach to the items discussed, improves management efficiency, and has 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 the investment community. Independent directors, who have made up the majority of the Company's Board since 2016, make a decisive contribution to discussions 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 performed by the executive bodies, establishing an efficient incentive system, conducting performance assessments, and 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 regularly conducts a preliminary analysis and assessment of the Board members' compliance with independence criteria on behalf of the Company.

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, the Board of Directors may recognize the independent status of a member of the Board of Directors in the assessment process, despite them having some formal criteria of being affiliated with the Company, as long as such affiliation does not affect the individual's ability to exercise independent, impartial, and fair judgement.

In the course of the independence assessment of Board members, conducted by the Board of Directors in 2019, four out of five directors were deemed to be fully compliant with the independence criteria defined by the Regulations on NLMK's Board of Directors, while one director, who



has a formal relationship with NLMK (Mr. Benedict Sciortino has been a member of the Board for more than seven, but less than twelve years), was recognized as independent due to the immateriality of his affiliation and the fact that it does not influence the director's decisions and his work on the Board of Directors.

### COMPOSITION OF THE BOARD OF DIRECTORS

**GRI 102-22** The composition of the Company's Board of Directors is balanced in terms of qualification, experience, knowledge, and business acumen, and is diversified as necessary. Members of the Board of Directors have an impeccable business reputation, knowledge, skills and experience in steelmaking, mining, finance, investment, corporate governance, and other areas that are important for governing the Company successfully.

In 2019, the Human Resources, Remuneration, and Social Policies Committee approved Regulations on the Succession of the Company's Board of Directors. This document aims to maintain a balance in the key expertise, experience, and optimal composition of the Board of Directors.

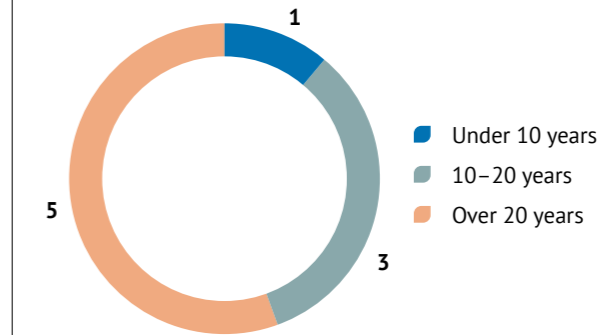
As of 31 December 2019, the Board of Directors elected at the Annual General Shareholders Meeting on 19 April 2019 consisted of nine members, including five independent directors. The Board's composition was changed over the course of 2019, with Joachim Limberg being elected to the Board of Directors as an independent director.

None of the members of the Board of Directors are shareholders in NLMK or made transactions with the Company's shares in 2019.

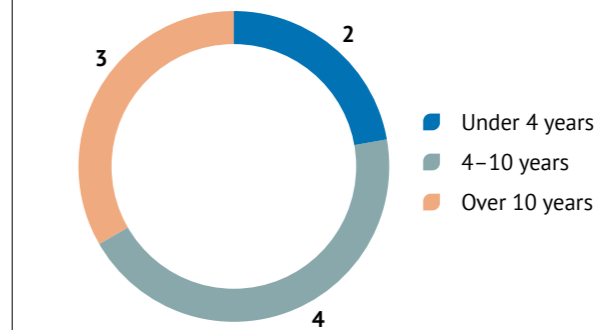
#### MEMBERS OF NLMK BOARD OF DIRECTORS AS OF 31 DECEMBER 2019

Board member	Position	Tenure, years	Status	Member of the Strategic Planning Committee	Member of the Audit Committee	Member of the Human Resources, Remuneration, and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	23	Non-executive director	✓	-	✓
Oleg Bagrin	Member of the Board of Directors	15	Non-executive director	Chair	-	✓
Thomas Veraszto	Member of the Board of Directors	4	Independent director	✓	-	✓
Nikolai Gagarin	Member of the Board of Directors	18	Non-executive director	-	✓	-
Karen Sarkisov	Member of the Board of Directors	10	Non-executive director	✓	✓	-
Stanislav Shekshnia	Member of the Board of Directors	5	Independent director	-	✓	Chair
Benedict Sciortino	Member of the Board of Directors	8	Independent director	✓	✓	-
Marjan Oudeman	Member of the Board of Directors	2	Independent director	✓	Chair	-
Joachim Limberg	Member of the Board of Directors	1	Independent director	✓	-	✓

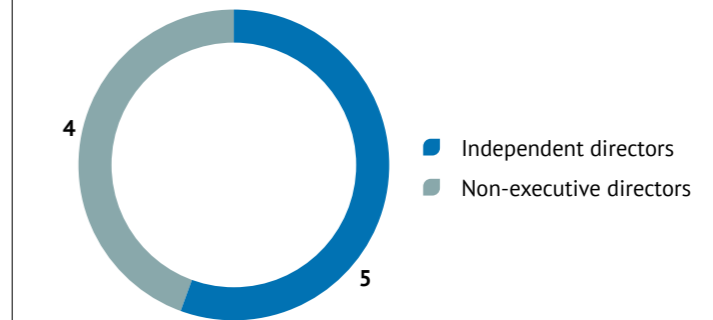
#### NLMK DIRECTORS' EXPERTISE IN THE STEEL SECTOR, YEARS



#### DIRECTORS' LENGTH OF TENURE<sup>1</sup>, YEARS



#### COMPOSITION OF THE BOARD OF DIRECTORS BY DIRECTOR STATUS<sup>1</sup>



<sup>1</sup> As of 31 December 2019



EXPERTISE OF NLMK BOARD MEMBERS

Expertise	Members of the Board <sup>1</sup>			
	Board of Directors (9 <sup>1</sup> )	Strategic Planning Committee (7)	Audit Committee (5)	Human Resources, Remuneration and Social Policies Committee (5)
Knowledge of industry	7	7	3	4
Corporate governance	7	5	4	4
Strategy	7	7	3	4
Finance and investment	9	7	5	5
HR management	6	5	2	5
Risk management	8	6	5	4
Customers and sales	5	5	2	3
Digitalization and IT	3	2	1	3
Sustainability	6	5	3	4

COMPOSITION OF NLMK BOARD OF DIRECTORS IN 2019

Composition of NLMK Board of Directors from 8 June 2018 until 19 April 2019		Composition of NLMK Board of Directors, elected on 19 April 2019	
Board member	Position	Board member	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	Joachim Limberg	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
Marjan Oudeman	Member of the Board of Directors, independent director	Benedict Sciortino	Member of the Board of Directors, independent director

<sup>1</sup> The number in brackets indicates the number of Board members who sit on the body.

BIOGRAPHIES OF MEMBERS OF THE BOARD OF DIRECTORS



Vladimir Lisin

Year of birth: 1956

Member of the Board of Directors since 1996, Chairman of the Board of Directors since 1998

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

- Mr. Lisin started his career in 1975 as an electrical fitter. He worked at Tulachermet, working his way up from assistant steelmaker to deputy shop manager. In 1986, he went to work in Kazakhstan, first as Deputy Chief Engineer and later as Deputy CEO of the Karaganda Steel Plant. He has been a member of boards of directors at several leading Russian steel companies since 1993.
- Mr. Lisin graduated from Siberian Metallurgic Institute, where he majored in ferrous and non-ferrous foundries. In 1990, he graduated from the Higher School of Commerce under the Foreign Trade Academy. In 1992, he graduated from the Academy of National Economy with a major in economics and management. He holds a Ph.D. in engineering and economic sciences and is a professor. He won the USSR Council of Ministers Prize for Science and Technology, is an Honorary Metallurgist of the Russian Federation, and is a holder of the Order of Honour and the Order of Alexander Nevsky. He serves as President of the International Shooting Sport Federation.



Oleg Bagrin

Year of birth: 1974

CEO (Chairman of the Management Board) from 2012 until March 2018. Member of the Board of Directors since 2004

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

- Member of the Board of Freight One. Director and member of the Board of Directors of Fletcher Group Holdings Limited.
- Mr. Bagrin graduated from the State Management University with a major in mathematical methods and operations research in economics. He has a postgraduate degree in economics and a degree in business administration from the University of Cambridge, UK.



## Benedict Sciortino

**Year of birth: 1950**

**Member of the Board of Directors since 2012  
(independent director)**

**Member of the Audit Committee and member of the Strategic  
Planning Committee**

- From 1977 to 1995, Mr. Sciortino worked as an attorney-at-law and a partner with Baker & McKenzie, New York. He joined Duferco in 1995. He served as a member of the Board of Directors of Duferco S.A., where he was responsible for Duferco Group North American and South African business as well as trading operations, financial and legal matters, and mergers and acquisitions. Mr. Sciortino serves as a director of several operating companies.
- Since March 2013, he has served as CEO and member of the Board of Directors of DXT Commodities SA (formerly Dufenergy Trading SA).
- He graduated from Queens College, New York with a BA degree and received JD and LLM degrees from New England School of Law (Boston, MA) and New York University Law School, New York.



## Nikolai Gagarin

**Year of birth: 1950**

**Member of the Board of Directors since 2001**

**Member of the Audit Committee**

- In 2003, as a Managing Partner, Mr. Gagarin was appointed Chairman of the Board at Reznik, Gagarin, Abushakhmin, and Partners Law Offices. He has been Chairman of the Board and a Managing Partner at Reznik, Gagarin, and Partners Law Offices, Moscow, since 2009.
- He is a graduate of Lomonosov Moscow State University with a major in law.



## Karen Sarkisov

**Year of birth: 1963**

**Member of the Board of Directors since 2010**

**Member of the Strategic Planning Committee and member  
of the Audit Committee**

- Aide to the Chairman of the Board of Directors on External Economic Relations and a member of the Board of Directors of NLMK International B.V.
- From 2006 to 2007, Mr. Sarkisov served as the Chairman of the Board of Directors of VIZ-Steel. From the early 1990s to 2008, he worked at steel trading companies, where he held various executive positions at a number of international metal trading entities.
- He is a graduate of Tashkent State University, where he majored in oriental studies



## Stanislav Shekshnia

**Year of birth: 1964**

**Member of the Board of Directors since 2015  
(independent director)**

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

- 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, Russian Fishery Company and Vimpelcom-R and as director of a number of Russian and Ukrainian companies. Dr. Shekshnia was an independent director at DTEK BV, Ilim Timber Industry, Naftna Industrija Srbije (NIS), and Ener1. Currently, Dr. Shekshnia is Chairman of the Board of the Samolet Group. In 2002, Dr. Shekshnia co-founded Zest Leadership International Consultancy.
- From April 2007 until July 2019, Dr. Shekshnia was a Senior Partner of LEADERSHIP VECTOR, a talent equity consulting practice. He focused on leadership, leadership development, corporate governance, and business in emerging economies. He is now a Senior Consultant at Ward Howell. 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 the United States, and is the author, co-author, or editor of ten books, numerous articles, executive commentaries, interviews, and case studies on entrepreneurship, leadership, people management, intercultural management, and business and management in Russia.
- Dr. 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

**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, Remuneration, and Social Policies Committee**

- Mr. 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 for BCG in this area.
- Mr. Veraszto has held senior management positions at large industrial and consulting companies such as McKinsey & Company, where he spent 15 years serving clients in various industries.
- Mr. Veraszto earned a doctorate in law and a master's in philosophy 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 at Johns Hopkins University (USA).



## Marjan Oudeman

**Year of birth: 1958**

**Member of the Board of Directors since 2018 (independent director)**

**Chair of the Audit Committee and member of the Strategic Planning Committee**

- Ms. Oudeman served as President of the Executive Board of Utrecht University (The Netherlands) from 2013 until June 2017).
- From 2010 to 2013, Ms. Oudeman was a member of the Executive Committee of AkzoNobel, where she was responsible for HR and organizational development.
- Ms. Oudeman previously served as a member of the Executive Committee of Corus Group, Executive Director Corus Strip Products Division from 2007 to 2010.
- She also held the positions of the CEO of Corus Nederland BV and Managing Director of Corus Strip Products IJmuiden from 2004 to 2007, and Managing Director of Corus Packaging Plus from 2000 to 2004.
- Before joining Corus, Ms. Oudeman worked for Hoogovens Group NV, where she held 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 of Hoogovens Packaging Steel.
- Ms. Oudeman holds positions in the governing bodies of a number of entities: she is a member of the Boards of Solvay SA, SHV Holdings, NV Aalberts Industries NV, and UPM-Kymmene Corporation.
- She has extensive experience as a line manager in the steel industry and considerable international business experience.
- Ms. 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.



## Joachim Limberg

**Year of birth: 1954**

**Member of the Board of Directors since 2019 (independent director)**

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

- Mr. Limberg was Chairman of the Management Board of Materials Services Business Area, CEO and Chairman of the Executive Board of thyssenkrupp Materials International GmbH from October 2009 until 31 December 2018. He was responsible for the Materials unit in Germany, North America, Eastern Europe, and Western Europe/Asia Pacific, Materials Processing Europe, Materials Trading, the Special Materials units (special steels) of AST and Distribution Stainless, as well as the Special Services units of Plastics Europe, Aerospace, and Technical Services.
- Mr. Limberg began his career in 1976 at Klöckner. He then spent several years as managing director/CEO of various small and medium-size companies. In 1995, he joined thyssenkrupp Group, initially as head of the Product Management Steel and Materials Management departments at thyssenkrupp Schulte. In 1998, he was appointed to the Executive Board. From 2002 to 2005, he served as Chairman of the Executive Board of thyssenkrupp Schulte GmbH. Mr. Limberg was appointed to the Executive Board of thyssenkrupp Materials AG, later thyssenkrupp Services AG, on 1 April 2001.
- In January 2002, he was made additionally responsible for the North American operations of thyssenkrupp Materials N.A., of which he was chairman. With the establishment of thyssenkrupp Materials Europe GmbH on 1 June 2005, he took over as Chairman of the company's Executive Board and continued in this position after the company was renamed thyssenkrupp Materials International GmbH.
- From October 2006 to September 2009, he was Vice Chairman of the Executive Board of thyssenkrupp Services AG, where he was primarily responsible for strategic corporate development. One of particular focuses was on developing activities in North America, Eastern Europe and South America, as well as establishing the aerospace and services business as core activities. This also included business actions in Asia, which he was in charge of for several years while located in Hong Kong.
- Mr. Limberg is a professional exporter. He studied economics at the Open University of Hagen (Diplom-Ökonom). Mr. Limberg has a degree in economics (DIPLOM-ÖKONOM) from the Open University of Hagen.



## Helmut Wieser

**Year of birth: 1953**

**Was member of the Board of Directors and member of the Human Resources, Remuneration and Social Policies Committee until 19 April 2019**

**Member of the Strategic Planning Committee**

- Mr. 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, Mr. Wieser was a member of the Alcoa Executive Council, the senior leadership group that provides strategic direction for the company.
- Mr. Wieser also served on the board of governors of the International Graduate University in Washington, D.C. on Capitol Hill. Before joining Alcoa, he worked for Austria Metal Group (AMAG) for ten years, holding a series of management positions in its rolled products unit, culminating in 1997 as an Executive Member of the Board and COO. Prior to this, 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 served as a member of the board (independent director) of Rain Carbon Inc. from 2014 until March 2018. Mr. Wieser is a member of the Advisory Board of COBEX GmbH.
- Mr. Wieser received a master's degree in mechanical engineering and economics in 1981 from the University of Graz, Austria.

## BOARD OF DIRECTORS' ACTIVITY IN 2019

In 2019, NLMK's Board of Directors held seven meetings, four of which were held by absentee ballot. Approximately 32 items were considered at the meetings.

Main issues examined by the Group's Board of Directors in 2019:

- 1 Strategy and priority areas:
  - Approving NLMK Group's consolidated budget for 2020
  - Approving NLMK Group's development strategy for 2018 - 2022
  - Implementation of NLMK Group's strategy for 2018 - 2022 as of the end of 2019.
- 2 Appointments and remuneration:
  - Reviewing proposals on the nomination of candidates to NLMK's governing bodies (the Board of Directors, NLMK CEO (Chairman of the Management Board)) and inclusion of the nominees in the voting list of people to be elected to these governing bodies
  - Providing recommendations to the Annual General Shareholders Meeting regarding the payment of remuneration to Board members
  - Approval of the composition of NLMK's Management Board

- Election of the Chairman of NLMK's Board of Directors
  - Forming the committees of NLMK's Board of Directors
  - Recognition of the independent status of nominees to NLMK's Board of Directors
  - Performance assessment of NLMK's Board of Directors
  - Performance reports of the committees of NLMK's Board of Directors.
- 3 Corporate governance:
    - Convening of NLMK's General Shareholders Meetings
    - Approving the agendas, draft documents, and measures necessary for preparing for and holding the Annual General Shareholders Meeting
    - Inclusion of an item on the approval of revised versions of internal corporate documents into the Extraordinary General Shareholders Meeting agenda
    - Composition of the Company's Strategic Planning Committee
    - Providing recommendations to NLMK's Annual General Shareholders Meeting regarding profit distribution/dividend payment
    - Approving the 2018 NLMK report on related-party transactions
    - Approving the NLMK 2018 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
    - Approving the following revised documents: Dividend Policy, Regulations on Committees, and Sustainability Policy.
  - 4 Financial reporting:
    - Approving the Company's annual accounting (financial) statements, including the 2018 profit and loss statement, as well as the NLMK IFRS 2018 annual consolidated financial statements.

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

Board member in the reporting year	Independent director	Participation in the Board meetings <sup>1</sup>	Audit Committee	Human Resources, Remuneration, and Social Policies Committee	Strategic Planning Committee
Oleg Bagrin		7 (7)		6 (6)	6 (6)
Thomas Veraszto	✓	7 (7)		6 (6)	6 (6)
Nikolai Gagarin		7 (7)	4 (4)		
Vladimir Lisin		7 (7)		6 (6)	6 (6)
Karen Sarkisov		7 (7)	4 (4)		6 (6)
Stanislav Shekshnia	✓	7 (7)	4 (4)	6 (6)	
Benedict Sciortino	✓	7 (7)	4 (4)		4 (6)
Marjan Oudeman	✓	7 (7)	4 (4)		6 (6)
Joachim Limberg <sup>2</sup>	✓	5 (5)		3 (3)	5 (6)
Helmut Wieser <sup>3</sup>	✓	2 (2)		3 (3)	5 (6)

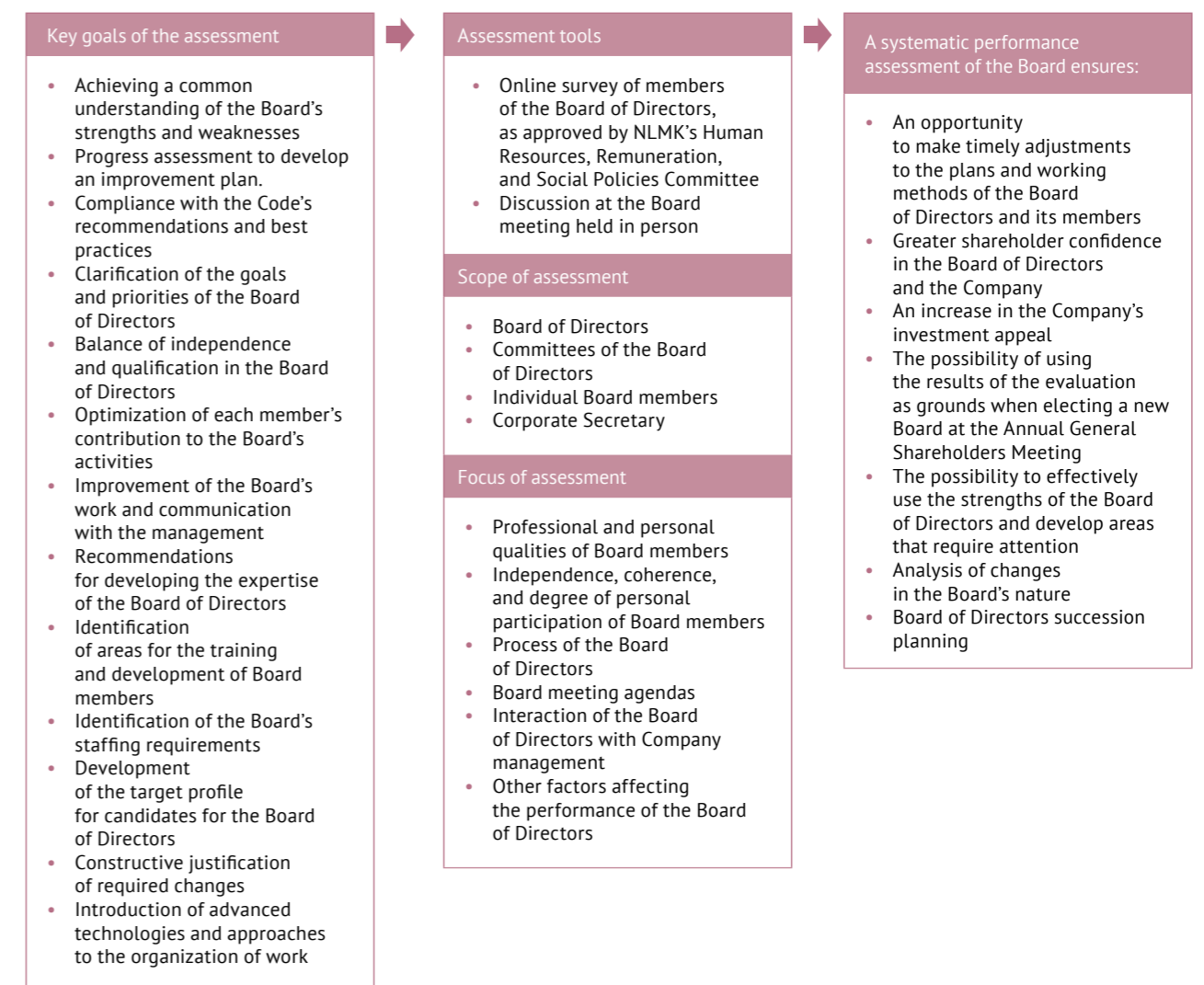
<sup>1</sup> The number in brackets denotes the number of meetings of the Board of Directors or the Board's committee held during the period of this director's tenure.  
<sup>2</sup> Joachim Limberg was elected to the Board of Directors and the Board's Strategic Planning Committee at the Annual General Shareholders Meeting held on 19 April 2019.  
<sup>3</sup> Helmut Wieser was a member of the NLMK Board of Directors and the Board's Human Resources, Remuneration, and Social Policies Committee until 19 April 2019.

## BOARD OF DIRECTORS PERFORMANCE ASSESSMENT

The Board of Directors is one of the key components of the Company's corporate governance system. The quality of the Company's governance depends on the efficiency of its activities, and its decisions directly affect the Company's market capitalization. The assessment of the Board of Directors' performance is an effective tool for improving the corporate governance system, each component of which is related to the work of the governing body. In line with the recommendations of the Corporate Governance Code recommended by the Bank of Russia and best international practices, the Company has been conducting an annual

assessment (self-assessment) of the Board of Directors' performance since 2016. The formal assessment procedure does not only cover the Board of Directors as a whole, but also assesses the work of the Board's committees and each member of the Board, including its Chairman. The main purpose of the Board's performance assessment is to determine the efficiency of its performance as a collective governing body and enhance the Board's role in achieving the Company's goal of successful development. The assessment of the Board of Directors' performance helps to determine the focus and changes in the performance of the Board of Directors and its committees, get a comparative analysis of their contribution to the Company's successful development, as well as identify areas for the continuous improvement of the Board's procedures.

### PERFORMANCE ASSESSMENT OF THE NLMK BOARD OF DIRECTORS



If necessary, based on the results of the Board's performance assessment, the Chairman of the Board of Directors and the Board's Human Resources, Remuneration, and Social Policies Committee put forward proposals that aim to improve the work of the Board of Directors and its

committees. Individual assessments of Board members identify aspects that need to be developed and strengthened. Recommendations as well as individual training programmes (training sessions) may be offered to improve the skills of individual Board members.



The Board's strengths and areas for improvement were analysed as part of an annual assessment carried out in January 2019 in the form of an online survey of its members in the format approved by the HR Committee as well as an interview of each member of the Board of Directors by the HR Committee Chairman. The Board's strengths included its structure, well-balanced expertise and experience, the structure of its meeting agendas, the contribution of the Board Chairman, and the Corporate Secretary's performance. Recommendations were issued on how to develop certain competencies of the Board of Directors and how to improve some of its procedures. An assessment report was prepared. The assessment confirmed the effectiveness of the Company's Board of Directors and its committees in 2018, while in 2019 the activities of the Board of Directors and the Corporate Secretary were focused on improving the areas for development that were identified during the assessment and implementation of the recommendations that were given. The results of the Board's performance assessment and recommendations for further improvement of the Board's procedures, its committees, and individual Board members were reviewed at the in-person Board meeting in March 2019.

The Committee is considering the option of hiring an external consultant for the Board's performance assessment (the issue is to be included in the 2020 agenda of the Committee's meetings).

## INDUCTION COURSE FOR NEWLY ELECTED MEMBERS OF NLMK'S BOARD OF DIRECTORS AND THE ONBOARDING PROCESS

An induction course for newly elected members of NLMK's Board of Directors was developed and approved by the Human Resources, Remuneration, and Social Policies Committee, in compliance with best corporate governance practices

to ensure the efficient functioning of the Board of Directors. In 2019, the Human Resources, Remuneration and Social Policies Committee approved a new version of the induction course for newly elected members of the Board of Directors, which will ensure they are integrated into the Board's work faster and more effectively, improve the understanding of their role and responsibilities, as well as provide feedback from newly elected members who take the course.

The main goal of the course 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 and its systems of risk management, internal control, and corporate governance.

Meetings with the CEO (Chairman of the Management Board), members of the Board of Directors, members of the Management Board, and senior executives of the Company are arranged as part of the course. The newcomers also have an opportunity to get acquainted with the Company's core facilities, processes, and products.

An induction course for Joachim Limberg, a newly elected member of the Board of Directors, was organized in April 2019. As part of the course, Mr. Limberg held meetings with the Board members and the Company's executives, including the CEO (Chairman of the Management Board), visited the Lipetsk production facilities, and planned visits to the Group's European facilities and NLMK Kaluga. In addition, Mr. Limberg was given an opportunity to familiarize himself with material information about the Company's activities, its internal documents, financial statements, annual reports, other documents and information published on NLMK Group's official website (as per the list approved in the course), as well as information about the organization of the Board's activities, including information on the rights, duties, and responsibilities of members of the Board of Directors.

## PREVENTING A CONFLICT OF INTEREST AMONG BOARD MEMBERS

Members of the Board of Directors must act in good faith and reasonably in the interests of the Company and its shareholders based on sufficient awareness and with due care and discretion. Given that the reasonable and good-faith actions of the Board members require the adoption of decisions based on all available information without any conflict of interest and taking into account the equal treatment of shareholders, the Company has developed a number of measures to prevent conflicts of interests. As part of these activities:

- In case there is a potential conflict of interest (including an interest in the Company making a transaction), members of the Board of Directors shall notify the Board and put the Company's interests above their own under all circumstances
- Members of the Board of Directors shall refrain from acts that will or may lead to a conflict between their interests and those of the Company
- 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 a discussion on the item with respect to which the Board member has a conflict of interest
- Members of the Board of Directors shall abstain from voting on items in 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 experiencing said conflict of interest should not be present at the Board's meeting when the item is discussed.

According to the information available to the Company, there was no conflict of interest among the members of the Board of Directors in the reporting year (including those related to the participation of these persons in the governing bodies of NLMK's competitors).

# COMMITTEES OF THE BOARD OF DIRECTORS

**GRI 102-22** In order to improve the efficiency of the decisions taken by the Board of Directors, ensure the preliminary examination and study of the most essential matters in the Company's activities, and prepare the appropriate recommendations, the Board of Directors has set up the following standing committees:

- Strategic Planning Committee
- Audit Committee
- Human Resources, Remuneration, and Social Policies Committee

The committees of the Board of Directors report to the Board of Directors and serve as its advisory bodies. The resolutions of the committees are also advisory in nature.

Due to the need for a comprehensive discussion of the issues under consideration, the committees are formed taking into account the professional experience, special knowledge, and skills of members of the Board of Directors. Committee members have the expertise needed to make a significant contribution to their work.

If necessary, the Board's committees may hire experts and consultants to work with the committees on a temporary or permanent basis with no right to vote during decision-making on issues within the committees' remit.

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

In order to balance approaches to problem solving with respect to risk management and the protection of shareholders' interests, the majority of members of two out of three committees, including their chairpersons, 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 that involve enhancing the efficiency of the Company's activities in the long-term and promoting asset growth, profitability, and investment appeal. The Committee defines the goals for minimizing the Company's environmental impact, including greenhouse gas emissions, and reviews and approves the appropriate investment programme.

### Committee members as of 31 December 2019

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 Committee's agenda items.

The Committee members changed in 2019.

The Committee's Secretary is Vice President for Strategy Konstantin Arshakuni.

### STRATEGIC PLANNING COMMITTEE MEMBERS IN 2019

Members of the Strategic Planning Committee from 8 June 2018 until 19 April 2019		Members of the Strategic Planning Committee as of 19 April 2019	
Board member	Position	Board member	Position
Oleg Bagrin	Chair of the Committee	Oleg Bagrin	Chair 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	Joachim Limberg	Member of the Committee
Vladimir Lisin	Member of the Committee	Vladimir Lisin	Member of the Committee
Marjan Oudeman	Member of the Committee	Marjan Oudeman	Member of the Committee
Karen Sarkisov	Member of the Committee	Karen Sarkisov	Member of the Committee
Grigory Fedorishin	Member of the Committee	Grigory Fedorishin	Member of the Committee
Benedict Sciortino	Member of the Committee	Benedict Sciortino	Member of the Committee
		Sergey Filatov <sup>1</sup>	Member of the Committee

<sup>1</sup> NLMK Group's Board of Directors resolved to include Sergey Filatov, Aide to the Company's CEO, in the Strategic Planning Committee at a meeting held on 24 October 2019.

### Committee's activities in 2019

In 2019, the Strategic Planning Committee held six meetings.

The Committee reviewed and passed resolutions on the following issues:

- Further development of the NLMK Production System and several functions and processes
- NLMK Group's Environmental Programme 2019-2023
- Status of the implementation of NLMK Group's investment programme and 2020 investment budget
- Strategic Planning Committee schedule for 2020

Areas for development and key projects of the NLMK Group operations and divisions were also discussed.

In 2020, the Committee plans to work actively on the development programmes of a number of functional



areas, divisions, operations, and processes. The Committee will also analyse the implementation of the Committee's instructions and the progress of NLMK Group's investment programme.

### ATTENDANCE OF COMMITTEE MEETINGS BY COMMITTEE MEMBERS IN 2019

Board member	Position	Attendance of Committee meetings in 2019
Oleg Bagrin	Chairman of the Committee	6 (6)
Thomas Veraszto	Member of the Committee	6 (6)
Helmut Wieser	Member of the Committee	5 (6)
Karl Doering <sup>1</sup>	Member of the Committee	1 (6)
Vladimir Lisin	Member of the Committee	6 (6)
Marjan Oudeman	Member of the Committee	6 (6)
Karen Sarkisov	Member of the Committee	6 (6)
Grigory Fedorishin	Member of the Committee	6 (6)
Benedict Sciortino	Member of the Committee	4 (6)
Joachim Limberg <sup>2</sup>	Member of the Committee	5 (6)
Sergey Filatov <sup>3</sup>	Member of the Committee	2 (6)

<sup>1</sup> Member of the Committee until 19 April 2019.

<sup>2</sup> Elected as a member of the Committee at the Board of Directors meeting held on 19 April 2019.

<sup>3</sup> Elected as a member of the Committee at the Board of Directors meeting held on 24 October 2019.

### AUDIT COMMITTEE

The Audit Committee drafts and submits recommendations to the Board of Directors on matters concerning the Board's active involvement in the supervision of the Company's financial and business activities. These include recommendations on annual independent audits of NLMK's accounting (financial) statements, the quality of services provided by the auditor, compliance with the requirements for auditor independence, the process of the independent appraisal of property in cases stipulated by Russian legislation and other cases as well as issues related to disclosure of the Company's information about sustainable development. **GRI 102-32** The Committee analyses and evaluates the Company's information disclosure system on sustainable development issues and monitors its completeness, accuracy, and reliability.

### Committee members as of 31 December 2019

The Audit Committee is chaired by an independent director. Most of the Committee members are also independent directors. In addition, the Audit Committee includes an independent director with a background in the preparation, analysis, evaluation, and audit of accounting (financial) statements.

The Committee members changed in 2019: Marjan Oudeman replaced Benedict Sciortino as chair of the Committee.

NLMK Audit Director Elena Sidorova was appointed Secretary of the Committee.

### Committee's activities in 2019

In 2019, the Audit Committee held four meetings.

The Committee reviewed and passed resolutions on the following key issues:

- Accounting (financial) statements with respect to the consideration of the relevant draft documents
- Risk management, internal control, and corporate governance with respect to the review of reports on the efficiency of the risk management, internal control and corporate governance systems as well as other reports related to asset protection and management of the Company's significant risks
- External and internal audits with respect to the candidate for the Group's auditor, candidate for NLMK's Audit Director, and the Secretary of NLMK's Audit Committee, approval of the Audit Committee's schedule for 2019-2020 as well as the main areas for development

### MEMBERS OF THE COMMITTEE IN 2019

Members of the Audit Committee from 8 June 2018 until 19 April 2019		Members of the Audit Committee as of 19 April 2019	
Board member	Position	Board member	Position
Benedict Sciortino	Chair of the Committee	Marjan Oudeman	Chair 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
Marjan Oudeman	Member of the Committee	Benedict Sciortino	Member of the Committee

### ATTENDANCE OF COMMITTEE MEETINGS BY COMMITTEE MEMBERS IN 2019

Board member	Position	Attendance of Committee meetings in 2019
Marjan Oudeman	Chair of the Committee	4 (4)
Karen Sarkisov	Member of the Committee	4 (4)
Nikolai Gagarin	Member of the Committee	4 (4)
Stanislav Shekshnia	Member of the Committee	4 (4)
Benedict Sciortino	Member of the Committee	4 (4)



## 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 the drafting of proposals on their improvement. In fulfilling its oversight responsibilities, the Committee reviews reports on the performance of the internal control and risk management system prepared by the external auditor, Internal Audit, and the Group's other bodies responsible for fulfilling the risk management, oversight, and compliance functions. The Committee holds regular meetings with the Audit Director and the external auditor's team.

### Internal Audit

NLMK's Audit Committee is responsible for monitoring the operation and evaluating the efficiency of the internal audit function. This is done via discussions with the Audit Director and approval of the annual internal audit plan. Progress reports, key findings, and recommendations are submitted to the Committee throughout the year to ensure that the actions taken by the executive management are efficient.

In an effort to ensure independence, the Audit Director reports directly to the Board of Directors. The Audit Director has the right to raise any matter that he/she deems to be important, reports to the Committee, including on audit results above a certain materiality threshold, and/or in line with other obligatory disclosure requirements, and meets with the external auditors as required.

The Internal Audit Service undergoes regular independent external quality assessments (at least once every five years, most recently in 2017). The results of these assessments are submitted to the Audit Committee for consideration.

### External audit

AO PricewaterhouseCoopers Audit (PwC) has been the Group's Auditor since 2003.

NLMK Group's companies hire PwC from time to time to provide non-audit services. NLMK management is certain that these services do not impair the auditor's independence and are not related to the preparation of financial statements. In 2019, the share of non-audit services in the total scope of services provided by PwC was at an acceptable level and did not exceed 15% of the total services provided. PwC regularly rotates key audit staff (at least once every 7 years) to ensure compliance with independence requirements.

PwC reports to the Committee on a quarterly basis, and the Committee members review and discuss key audit matters with external auditors.

As a result of these reviews, the Committee concluded that the external audit process was efficient.

*"In an era of fast-paced change and highly volatile risks, businesses need flexibility, agility, and innovation. This serves as an imperative for internal audit to focus on the ongoing shift in audit technology, methods, and approaches. The key trend of the new Strategy for NLMK Internal Audit 2022 is to drive the development of a mature risk management system. In the process of digital transformation, the audit function should take on the role of a trusted partner and consultant for the business, with a focus on proactive control, big data-enabled audits of E2E processes, and continuous monitoring. At the same time, it is important not to lose focus on matters of regulatory and procedural compliance, while ensuring a balance between compliance and innovation."*

*"From 2019 onwards, the Audit Committee will also focus on monitoring disclosures and reviewing reports on ESG issues, including the environment, occupational health, and safety."*

**Marjan Oudeman,**  
Chair of the Audit Committee

## HUMAN RESOURCES, REMUNERATION, AND SOCIAL POLICIES COMMITTEE

The main purpose of the Committee is to ensure the efficient operation of the Company's Board of Directors in its decision-making on the following issues:

- Appointment of members of the Company's management and other key employees and the training of succession candidates for the Company's management and other key employees
- Performance assessment of the Company's management and other key employees
- Remuneration of the Company's management and other key employees
- Social policy of the Company

### Committee members as of 31 December 2019

The Human Resources, Remuneration, and Social Policies Committee is chaired by an independent director. Most of the Committee members are also independent directors. The Committee includes an independent director who is knowledgeable in matters concerning motivational management and personnel administration.

The Committee members changed in 2019.

NLMK Corporate Secretary Valery Loskutov was re-confirmed as Secretary of the Committee.

### Committee's activities in 2019

NLMK's Human Resources, Remuneration, and Social Policies Committee held six meetings in 2019, including three in the form of absentee voting.

The Committee reviewed and passed resolutions on the following issues:

- Long-term incentive programme for NLMK Group management
- Eligibility of nominees proposed for independent directors to be voted on at NLMK's Annual General Shareholders Meeting on the Company's 2018 results
- Professional background of nominees to the NLMK Board of Directors to be voted on at the Annual General Shareholders Meeting on the Company's 2018 results
- Review of proposals to the NLMK Board of Directors on the amount of remuneration to be paid to Board members
- Progress against target KPIs by Company management in 2018

### MEMBERS OF THE COMMITTEE IN 2019

Members of the HR Committee from 8 June 2018 until 19 April 2019		Members of the HR Committee as of 19 April 2019	
Board member	Position	Board member	Position
<b>Stanislav Shekshnia</b>	Chair of the Committee	<b>Stanislav Shekshnia</b>	Chair of the Committee
<b>Vladimir Lisin</b>	Member of the Committee	<b>Vladimir Lisin</b>	Member of the Committee
<b>Thomas Veraszto</b>	Member of the Committee	<b>Thomas Veraszto</b>	Member of the Committee
<b>Oleg Bagrin</b>	Member of the Committee	<b>Oleg Bagrin</b>	Member of the Committee
<b>Helmut Wieser</b>	Member of the Committee	<b>Joachim Limberg</b>	Member of the Committee

### ATTENDANCE OF COMMITTEE MEETINGS BY COMMITTEE MEMBERS IN 2019

Board member	Position	Attendance of Committee meetings in 2019
<b>Stanislav Shekshnia</b>	Chair of the Committee	6 (6) <sup>1</sup>
<b>Vladimir Lisin</b>	Member of the Committee	6 (6)
<b>Helmut Wieser</b>	Member of the Committee	3 <sup>2</sup> (3)
<b>Oleg Bagrin</b>	Member of the Committee	6 (6)
<b>Thomas Veraszto</b>	Member of the Committee	6 (6)
<b>Joachim Limberg</b>	Member of the Committee	3 <sup>3</sup> (3)

<sup>1</sup> The number in brackets denotes the number of meetings of the Committee held during the period of this Director's tenure.

<sup>2</sup> Member of the Committee until 19 April 2019.

<sup>3</sup> Elected as member of the Committee at the Board of Directors meeting held on 19 April 2019.

- Progress against target KPIs by the NLMK Group CEO (Chairman of the Management Board) in 2018 and approval of target project KPIs for 2019
- Status of NLMK Group's HR strategy
- Recommendations to the NLMK Board of Directors on:
  - the list of Management Board members
  - the list of Strategic Planning Committee members
- CEO performance assessment and the status of the CEO candidate pool
- Board of Directors succession planning
- Approval of the induction course for newly elected members of NLMK Board of Directors (revised)
- Approval of Regulations on the NLMK Corporate University Academic Council

In 2019, the Human Resources, Remuneration, and Social Policies Committee continued to exercise its functions to ensure the Company's interests. Guided by legislative requirements and the recommendations of the Corporate Governance Code and taking into account the current trends in its area of expertise, the Committee worked to ensure the introduction of best global practices in the Company's operations. A strong emphasis was placed on the Company's pressing challenges and needs, as reflected in Committee meeting agendas.

Given the changes to the composition of the Company's bodies, the Committee developed recommendations to the Board of Directors regarding nominations to the Management Board and the Strategic Planning Committee.

The Committee approved approaches and procedures aimed at ensuring Board succession.

The Committee approved a new version of the induction course for newly elected members of the Board of Directors that will ensure they are integrated more quickly and efficiently into the Board's activities.

The Board's strengths and areas for improvement were analysed as part of an annual performance assessment of the Board carried out in the form of an online survey of its members in the format approved by the Committee. The assessment findings were reviewed at the Board meeting in March 2019.

The Committee is considering the option of hiring an external consultant for the Board's performance assessment (this matter is to be included in the 2020 agenda of the Committee meetings).

*"In 2019, the Human Resources, Remuneration, and Social Policies Committee reviewed a number of key matters within its remit.*

*"The Committee reviewed the execution status of NLMK Group's HR Strategy, including such matters as boosting labour productivity, improving the professional training system, and developing NLMK Corporate University.*

*"The Committee approved Regulations on Succession Planning for the Board of Directors, which aim to maintain a balance of key skills, experience, and an optimal composition, taking into account the need to have independent directors on the Board, and to ensure consistent rotation. The Committee also reviewed the matter of CEO succession and reviewed an assessment of the CEO's performance.*

*"Building on the success of a Committee meeting that was extended to include all members of the Board of Directors, the long-term incentive programme for NLMK Group management was reviewed in a similar format.*

*"The Committee was highly effective in its role in 2019. The in-depth expertise and international experience of the Committee members facilitated high-quality decisions and the introduction of best practices at the Company. Committee members were actively engaged in the review and discussion of the matters at hand and issued follow-up instructions to the Company's management, which were then efficiently monitored and analysed."*

**Stanislav Shekshnia,**  
*Chair of the Human Resources, Remuneration,  
and Social Policies Committee*

## CORPORATE SECRETARY

The Company's Corporate Secretary ensures efficient day-to-day interaction with shareholders, coordinates the Company's activities to protect shareholders' rights and interests, and supports the efficient operation of the Board of Directors.

The NLMK Corporate Secretary's activities, rights, and obligations are regulated by the Corporate Governance Code. Additional functions stipulated in the Corporate Governance Code recommended by the Bank of Russia, such as an induction course for newly elected members of the Company's Board of Directors, corporate governance in subsidiaries and affiliates, working with insiders, and accounting for affiliates of the Group's companies, also fall within the Corporate Secretary's remit. All these functions enable the establishment of a dynamic and balanced corporate governance system that ensures efficient interaction between the Company's shareholders, Board of Directors, and management.

Functionally subordinate to the Board of Directors and administratively to the NLMK's CEO (Chairman of the Management Board), the Corporate Secretary is appointed and dismissed by the CEO (Chairman of the Management Board) based on a resolution from the Board of Directors.

The Corporate Secretary oversees the Corporate Secretary's Office.

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



**Valery Loskutov**

**Year of birth: 1969**

- Mr. Loskutov 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 has served as NLMK's Corporate Secretary since 2005. He has been Secretary of the Human Resources Remuneration, and Social Policies Committee since 2017.
- Mr. Loskutov is a co-founder of the National Association of Corporate Secretaries. He was elected to the Board of the National Association of Corporate Secretaries on 20 December 2019.
- He won the 8th *Director of the Year* national award in the *Corporate Governance Director/Corporate Secretary* category.
- Mr. Loskutov is also the winner of the *Best Corporate Governance Director* category of the *Top 1,000 Russian Managers national management* award (2019).



# MANAGEMENT BOARD

## NLMK MANAGEMENT BOARD PROCEDURES

The Management Board is in charge of managing the Company's day-to-day operations, and 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 achieve 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 comprised of the Company's employees for 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 the NLMK Charter and Regulations on the Management Board, which are available on the Company's official website.

### Members of the Management Board

NLMK Group's Management Board consisted of nine members as of 31 December 2019. The current composition of the Management Board was approved by the Board of Directors at a meeting held on 24 October 2019.

### MEMBERS OF THE MANAGEMENT BOARD

Members of the Management Board as of 31 December 2019		Members of the Management Board until 24 October 2019	
Board member	Position	Board member	Position
<b>Grigory Fedorishin</b>	CEO (Chairman of the Management Board)	<b>Grigory Fedorishin</b>	CEO (Chairman of the Management Board)
<b>Mikhail Arkhipov</b>	Vice President, HR & Management System	<b>Tatyana Averchenkova</b>	Vice President, Operational Efficiency
<b>Tatyana Averchenkova</b>	Vice President, Operational Efficiency	<b>Ilya Guschin</b>	Vice President, Sales
<b>Ilya Guschin</b>	Vice President, Sales	<b>Barend de Vos</b>	Vice President, International Operations
<b>Barend de Vos</b>	Vice President, International Operations	<b>Sergey Likharev</b>	Vice President, Logistics
<b>Shamil Kurmashov<sup>1</sup></b>	Vice President, Finance	<b>Sergey Filatov<sup>2</sup></b>	Managing Director
<b>Sergey Likharev</b>	Vice President, Logistics	<b>Evgeny Ovcharov</b>	Vice President, Risk Management
<b>Evgeny Ovcharov</b>	Vice President, Risk Management	<b>Sergey Chebotarev</b>	Vice President, Energy
<b>Sergey Chebotarev</b>	Vice President, Energy	<b>Mikhail Arkhipov</b>	Vice President, HR & Management System

<sup>1</sup> Joined the Management Board on 24 October 2019.

<sup>2</sup> Was a member of the Management Board until 24 October 2019.

## BIOGRAPHIES OF MEMBERS OF THE MANAGEMENT BOARD



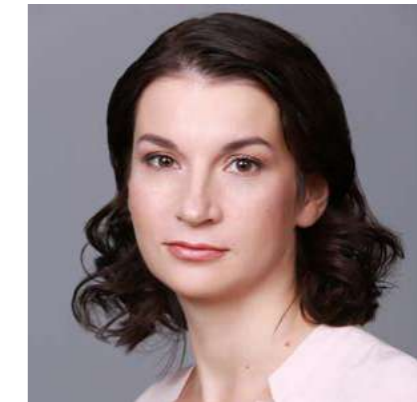
### Grigory Fedorishin

Year of birth: 1979

Member of the Strategic Planning Committee

CEO (Chairman of the Management Board) since March 2018

- Mr. Fedorishin graduated from the State Finance Academy in Moscow. He holds a master's degree in business administration from INSEAD business school, France & Singapore. He is member of the Certified Financial Analysts (CFA) association.
- Mr. Fedorishin was Senior Vice President and Deputy Chairman of the Management Board from March 2017 until March 2018, and Vice President for Finance (CFO) from 2013 until 2017. In 2016, he also headed NLMK Group's Russia Long Products Division.
- From 2011 to 2013, Mr. Fedorishin 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 for Operational Efficiency

Member of the Management Board since 2017

- Ms. Averchenkova graduated from Lipetsk State Technical University with a major in economics & management.
- Ms. 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 for Operational Efficiency.



## Ilya Guschin

**Year of birth: 1976**

**Vice President for Sales**

**Member of the Management Board since 2014**

- Mr. Guschin graduated from the Faculty of Economics at Lomonosov Moscow State University. He 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 in Moscow. From 2002 to 2007, he held various positions at Microsoft.



## Barend de Vos

**Year of birth: 1967**

**Vice President for International Operations**

**Member of the Management Board since 2016**

- Mr. de Vos holds a bachelor's degree with a major in electrical engineering (supplementary training programme) and a master's degree with a major in process engineering from the University of Pretoria.
- From 2011 onwards, he has served as Director of NLMK Belgium Holdings as well as a number of its subsidiaries. He is CEO and 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 a production and development engineer in 1990, he held various management positions at Iscor and Saldanha Steel (now ArcelorMittal South Africa) between 1995 and 2003, ending with export sales.



## Sergey Likharev

**Year of birth: 1964**

**Vice President for Logistics**

**Member of the Management Board since 2014**

- Mr. Likharev holds a Ph.D. in physics and mathematics and a master's of business administration from Cornell University, USA. From 1990 to 1993, he worked as a researcher at Lomonosov Moscow State University.
- Mr. Likharev joined NLMK in October 2013. From 2012 to 2013, he served as 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 worked as 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.



## Evgeny Ovcharov

**Year of birth: 1977**

**Vice President for Risk Management**

**Member of the Management Board since 2018**

- Mr. Ovcharov is a graduate of Lipetsk State Technical University and holds a Ph.D. in economic sciences.
- Mr. Ovcharov joined NLMK in 1998. He served as Director for Internal Control and Risk Management and Head of Corporate Finance, and held senior management positions at the Department of Economics and Finance. In 2016, he was appointed Vice President for Risk Management.





### Mikhail Arkhipov

**Year of birth: 1982**

**Vice President for HR & Management System**

**Member of the Management Board since 2018**

- Mr. Arkhipov graduated with honours from the Faculty of Sociology at Lomonosov Moscow State University.
- Mr. Arkhipov joined NLMK in January 2018 as Vice President for HR & Management System. From 2013 to 2018, he was a member of the Management Board and Vice President for HR at MTS Group. From 2009 to 2013, he held various positions in 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

**Year of birth: 1980**

**Vice President for Energy**

**Member of the Management Board since 2018**

- Mr. Chebotarev graduated from Lipetsk State Technical University with a major in applied mathematics. He holds a Ph.D. in engineering sciences.
- Mr. Chebotarev joined NLMK in 2000 as an economist in the Fuel and Energy Industry Department. He served as Head of Energy Policy Management and Director for Energy Efficiency and Energy Markets, before being promoted to Vice President for Energy in 2016.



### Shamil Kurmashov

**Year of birth: 1978**

**Vice President for Finance**

**Member of the Management Board since 2019**

- Mr. Kurmashov graduated from Moscow State Institute of International Relations (MGIMO University), and holds a Ph.D. in economics from the Central Economics and Mathematics Institute (CEMI RAS).
- He is a member of the Board of Directors at NLMK International B.V.
- From 2009 to 2018, he was Deputy CEO for Commerce and Finance at Aeroflot. From 2007 to 2009, he served as Deputy CEO for Finance and Investment at Sistema, where he was also in charge of the group's investment activities. He has held executive positions at Norilsk Nickel and Wimm-Bill-Dann.



### Sergey Filatov

**Year of birth: 1959**

**Member of the Management Board since 2013  
until 24 October 2019**

- Mr. Filatov graduated from Moscow Institute of Steel and Alloys. He holds a Ph.D. in engineering sciences and is both an Honorary and Distinguished Metallurgist of Russia.
- Mr. Filatov has been with NLMK since October 2012, serving as Deputy Senior Vice President and General Director for Production and Technology. On 25 January 2013, Mr. Filatov was appointed to the position of NLMK's Managing Director. He has served as an Aide to the CEO (Chairman of the Management Board) since August 2019.
- From 2009 to 2012, he served as Chief Engineer at NTMK. From 2007 to 2009, he was Project Manager of the NTMK Project Management Department.

## CEO (CHAIRMAN OF THE MANAGEMENT BOARD)

The CEO (Chairman of the Management Board) is the permanent sole executive body. The CEO (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 CEO (Chairman of the Management Board) are outlined in the existing legislation of the Russian Federation as well as the CEO's contract with the Company.

The CEO (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 CEO (Chairman of the Management Board) cannot simultaneously be the Chairman of the Company's Board of Directors.

Mr. Fedorishin has been the CEO (Chairman of the Management Board) since 12 March 2018.

## ACTIVITIES OF THE MANAGEMENT BOARD IN 2019

The Management Board functions in accordance with the approved meeting plan or as necessary. The CEO (Chairman of the Management Board) determines the format of the Management Board's meetings.

In 2019, the Management Board held 46 meetings, including 17 meetings that were held by absentee ballot. The following issues were considered at these meetings:

- Achievement of the Group's key performance indicators in occupational health & safety
- Execution of NLMK Group's budget
- The Group's participation in and withdrawal from other companies
- Approval of draft decisions and issuing recommendations to governing bodies on matters within the purview of the General Shareholders Meetings of companies in which the Group is the sole participant/shareholder
- Execution of the NLMK Group's 2018-2022 Strategy: updates on the development and implementation of the investment programme projects; updates on the execution of the HR and Social Strategies, Occupational and Industrial Safety programmes; operational efficiency improvements; sales portfolio management; development of maintenance and repair services
- Development programmes for functional areas and production facilities, including in the scope of Strategy 2022
- Recommendations to the Company's Board of Directors (in particular with regard to dividend payments and NLMK's Draft 2018 Annual Report)
- Approval of transactions
- Non-core assets portfolio management
- Approval of the Management Board's meeting schedule for 2019

NLMK Management Board members had no conflict of interest in 2019. No members of the Management Board are NLMK shareholders or participated in any transactions with NLMK shares in 2019.

In order to maximize the efficiency of decision-making and business processes, video technologies are used in the Management Board's activities. Attending a meeting via video conference is equivalent to personal presence.

Starting from 2019, members of the Management Board are able to vote online on issues that are considered at a meeting. In this case, an electronic ballot is considered to be equivalent to a paper ballot.

# REPORT ON REMUNERATION PAID TO GOVERNING BODIES

The level of remuneration the Company pays to members of governing bodies is sufficient to attract, motivate, and retain persons with the expertise and qualifications NLMK seeks.

## REMUNERATION AND COMPENSATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS

Members of the Board of Directors are paid remuneration during the period in which they perform their duties, and they also receive reimbursement of expenses related to the performance of their duties as members of the Company's Board of Directors. The Regulations on Remuneration for Members of the Board of Directors, which was 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.

*The Company's policy regarding remuneration paid to members of the Board of Directors serves to align their financial interests with the long-term financial interests of shareholders.*

The Regulations contain transparent criteria for determining the amount of remuneration paid to the Board members and govern all types of compensation and benefits offered to them.

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 reasonably and faithfully exercising their rights and duties in the interests of the Company. Remuneration to members of the Board of Directors consists of basic remuneration and a bonus.

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

Members of the Board of Directors are entitled to 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 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.

## ATTENDANCE OF MANAGEMENT BOARD MEETINGS BY MANAGEMENT BOARD MEMBERS IN 2019

Member of the Management Board	Attendance of meetings
Grigory Fedorishin	46 (46)
Tatyana Averchenkova	46 (46)
Ilya Guschin	46 (46)
Barend de Vos	46 (46)
Sergey Likharev	46 (46)
Sergey Filatov <sup>1</sup>	34 <sup>1</sup> (46)
Evgeny Ovcharov	46 (46)
Mikhail Arkhipov	46 (46)
Sergey Chebotarev	46 (46)
Shamil Kurmashov <sup>2</sup>	12 <sup>2</sup> (46)

<sup>1</sup> Was a member of the Management Board until 24 October 2019.

<sup>2</sup> Was approved as member of the Management Board by the Board of Directors at a meeting held on 24 October 2019.

## REMUNERATION FOR MEMBERS OF THE NLMK 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, taking into account their functions related to organizing the work of the Board of Directors	Up to 50% of the basic remuneration package
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 package, and up to 50% of the basic remuneration package for a member of two or 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 package, and up to 80% of the basic remuneration package for the Chairman of two or more committees



A member of the Board of Directors may receive a bonus that shall not exceed the amount of two basic remuneration packages. The amount of bonuses is determined based on the member's contribution to the work of the Board of Directors and its committees and the recommendations of the Human Resources, Remuneration, and Social Policies Committee.

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

- Transportation expenses of the members of the Board of Directors incurred while travelling to and from meetings
- Accommodation costs incurred while attending meetings
- Hospitality expenses
- Costs associated with obtaining the professional advice of experts on issues under consideration at meetings of the Board of Directors

#### REMUNERATION TO BOARD MEMBERS PAID IN 2017-2019, RUB '000<sup>1</sup>

	2017	2018	2019
<b>Remuneration and compensation to members of the Board of Directors, including:</b>	<b>139,134</b>	<b>152,482</b>	<b>140,810</b>
• <b>Remuneration</b>	<b>136,977</b>	<b>145,564</b>	<b>135,697</b>
– including basic remuneration	89,010	92,259	89,144
– including bonuses	47,967	53,305	46,553
• Salary	–	–	–
• Bonuses	–	–	–
• Commission	–	–	–
• Benefits	–	–	–
• Reimbursed expenses	2,157	6,918	5,113
• Other types of remuneration	–	–	–

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 package. Compensation shall only be paid if the member of the Board of Directors participated in more than half of the meetings held by the Board of Directors.

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

The Annual General Shareholders Meeting on the results of 2018, which was held on 19 April 2019, resolved to pay remuneration to members of NLMK Board of Directors in the amount of \$2.272 m.

#### INDIVIDUAL AMOUNT OF REMUNERATION TO BOARD MEMBERS PAID IN 2017–2019, RUB '000<sup>1</sup>

Member of the Board of Directors	2017	2018	2019
Vladimir Lisin	21,264	20,705	19,810
Stanislav Shekshnia	16,386	17,427	17,288
Oleg Bagrin	13,846	19,293	17,457
Nikolai Gagarin	12,363	12,982	12,382
Karen Sarkisov	14,835	15,633	14,857
Thomas Veraszto	12,608	16,309	15,954
Helmut Wieser	15,807	16,423	400
Marjan Oudeman	–	15,881	15,510
Benedict Sciortino	16,679	17,446	17,247
Franz Struzl	15,346	383	–
Joachim Limberg	–	–	9,905

<sup>1</sup> Data for 2017-2018 is represented in actual amounts. Remuneration to members of the Board of Directors for 2019 is determined based on preliminary calculations in accordance with the Regulations on Remuneration for Members of NLMK's Board of Directors. May differ from previously published numbers due to the reporting of accrued payments based on yearly performance, including compensation.

## REMUNERATION AND COMPENSATION FOR MEMBERS OF THE MANAGEMENT BOARD

The Management Board's remuneration system aims to ensure that the Board members have a material interest in achieving strategic goals and increasing the economic efficiency of NLMK's 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 receive remuneration and compensation for expenses related to the performance of their duties as members of the Management Board during 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 as well as 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 ensured by 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 achievement of KPIs. The KPIs used to determine rewards for senior 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.



#### REMUNERATION FOR MANAGEMENT BOARD MEMBERS PAID IN 2017–2019, RUB '000<sup>2</sup>

	2017	2018	2019
<b>Payments to Management Board members, including:</b>	<b>706,437</b>	<b>517,218</b>	<b>520,294</b>
• Salary	256,517	205,195	238,690
• Bonuses <sup>3</sup>	425,698	305,175	280,791
• Commission	–	–	–
• Benefits	–	–	–
• Refunded expenses	1,381	1,481	813
• Other types of remuneration	22,841	5,367	–

The Company also has a long-term incentive (LTI) programme for members of the executive bodies and other senior executives of the Company. In March 2019, a new long-term incentive programme was approved due to the expiration of the 2014–2018 LTI programme. The new programme covers the 2019–2023 strategic management cycle.

The new programme ensures continuity of the main principles of remuneration for senior management:

- Honest and efficient performance of duties by members of the Management Board
- Rational use of the rights that are granted to them
- Bonuses for Management Board members depend on their progress against their key performance indicators (KPIs) and on the Company's overall performance during the reporting period
- Control over the active involvement of members of the Management Board in the work of the Group's executive bodies

<sup>1</sup> Data for 2017–2018 is represented in the actual amounts and 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.

<sup>2</sup> The bonus amount for 2017–2018 does not include a part of the amount paid in 2019 for the long-term incentive programme. The bonus amount for 2017 and 2018 was distributed in proportion to the estimated provisions for this type of bonuses previously disclosed in the NLMK 2017–2018 financial statements. Bonuses to members of the Management Board for 2019 include obligations to pay bonuses based on a preliminary calculation reflecting their performance in the reporting year.

# OPERATIONAL CONTROL AND RISK MANAGEMENT

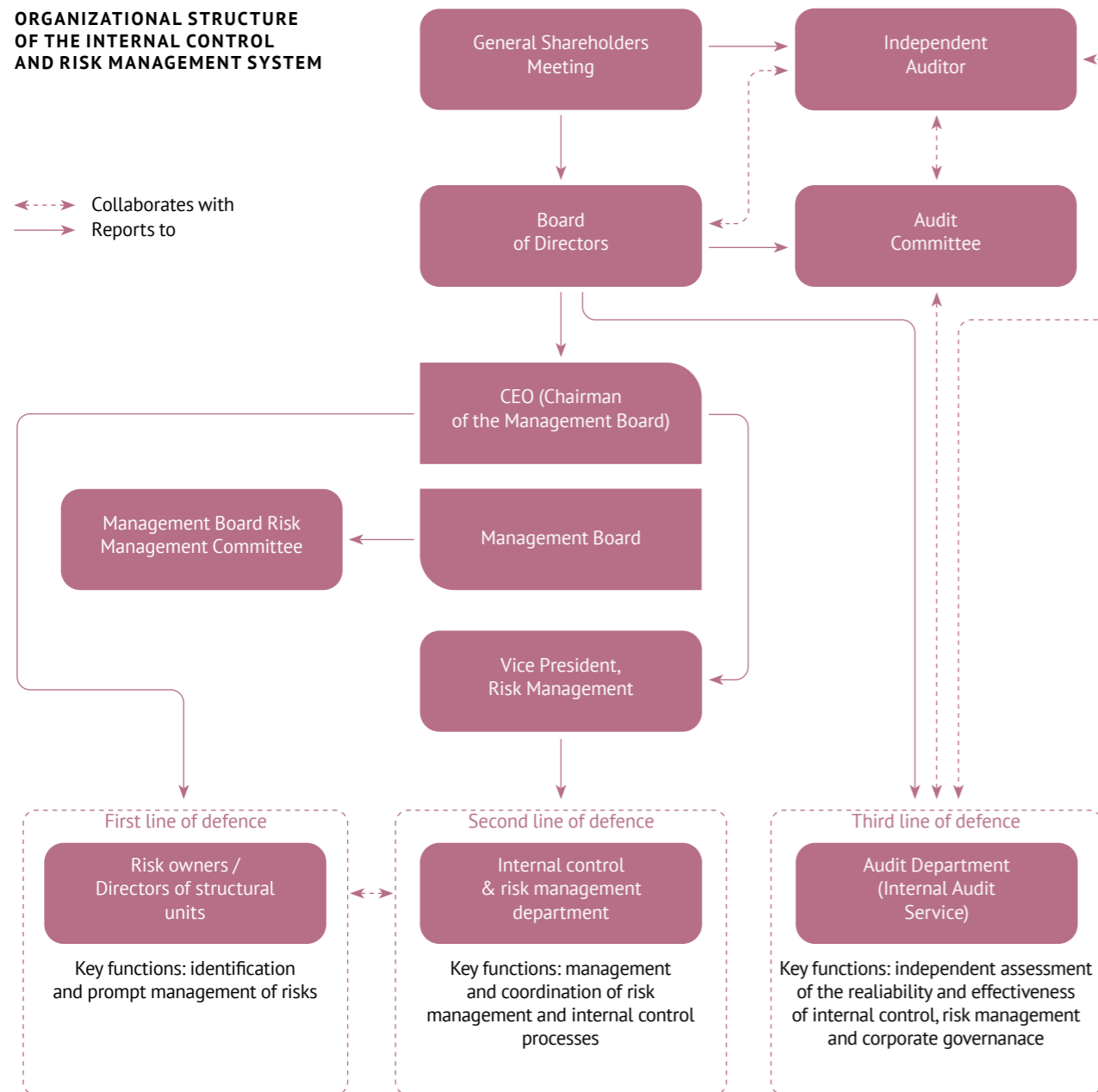
As a major international steel producer, NLMK is exposed to a variety of risks that could have a negative impact on the Group's business and our stakeholders if they materialize. In order to safeguard shareholder value and ensure sustainability, we employ

the latest operational control and risk management practices and methods.

NLMK's approach to operational control is based on a clear segregation of authority and functions between the entities involved in NLMK's

internal control and risk management system; it also provides for 'three lines of defence'. Control procedures are used in 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



# INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

The NLMK 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 functions as a separate structural unit 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 is staffed with professionals who specialize in the following areas:

- Financial risks, including qualification and tender procedures
- Operational risks
- A dedicated anti-corruption specialist

## OUR APPROACH TO RISK MANAGEMENT

Risk management is a continuous process that aims to reduce risk to an acceptable level and prevent events that could have a negative impact on NLMK achieving its 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 was developed to take into account 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 Regulation

on the Corporate Risk Management System is the key internal document that governs risk management at NLMK. Internal documents have also been drafted to manage individual risk categories that are important to the Group.

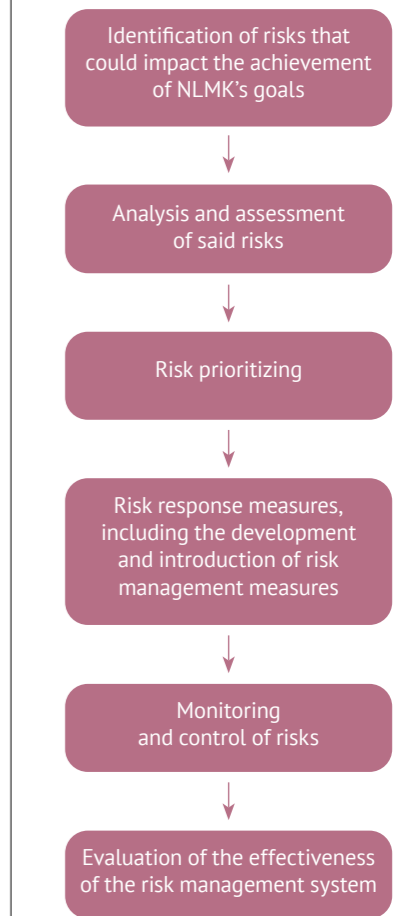
The Management Board's Risk Management Committee is an important link in the risk management process. It conducts a detailed review of changes in the Company's risk profile, issues related to the functioning of the risk management system, and methodological approaches to risk management during its meetings. 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 decision making. **GRI 102-11**

NLMK's functional units work on identifying and responding to risks that are relevant to their operations with methodological support from the Internal Control and Risk Management Department. The Department monitors the effectiveness of the measures used to manage risks as part of an analysis of management reporting from risk-owning functional units; this includes operational data at the business process level on current and planned KRI values, the status of risk management measures, and risks that have materialized.

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 regularly emphasizes the importance of risk management in internal corporate communications. Systematic training in managing individual risk categories and integrating risk management into the daily activities of the Group's also help to develop a risk-awareness corporate culture.

Assessing the probability and impact of risks is one of the most crucial factors in making informed management decisions. To this end, NLMK utilizes

## KEY PHASES IN THE RISK MANAGEMENT PROCESS



modern risk analysis practices and tools. By applying specially developed methods for assessing individual risk categories, anticipated losses and the probability of risk materialization 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, which leads to better-informed management decisions. The Group assesses significant risks using scenario analysis models and stress testing.

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

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

The Company regularly monitors the effectiveness 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, which involves benchmarking against best practices, the recommendations of professional standards, and practices implemented at similar companies. In 2019, the Audit Department (Internal Audit Service)

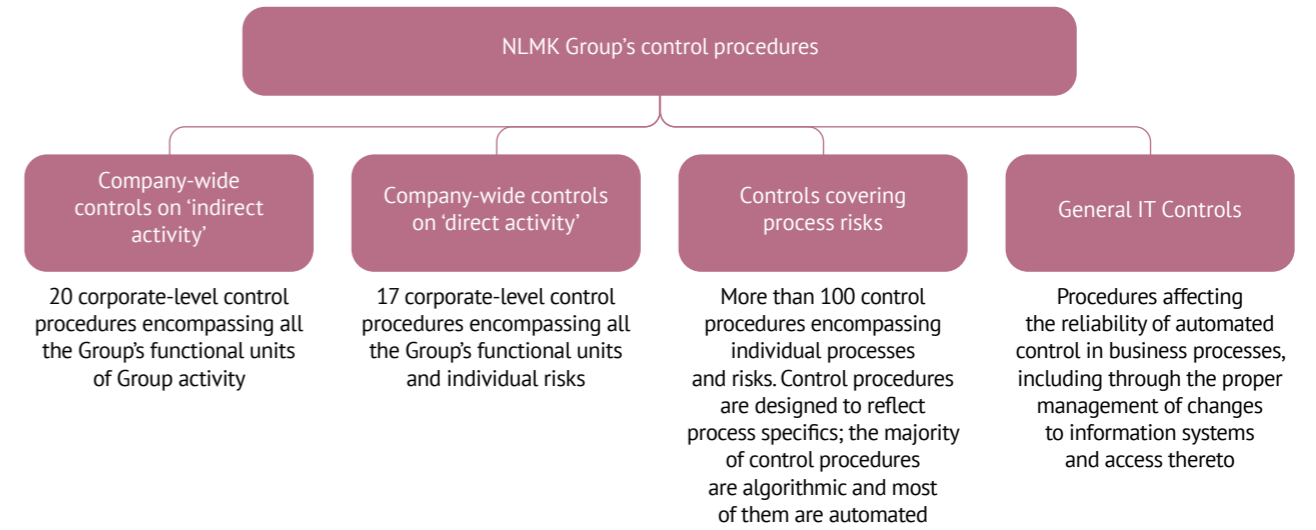
conducted an audit of the Group's risk management system. The audit yielded a set of recommendations to improve the risk management system.

**OUR APPROACH TO INTERNAL CONTROL**

Internal control encompasses all NLMK Group's key 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 and Risk Management Department works together with line managers to systematically assess and develop control procedures and analyse risks in the key business processes of the Group. If necessary, the Internal Control and Risk Management Department works in conjunction with the Audit Department (Internal Audit Service). 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 the system assessments across business processes performed by the Audit Department (Internal Audit Service). The Management Board's Risk Management Committee also reviews the results of these assessments.

In order to monitor risks more efficiently, the Group makes use of the SAP GRC system. Rolled out in 2017, the SAP GRC Access Control and SAP GRC Process Control modules facilitate the distribution of the most critical authorizations to be controlled within the Company's main ERP system. They also allow for regular automated

monitoring of significant deviations in business processes.

**2019 PERFORMANCE**

In 2019 the Company continued to improve its internal control and risk management system and develop approaches to risk management. The key outcomes from the development of these approaches and improving the reliability of risk management systems are as follows:

- Additional approaches were introduced in managing the credit risk of contractors:
  - payment of advances to core contractors and contractors involved in priority projects
  - a new advance payments arrangement utilizing inventories or metal fabrications as collateral
  - financing through escrow bank accounts
  - insurance for advances and a newly implemented product developed jointly with insurers
- The credit management system was put into operation. The module was integrated at two more Russian business units (including the main site – NLMK Lipetsk) and at two foreign units. The information system is powered by SAP FSCM and allows for the automatic blocking of product shipments to customers who have exhausted their credit line or have outstanding overdues for previous shipments.

- The introduction of portfolio management principles for the credit risks of miscellaneous by-product buyers.
- In an effort to establish business continuity plans, core machinery at NLMK Lipetsk was audited to assess risks of major property losses. Different loss scenarios and impacts on business were analysed.
- Risks were analysed with respect to counterparties arising from business process outsourcing.
- Updates were made to property risk insurance plans covering CIW within the Group's perimeter.

In 2019, as part of the development of a risk-oriented culture, the Internal Control and Risk Management Department organized training on retail financial services as part of credit risk management for NLMK Trade House employees.



## SIGNIFICANT RISKS FOR NLMK GROUP IN 2019

Risk	Description	Change in risk level 2018–2019	Comments to changes	Quantitative assessment of risk	Management measures
<b>Price and currency risks</b>	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	↗	Due to the weakening of the natural hedging effect	✓	<ul style="list-style-type: none"> <li>Support for an optimal long-term open currency position in key currencies to ensure 'natural' hedging</li> <li>Formula-based pricing of finished products and raw materials and supplies</li> </ul>
<b>Risks to business continuity</b>	Risk associated with production downtime caused by the breakdown of key machinery	↘	Transition to estimating the expected time and probability of downtime based on failure statistics, taking into account the frequency of repairs	✓	<ul style="list-style-type: none"> <li>Development and implementation of a maintenance and major repairs programme (preventative maintenance and major repairs)</li> <li>Introducing a new approach to categorizing and analysing equipment reliability</li> </ul>
<b>Environmental risk</b>	Risk of events occurring with adverse consequences for the environment due to the negative impact of operations by NLMK companies	↘	The risk reduction effect due to the systematic implementation of the environmental programme offset the increased risk through the identification of new risk factors	✓	<ul style="list-style-type: none"> <li>Implementation of cutting-edge conservation technology as part of a comprehensive environmental investment programme</li> </ul>
<b>Investment risk</b>	Risks of increased expenditure and shifting deadlines with respect to the implementation of the investment programme	↗	Increase in the risk level as a result of reaching the peak of the investment programme in accordance with the declared Strategy	✓	<ul style="list-style-type: none"> <li>Risk-based calculation of reserves and inclusion in project budgets</li> <li>Model for calculating project risks with the subsequent review of the acceptability of the project risk level by the Investment Committee. Inclusion of risk minimization measures in project budgets</li> </ul>
<b>Credit risk</b>	Risk of losses stemming from contractors' payment default or from the failure to deliver products (accounts receivable and advance payments), or NLMK Group's bank deposits	↘	The decrease in the volume of expected losses is due to a decrease in receivables in absolute terms due to falling product prices and a decrease in the share of overdue receivables	✓	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Trade restriction risks</b>	Risk of losses resulting from changes to tariffs or the application of non-tariff or other trade restrictions (in the procurement of raw materials, supplies, and equipment, and in the sale of products)	↘	Favourable completion of a number of special protection investigations	✓	<ul style="list-style-type: none"> <li>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.</li> <li>Management of a portfolio of collaborative projects with government bodies (participation in research, minimization of consequences)</li> </ul>
<b>IT and information security risks</b>	This risk is associated with the heavy dependency of NLMK's 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	↘	As a result of implementation of comprehensive IT security system projects	✓	<ul style="list-style-type: none"> <li>Implementation of comprehensive IT security projects</li> </ul>
<b>Occupational and industrial safety risks</b>	Occupational and industrial safety risks include events associated with occupational injuries, equipment breakdown, the decay of buildings and structures, fire, explosion, uncontrolled emissions of hazardous substances, and transport accidents	–	–	–	<ul style="list-style-type: none"> <li>Development of a risk-based occupational and industrial safety programme (improvement of working conditions and industrial and fire safety, risk management)</li> </ul>
<b>Fraud and corruption risk</b>	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	–	–	–	<ul style="list-style-type: none"> <li>Identification of the areas most exposed to corruption and fraud-related risks (obligatory declaration of conflicts of interest and a psychophysiological assessment of employees in the risk area</li> <li>Collegiality and restrictions on authorizations of decisions relating to work with subcontractors</li> </ul>

## 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 as high. Analysing critical risks and monitoring the implementation of measures to manage risks of this kind are a continuing priority for the NLMK Group management team.

## PLANS FOR 2020 AND THE MEDIUM TERM

The Company is planning to continue developing 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 the targeted

implementation of risk management procedures in specific areas of the Group's operations.

Plans for 2020 include:

- Adopting business continuity plans for all core machinery at the Lipetsk site
- Harmonizing approaches to conflict of interest management at NLMK companies

- Enhancing the approaches to information security risk management for data assets and in light of the projects implemented as part of the programme to set up an integrated information security system
- Ranking of service providers.

# INTERNAL AUDIT

Internal audits provide reasonable guarantees to management that NLMK Group has achieved its strategic objectives. The Audit Department (Internal Audit Service) is involved in improving the Group's performance by:

- Conducting objective audits in line with the risk-based approach
- Giving recommendations following the results of audits and knowledge sharing

The Group's internal audit function is built in line with legal requirements and the recommendations of professional standards and the Bank of Russia's Corporate Governance Code, and meets the requirements of best international practices.

Internal audits are a centralized function that fully encompasses the core activities of NLMK Group companies, including international companies. The unified management of the internal audit function allows for the use of uniform standard approaches to planning, auditing and reporting, and also ensures an effective exchange of information between specialists of the Audit Department (Internal Audit Service).

The Audit Department (Internal Audit Service) performs the following key functions:

- Assessment of the internal control system
- Evaluation of the effectiveness of the risk management system
- Assessment of corporate governance

In addition, the Audit Department (Internal Audit Service) performs consulting activities by providing professional opinions to internal customers on certain matters concerning financial and business operations.

The Company's risk management and internal control system is evaluated taking into account the principles set forth in international standards for risk management and internal control, including ISO 31000:2018, COSO ERM:2017, and COSO Internal Control – Integrated Framework (2013).

## PRINCIPLES OF THE AUDIT DEPARTMENT (INTERNAL AUDIT SERVICE) AND THEIR ENFORCEMENT

Principles of the Audit Department (Internal Audit Service)	Tools and mechanisms for enforcing the principles
<b>Independence and objectivity</b>	<ul style="list-style-type: none"> <li>• Audit Director functionally reports to NLMK's Board of Directors</li> <li>• Audit Director is appointed (dismissed) by a resolution of NLMK's Board of Directors</li> <li>• Audit Director has the right of direct and free access to the Chairman of the Board of Directors, Chairman of the Audit Committee, and CEO (Chairman of the Management Board) to provide information on significant risks that have been identified</li> <li>• Third parties are prohibited from interfering in the process and the results of the audit</li> </ul>
<b>Systematic and consistent approach</b>	<ul style="list-style-type: none"> <li>• The Audit Department (Internal Audit Service) is guided by a risk-based Audit Plan</li> <li>• Resources are distributed between targeted (limited scope) and comprehensive audits of processes and subsidiaries in devising the Audit Plan</li> <li>• The Audit Department (Internal Audit Service) prepares recommendations taking into account the costs/value ratio. Priority is given to systemic measures</li> </ul>
<b>Efficient use of resources</b>	<ul style="list-style-type: none"> <li>• Lead auditors are appointed from among the most qualified auditors</li> <li>• Engagement of internal and external experts (consultants)</li> <li>• Timely status updates to the Company's management about the requirements (limitations) for the resources needed to conduct audits</li> </ul>
<b>Risk-based approach</b>	<ul style="list-style-type: none"> <li>• Focus on areas that are most exposed to risk when drawing up the Audit Plan and conducting audits</li> </ul>
<b>Professionalism and a professional approach to work</b>	<ul style="list-style-type: none"> <li>• More than 50% of the Audit Department's (Internal Audit Service's) team have internationally recognized internal audit diplomas (ICFM) and other professional certificates</li> <li>• Continuous development of expertise in IT systems as the key source of information during audits</li> <li>• Continuous professional development and improvement of knowledge, skills, and other expertise among the Audit Department's (Internal Audit Service's) team</li> </ul>
<b>Continuous audit quality improvement</b>	<ul style="list-style-type: none"> <li>• External evaluations of the internal audit function to determine whether the activities of the Audit Department (Internal Audit Service) and auditors comply with the definition of internal audit, the International Standards for the Professional Practice of Internal Auditors, and the Code of Ethics of the Institute of Internal Auditors (IIA).</li> </ul>

Internal audit functions are governed by the Regulations on the Audit Department. The Regulations have been approved by the Board of Directors and are available on the Company's official website.

In addition to assessing the reliability and efficiency of the internal control and risk management system and the quality of corporate governance, the Audit Department (Internal Audit Service) pays attention to issues associated with the Group's sustainable development. For instance, the Audit Department (Internal Audit Service) assesses compliance with operational health and safety rules at the Group's companies that have been sampled for audits. Limited scope audits, for example, in matters concerning environmental protection, are carried out at the request of any interested parties.

The Audit Department (Internal Audit Service) regularly monitors the execution of post-audit recommendations, which in turn ensures the consistency of the internal audit function. Monitoring is deemed to have been completed only after the audited department provides a report on the implementation of the recommended actions.

In order to continuously improve the internal audit function, the Audit Department (Internal Audit Service) conducts independent external quality assessments once every five years. The independent external quality assessment aims to obtain an independent opinion

on the compliance of the Company's internal audit function with best international practices. After its 2017 independent quality assessment, Deloitte provided NLMK with a positive opinion stating that the Audit Department's (Internal Audit Service's) activities are generally in line with International Standards for the Professional Practice of Internal Auditors and the IIA Code of Ethics.

## 2019 PERFORMANCE

In 2019, NLMK Group's Audit Committee approved the focuses for the development of the Audit Department (Internal Audit Service) (Strategy) and the Strategy Execution Roadmap through 2022. A number of planned activities were carried out with the following key results:

- Assessment of the internal control system's effectiveness for end-to-end processes at NLMK and the Group's key companies (such as Procurement and Sales) as well as the identification of significant and systematic deviations in these processes
- Assessment of the effectiveness of the system for managing material (critical) risks at NLMK and the Group's key companies, including the activities of the Risk Management Department
- Compliance of NLMK and the Group's key companies with anti-corruption requirements
- Study of employees and counterparties that aims to identify typical fraud indicators in an effort to assess any potential conflict of interest among employees, mutual affiliation between counterparties, and the affiliation of counterparties with public officials as well as the volume of transactions with companies that show signs of suspicious intermediaries
- Audit of contractors for compliance with NLMK Group's requirements
- Targeted studies of processes and controls.

## PLANS FOR 2020 AND THE MEDIUM TERM

In 2020, the Audit Department (Internal Audit Service) plans to carry out a number of activities as envisaged by the applicable legislation on joint-stock companies and the Regulations on NLMK's Audit Department, specifically:

- Assess the reliability and functioning of risk management and internal control for NLMK Group's key business processes that have been sampled according to the risk-based approach, including the study of end-to-end processes in the Company's international assets
- Conduct continuous automated monitoring of deviations in processes
- Assess the sufficiency and effectiveness of corporate-level control procedures (the KYC<sup>1</sup> system, contract approval system, currency exchange control, authority and proxy delegation system, OHS rules, sanctions control, and corporate governance system).

<sup>1</sup> Know Your Customer

# 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 engages in targeted work to prevent and counteract corruption and fraud. The Company's management constantly devotes attention to timely detecting and responding to wrongdoings.

The Company's values, principles, standards, and norms of business conduct are enshrined in NLMK Group's Code of Corporate Ethics and Anti-Corruption Policy. [GRI 102-16, 205-2](#) These documents, which have been adopted by the Board of Directors, are available in Russian and English on the corporate portal and on NLMK Group's official website. [GRI 102-16](#)

Whenever a new version of the Code of Corporate Ethics or Anti-Corruption Policy comes into effect, and also whenever a new staff member is hired, all employees and management of the Company review the provisions of the aforementioned documents and sign an acknowledgement form. The job descriptions of all Company employees stipulate the obligation

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

One milestone in terms of improving the anti-corruption system in 2019 was the adoption of an updated list of activities that are most exposed to corruption and fraud. In addition, updated versions of the Code of Corporate Ethics or Anti-Corruption Policy, as amended in 2018, were communicated to all Company employees in 2019 with signed acknowledgement. The main changes affected such important areas as feedback, informing employees about business conduct, and respect for human rights.

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 the qualification and selection of a counterparty as well as the conclusion of a contract. [GRI 102-16](#)

The Agreement on Anti-corruption Terms is an obligatory appendix to all contracts with the Group's business partners, except for contracts that contain an anti-corruption clause. The agreement describes the 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 CEO (Chairman of the Management Board), and the Risk Management Committee of the Management Board all play a key role in establishing an anti-corruption system that functions efficiently. The Vice President for Risk Management is in charge of implementing anti-corruption programmes and countering corruption within the Company. [GRI 102-16](#)

The main mechanisms and tools employed by the Company to combat corruption and fraud are:

- The drafting, communication to all stakeholders, and implementation of internal corporate documents
- Informing and training employees about anti-corruption issues
- Efficient feedback mechanisms for collecting and analysing information, including an anti-corruption hotline
- The identification, assessment, and management of corruption and fraud risks within business processes
- The 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 audits by the Audit Department (Internal Audit Service).

## ASSESSMENT OF CORRUPTION RISKS

Risks associated with corruption and fraud are identified, analysed, and assessed at all levels of management and at all the Group's companies. The risk of corruption and fraud is a significant corporate risk for NLMK Group, so it is controlled by the Group's management. [GRI 205-1](#)

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

## CONFLICT OF INTEREST

Monitoring and responding to conflicts of interest is another key focus of anti-corruption and fraud prevention at the Group. Declaring a conflict of interest is a mandatory annual procedure for more than 3,000 members of the Group's staff who are employed in operations that are exposed to fraud and corruption. In addition, all employees have the opportunity to independently declare a conflict of interest by completing an electronic questionnaire. All situations that show signs of a conflict of interest, whether declared by employees or identified by control services, are promptly analysed in accordance with the Group's procedure and, if necessary, measures are taken to resolve these issues. As part of this procedure, employees are also required to annually re-acknowledge that they have reviewed the Anti-Corruption Policy, Corporate Code of Ethics, and NLMK Group's Regulations on the Prevention, Detection, and Settlement of a Conflict of Interest.

## 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 activities after hours if it is not related to the performance of their duties. The political or social views of employees may not be regarded as a political or social stance of NLMK Group in any way whatsoever.

## ANTI-CORRUPTION HOTLINE

The Company has introduced a number of feedback mechanisms for collecting and analysing information about any instances of corruption, fraud, unethical or unfair behaviour, or other wrongdoing that could take place or have taken place: One such mechanism is the anti-corruption hotline, which is available in the following formats:

- A 24-hour helpline:
  - for calls from the Lipetsk site, dial 06
  - for long-distance or 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: the telephone numbers of production sites
- Personal meetings with executives
- Management feedback section on the corporate portal
- Anti-corruption email ([anticorruption@nlmk.com](mailto:anticorruption@nlmk.com))
- Email for questions related to ethics and the receipt of gifts in excess of a certain value ([ethics@nlmk.com](mailto:ethics@nlmk.com)).

All requests are promptly analysed in accordance with the procedure in place at the Group, and corrective measures are taken if necessary. Any information that is corroborated about instances of corruption is anonymized and published on the corporate portal. This procedure serves to inform employees about the result of the inspections/investigations initiated by hotline reports and to remind employees that corruption is strictly prohibited (Article 4 of the Anti-Corruption Policy).

## 2019 PERFORMANCE

In 2019, more than 3,000 employees from the Group's Russian companies underwent the conflict of interest declaration procedure and confirmed that they had reviewed the provisions of the Code of Corporate Ethics, Anti-Corruption Policy, and Regulations on the Prevention, Detection, and Settlement of a Conflict of Interest. The rest of the Company's employees were made aware and reviewed the applicable internal documents when these documents were enacted or upon hiring. A total of 239 employees individually took a Conflict of Interest distance-learning course. [GRI 205-2](#)



NLMK Group's website



All the Group's business partners are informed about the principles of good conduct in the qualification process and when a contract is concluded. In 2019, the number of newly informed business partners grew to 2,507 qualified and potential counterparties, including suppliers and providers of goods, work, and services. **GRI 205-2**

Each report about corrupt practices or intentions received through feedback channels is thoroughly checked in accordance with the Regulation on Conducting Official Investigations and Inspections. **GRI 205-3**

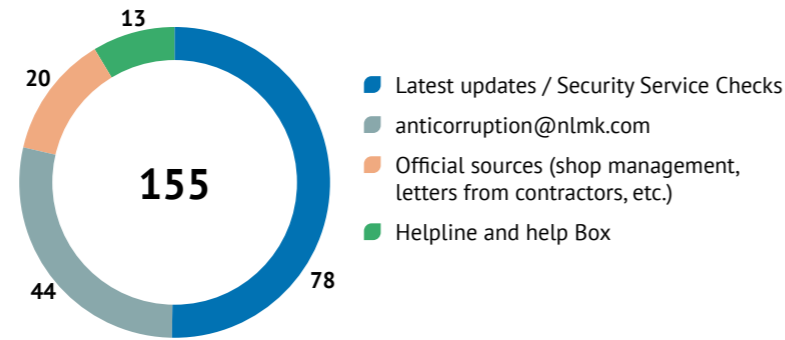
Instances of corruption and fraud that were confirmed in 2019 included, among other things, the unfair behaviour of suppliers, the provision of false information, unethical behaviour as well as deliberate actions taken against property and resources for personal gain.

Based on the results of official inspections and investigations in 2019, 113 Company employees were disciplined, employment relationships were terminated with 13 employees, and 140 complaints were filed with local police departments, which subsequently initiated 12 criminal investigations. **GRI 205-3**

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

There were no corruption-related court cases against NLMK Group or its employees during 2019.

**NUMBER OF OFFICIAL INSPECTIONS/INVESTIGATIONS INITIATED AFTER REPORTS VIA FEEDBACK CHANNELS IN 2019**



**PLANS FOR 2020 AND THE MEDIUM TERM**

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

**INDEPENDENT AUDITOR**

The Company hires an independent audit organization to audit and confirm the accuracy of NLMK Group's IFRS (International Financial Reporting Standards) consolidated financial statements, and NLMK's RAS (Russian Accounting Standards) accounting (financial) statements. In April 2019, NLMK's Annual General Shareholders Meeting approved PricewaterhouseCoopers Audit (PwC) as the Company's auditor.

The independent auditor is selected from among recognized independent auditors with an 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 for an 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, which is responsible for evaluating the efficiency of the current independent auditor, was satisfied with the quality of the services provided and recommended that the Board of Directors and the General Shareholders Meeting re-appoint PwC as the Group's auditor for 2017–2019 based on the results of the 2016 tenders.

In addition to providing audit services to confirm the reliability of financial statements, NLMK Group's companies may hire PwC and other PwC companies to provide consulting (non-audit) services. The management of NLMK Group and, in particular, the Audit Committee, performs the necessary procedures and are certain that these services do not affect the independence of the auditor



**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 the quality of the services provided. For example, PwC rotates key audit personnel on a regular basis (at least once every seven years) with the latest rotation in 2017.*

**REMUNERATION PAID TO THE INDEPENDENT AUDITOR FOR 2019 (VAT EXCLUDED)**

Types of services	NLMK Group (with NBH), \$ '000	Including NLMK, \$ '000
Audit and reviews	2,335.7	1,022.9

and are not related to financial reporting. In 2019, the share of non-audit services in the total volume of services provided by PwC was at an acceptable level and did not exceed 15% of the total volume.

**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 2019 interim and annual IFRS consolidated financial statements as well as for the audit of the 2019 RAS statements in the amount of RUB 66,100,000 (VAT excluded) (\$1,022,900).

# 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 shares are traded on the Moscow Stock Exchange as well as in the form of Global Depository 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 Depository Shares (GDS)

The ratio of Global Depository Shares to ordinary shares is 1:10. The volume of GDS issued by NLMK and traded on the London Stock Exchange amounted to 7.18% of share capital as of 31 December 2019. The Company's depository bank is Deutsche Bank Trust Company Americas.

## SHAREHOLDER NUMBERS

In 2019, the number of shareholders more than doubled, mainly due to individuals. The total number of shareholders has reached 66,000 people (which is an all-time high in absolute numbers). In addition, the growth of online voting participants exceeded 400% yoy.

London Stock Exchange (London) Ticker Code	NLMK
Moscow Stock Exchange (Moscow) Ticker Code	NLMK
Bloomberg Ticker Code	NLMK LI <sup>1</sup>
Reuters Ticker Code	NLMKq.L <sup>2</sup>

### Share price

#### NLMK GLOBAL DEPOSITARY SHARES ON THE LONDON STOCK EXCHANGE

GDS price (\$)	2019	2018	Variance, %
Maximum	28.30	27.85	2
Minimum	19.34	22.01	-12
Average	23.42	25.15	-7
End of year	23.04	22.88	1

#### ORDINARY NLMK SHARES ON THE MOSCOW STOCK EXCHANGE

Share price (RUB)	2019	2018	Variance, %
Maximum	183.20	184.00	0
Minimum	123.42	137.95	-11
Average	151.86	158.05	-4
End of year	143.72	157.42	-9

#### NLMK SHARES ON THE MOSCOW STOCK EXCHANGE (RUB/SHARE) AND ON THE LONDON STOCK EXCHANGE (\$/GDS)



## MARKET CAPITALIZATION

In 2019, the Company's average market capitalization on the London Stock Exchange was \$14 bn (-7% yoy). At the end of 2019, NLMK share prices stood at \$2.3 per share (or \$23.04 per GDS), which is consistent with capitalization of \$13.81 bn (+1% yoy).

## TAXATION

### Legal entities

Chapter 25 'Tax on Organizations' Profit' of the Russian Tax Code governs the 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 (clauses 3.1 and 3.2, Article 284 of the Russian Tax Code); foreign organizations are subject to a 15% income tax (clause 3.3, Article 284 of the Russian Tax Code).

### Individuals

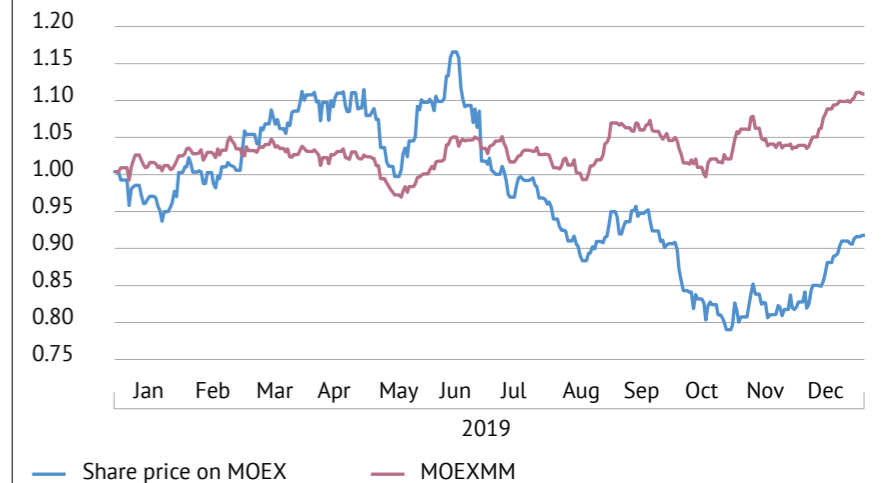
The personal income tax rate is 13% for Russian residents (clause 1, Article 224 of the Russian Tax Code) and 15% for non-residents (clause 3.2, Article 224 of the Russian Tax Code).

**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 Depository Shares (GDS).

## SHAREHOLDER NUMBERS

	As of 26.11.2018	As of 25.11.2019	Variance, %
Shareholders, total	26,123	66,045	153
Online voting participants	86	431	401

#### NLMK SHARES ON THE MOSCOW STOCK EXCHANGE (INDEX, 01.01.2019 = 100)



#### NLMK SHARES ON THE LONDON STOCK EXCHANGE, (INDEX, 01.01.2019 = 100)



<sup>1</sup> NLMK LI for GDS traded on the LSE; NLMK RX for shares traded on the MICEX platform of the Moscow Exchange  
<sup>2</sup> NLMKq.L for GDS traded on the LSE; NLMK.MM for shares traded on the MICEX platform of the Moscow Exchange

## DIVIDENDS

### Dividend Policy

According to the dividend policy effective on 31 December 2019, dividends are determined as follows:

- If Net Debt/EBITDA is 1.0x or less: the payout amount shall be equivalent to or above 100% of the free cash flow, calculated based on the Company's IFRS consolidated financial statements for the reporting period
- If Net Debt/EBITDA exceeds 1.0x: the payout amount shall be equivalent to or above 50% of the free cash flow, calculated based on the Company's IFRS consolidated financial statements for the reporting period

Dividends are paid annually. If financially stable conditions are maintained, NLMK will strive to pay interim dividends on a quarterly basis. NLMK uses the normalized investment level of \$700 m per year to calculate the free cash flow for dividend payments if actual investments are above this level.

The amount to be paid as dividend for a specific period is approved by the Company shareholders in line with the Board of Directors' 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 payments 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 recommended that the NLMK Annual General Shareholders Meeting pay (declare) Q4 2019 dividends for ordinary shares in the amount of RUB 5.16 per ordinary share. Taking into account previously declared dividends for Q1-Q3 2019, 12M 2019 dividends may amount to RUB 19.4 per ordinary share, which is equivalent to 120% of the Company's 2019 free cash flow.

## CORPORATE DOCUMENTS

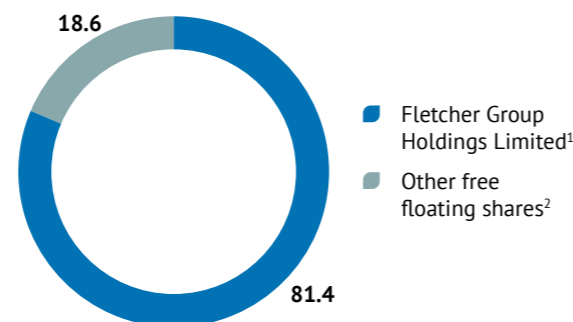
The Group's corporate documents, including the NLMK Charter, are available at [www.nlmk.com](http://www.nlmk.com).

### 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](http://www.nlmk.com), on the day of its official publication. The Company announces its publication in a special press release. A hard copy of the annual report is available upon request in the office of the shareholder register.

## EQUITY STRUCTURE

### EQUITY STRUCTURE AS OF 31 DECEMBER 2019, %



<sup>1</sup> The Company's beneficiary is Vladimir Lisin, according to the definition of 'beneficiary' in Russian legislation.

<sup>2</sup> Including GDS 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 2020

### FINANCIAL CALENDAR FOR 2020

Date	Event
20 January	Q4 and 12M 2019 NLMK Group Trading update
12 February	FY 2019 NLMK Group IFRS consolidated financial results. Conference Call
12 February	Meeting of the Board of Directors. Recommendations of the Board of Directors on Q4 2019 dividend payments
12 February	RAS (Russian Accounting Standards) 2019 Financial Results for the Group's Major Companies
15 April	Q1 2020 NLMK Group Trading update
20-24 April	Annual General Shareholders Meeting (Q4 2019 Dividends Declaration)
27-30 April	Meeting of the Board of Directors. Recommendations of the Board of Directors on Q1 2020 dividend payments
27-30 April	Q1 2020 NLMK Group IFRS consolidated financial results. Conference Call
8-12 June	Extraordinary General Shareholders Meeting (Q1 2020 Dividends Declaration)
15 July	Q2 2020 NLMK Group Trading update
20-24 July	Q2 2020 NLMK Group IFRS consolidated financial results. Conference Call
20-24 July	Meeting of the Board of Directors. Recommendations of the Board of Directors on Q2 2020 dividend payments
21-25 September	Extraordinary General Shareholders Meeting (Q2 2020 Dividends Declaration)
15 October	Q3 2020 NLMK Group Trading update
19-23 October	Q3 2020 NLMK Group IFRS consolidated financial results. Conference Call
19-23 October	Meeting of the Board of Directors. Recommendations of the Board of Directors on Q3 2020 dividend payments
14-18 December	Extraordinary General Shareholders Meeting (Q3 2020 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:** 10b, 9 Maya St., Lipetsk, Russia, 398017  
**Telephone:** +7 (4742) 44-30-95  
**Email:** [info@a-rnr.ru](mailto:info@a-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 St.  
 London EC2N 2DQ  
 UK

### Contacts

**London:** +44 (20) 7547-6500  
**New York:** +1 (212) 250-91-00  
**Moscow:** +7 (495) 642-06-16  
**Email:** [adr@db.com](mailto:adr@db.com)

### Valery Loskutov

Corporate Secretary  
**Telephone:** +7 (4742) 44-49-89  
**Email:** [loskutov\\_va@nlmk.com](mailto:loskutov_va@nlmk.com)

### Investor Relations

**Telephone.:** +7 (495) 504-05-04  
**Email:** [ir@nlmk.com](mailto:ir@nlmk.com)

GRI 102-53





# OUR TEAM

- Stakeholder dialogue
- Supply chain management
- Human rights
- Our employees
- Occupational health and safety
- Developing local communities



RESULTS OF STAKEHOLDER ENGAGEMENT **GRI 102-44****EMPLOYEES****Importance for NLMK**

Our employees are essential to the Company's stability, ensuring that the business can operate and grow successfully.

Creating a highly qualified and motivated team is a key goal of our engagement with staff and an integral factor behind NLMK's leading position in the industry. The Human Resources Department works with employees across all NLMK units.

NLMK provides decent working conditions for its employees, and continues to develop financial and non-financial incentive systems. The Company runs various training programmes for employees, including those organized as part of the NLMK Corporate University.

The Company seeks to increase employee engagement by improving feedback channels, conducting team-building activities, and offering social support.

**Stakeholder interests**

- Decent salaries and the use of an incentive system
- Opportunities for professional development and career growth
- Comfortable, safe workspaces
- Compliance with employment laws and other regulations

**Forms of engagement**

- Organizing regular safety training sessions and implementing programmes to improve workplace conditions
- Implementing measures to provide social support for employees, their families, and retirees (former employees)
- Offering continuing education, training, and staff development programmes
- Holding regular meetings with management at various levels
- Monitoring employee engagement
- Reviewing messages submitted via the telephone hotline, corporate portal, and text messaging
- Informing employees about the Company's activities and opportunities for professional growth through corporate newspapers, magazines, NLMK TV, and social media

**SHAREHOLDERS AND THE INVESTMENT COMMUNITY****Importance for NLMK**

Shareholders own our business and influence the course of NLMK's development. The Company is committed to safeguarding their interests.

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

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

The Investor Relations and Capital Markets Department is responsible for engaging with the investment community and shareholders.

**Stakeholder interests**

- Consistent improvement in the Company's financial and non-financial performance
- Growth in the Company's shareholder value
- Transparency and disclosure
- Investment appeal and stability

**Forms of engagement**

- Disclosing information in various public sources
- Organizing official visits for current and potential investors to the Group's sites
- Participating in Russian and international investment conferences
- Holding business meetings, both one-on-one and in groups
- Hosting Capital Market Days with the involvement of the Company's senior management team
- Conducting annual anonymous Investor Perception Studies

**GOVERNMENT AUTHORITIES****Importance for NLMK**

As a major global manufacturing company that has a presence in seven countries and five regions of the Russian Federation, NLMK encounters government regulations in various parts of its operations every day. Given the intense competition and market volatility, it is essential to have a stable regulatory environment that provides opportunities for long-term planning and stable business management.

A key goal of our engagement with the government authorities is to reduce risks and create favourable conditions for the Company to operate and develop within the regulatory environment. As represented by its Government Relations Department, the Company thus 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 where it operates.

A key component of the Company's approach is to provide assistance to the Company's functional areas on relevant issues concerning engagement 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, Environment, OHS, Energy, Sales, and Procurement.

**Stakeholder interests**

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

**Forms of engagement**

- Meetings with representatives of foreign, national, regional, and municipal state authorities
- Participation in advisory bodies, expert working groups, and public hearings
- Engagement through industry-specific and public associations
- Annual disclosure of information about payments to governments
- Involvement in policy-making processes in accordance with the procedures stipulated by law

**SUPPLIERS AND CONTRACTORS****Importance for NLMK**

The timely and accurate delivery of quality goods and services by suppliers and contractors has a direct impact on the quality of our products and the stability of NLMK's production processes.

Strong and mutually beneficial relationships with reliable suppliers and contractors are essential if the Group is to sustain its operations and fulfil its obligations. The NLMK Procurement Service is responsible for working with suppliers and contractors.

The Group's priorities are to ensure that goods and services are of high quality, that the right 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 the transparency of procurement activities.

**Stakeholder interests**

- Transparent competitive procurement procedures for goods and services
- Fulfilment of contractual obligations
- Utilization of an effective system for processing feedback and complaints
- Utilization of a risk management and anti-corruption system

**Forms of engagement**

- Conducting prequalification of suppliers
- Developing competitive procurement procedures for goods and services
- Holding negotiations with potential partners
- Organizing the work of category managers
- Ensuring a functional feedback form on the corporate portal for contractors
- Conducting business meetings with suppliers and participating in conferences and industry associations
- Carrying out assessments and audits of suppliers and contractors in order to confirm their reliability, status as suppliers, production capacity, and compliance with occupational health and safety and environmental requirements



RESULTS OF STAKEHOLDER ENGAGEMENT **GRI 102-44**

**LOCAL COMMUNITIES**

**Importance for NLMK**

The long-term stability of NLMK's business is largely dependent on the social and economic stability of the regions where it operates. NLMK's contribution to developing local communities has a positive impact on stakeholder loyalty and the Company's overall reputation.

NLMK Group enterprises are some of the largest employers and taxpayers in the regions where they operate.

The Company has an interest in improving the living standards of local people and involving them in the Group's social and environmental initiatives. NLMK holds public hearings and conducts surveys of local people to identify their needs, and organizes various volunteer and charity programmes. These measures help to increase the effectiveness and coverage of these programmes each and every year.

The local community development activities are organized by the HR Department together with the Government Relations team.

**Stakeholder interests**

- Company involvement in addressing the problems of local communities
- Jobs for local people
- Safe production practices and reducing environmental footprint
- A conscientious approach to doing business

**Forms of engagement**

- Engaging in dialogue with local representatives to inform them about the Company's activities in the regions where it operates
- Publishing corporate reports
- Publishing information in the media and on the Company's website
- Holding thematic conferences and events

**TRADE UNIONS**

**Importance for NLMK**

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

A key focus of NLMK's work with trade unions is the conclusion of collective bargaining agreements. These agreements are designed to guarantee the provision of decent working conditions and a bonus and compensation system. NLMK's effective engagement with trade unions helps to strengthen its brand as an employer.

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

**Stakeholder interests**

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

**Forms of engagement**

- Conducting collective bargaining
- Concluding collective bargaining and other agreements and signing joint resolutions
- Working jointly on various commissions and committees
- Holding employee conferences

**CORPORATE COMMUNICATIONS**

In 2019, NLMK Group continued to develop its unified internal information space that encompasses all 52,800 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 process of continuous improvements
- 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 such channels 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, 35,000 users log on to the portal every month. The number of users has increased by 55% over the last two years.

The new portal has an adaptive design that makes it possible to correctly display all information on any device, whether it is a mobile phone, tablet, or laptop.



Silver prize at the prestigious international Step Two Intranet and Digital Workplace Awards 2019



Employees who have a corporate account have 24-hour access to the site via a browser.

The NLMK Group portal is now the biggest intranet project in Russia hosted on the Bitrix24 platform. Experts from the internal communications and efficient intranet solutions community have declared it the best internal portal in Russia and globally: it took first place in both the Media Leader and InterCom'2018 competitions and also won the silver prize at the prestigious international Step Two Intranet and Digital Workplace Awards 2019.

**NLMK TV**

Work continued in 2019 to develop the NLMK TV corporate television project, with plans to grow the number of broadcast points from 136 to 297 by 2021. This is expected to provide 100% coverage for all NLMK Group's Russian companies in various cities where they operate. These screens are controlled centrally by a unified information system that delivers targeted information intended for the employees of a given unit. NLMK broadcast a record 900 videos during the reporting year.

**NLMK PR PARTNERSHIP INSTITUTE**

In 2019 the Company also continued efforts to develop the NLMK PR Partnership institute within the Group's Internal 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 2019, the Company completed the relaunch of all five NLMK corporate newspapers, which were updated to reflect modern trends, and continued to improve their content. Today, 90% of the material in these newspapers features direct links to our intranet portal, and an emphasis has been placed on visuals and new presentation formats, thus expanding the interactive capabilities of traditional communications formats and contributing to the development of internal media. Our corporate magazine NLMK is published in Russian, English, and French.





Russian companies procured goods and materials for a total of

**RUB 169.8 bn**

**58 audits**

of suppliers of goods and services conducted

The Group's efficient supply chain is crucial to its sustainable operation 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 which it procures a wide range of goods and services, including equipment, ferroalloys, non-ferrous metals, refractory products, and spare parts, among other things.

The main principles governing the Group's procurement activities are:

- Focus on goals, objectives, and outcomes
- Integrity and transparency
- Mutually beneficial cooperation
- Continuous improvement
- Qualified and motivated staff
- Teamwork and commitment to a company-oriented spirit
- Proactive approach

# SUPPLY CHAIN MANAGEMENT<sup>1</sup>

## MAJOR THEMES

Environmental assessment of suppliers

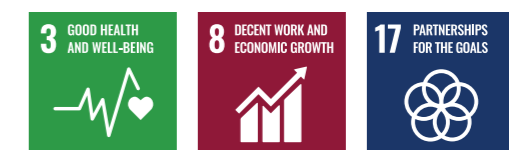
## KEY EVENTS IN 2019

- Expanded use of electronic document management with suppliers
- Re-qualification of resident suppliers eliminated and reliability of suppliers verified in real time
- 'Leader in Competitive Procurement 2019' Grand Prix award

## 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



<sup>1</sup> Information on procurement practices is presented for the Group's Russian companies.



# OUR APPROACH TO SUPPLY CHAIN MANAGEMENT

The procurement process at the Group is coordinated by a dedicated team and designed in such a way as to ensure that high-quality goods are procured in a timely and accurate manner and that the procurement process is as transparent and competitive as possible.

The procurement team's main goal is to meet the expectations and needs of specific groups of NLMK stakeholders, including shareholders, employees, customers, internal customers, and regulatory bodies. The procurement team's key objectives are to unify and standardize procurement systems and processes, ensuring that they all have the same level of maturity.

The main documents governing procurement activities at the Group are:

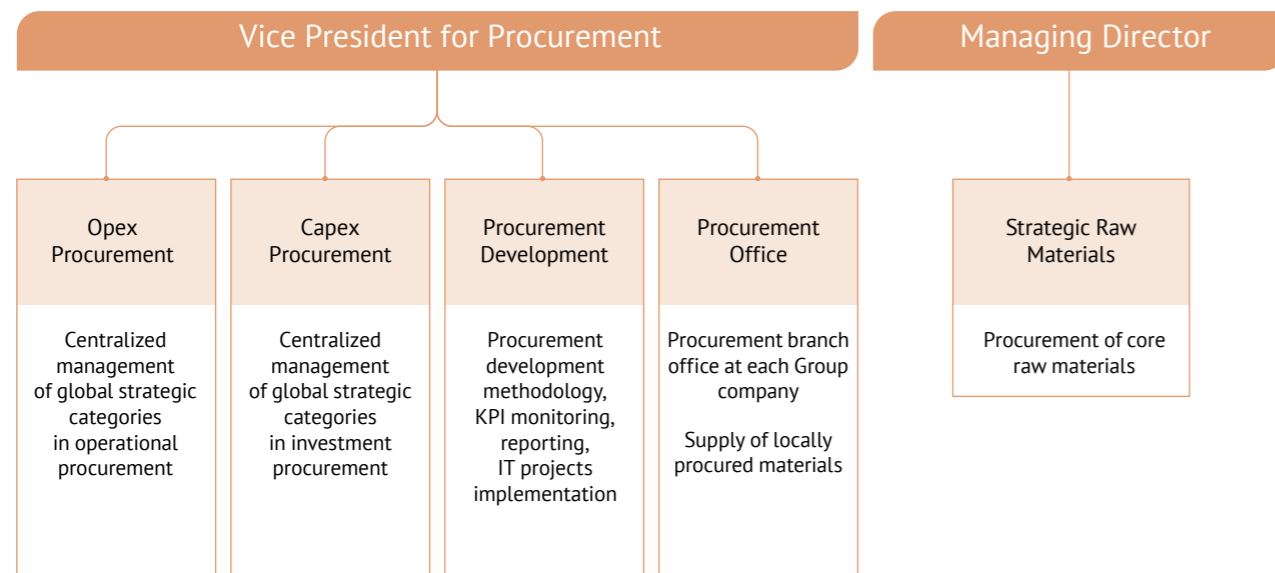
- Supplier Code of Conduct
- Contractor Audit Regulations
- Procurement Team Cooperation Regulations

- Corporate-level regulations describing liaising with contractors:
  - Contractor Qualification Regulations
  - Contractors Selection Regulations
  - Contractor Assessment Regulations
  - Regulations on Contractors Selection in Cooperation with the Tender Commission
- Documents describing standard processes
  - Acceptance Standards
  - Claim Settlement Standards
- Category strategies

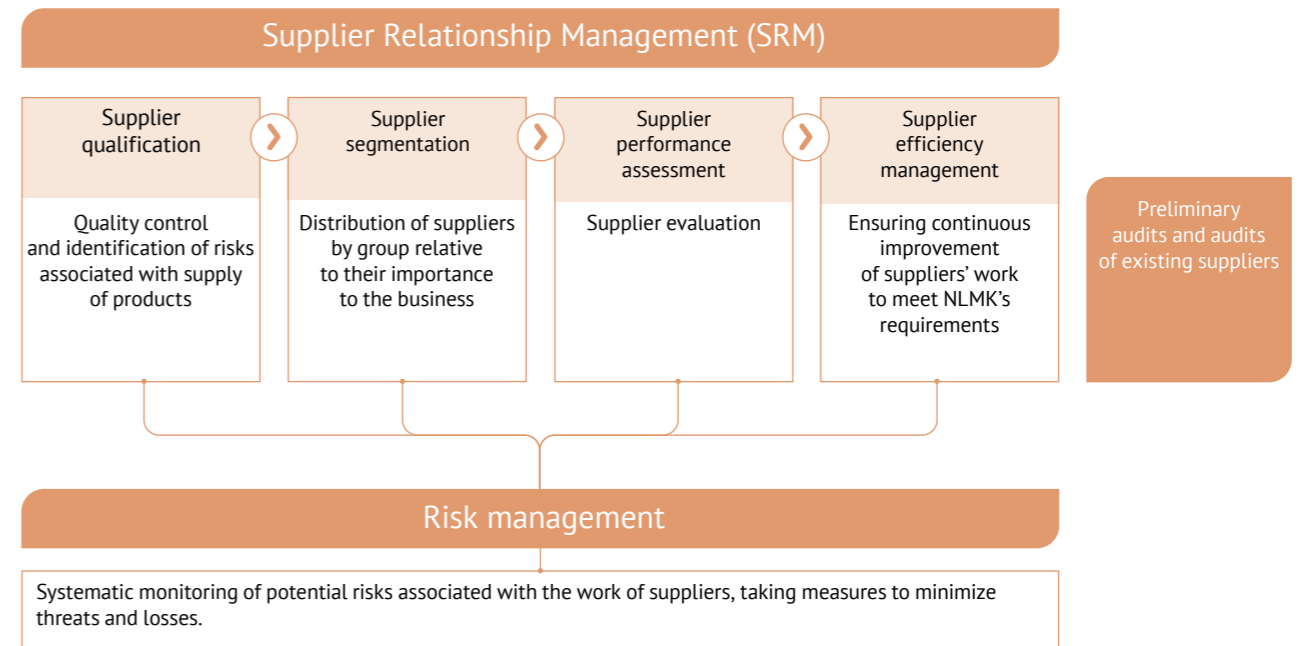
The organizational structure of the Group's procurement team consists of centralized and decentralized components, which helps make the procurement process and cooperation with suppliers as efficient as possible. Interrelated procurement structures, policies, and procedures ensure that the approaches taken across all of the Group's companies are consistent.

The Opex Procurement and Capex Procurement teams are represented by category managers, who are responsible for the entire procurement process, from the moment that a procurement request is received from an internal customer to the moment that a supplier is selected.

## PROCUREMENT TEAM ORGANIZATIONAL STRUCTURE



## SUPPLIER MANAGEMENT PROCESS WITHIN NLMK GROUP



In order to ensure a reliable and uninterrupted flow of goods and materials to the Group's companies, the procurement team has developed over 50 category-based strategies. Procurement strategies for certain categories of goods are developed to take into account potential risks and determine scenarios depending on the level of risk and potential losses, and they also include plans to prevent any risks from arising.

Managing risks associated with the late, incomplete, or incorrect supply of goods and services is key to ensuring a reliable supply chain and the continuity of the Group's operations. In 2019, changes were made to the process of re-qualification of resident suppliers: in accordance with the updated process, due diligence of suppliers is carried out in real time.

Each year, suppliers of goods are evaluated and then divided into A, B, C, and D groups. Group D includes those suppliers that have proven to be unreliable based on the evaluation results. These contractors are excluded from the list of suppliers and are not allowed to participate in tender procedures in the future.

As a result of the evaluation, 15 suppliers were assigned D status in 2019.

The bulk of the Group's procurement is carried out centrally, with local procurement classified in a separate category and supervised by the heads of local procurement departments. The creation of a centralized procurement support office in Lipetsk in 2018 helped boost the efficiency of procurement processes. Having a single service centre for processing transactions will reduce costs, improve levels of internal customer satisfaction, and speed up procurement procedures.

The Group is particularly focused on digitalizing and automating procurement activities. Most key procurement processes have been automated, and the majority of the Group's tender procedures are carried out electronically using the SAP SRM (Supplier Relationship Management) system. NLMK's achievements in automating procurement activities in 2018 were recognized within the broader professional community. For example, NLMK Group won the *Company of the Year* award in competitive procurement

and the *Leader in Competitive Procurement 2019 Grand Prix* award.

## ASSESSING PERFORMANCE

A system of key performance indicators (KPIs) is used to monitor and control the performance of suppliers and procurement staff, eliminate losses sustained in procurement processes, and achieve savings for the Group. The KPIs, which are approved on an annual basis, include the following:

- Availability
- Cost-efficiency
- Cost avoidance
- Inventory turnover
- On-time deliveries

The Procurement team holds regular meetings with internal customers to identify the main supply issues. The Procurement staff also conducts regular satisfaction surveys of major internal customers in order to improve the quality of the procurement process. The survey results are collected and carefully analysed, and measures are then developed to further improve the team's work.



## SUPPLY CHAIN RESPONSIBILITY

As a large consumer of a number of goods and services, the Group is able to have a positive impact on reducing social, environmental, and production risks within the supply chain.

The Group seeks to cooperate with suppliers of goods and contractors that demonstrate a commitment to sustainability principles. In addition, in accordance with NLMK Group's Procurement Policy, the Group is committed to purchasing goods and services that have as few negative impacts on society and the environment as possible during their lifecycle.

As part of efforts to increase responsibility across the supply chain, NLMK focuses on:

- Assessing occupational health and safety risks among contractors
- Ensuring that suppliers of goods used in the production of automotive body sheet hold certificates of compliance under ISO/TS 16949
- Assessing contractors that provide waste collection services.

## SELECTION AND QUALIFICATION OF SUPPLIERS AND CONTRACTORS

An efficient and reliable supply chain is essential to the stable operation of all divisions within the Group. The Group carefully selects and screens suppliers and contractors, and expects a great deal from its counterparties in terms of complying with deadlines, OTIF (on-time in-full) requirements, and quality standards for the goods and materials

it supplies. All suppliers and contractors that work at hazardous production facilities at NLMK companies have to be qualified.

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 the Group's 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.

### 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

Indicator	2018	2019
Number of suppliers on which partnership restrictions were imposed	17	18
Number of suppliers with which NLMK Group decided to temporarily suspend relations	8	6
Number of suppliers with which NLMK Group decided to terminate relations	12	11



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 30–80 audits of suppliers and contractors. When drawing up annual audit plans, the Group's specialists take into account critical areas that affect 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
- Compliance with legal requirements for occupational health and safety and environmental protection, etc.

When auditing suppliers of goods, the Group pays special attention to the counterparty's compliance with obligatory standards in matters concerning 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, etc.

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 needed to eliminate and prevent the reoccurrence of any of the issues that have been identified.

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

### SUPPLIER AND CONTRACTOR AUDITS

Subject of audit	2015	2016	2017	2018	2019
Goods and materials	27	22	35	39	34
Services	2	1	21	17	24



DATA ON PROCUREMENT VOLUME BY KEY PROCUREMENT CATEGORY, 2019 GRI 102-9

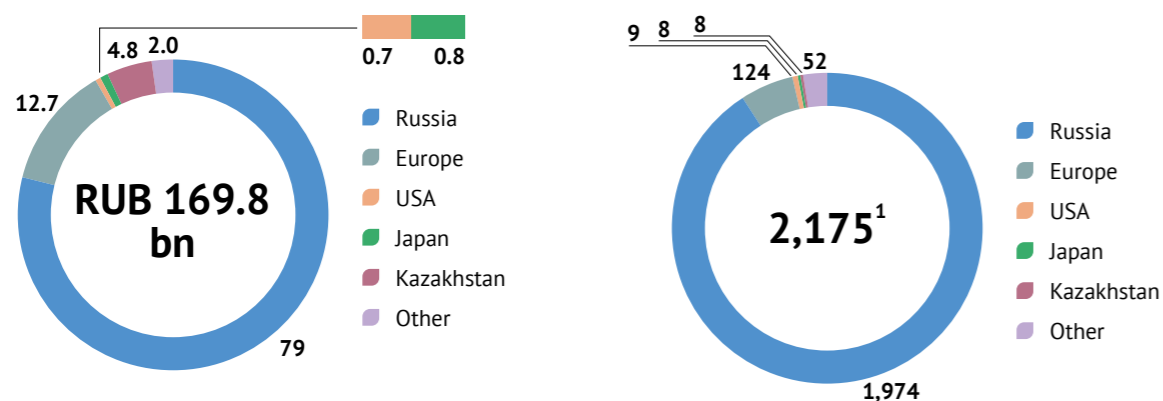
No.	Goods and materials category	Procurement volume, RUB m (excluding VAT)
1	Coal and coal concentrates	64,306
2	Provision of repairs and maintenance	31,841
3	Raw materials (excluding the main raw material categories)	26,397
4	Refractory products	14,041
5	Process equipment	10,787
6	Provision of technology	7,451
7	Coatings	5,712
8	Electrode coke	2,241
9	Fuels and lubricants	2,109
10	Rolls	1,510
11	Iron ore (concentrate, pellets, and ore)	1,391
12	Other	2,050

There were no significant changes in the Group's supply chain structure during 2019. GRI 102-10

## 2019 PERFORMANCE

PROCUREMENT FROM SUPPLIERS OF GOODS AND MATERIALS BY SUPPLIER COUNTRY, % OF TOTAL PROCUREMENT

GRI 102-9



<sup>1</sup>. Number of suppliers. Note: data on purchases of goods and materials from third parties for Russian companies

## PLANS FOR 2020 AND THE MEDIUM TERM

The Group 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:

- Transition to signing of purchase orders in electronic form
- Claim work automation with suppliers
- Expanding the practice of using supplier catalogues and managing them, which will enable internal customers to choose the necessary items themselves

- Enhancing the efficiency of interaction with suppliers through the digital assistant functionality
- Changing the process of selecting and purchasing key auxiliary equipment for investment projects
- Simplification of the standard contract form for suppliers and the development of general terms of delivery of goods and materials.

The Group also plans to update the Contractor Audits Regulations in 2020.





0

violations of human rights were recorded during the reporting year

# HUMAN RIGHTS

## MAJOR THEMES

- Non-discrimination
- Freedom of association and collective bargaining
- Prohibition of child labour
- Prohibition of forced or compulsory labour

## KEY EVENTS IN 2019

- Participation in BHR Peer Learning Series, the Russian track of international workshops hosted by the Office of the UN High Commissioner for Human Rights and the UN Working Group on 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







**NLMK's human rights principles**

- Prohibition of forced labour
- Prohibition of discrimination
- Prohibition of child labour
- Respect for the right to a minimum wage
- Provision of safe working conditions

# MANAGING HUMAN RIGHTS ISSUES

Respecting human rights is a key underlying principle in all of NLMK's operations. In its activities, the Company does not tolerate human rights violations related to discrimination based on sex, age, religion, race, ethnicity, physical traits, or identity, or any other form of discrimination. NLMK also devotes special 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 component in the Company's approach to managing these issues is NLMK Group's Human Rights Policy. The goal of the policy is to ensure that human rights are observed in the Group's activities everywhere we operate.

## INTEGRATING FUNDAMENTAL HUMAN RIGHTS PRINCIPLES INTO NLMK GROUP ACTIVITIES

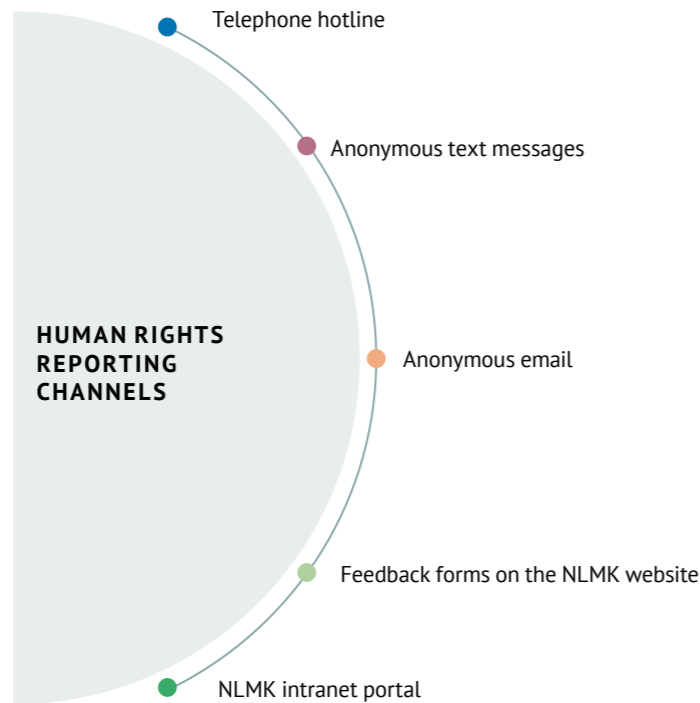
Fundamental principles	Areas of activity
Prohibition of forced labour and child labour	NLMK Group only signs employment contracts with individuals that meet the minimum age requirements stipulated by prevailing legislation. The Company does not make use of child labour. The Company also forbids the use 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 the interests of NLMK employees by making corporate communications tools available and by supporting employee volunteering initiatives. <i>For additional information, see the Our Employees, Stakeholder Dialogue, and Corporate Communications sections</i>
Provision of 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 while increasing safety levels at the production sites of every NLMK company from year to 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 Occupational Health and Safety and Environmental Protection sections</i>

NLMK's efforts to protect human rights in all the regions where it operates 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 its stakeholders, including employees, subcontractors, and business partners.

The Company welcomes information from all stakeholders about any activities that violate human rights. Employees, clients, suppliers, subcontractors, and other stakeholders can use any feedback channel listed on the official NLMK website, including in languages other than Russian.

All messages and complaints are recorded in an aggregated database that is 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.

## 2019 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, GRI 408-1, GRI 409-1**

NLMK is committed to improving 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.

In 2019, the Company made a major effort to integrate human rights provisions into the standard terms of business with contractors. This implies that suppliers and counterparties must confirm that they adhere to and respect the human rights principles envisaged by the Russian law and international legal instruments at the time of signing a contract. Obligatory compliance is required for the following human rights:

- Support for freedom of association
- The right to liberty and security of person
- Respect for the prohibition of child labour and forced labour and the prohibition of discrimination
- Ensuring the occupational health and safety of workers as well as safe working conditions
- Respect for the right to a minimum wage

These efforts will continue into 2020.



In 2019, the Company participated in the BHR Peer Learning Series, the Russian track of international workshops hosted by the Office of the UN High Commissioner for Human Rights and the UN Working Group on Business and Human Rights. The event was structured to enable an exchange of experience, deliver theoretical and practical materials, and harmonize interpretations and understanding of the matter. It also laid the groundwork

for further dialogue in this field and established a working platform based on the needs, wishes, challenges, and problems that were identified.

NLMK participates in organizations that support and foster human rights principles. For example, the Company is a member of the Committee on Corporate Social Responsibility and Demographic Policies of the Russian Union of Industrialists and Entrepreneurs (RSPP).

In 2019, NLMK Group joined the UN Global Compact, an international initiative of the United Nations to promote sustainable development and corporate social responsibility. Having signed the Compact, NLMK Group reaffirmed its commitment to its 10 fundamental principles, including those related to human rights.

## PLANS FOR 2020 AND THE MEDIUM TERM

Given the international nature of NLMK's 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 the Group's 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 NLMK's current Human Rights Policy. Company representatives will also continue to play an active role in important events dedicated to protecting human rights.





17%

increase in investment in staff training and development

Managers took

>18,000

training sessions at the Corporate University

5.6%

turnover rate at NLMK Group

Women account for

35%

of management and administrative staff

Women account for

25%

of the total number of employees

# OUR EMPLOYEES

## MAJOR THEMES

- Safe working conditions
- Development of managerial skills
- Engagement of employees in continuous improvement
- Development of professional skills
- Labour productivity improvement

## KEY EVENTS IN 2019

- Roll out of the staff assessment system based on NLMK's key skills
- Launch of the Healthy Choice project to create a conscious attitude among employees to their health
- Approval of NLMK Group's Social Strategy
- NLMK Pulse corporate survey to get feedback from employees about the situation in the Group
- Talent Pool development

## 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.

## SUSTAINABLE DEVELOPMENT GOALS





# OUR APPROACH TO STAFF MANAGEMENT

Our key personnel management goals are to attract and retain the best professionals in their field and engage them in the process of continuous improvements. To do this, NLMK Group needs to remain as progressive as possible and attentive to safety, talent, and innovation.

In order to achieve these goals, the Group continued to work actively in the following key areas of the HR policy during the reporting period:

- Labour productivity improvement
- Development of managerial skills, where each manager is responsible not only for business performance, but also for the quality of his/her team
- Development of employee initiative and engagement in the process of continuous improvement
- Development of the vocational training system
- Further integration of international companies into the Group's HR processes
- Digitalization and implementation of best practices in HR processes

One of the main goals of the HR strategy is to increase productivity. We plan to achieve this goal by improving the quality of business processes, ensuring the automation and mechanization of labour as well as developing processes that utilize the expertise of contractors and suppliers.

A positive driver is the NLMK Production System project, which focuses on increasing the Group's efficiency through continuous improvements, the elimination of waste, occupational safety, respect for each employee, and the development of a regular dialogue between management and employees.

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, building systems to reward and motivate them, and developing their professional skills.

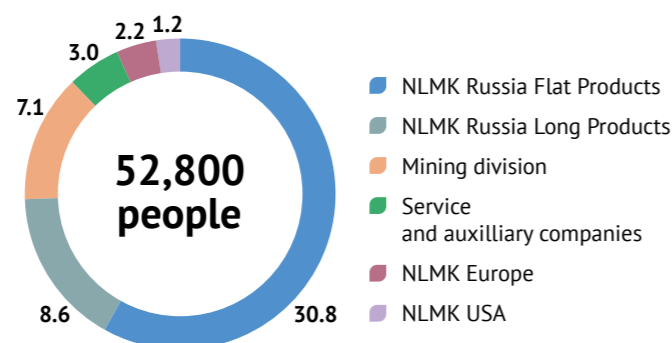
NLMK Group conducts staff management activities in accordance with the following internal and external documents:

- 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
- NLMK Group's Corporate Ethics Code
- Collective bargaining agreements
- General corporate regulations on staff management.

## OUR EMPLOYEES

The average NLMK Group headcount during 2019 was 52,800 people, of whom 49,200 (93.2%) were employed at the Group's Russian companies, 2,200 (4.1%) at European divisions, and 1,200 (2.2%) in the United States. The average headcount decreased by 1% during the reporting period; this is the result of the Investment Programme 2022 and productivity improvement programmes. **GRI 102-7**

### NLMK GROUP STAFF<sup>1</sup> BREAKDOWN BY SEGMENT IN 2019, THOUSANDS OF PEOPLE **GRI 102-8**

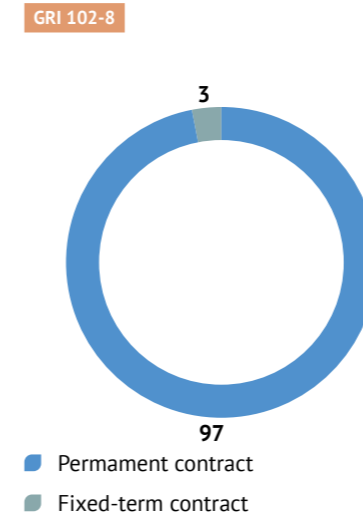


Approximately 97% of NLMK Group employees work under permanent contracts, and around 3% under fixed-term contracts.

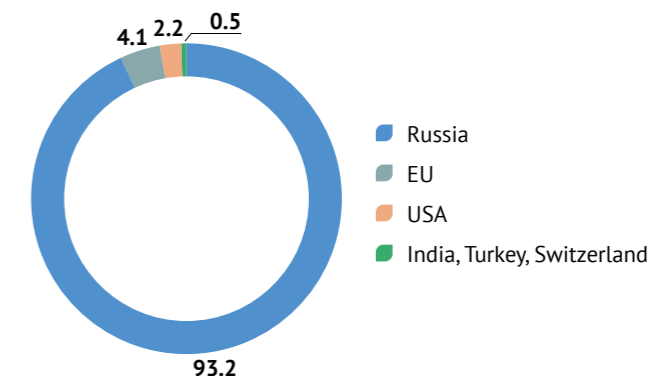
The nature of the steel industry is such that the proportion of men among shop-floor employees (78%) outweighs the proportion of women (22%) – this has always been the case historically. As for administration and management staff, women account for 35% of all specialists, 58% of office employees and 15% of managers. In total, women account for 25% of all staff.

NLMK employees represent various age groups, which attests to the lack of age discrimination in NLMK Group's HR policy. In 2019, 23% of all employees were aged over 50, 60% were aged between 30 and 50, and 17% were under 30. Of those in management positions, 74% were aged between 30 and 50, and 21% were aged over 50.

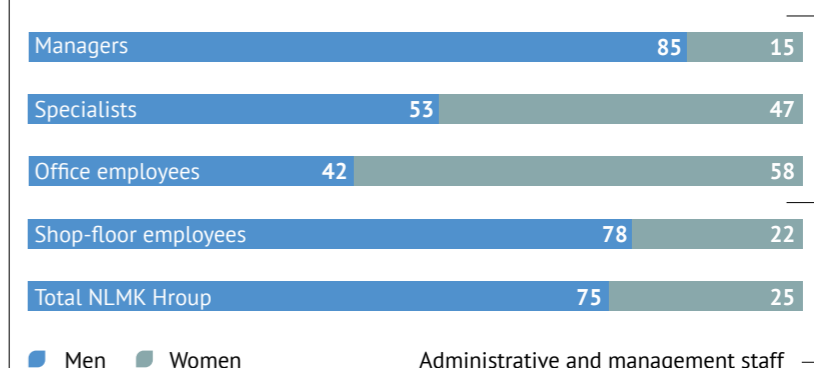
### NLMK GROUP STAFF<sup>2</sup> BREAKDOWN BY CONTRACT TYPE IN 2019, % **GRI 102-8**



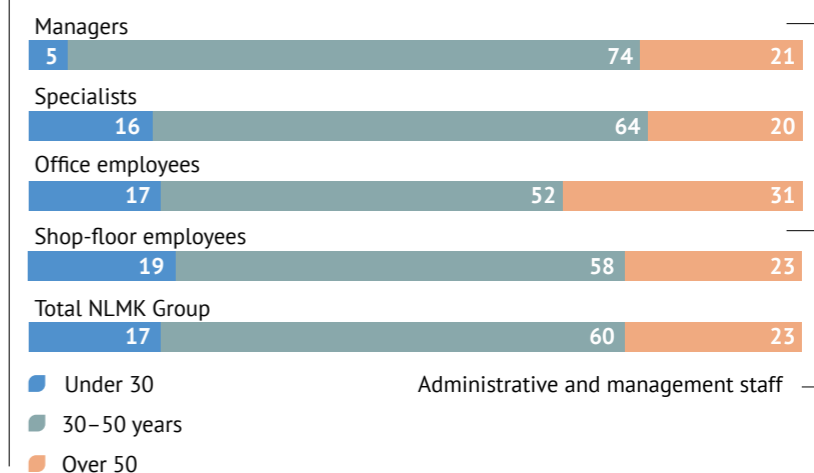
### NLMK GROUP STAFF<sup>1</sup> BREAKDOWN BY REGION IN 2019, %



### NLMK GROUP STAFF<sup>2</sup> BREAKDOWN BY GENDER AND CATEGORY IN 2019, % **GRI 102-8, GRI 405-1**



### NLMK GROUP STAFF<sup>2</sup> BREAKDOWN BY AGE AND CATEGORY IN 2019, % **GRI 102-8, GRI 405-1**



<sup>1</sup> Average headcount.  
<sup>2</sup> Headcount as on 31.12.2019.



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. In 2019, NLMK Group's Board of Directors and Management Board were made up of both men and women.

### LABOUR PRODUCTIVITY

NLMK pays special attention to the strategic goal of increasing labour productivity. This task encourages the implementation of effective technological and management processes within the Group as well as the use of advanced technical solutions.

The Company has experienced a stable positive labour productivity trend over the past few years. In 2019, NLMK Group's labour productivity was 297 t of steel per person. This is a planned reduction associated with major investment projects to upgrade the core equipment of NLMK companies.

### TURNOVER

In 2019, voluntary staff turnover was 5.6%. The increase over the previous year is associated with the implementation of the programme to increase labour productivity, i.e. the automation and mechanization of production.

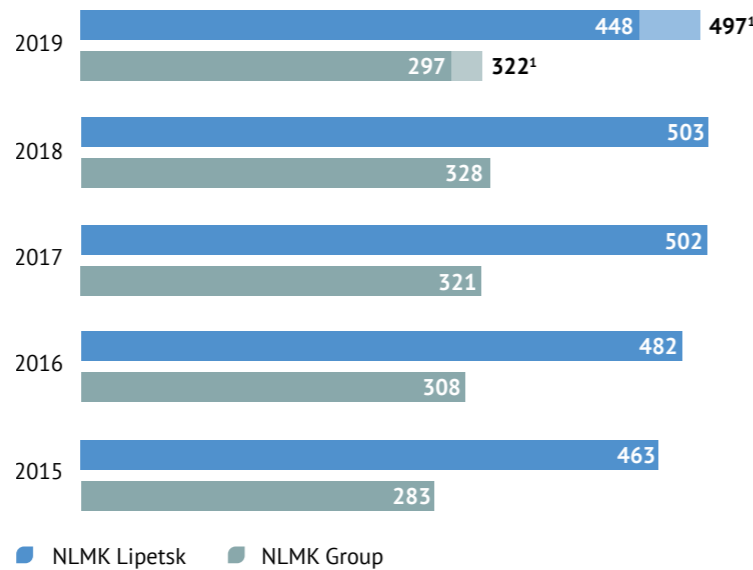
### STAFF RECRUITMENT

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

#### GENDER COMPOSITION OF NLMK GROUP GOVERNANCE BODIES AS OF 31.12.2019, PEOPLE GRI 405-1



#### NLMK GROUP LABOUR PRODUCTIVITY<sup>1</sup>, 2015–2019 (TONNES OF STEEL/PERSON)



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<sup>2</sup> places restrictions on the use of female labour in hazardous conditions and in situations involving

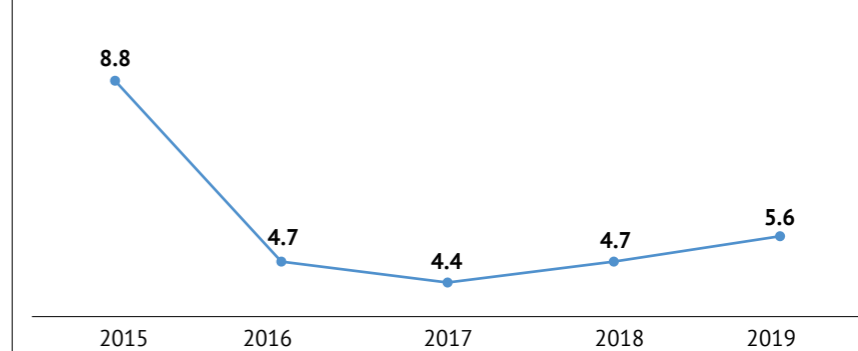
the movement of heavy weights. The Company adheres strictly to these requirements.

In 2019, NLMK Group successfully completed a pilot project to introduce video interviews as a new tool for evaluating candidates. The project was powered by the Sever.AI platform. Based on the criteria set in the job requirements, the system independently searched for candidates throughout the Russian Federation, selected the most relevant ones, and sent them an invitation to complete a video interview offline. Using artificial intelligence, more than 3,000 CVs were processed, of which 470 candidates successfully passed the video interview and made it to the next stage of evaluation: interviews with the Company's recruiters and managers. The new tool gave a boost to recruiters' efficiency by increasing the coverage of the target audience of candidates and reducing the time for their evaluation.

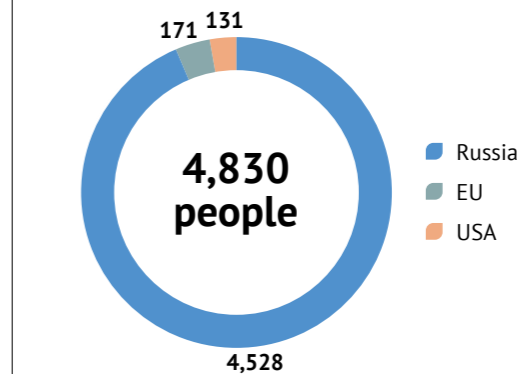
Based on the successful experience of using artificial intelligence in the recruitment process, the Group launched a new innovation – 'call the robot'. An applicant just needs to call a toll-free number and answer a number of questions, and the system will automatically register him/her for further discussions with the recruiter.

The Group launched its NLMK.team career page in Q2 2019, which enables potential candidates to get access to all relevant job openings within NLMK Group and to learn more about the Group as well as its corporate culture and values.

#### CHANGES IN EMPLOYEE TURNOVER<sup>3</sup> AT NLMK GROUP, 2015–2019, % GRI 401-1



#### NLMK GROUP NEW HIRES BY REGION IN 2019, PEOPLE



In 2019, 4,830 people joined the NLMK team, 94% of whom were hired by the Group's Russian companies. GRI 401-1

The Company created more than 300 jobs in 2019, the majority of which were linked to the launch of investment projects.

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

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

<sup>1</sup> Labour productivity without reduction of production at Lipetsk site associated with large scale BF and BOF repairs.  
<sup>2</sup> 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.

<sup>3</sup> In 2019, voluntary staff turnover is reported: when employees resign voluntarily without taking into account retirement; it does not include employees dismissed by management and those who died while employed by the Company.

# ASSESSMENT AND REMUNERATION

NLMK Group employees receive competitive remuneration. We annually collect and analyse data on industry peers and the regions where the Group operates as well as the purchasing power of remuneration by personnel categories and individual professions to assess the competitiveness of our remuneration.

Financial remuneration for employees consists of a basic salary and a bonus. The NLMK remuneration system has been developed in accordance with best Russian and international practices. The Company also takes the views of trade union organizations into account when drafting local remuneration regulations.

In 2019, a major project was implemented to transition to remuneration management based on an employee performance evaluation. For many years, NLMK Group was using a 'flat' approach to annual indexation: all employees' salaries were increased by the same percentage. The new approach enables the Company to further encourage the best of the best, while maintaining a competitive level of salary indexation for all employees. This way a more dynamic increase in the salaries of high-performing employees will help strengthen the principles of external competitiveness and the internal equity of remuneration across the Group's companies, while unlocking the potential and stimulating the professional activity of each employee. Since 2019, more than 90% of NLMK's employees have switched to this system.

The average salary of NLMK Group employees at Russian companies in 2019 was RUB 64,500, a 6% increase versus 2018. At our international companies, remuneration is determined based on collective bargaining agreements and employment legislation, and also includes annual indexing of income.

**AVERAGE EMPLOYEE SALARY AT NLMK GROUP'S RUSSIAN COMPANIES, RUB K/PERSON**



**PROPORTION OF NLMK GROUP EMPLOYEES WHO RECEIVED A REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEW, BY CATEGORY AND GENDER AS OF 31.12.2019, PERSONS GRI 404-3**



The Company does not tolerate any form of discrimination on grounds of gender or other factors when implementing or further developing its remuneration system.

The Company also continues to develop an end-to-end management system that aims to achieve the Group's goals (Management by Objectives (MBO)). More than 7,000 employees receive their annual bonus based on their achievement of key performance indicators (KPIs). All employee KPIs are linked in a single cascade: from the CEO's Strategic goals to the goals of the units.

Bonuses for employees not covered by the MBO system are also determined monthly based on their attainment of approved performance indicators.

In 2019, 45,467 employees of NLMK Group, or 85% of all staff, underwent an official performance assessment. GRI 404-3

**Features of the MBO system:**

- Objectives are discussed and agreed between the manager and their employees
- Constructive two-way feedback throughout the year and at the end of the year
- Employee development plan that allows them to improve their managerial and professional skills year by year

An active dialogue between managers and their teams allows each employee to better understand their goals and achieve better results. According to the MBO system, annual performance is assessed using a scale of ambition: when a KPI is exceeded, the bonus also increases. The maximum possible bonus for a KPI can reach 150%.

NLMK Group plans to extend the MBO system to cover 100% of all-level employees by 2022.

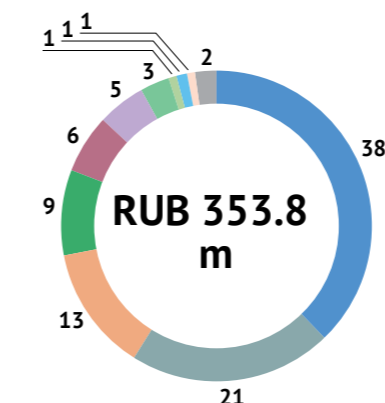
Incentive systems for individual groups of employees are also being developed: incentives for participating in project activities, promoting initiatives, etc. All of them are coherently linked to the main remuneration systems, complement each other, and expand the opportunities for growth in an employee's salary.

A staff relocation policy was developed in 2019. The Company is interested in allowing employees to move freely to new jobs in any regions where we operate, thereby enhancing opportunities for career and professional growth.

Each employee who has expressed a desire or accepted an offer for relocation receives an appropriate relocation package and the opportunity to move his/her whole family to a new and interesting place of work.

# TRAINING AND DEVELOPMENT

**INVESTMENT IN NLMK GROUP'S RUSSIAN COMPANIES BY TYPE OF TRAINING PROGRAMME IN 2019, % GRI 404-2**



- Vocational training
- Compulsory training
- Cooperation with HEIs
- In-house conferences
- Corporate training
- Talent Pool training
- Foreign languages
- Corporate competitions
- Leadership training
- Onboarding
- Other

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 so that they can 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 2019 amounted to RUB 353.8 m, a 17% increase versus the amount allocated in the previous reporting period. Most of the growth can be attributed to the fact that investment in training and development at the Group's international companies was reflected in its consolidated statements.

The staff training and development process features a number of stages, which not only include educational programmes for the Company employees, but also work with potential future employees, such as students from secondary and higher educational institutions.

**NUMBER OF TRAINING SESSIONS COMPLETED BY NLMK GROUP EMPLOYEES, 2015-2019 (THOUSAND TRAINING SESSIONS) GRI 404-1**



<sup>1</sup> White collars are managers, specialists and office employees



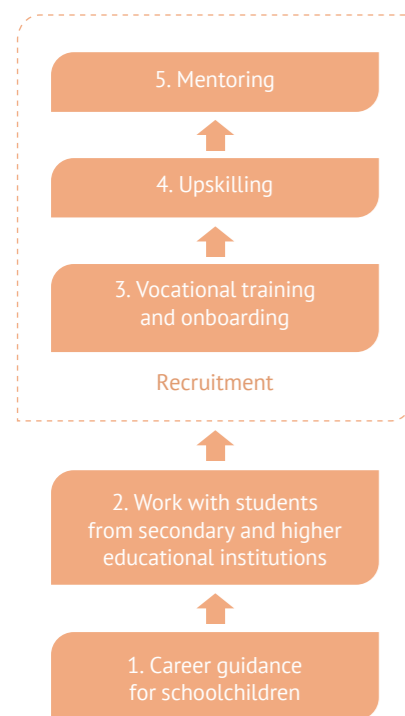
## COOPERATION WITH EDUCATIONAL INSTITUTIONS

As part of its work with schools, the Company is engaged in a wide range of informative and educational activities and competitions, including organizing trips to its sites and encouraging the study of technical subjects, holding competitions and quizzes about steelmaking, 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 the Group's sites, operating funded programmes for teachers and students, and conducting additional and dual education programmes.

Effective cooperation with schools as well as secondary and higher education institutions not only allows us to attract young professionals who are already familiar with the working life at NLMK, but also to ensure that the Company is perceived as an attractive employer in the regions where we operate.

### STAFF TRAINING AND DEVELOPMENT AT NLMK



## VOCATIONAL TRAINING GRI 404-2

Vocational training and onboarding programmes for NLMK employees play a significant role in this process given the nature of the Company's operations. These programmes include training that qualifies employees to access production sites and work with equipment as well as specialist vocational training. Training takes place at NLMK sites or in collaboration with certified third-party training institutions. For example, NLMK Lipetsk has an educational centre that holds state-licensed training sessions in over 300 occupations.

We also invest significant financial resources and efforts into vocational training for employees in corporate functional areas. Centralized training programmes that aim to improve skills and eliminate deficiencies in key competencies are being developed in response to the results of vocational skills assessments.

In 2019, the first stage of the 'Development of the NLMK vocational training system' project was implemented to boost the quality of training at the Group's basic educational institutions (BEIs) to the level required at NLMK and to reduce onboarding time for future employees. The first stage consisted of an audit of the corporate professional training system in order to identify areas for future development. These include:

- Ensuring shorter time for additional training at the Company by focusing more on specialist training in the curricula of BEIs
- Developing a single package of competency assessment tools that is suitable for evaluation at both NLMK Group's companies and BEIs
- Improving the quality of staff training by updating the internal mentoring model and the functional role of BEI faculty, developing a unified knowledge base, and launching courses in key professions
- Aligning students' educational trajectories with the staffing needs of the Group's companies to raise the conversion rate of BEI graduates into NLMK employees

A total of 40% of the Group's blue collars and engineers fall into 16 professions (TOP 16) that were selected based on certain criteria (relevance of the profession, complexity of training for the profession, staff shortage and turnover, etc.). Educational programmes were updated for these TOP 16 professions. As a result, the duration of training for these professions was slashed by more than 20% within NLMK's in-house professional training. In addition, 28 draft partner educational programmes for TOP 16 professions were prepared as well as roadmaps to embed them in the curricula starting from the 2019/2020 academic year.

In the reporting year, internal teams of the Group's methodologists received additional professional training. We developed educational methodology and regulations, and tested the process of describing requirements and developing educational programmes in order to scale them to other professions at the Group.

We also invest substantial funds and efforts into vocational training for employees in corporate functional areas. In 2019, we focused heavily on moving away from the specific needs of individual employees to establishing functional academies. Centralized corporate training programmes are developed within the academies based on the results of professional competence assessments. The programmes aim to improve skills and eliminate inconsistencies that are identified in key competencies.

NLMK also devotes significant attention to other areas of training that are particularly important for business development, such as learning languages. In the reporting period, the Company continued to implement its corporate English learning programme. By boosting the number of employees with fluent English, 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. In 2019, we updated our approach to training: the corporate training programme was revised to include the language immersion format. In addition, a target audience was determined based on the priorities of specific management levels and the timeframe for becoming fluent in a foreign language.

## KNOWLEDGE MANAGEMENT

The key objective in knowledge management for the Company is to involve a wide range of employees in this process, which will enhance the quantity and quality of the Company's intellectual resources and also improve the efficiency of creating, distributing, and applying knowledge that is valuable to NLMK Group.

The primary areas of knowledge management include:

- Improvements to operational efficiency
- Human capital development
- Research and introduction of new technologies through the accumulation and dissemination of experience and innovative ideas
- Identification and elimination of root causes of problems
- Creating an enabling environment for the practical implementation of innovative ideas.

Two pilot projects were launched in the reporting year. The goal of the first project is to develop the skills of repair personnel as part of the 2018–2022 Repair System Development Strategy based on the internal processes of the Repair and Maintenance functional area. The second project is dedicated to creating and formalizing knowledge management processes in the Digital Transformation and Information Technology functional area and related departments.

As it continues to develop the concept of being a self-learning organization, NLMK Group provides its employees with the opportunity to receive on-the-job education remotely.

## PREPARING A TALENT POOL

Ongoing work to develop the Company's talent pool aims to identify, train, and promote members of the pool. The fundamental goal of these efforts is to foster in-house talent to fill management vacancies. It also aims

## Automation and how employees manage their own training

*In 2019, the Company launched a new service that offers online registration for training. This function is powered by the automated SAP Success Factors LMS system, just as it is with leadership training.*

*The project showed that employees have a high level of awareness in terms of managing their own training and generated positive feedback as a convenient service. After the service for choosing training dates was introduced, attendance at training sessions increased from 60% to 95–100%.*

*The service will be developed further: in the near future, schedules will be prepared for all types of training, including professional and compulsory. NLMK Group has a vision that each of its employees will have access to a personal account with a schedule of courses for which they can easily register online. For the Company, this is not just a change in the process of organizing training, but a step towards changing its culture.*

### OPPORTUNITIES

For employees	For managers
<ul style="list-style-type: none"> <li>• Mobile phone access</li> <li>• Ability to select optimal training dates</li> <li>• Create an application for training and track its status</li> <li>• Automatic notification for managers about selected training dates</li> <li>• Training history</li> <li>• 24/7 access</li> <li>• Feedback after training</li> </ul>	<ul style="list-style-type: none"> <li>• Optimized employee training process control and management</li> <li>• Employee training approval</li> <li>• Access to the status and training history of subordinates</li> <li>• Employee training tracking</li> <li>• Feedback on employee training</li> <li>• Employee training reports</li> </ul>

to further the career aspirations of NLMK employees and ensure the continuity of knowledge and technology.

In 2019, the Company successfully transitioned to a two-year cycle for the Career Committee, established new career committees for the positions of foremen and site managers, and provided training to the talent pool members. The practices of managerial skills evaluation and career committees were rolled out to NLMK Group's international companies.

# NLMK CORPORATE UNIVERSITY

GRI 404-2



NLMK Corporate University was established in 2017 in order to centralize and introduce a unified management training system throughout the Group.

The mission of the Corporate University is to make the Company more competitive by helping to develop the managerial skills of executives and talent pool candidates for managerial positions.

**Objectives:**

- Formation and development of a managerial culture
- Development of managerial skills
- Systematization and transfer of best practices and experience to build a self-learning organization
- Development of leadership potential

The target audience for the NLMK Corporate University consists of the 5,000 Company executives and talent pool candidates for senior positions, as well as strategic partners, contractors, and key clients.

**The Leaders Teach Leaders approach**

Senior managers and key experts at the Group help to create Corporate University programmes, and they also deliver training as internal trainers. This Leaders Teach Leaders approach is essential to the operation of the Corporate University.

All internal trainers undergo special training and receive support from professional trainers in order to ensure that programmes are taught according to high quality standards.

**Educational solutions (programmes)**

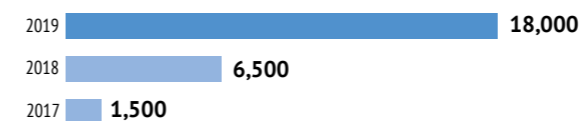
All Corporate University programmes represent a synthesis of the knowledge and best practices of NLMK Group's experts and cutting-edge international developments.

**Approach to programme development:**

- Educational solutions are developed and designed by teams that include the best internal experts, the heads of functional areas, and experts from leading Russian and foreign universities
- All educational solutions share common understandings and utilize end-to-end case studies that combine to form an integrated system
- Each educational solution consists of three parts: preparation, face-to-face courses, and introduction of learning outcomes
- There are specialized programs for each management level and area of managerial activity.

The Corporate University devotes a great deal of attention to digital training formats: developing electronic courses, conducting webinars and surveys, and ensuring a paperless learning environment.

**NUMBER OF TRAINING SESSIONS FOR TARGET AUDIENCE PER YEAR**



**NUMBER OF REPLICABLE PROGRAMMES**



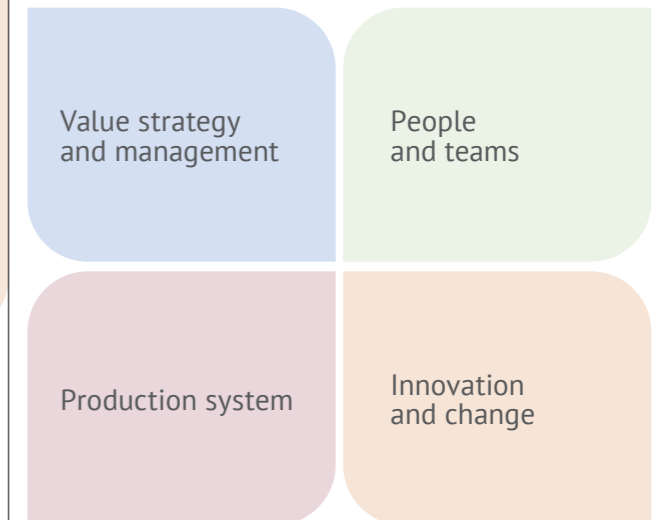
**NUMBER OF DISTANCE LEARNING COURSES**



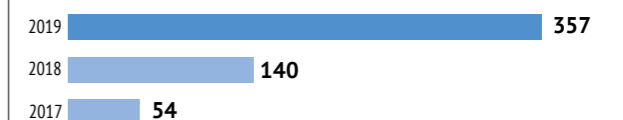
**NUMBER OF SESSIONS AND CONFERENCES HELD**



At present the Corporate University portfolio includes 12 educational solutions that are differentiated into the following streams:



**NUMBER OF INTERNAL TRAINERS**



**LANGUAGES OF INSTRUCTION**



**Corporate University campus**

In 2017, construction of the NLMK Corporate University building began at the site of the former Metallurgists' Palace of Culture in Lipetsk. The modern multifunctional centre is unique in the region. For example, it will house a conference hall that can seat 432 attendees and 25 classrooms for events held in various formats. The NLMK Corporate University campus is scheduled to open in 2020.

**Participation in the work of international communities**

Since 2019, the Corporate University has been a member of several international communities, including the European Foundation for Management Development (EFMD), the Executive Corporate Learning Forum (ECLF), and the Education and Training Committee (ETCO) of Steeluniversity and Worldsteel.



During the reporting year, stewardship over the talent pool was largely handed over to subdivision heads. Managers were trained in skills evaluation for this purpose.

In 2019, 69% of positions covered by the programme were filled from the talent pool.

## EMPLOYEE SUPPORT

GRI 404-2

NLMK provides opportunities for career advancement within the Group and offers free re-skilling programmes. Should an employee wish to switch specialization, we are ready to provide full support in acquiring new skills. The Company offers employees the opportunity to proactively apply for company-reimbursed training in order 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.

Collective bargaining agreements govern the following social support measures:

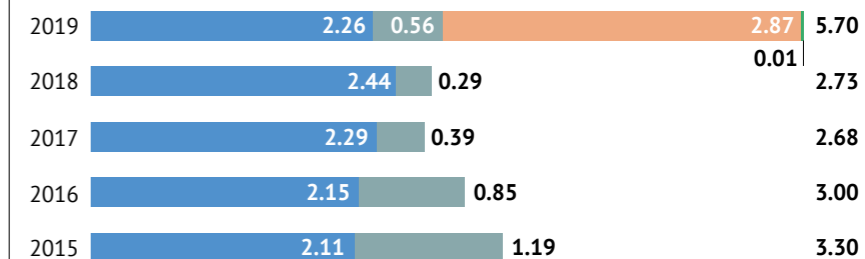
- Medical services for employees and their children, including as part of the voluntary medical insurance system
- Provision of hot meals on-site
- One-off financial aid for employees and their family members as well as a system of compensation payments
- Organizing mass cultural and sporting events and creative competitions
- Provision of transport to and from the workplace
- Private pension programme (at some NLMK Group companies)
- Comprehensive support programme for retired employees

Along with this, NLMK provides additional benefits for employees that aim to support their health, improve working conditions, and care for their family members, and also organizes various corporate events.

In 2019, the Company further enhanced PRIMEZONE.NLMK, a corporate loyalty programme developed for employees at major Russian companies. As part of the programme, employees have access to discounts and special offers from retailers in the cities where the Group has companies: Lipetsk, Stary Oskol, and Moscow. Employees can also suggest retail partners with which they would like discounts to be coordinated. The programme also offers NLMK employees a concierge service for booking various services. A total of 5,500 employees signed up for the programme in the reporting period. The loyalty programme saved employees RUB 60 m, with average savings of about RUB 20,000 per one programme member.

In addition, NLMK Group employees can participate in private pension programmes at companies with additional contributions made by the Company, thus securing additional pension payments once they become eligible to receive their pension. **GRI 404-2**

### NLMK GROUP'S SOCIAL SPENDING, 2015–2019, RUB BN<sup>1</sup>



- Social support expenses for the Group's Russian company employees
- Investment in local community development in Russia<sup>2</sup>
- Social support expenses for the Group's international company employees
- Investment in foreign local community development<sup>2</sup>

## SOCIAL POLICY

NLMK Group's internal social policy is a key tool for supporting a high level of employee engagement and also helps create additional labour market advantages. Since 2017, social policy issues have fallen within the remit of the Human Resources functional area, which helps to develop social projects more effectively and maintain 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 2019, the Management Board approved NLMK Group's Social Strategy through 2022. The Social Strategy is a set of programmes that promote the long-term sustainability of business taking into account the interests of both the Company and its employees. The Strategy's key objectives include:

- Achieving a high and well-balanced level of staff satisfaction and involvement
- Reducing losses (time, health, personal efficiency)
- Higher competitiveness/attractiveness of jobs/employer

The Strategy sets out KPIs, the structure of social programmes, and key aspects of such key programmes as 'Medical Services', 'Catering', 'Meals' 'My Family', 'Sports', and 'Communities'.

### Sharing best practices in the social sphere

*On 18–19 September, Lipetsk hosted an interdisciplinary workshop for social care managers and specialists. The workshop was organized by NLMK Group and the Ferrous Metals Producers Corporation with the support of the Association of Mining and Metallurgical Complex Industrialists.*

*The event was attended by over 130 representatives of large holding companies, steelmaking majors, and corporations from other industries, such as Russian Railways, Rosatom, Norilsk Nickel, Inter RAO, and PhosAgro, among others. The discussions focused on the relevant trends of corporate social policies, the diverse approaches to the development of a social partnership, the role of trade unions, and the impact of the social benefits package on the employer's brand.*

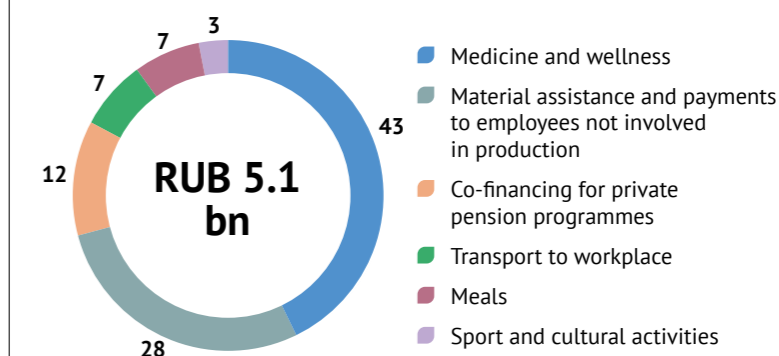
*NLMK representatives shared their successful experience of engaging employees in healthy lifestyle awareness activities and the results of the corporate volunteer programme.*

## SOCIAL SUPPORT

NLMK Group has developed social support measures for its employees that aim 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.

NLMK Group's total social investments in 2019, including NLMK Group's international companies, stood at RUB 5.7 bn, of which RUB 5.1 bn was allocated to social support programmes for NLMK Group employees. In 2019, the Company switched to disclosing social investments for the entire Group, including its international companies.

### SOCIAL SPENDING FOR EMPLOYEES AT NLMK GROUP (INCLUDING INTERNATIONAL COMPANIES) IN 2019 BY AREA, %



### NLMK GROUP'S EMPLOYEE HEALTH PROGRAMME

#### Working conditions

- Healthy eating
- Improving social conditions at work
- Optimizing work-life balance

#### Lifestyle

- Health training sessions
- Promotion of healthy lifestyle in corporate media services
- Getting employees involved in sport and healthy living gamification

#### Medicine

- Improving the effectiveness of occupational medicine
- Improving the voluntary medical insurance system
- Developing preventative and wellness programmes

<sup>1</sup> 2019 data include the Group's international companies

<sup>2</sup> For more information about investment in the development of local communities, please see the Development of Local Communities section.

NLMK Group's Employee Health Programme was also further enhanced in the reporting period with a special focus on activities that would motivate employees to lead a healthy lifestyle as part of the Healthy Choice project. [GRI 403-6](#)

NLMK Group's Employee Health Programme was highlighted by a number of key projects in 2019.

**1. Accident and critical illness insurance** [GRI 403-6, GRI 403-10](#)

In 2019, the Company introduced a new type of accident and critical illness insurance. The new benefit was introduced by NLMK Group as part of its Social Strategy and aims to provide financial support to employees and their families in difficult health-related situations. This insurance covers all accidents, including ones that occurred outside of production facilities or office premises, for example at home or on vacation, as well as critical illnesses that are initially identified during the insurance coverage period (including oncological diseases). Moreover, the programme envisages additional payments for accidents at work and occupational illnesses that are diagnosed for the first time.

**2. Healthy Choice project** [GRI 403-6, GRI 403-10](#)

The goal of the Healthy Choice project is to involve NLMK Group employees in championing a healthy lifestyle, developing a healthy lifestyle culture within the Company, and promoting global best practices to this end. During the first stage of the project, the Company implemented a set of activities that aim to increase awareness among the members of the Healthy Choice project as regards their health status and build a conscious attitude towards health management. The project focuses on the principles of cascading and the gradual involvement of new members. The project participants will compete to achieve healthy lifestyle performance indicators.

The indicators are divided into several categories:

- Physical health indicators, which involves an assessment of the physical condition of participants as well as their commitment to a healthy lifestyle and a conscious attitude to their own health
- Physical activity indicators, which involve an assessment of daily physical activity as well as participation in corporate sporting events and qualifying with the national physical culture and sports programme 'Ready for Labour and Defence'
- Healthy lifestyle commitment indicators, which measure the total number of healthy lifestyle activities as well as the number of employees involved

When the Healthy Choice project started in mid-2019, an initial pool of 100 participants was created. By the end of 2019, this number had increased to over 600 participants.

**3. Transferring corporate medical assets to professional management** [GRI 403-6, GRI 403-10](#)

The Company continued working on reorganizing its medical assets and transferring them to professional management in 2019. This measure aims to achieve planned employee health indicators, enhance the quality of medical service, and also establish a single cost and analytics centre.

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 take wellness holiday time, either at NLMK's resorts and spas or in other regions of the country. [GRI 403-3](#)

In 2019, a multi-disciplinary medical holding company that specializes in emergency medicine evaluation and optimization conducted a medical risk assessment for the Group and optimized the emergency response sequences for the medical personnel of the Company's corporate medical assets. The evaluation results provided the basis for a plan of initial corrective activities. [GRI 403-3](#)

**4. Healthy eating**

The Company continues to develop and promote a culture of healthy eating at NLMK sites. This effort includes the following measures:

- Improving the quality of meals and service at corporate canteens and cafeterias
- Lunch box deliveries to remote production sites and offices
- Providing a subsidy to partially reimburse the cost of meals for employees

The Group is pursuing this objective by building strategic partnerships with the best national caterers and employing them to provide corporate catering at all NLMK Group's production sites. In 2019, a tender was organized to select a national catering operator for a strategic partnership across different host regions. The tender resulted in the Company contracting a new catering operator.

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 to implement a programme titled 'Benefits for Your Life'. This programme provides employees and their families with access to a variety of medical services on favourable terms as well as additional paid leave according to their length of service and other social services.

The implementation of the NLMK Employee Health Programme in 2018–2019 achieved the following:

- Modifying the voluntary medical insurance programme to focus more on early diagnosis and prevention
- Introducing a new type of insurance for accidents and critical illnesses
- Handing over management of corporate medical assets to an external provider

- Conceptualization and launch of the Health School awareness-raising project (for more details, see the Development of Local Communities section)
- Conceptualization and launch of the Healthy Choice project, which aims to promote a conscious attitude to health

**PULSE OF NLMK CORPORATE SURVEY**

Up until 2018, the Company conducted monitoring of employees' opinion about working conditions and internal communications. In 2019, a new project was launched: a corporate survey called the Pulse of NLMK. The survey aims to collect employee opinions about the situation at the Company and their work experience. Over 20,000 employees from most of NLMK Group's Russian companies took part in it.

The survey identified the strengths of the Group's companies as well as areas for growth, including such significant aspects as interaction with management and colleagues, a system for information dissemination, training and development opportunities, social programmes, compensation and benefits, occupational health and safety, working conditions, and the collection of improvement initiatives.

The results of the Pulse of NLMK survey will be presented in January and February 2020 and will serve as the basis for designing and implementing activities to further enhance NLMK Group's development.

**NLMK GROUP'S EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS, 2015–2019, %** [GRI 102-41](#)

NLMK Group region	2015	2016	2017	2018	2019
Russia	100	100	100	100	100
EU <sup>1</sup>	90	90	89	88	88
USA <sup>1</sup>	n/a	n/a	n/a	72	71

**NUMBER OF EMPLOYEES AT NLMK GROUP'S RUSSIAN COMPANIES THAT TOOK PART IN THE 2019 PULSE OF NLMK CORPORATE SURVEY**

Division	Company / Department	Number of participants	% of actual headcount
NLMK Russia Flat Products	NLMK Lipetsk sintering operations	1,793	71
	NLMK Lipetsk steelmaking operations	2,998	73
	NLMK Lipetsk repair operations	4,221	68
	Altai-Koks	2,113	79
NLMK Russia Long Products	NLMK Kaluga	914	79
	NLMK Metalware	505	81
	NLMK Long Products	157	88
	NLMK Ural Service	549	86
Mining Division	NLMK Ural	1,719	88
	Stoilensky	1,055	18
	Stagdok	573	89
Functional areas	Dolomit	347	69
	19 functional areas	3,348	58

The Company plans to conduct this corporate survey annually.

The Company carries out an additional detailed survey on staff satisfaction with social programmes every three years. The last time this survey was carried out in 2018, the next survey is scheduled for 2021.

<sup>1</sup> % of the actual headcount number. In accordance with national legislation, several employee categories do not have the right to a collective bargaining agreement, while for the other categories the coverage is 100%



## TRADE UNIONS AND COLLECTIVE BARGAINING AGREEMENTS

As part of its HR policy, the Company fully complies 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 the Group's companies, including at our international companies. As of 2019, collective bargaining agreements covered 100% of employees at NLMK Group's Russian companies.

In 2019, a series of collective negotiations was held with the shop-floor trade union organizations of NLMK Group's companies and steps were taken to harmonize basic benefits provided under collective bargaining agreements.

The main focus of this effort was to provide equal social support to all NLMK Group's employees.

## VOLUNTEERING

Three key areas for developing corporate volunteering were identified for all the Group's 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 a healthy lifestyle, involving local people in regions where NLMK operates in accessible sporting events, furnishing sports facilities
- Social assistance: assistance for vulnerable groups, including helping children, retirees, and people with disabilities, and providing urgent assistance for community needs without employer involvement

The efforts to systematize volunteering that began in 2018 continued in 2019. The Company adopted Regulations on the volunteer projects competition and held a meeting of the Corporate Volunteering Council. Over 1,000

Company employees took part in volunteer events over the reporting period. The total number of volunteer events held by the volunteer community exceeded 200. NLMK's corporate volunteering programme has been recognized at the national and regional levels:

- The corporate volunteering programme won the *Common Cause* award at the Lipetsk Region's competition *Volunteer of the Year 2019*
- Maria Trukhacheva, an NLMK volunteer, reached the semi-finals of the national competition *Volunteer of the Year*
- A volunteer event for seriously ill children at the National Medical Research Centre for Children's Health in Moscow received a commendation from Lev Ambinder, President of Rusfond Charity Fund for Seriously Ill Children, Orphans and Disabled Persons and member of the Presidential Council for Civil Society and Human Rights

In 2019, Moscow hosted the *At the Roots of Russian Volunteering* final event for the 30 best corporate volunteers from across the Group. The event programme included:

- Team-building and educational activities
- The official award of commendations from the Company's senior management
- The sharing of experience with the Marfo-Mariinsky Convent volunteers
- A visit to the *Heartwarm Bazar*, a major charity fair

At the fair, the Group's volunteers were able to share their experience with peers from other companies and learn about effective collaboration between business and the non-profit community.

## CORPORATE SPORT

NLMK Group provides its employees with all the conditions they need to engage in sports. The Group supports onsite sports halls and centres at 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 *5<sup>th</sup> NLMK Group Corporate Games* were held in 2019 in Lipetsk, welcoming 250 representatives from each Russian company to compete in eight different disciplines. Around 400 employees pass Russia's *Ready for Labour and Defence* physical fitness test every year.

### NLMK shared its experience of organizing a volunteer movement

*NLMK co-organized a regional volunteer forum for about 100 activists in Lipetsk.*

*The forum's programme included training sessions on efficient communication, project and creative thinking, emotional intelligence sessions, master classes on future skills development, intellectual games, and numerous other activities. The participants learned about the activities of the Victory Volunteers national movement, visited the Sosnovy Bor Centre for the Rehabilitation of Disabled and Elderly People, the Lazori Centre for Psychological and Social Rehabilitation, and Maryin Grad Arts and Crafts Centre. NLMK arranged a tour of its production operations and social care facilities for the participants.*

The Company spends around RUB 40 m 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 particular, employees from the European NLMK sites took part in a 20-km marathon in Brussels and La Louvière in 2019.

### First International Lipetsk Marathon

*Lipetsk hosted the First International Lipetsk Marathon in 2019. About 2,000 people from 137 cities of 33 Russian regions raced in the capital of the Lipetsk Region. Foreign athletes from the United Kingdom, Kazakhstan, and Belarus also ran in the event. NLMK provided partner support to the marathon. 'Team Steel' brought over 100 Company employees to the marathon. They were awarded with special NLMK-branded merchandise. Special prizes from the Healthy Choice project were given to people who invited the most friends to run in the marathon. Nikita Zinoviev, a NLMK Lipetsk cold mill operator, won the race.*

## PLANS FOR 2020 AND THE MEDIUM TERM

Human resources management is a key component that impacts NLMK Group's development. Accordingly, we plan to take an active approach to human resources development by refining our existing strategies and implementing new initiatives and technologies. As far as personnel assessment and remuneration is concerned, the Company plans to further develop the MBO system to ensure 100% coverage of employees at all management levels by 2022. Incentive systems will also continue to evolve: incentives will be provided for participation in projects, for submitting initiatives, and more.

In 2020, the Company will focus on developing the professional training system for its employees (from career guidance to the head of operations). Based on the assessment of professional skills, training programmes will continue to be developed with the aim of improving the skills of all Company employees. The key task in 2020 will be to develop programmes for foremen that encompass their training, development, career moves, and motivation.

In 2020, NLMK Corporate University plans to develop several new programmes for all management levels, open the doors of the Corporate University campus in Lipetsk, and involve 400 training managers in the cascade of programmes. A unified methodology will be introduced to create an ecosystem across NLMK Group's Russian and international companies, partners, and key clients, which will facilitate employee development, programme cascading, and working with training managers. The Corporate University will also start the CLIP international accreditation process.

In terms of social policy, the Company plans to carry out a corporate educational programme for volunteers, organize a competition for volunteer projects, and introduce NLMK Volunteer, a new service on the corporate portal, in 2020. The Healthy Choice programme will continue to evolve, and we will actively increase the number of its participants.





0

production accidents

\$97.9 m

invested in the development of safe production

# OCCUPATIONAL HEALTH AND SAFETY

## MAJOR THEMES

Occupational health and safety

## KEY EVENTS IN 2019

- NLMK Group's Occupational Health and Safety (OHS) Strategy approved based on Vision Zero principles<sup>1</sup>
- OHS risk factor analysis completed for 2014–2019
- Pilot projects to adopt new global OHS practices launched
- OHS Hotline launched

## GLOBAL SUSTAINABLE DEVELOPMENT GOALS



<sup>1</sup> <http://visionzero.global/>



# OUR APPROACH TO MANAGING OCCUPATIONAL HEALTH AND SAFETY

GRI 403-1

Occupational safety is a top priority for NLMK Group. The Company strives for a zero injury rate at all its operations by continuously improving the OHS management system.

The Company's approach is based on the following measures:

- Strict compliance with Russian and international OHS regulations
- Introduction of best practices
- Monitoring key risk factors
- Maintaining and developing a safety culture among NLMK Group's employees and contractors

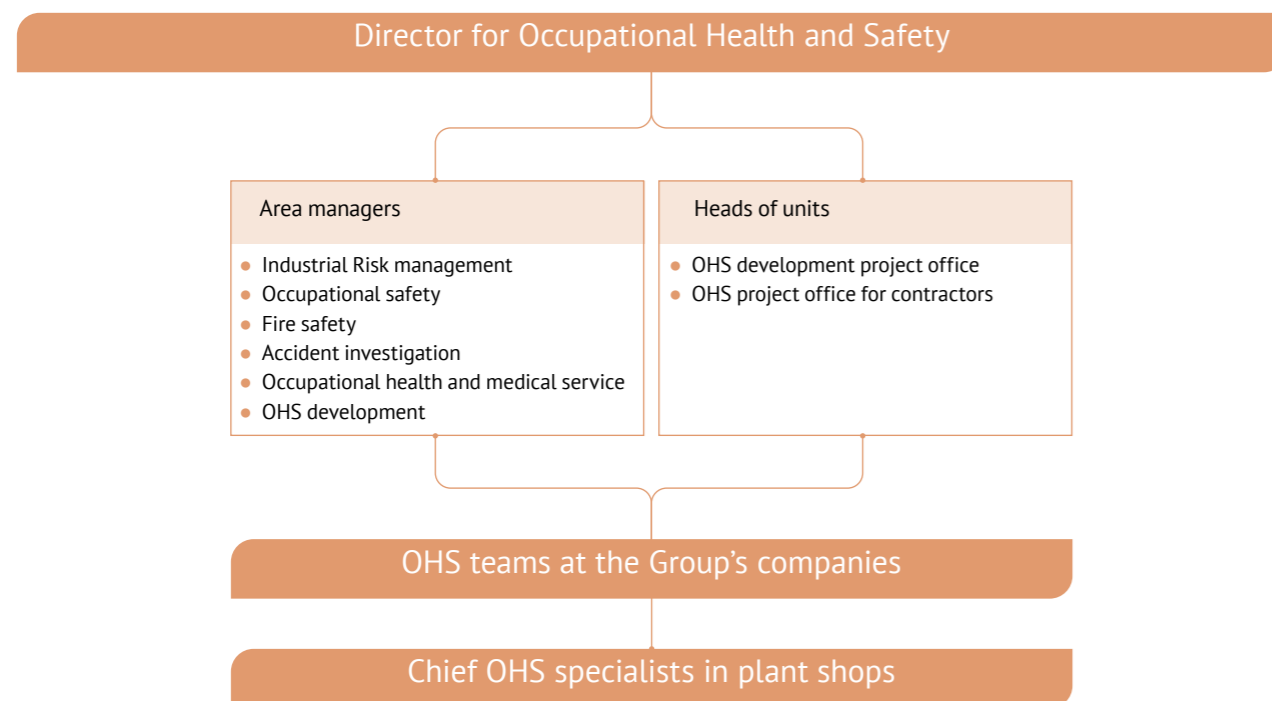
OHS aspects are integral components of a large-scale project to develop the NLMK Production System.

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.

## NLMK GROUP'S OHS PRINCIPLES



## OHS MANAGEMENT STRUCTURE



In order to implement these principles, the Group is committed to:

- Identifying hazards and efficiently managing risks, thus controlling the level of risk to the life and health of the Group's employees and contractors
- Constantly increasing the skills of managers, employees, and contractors in matters concerning occupational health and safety
- Complying with Russian and international OHS regulations
- Ensuring that OHS indicators are disclosed

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 CEO (Chairman of the Management Board) plays a key role in regulating the Group's approach to operational safety. He determines the Company's OHS development strategy and approves the fundamental document, the OHS Policy. In 2019, the OHS Policy was replaced by the NLMK Group Integrated Management System Policy in Quality, Environmental Protection, Energy Efficiency, Occupational Health and Safety (hereinafter the IMS Policy).

One of the IMS Policy's objectives is to ensure efficient operations without accidents, emergencies, and injuries. The Company strives to attain this objective by introducing best OHS practices and by continuously developing and promoting a production culture among NLMK Group employees and contractors. NLMK Group management recognizes its commitment to ensuring safe and favourable working conditions and protecting the life and health of its employees and contractors. NLMK Group plans its economic activities based on the results

of a regular and objective risk analysis of quality, environmental protection energy efficiency, and occupational health and safety. The Group's top priorities include such values as ensuring safe and favourable working conditions, protecting the life and health of its employees and contractors, and promoting a production culture.

The Company's Management Board is updated on a monthly basis about accidents in operations and about general information concerning its OHS activities. These reports make it possible to analyse the performance of the OHS management system. In addition, the Management Board reviews the results of accident investigations, makes decisions to launch corporate measures within the Company, and reviews the achievement of OHS KPIs.

The Director for Occupational Health and Safety manages OHS issues at all the Group's companies, including international ones. Each of the Group's companies has an OHS team. Dedicated occupational safety teams operate in the 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 improve safety at all NLMK companies.

A project office was established within the Department in December 2019 in order to improve the OHS management structure. The project office's main objective is to increase the quality of introducing such tools as production personnel training, mentorship, and better application of OHS tools in operations.

The Company continued to implement the Resolutions on accidents in 2019. Additionally, a training programme was developed to train the OHS team on accident investigation. The investigation process involved the Management Board members who discuss critical and significant accidents at their meetings.

The OHS standards are approved in accordance with existing corporate regulations at the Company level. The Group is currently working on a classification system for regulatory OHS documents, in order to systematize the scope and levels of influence of different groups of documents.

### The list of corporate documents also includes:

- OHS 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

# EFFICIENCY 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: internal and external training sessions have been conducted for Group employees and contractors.

The Company has established the following strategic objectives in matters concerning OHS:

- Zero fatal accidents involving employees and contractors
- Achieving a total Lost Time Injury Frequency Rate (LTIFR) among employees and contractors of not over 0.5 by the end of 2022
- Raising awareness among staff vis-à-vis personal safety

A factor analysis of accidents at NLMK Group's Russian companies over 2014–2019 was completed in the reporting period. It encompassed the following areas:

- Injury frequency rate
- Occupational diseases
- Road traffic incidents
- Industrial safety incidents
- Fires and fire safety incidents

The main objectives of the exercise were to identify problem areas with the highest injury rate and to conduct an analysis of the root causes of the incidents.

The results of the analysis also formed the basis of the OHS Strategy and were used to outline the Company's future development.

The new Strategy emphasizes a project-based approach in implementing OHS tools. Its scope will include both the Company's employees and contractor personnel.

As part of the strategy, a list of projects and programmes to be implemented has been developed for each separate area of OHS. The OHS Strategy is built around a training programme on how to use key OHS tools, including:

- Work Permit 2.0 for managers and workers based on pre-work risk assessment and 'stop work'<sup>1</sup>
- Routes of line rounds with a focus on the top five risks
- Detecting and recording Near Misses<sup>2</sup>
- Hazardous action/hazardous condition (HA/HC)
- Interactive briefings
- Safety behaviour dialogues 2.0
- Safety contact by workers
- OHS leadership of managers

The operations risk assessment has been implemented.

The Company has a system of key performance indicators (KPIs). Safe behaviour at production sites is included in the list of criteria used to evaluate employees. These criteria affect the level of their remuneration as well as their future career development (for more information, see the Our employees section).

## Stoilensky improves safety in its open-pit mine

*The open-pit mine of Stoilensky, the second largest producer of iron ore concentrate in Russia, has launched a pilot project to implement a personnel positioning system. The system will improve the safety of open-pit mining by ensuring a timely response to emergency situations through monitoring and analysing staff's actions and equipment operation.*

*The system locates workers in the mine in real time, automatically sets targets for the shift, and monitors their achievement. It also warns the operator if employees find themselves in or near a hazardous area or if process parameters or the operating environment are not observed.*

<sup>1</sup>. 'Stop work' is a procedure for suspending unsafe operations.

<sup>2</sup>. A near miss is an event that results from a hazardous action or hazardous condition that did not cause but could otherwise have caused injury or harm to an employee's health.

# OHS INVESTMENTS

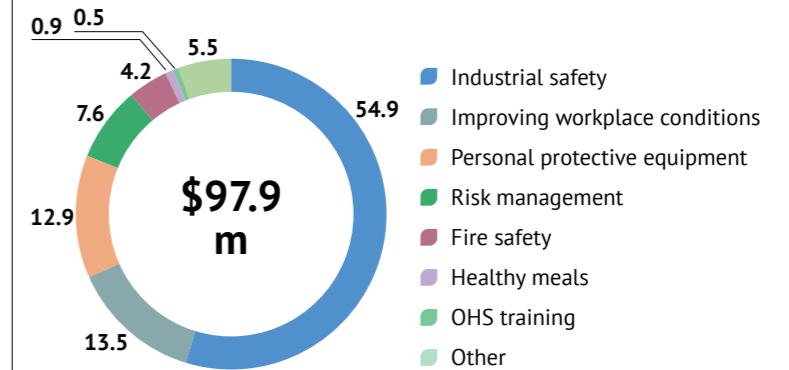
In order to achieve the objectives that have been set in a timely and high-quality manner within the framework of the OHS Strategy, the Company annually invests funds in this sphere. In 2019, expenses on OHS amounted to about \$98 m.

Each NLMK Group company submits its planned measures and projects to monitor OHS risks to the Investment Committee for review. As part of the Maintenance and Major Repairs Programme, the Investment Committee decides on 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 key areas:

- Occupational health and safety
- Risk management
- Fire safety
- Improving working conditions for employees

BREAKDOWN OF OCCUPATIONAL HEALTH AND SAFETY INVESTMENTS IN 2019, %



## Renovation of sanitary and amenity facilities

*In the second half of 2019, a renovation programme for sanitary facilities was launched to increase the level of employee satisfaction with working conditions in the workplace.*

*More than 130 facilities with a total area of more than 6,000 m<sup>2</sup> were renovated at six production sites of the Group. Investment totalled RUB 281 m. In 2020, it is planned to renovate another 200 facilities with a total area of 6,500 m<sup>2</sup>.*

# MANAGEMENT SYSTEM AND CERTIFICATION

GRI 403-8

NLMK is committed to establishing an OHS management system that operates effectively and covers 100% of employees and contractors. As of 2019, the number of employees covered by the OHS management system was about 50,000, or almost 100% of the headcount. Furthermore, the Company achieved 100% coverage of contractor employees under the OHS management system in 2019.

The Company carries out certification of the OHS management system at individual enterprises. NLMK Verona, NLMK DanSteel, and NLMK Strasbourg have been certified for compliance with OHSAS 18001:2007 requirements. In 2018, a working group was set up to ensure ISO 45001:2018 certification. NLMK's international company NLMK DanSteel was certified according to the new ISO 45001:2018 standard in 2018, and NLMK Lipetsk and VIZ-Steel were certified in 2019. More than 30,000 employees were covered by the OHS management system, which was certified by a third party.



## OHS RISK ASSESSMENT

GRI 403-2, GRI 403-7

NLMK Group applies a risk-based approach to OHS management. In 2019, the Company completed the top 5 risks assessment at the companies that were not covered in 2018. A full risk assessment of operations falling into the top-5 category (at the sites of the Production System's deployment) was conducted:

- 1 Falling from height
- 2 Same-level falls
- 3 Moving/rotating equipment parts
- 4 Objects falling from height
- 5 Extreme temperature

By analysing the incident statistics, the Group was able to determine the course that it should pursue to develop its OHS efforts, and a project focusing on operational risk assessment was launched within the Production System.

In comparison with other types of injuries, the highest rates of injuries were those occurring when falling from height. To reduce these risks, a programme was developed to systematically reduce the risks related to working at heights, a steering committee was formed, and a working group was set up to introduce and implement measures to reduce injuries.

### Industrial Medicine GRI 403-9

*In November 2019, a new occupational health and medicine area was introduced.*

*Over this time, an audit was conducted of the Novolipetsk Medical Centre (NMC) Association first aid facilities servicing NLMK Lipetsk, Stagdok, and Dolomit, and the medical and sanitary service of Stoilensky. The audit checked the readiness of medical workers to provide medical assistance to injured workers.*

*Health post workers participated in 26 training sessions. Training scenarios included polytrauma (especially when falling from height) as well as all kinds of impairments of consciousness, heart attacks, convulsive seizures, craniocerebral injuries, limb fractures, various types of bleeding, burns, frostbites, and other injuries. A mobile medical team from the NMC Association, which provides medical services to NLMK Lipetsk, also participated in a practical session on CPR algorithms.*

*A CPR training process has been developed (Basic Life Support (BLS) course using the Ambu Man training mannequin). The project started with the OHS function: training sessions were delivered for employees of NLMK's OHS Department, OHS Unit, and Gas Rescue Service.*

## STAFF TRAINING AND ENGAGEMENT

GRI 403-4, GRI 403-5

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 titled 'In Search of Safety', which aims to involve employees in the hazard identification and risk assessment process. Under this programme, company employees identify potential workplace risks, and functional managers

evaluate risks identified by employees in order to come up with further measures to minimize or eliminate them. The programme target was met in the reporting period: as it covered 100% of NLMK Group's companies, including international ones. The Group's new employees are trained in this programme during their first 10 days on the job. In 2019, 16,176 employees across all Group companies participated in the programme.

The Company has introduced a 'Safety Culture Development' training programme. The programme was developed by the NLMK Corporate University (see the Our Employees section). The main objective of the programme is to create a single OHS vision shared by management at all levels of NLMK Group and thus improve the culture of safe conduct and create and maintain safe working conditions throughout the Group. The programme's target audience includes both production and non-production management staff. Part of the programme is spent on the 'In Search of Safety' practical session, which aims to develop the self-concerned identification of hazardous actions and hazardous behaviour of employees.

In two years, more than 4,000 managers have been covered by this programme.

The Company holds an annual OHS Conference that aims to raise safety awareness among employees. Participants traditionally include OHS team managers and employees, including from the Group's foreign locations, as well as representatives from trade unions. On 1-2 October 2019 the Company hosted a special conference dedicated to the Vision Zero concept. The conference participants discussed current issues and challenges facing OHS teams as well as potential solutions and initiatives in matters concerning OHS.

In addition, the Group's representatives regularly take part in OHS conferences and seminars organized by various international and Russian organizations. For example, each year NLMK Group participates in conferences and seminars held by the World Steel

Association (WSA) to share best OHS practices with mining and steel companies. One such meeting was held on 1-2 July 2019 in Stary Oskol. NLMK Group exchanged experience with representatives of Metalloinvest, EVRAZ, Tata Steel, and other industry majors. On 10-11 September 2019, OEMK hosted the 2<sup>nd</sup> Congress of the Russian Steel Association on Occupational Health and Safety at steelmaking and mining enterprises. Congress participants discussed key OHS goals and objectives and activities that aim to achieve the Vision Zero target. The head of the OHS risk management unit delivered a presentation on the risk-based approach in the implementation of the OHS investment programme.

As part of its activities, the Group seeks to integrate innovative technologies, not only into production processes, but also into other areas of its activities, including occupational health and safety. For example, the Company developed and implemented a programme in 2018 to improve the quality of theoretical OHS training using advanced technologies, such as computer classes, simulators, virtual reality, and effective media material.

In December 2019, the OHS team was trained to investigate incidents in line with the corporate Regulations for identifying, recording, and investigating accidents at NLMK Group.

The training raised the skill level of OHS management, thus kick-starting the implementation of the Company's Strategy 2022. All feedback from the training session will be used to review the Regulations, update the training programme, and carry out a large-scale OHS training course for senior management and all employees involved in accident investigations in the first six months of 2020.

## 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 2019 included sessions on fires, gas leaks, acid/alkali spills, molten zinc leaks or spillages, as well as power outages.

In accordance with the Provisions on OHS Incidents approved in 2018, NLMK employs a No Blame Policy. The Group does not apply any disciplinary sanctions against employees or contractors that report accidents or injuries

at work. In an effort to enable employees to contact the OHS team promptly, NLMK companies publish information sheets that provide the contact details of the persons responsible for overseeing such issues. The Group also has an OHS hotline (details are available on the corporate portal) that any employee or contractor can use to send messages or questions related to OHS.

In 2019, a programme was developed to improve the incident recording quality. The programme aims to bolster the commitment of NLMK Group employees and contractors to preventing injuries and enhancing the transparency of occupational injury information.

According to the Regulations on identifying, recording, and investigating OHS incidents, all critical incidents related to dangers for employees and contractors should be immediately reported to the CEO and OHS Director, and information about serious injuries and incidents should be reported within 24 hours.

The heads of OHS teams at the Group's companies conduct regular inspections during which any employee or contractor can ask a question or put forward a suggestion.

## LAUNCH OF THE OHS HOTLINE

In December 2019, NLMK Group launched the Unified OHS Hotline. Now anyone can ask a question, warn of any danger, or report an incident that has been concealed using a toll-free number 8 (800) 600-04-74 or by e-mail: HSE@nlmk.com.

The hotline is available 24/7 for all employees of the Group's Russian operations, including contractors, former employees, and trade union representatives.

All questions, comments, and suggestions are promptly processed

by dispatchers and sent to onsite OHS specialists. Each request is assigned a status that is monitored and updated from the time it is received until it is closed. The results of the follow-up on the report are communicated by phone or email.

Transparent feedback, instant responses to messages, and the resolution of issues enable the Company to improve working conditions and prevent injuries. In doing so, each employee contributes to the development of the Company's Strategy and brings it closer to its main goal – safe production.

Employees have had a positive response to the new OHS communication tool. During the reporting period, 13 messages were received from different sites of the Group. The OHS team immediately conducted a thorough investigation of nine complaints, and staff members were given feedback. The remaining four reports were in progress as of the end of 2019.

## PARTNERSHIPS WITH CONTRACTORS

Contractors that interact with NLMK are fully covered by the Group's OHS standards. Information about contractors is taken into account when calculating incident statistics and setting targets, and also when planning OHS training and awareness activities.

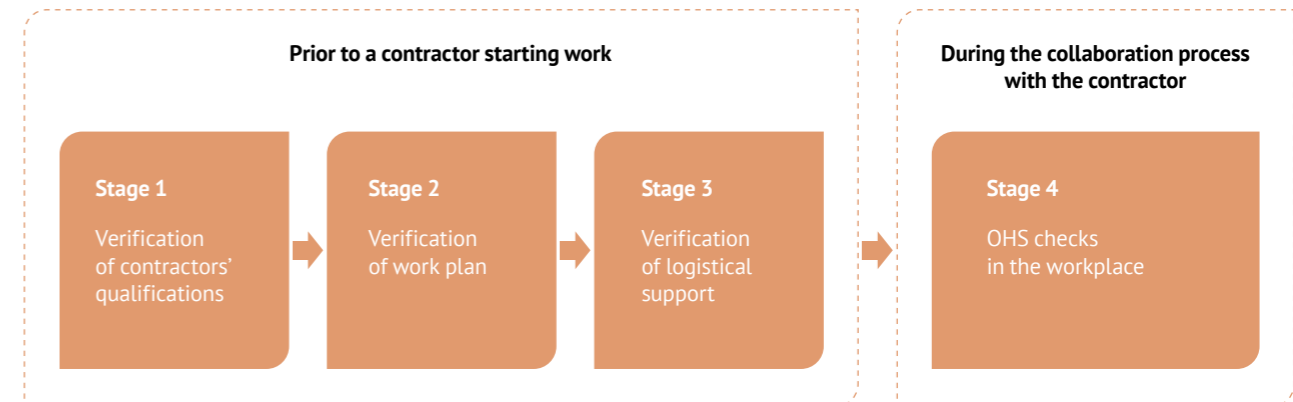
In 2019, the Group drafted and implemented an Agreement concerning occupational health, industrial and fire safety, work performance, environmental protection, internal security and access control procedures (the Agreement), which defines the division of responsibility between the contractors and NLMK, regulates incentives and penalties, and defines the rights and obligations of the parties. The Agreement is the first of its kind to provide contractors with a mechanism for financial incentives to work safely.

A new approach to monitoring contractors was introduced – OHS supervision – which made it possible to implement international instruments for the management of contracting organizations working on the customer's territory.

In order to carry out a complete, objective, and independent evaluation of the contractor management system in matters concerning OHS, the Group hired external consultants who prepared recommendations based on their work to improve the system of interaction with contractors on OHS issues. In September 2019, a conference was held on issues concerning interaction in OHS and ensuring safe working conditions, which was attended by representatives of contracting organizations. The conference was held in the format of a roundtable on the principles of partnership.

Collaboration between NLMK and its contractors begins at the preparatory stage and continues throughout the entire project lifecycle. NLMK is ready to share best practices in OHS with its partners. On 21 October 2019, the OHS Director held a seminar for heads of contractor organizations on *The Vision Zero concept of zero injuries. Improvement of the occupational safety management system at the enterprise*. The seminar was attended by the general directors of more than 50 organizations; event participants discussed relevant issues from the perspective of the Seven Golden Rules of the Vision Zero concept. Enterprise managers need to become safety leaders for their companies and show their adherence to safety principles through their own personal example.

### OHS VERIFICATION PROCESS FOR CONTRACTORS



NLMK regularly assesses contractors that are involved in production at its enterprises for their compliance with OHS requirements according to 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. If a contractor is exposed to certain OHS risks, the Company is willing to help improve the OHS system in order to maintain a working relationship with the contractor.

As part of the contractor management process, OHS specialists actively

### Four-hour training programme followed by testing of contractor personnel

*In 2018, new rules on the admission of contractors' employees to work on the territory of NLMK Lipetsk came into force at the plant. In order to obtain a pass to the plant's territory, NLMK contractors must undergo four hours of OHS training and pass the final test successfully.*

**Training goal:** develop a safety culture among NLMK Group's contractors and subcontractors (creating safe working conditions and improving the culture of safe behaviour).

**Training objectives:** develop a personal commitment to safe behaviour among contractors and subcontractors as well as raise awareness among contractors and subcontractors about the OHS standards adopted at NLMK Lipetsk for contractors.

cooperate with the Risk Management, Investment Projects Execution, Corporate Security, and Procurement functions.

In 2019, onsite OHS teams hosted 2,026 courses throughout the Group and trained 31,813 employees from contractor companies. The final test failure rate among contractor staff was quite low at 3.74%.

## 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 any inconsistencies, remedial measures are adopted 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 institution of OHS auditors.



# 2019 PERFORMANCE

The Group carried out extensive work in 2019 to reduce injuries and occupational illness.

In 2019, the Company continued to implement the maintenance and overhaul programme that aims to reduce fatal and high risks. This programme is being implemented in full and had a total cost of \$16 m. This approach is based on the Vision Zero concept that all incidents can be prevented.

In addition to improving the OHS management system, developing partnerships with contractors, and implementing training activities, NLMK actively promoted the development of a safety culture through internal employee engagement channels during the reporting period. In particular, two new news sections dedicated to OHS were created on the Group's internal corporate portal: *Safety Heroes* and *Safety Flash*. In addition, the OHS Director created a blog where articles on the Company's past and upcoming OHS events are posted on a regular basis as well as relevant information about safety issues affecting seasonal risks.

In December 2019, as part of the pilot project's implementation, NLMK conducted a real-time test of the electronic work permit system. All the procedures for the processing of electronic work permits were carried out step by step using gadgets (tablets).

## Vision protection programme at NLMK Group

*In November 2019, a vision protection programme was launched at NLMK Group's enterprises. It is designed to reduce the risk of injury, introduce a culture of wearing safety glasses, and provide employees with comfortable and effective personal protective equipment (PPE).*

*Key parts of the programme:*

1. *Develop information materials (memos, posters, and video clips) to inform employees and discuss at shift meetings*
2. *Provide training on the importance and correct use of PPE*
3. *Organize vision safety stands*
4. *Purchase additional equipment, conduct staff surveys, and purchase corrective glasses*

*As part of this programme, NLMK Lipetsk has established vision safety zones. Thematic zones are located in the administrative buildings of BF Shop No. 1, the Sinter Shop, and the Refractory Shop. A stand named Safety Spot displays the rules that are important to know and observe in order to protect your eyesight at work. A separate section is dedicated to the storage and care of protective glasses. In the future, the stand will also display interactive and handout materials. The stand helps people focus on the problem, look at it comprehensively, and visualize the process of vision safety. The pilot 'Safety Spot' stand is expected to prompt shop managers to start organizing vision safety at their production sites by checking the convenience of glasses, analysing care accessories, and also determining where eye-washing stations can be installed.*

*The Transformer Steel Shop and the Cold Rolling Shop received about 100 eye-washing stations.*

## INJURY RATES IN 2015-2019

Indicator	2015	2016	2017	2018	2019
<b>Total number of occupational accidents</b>	<b>129</b>	<b>95</b>	<b>121</b>	<b>89</b>	<b>105</b>
Employees	107	75	90	65	72
Contractors	22	20	31	24	33
<b>Industrial fatalities</b>	<b>6</b>	<b>5</b>	<b>11</b>	<b>3</b>	<b>6</b>
Employees	5	2	5	3	2
Contractors	1	3	6	0	4
<b>Lost time injury</b>	<b>123</b>	<b>90</b>	<b>110</b>	<b>86</b>	<b>99</b>
Employees	102	73	85	62	70
Contractors	21	17	25	24	29
Near Miss	-	-	-	140	212
<b>Total man-hours worked for employees</b>	<b>95,173,771</b>	<b>91,943,948</b>	<b>92,677,015</b>	<b>93,637,091</b>	<b>95,179,559</b>
<b>Total man-hours worked for contractors</b>	<b>17,223,532</b>	<b>19,901,080</b>	<b>15,108,161</b>	<b>22,612,132</b>	<b>26,995,931</b>

## WORK-RELATED INCIDENTS

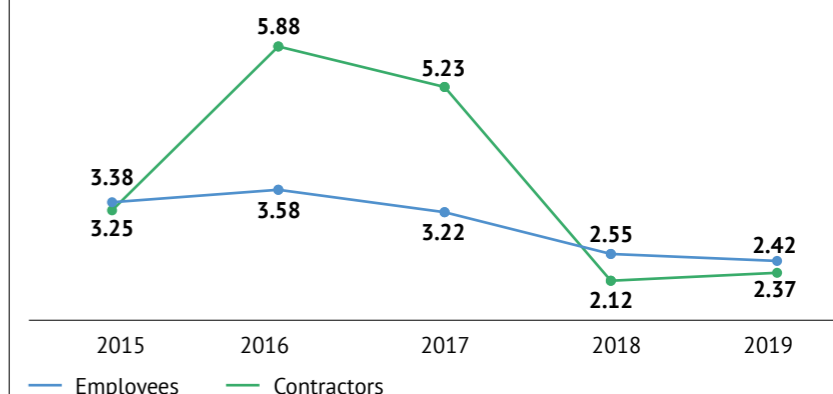
Thanks to efforts to improve the NLMK safety system, including developing methods to respond to emergencies and incidents at work, the Company is able to minimize the consequences of incidents when they occur.

In 2019, 294 injuries were reported at NLMK Group companies and contractors, of which 105 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 World Steel Association. NLMK regularly provides the WSA with relevant statistics in order to access comparative information for the industry.

Lost Time Injury Frequency Rate (LTIFR) is the main injury rate indicator used at the Group. The indicator is calculated on a monthly basis for each company taking into account data for both NLMK employees and contractors. During the reporting period, the LTIFR increased to 0.86, an 11.69% increase against 2018. The increase is due to improved incident registration among contractors as well as an increase in the number of contractors who work at NLMK Group's sites and perform work with a higher risk level.

**TRIFR (RI) FOR NLMK GROUP EMPLOYEES AND CONTRACTORS<sup>1</sup> IN 2015-2019** GRI 403-9

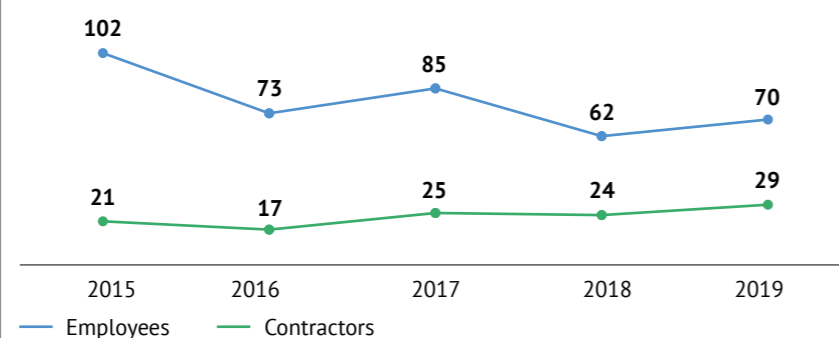


<sup>1</sup> TRIFR includes fatalities, disability cases and cases requiring treatment. It is calculated on the basis of the method adopted by the Group for determining recordable injuries (RIs).

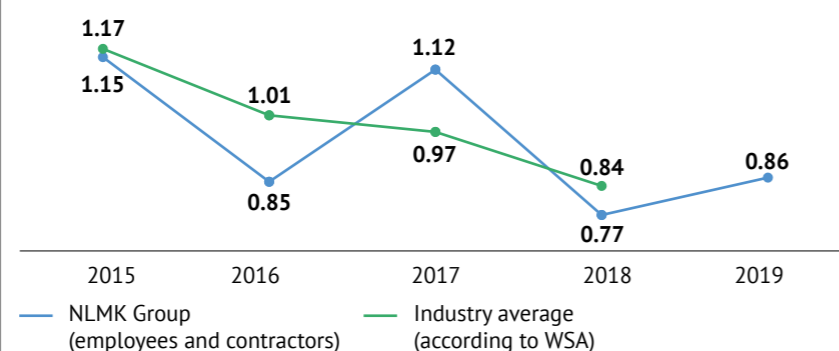
The Group also keeps records of all work-related injuries and measures the Total Recordable Injury Frequency Rate (TRIFR)<sup>1</sup>, which is calculated every month for each subsidiary, including data on contractors. In 2019, the TRIFR (total) decreased to 2.41 compared with the previous year (2.47) due to a decrease in the total number of registered injuries among the Group's own staff.

The Company deeply regrets the six fatalities that occurred to employees and contractors at its Lipetsk and Novosibirsk facilities. The accidents were investigated to identify the root causes and re-evaluate the relevant risks. In order to avoid a recurrence of such cases in the future, the Company is focusing on the top five risks and has also launched a project to improve the efficiency of work permit procedures, including the launch of an electronic work permit pilot project. In addition, the Company plans to build a process for improving work with contractors.

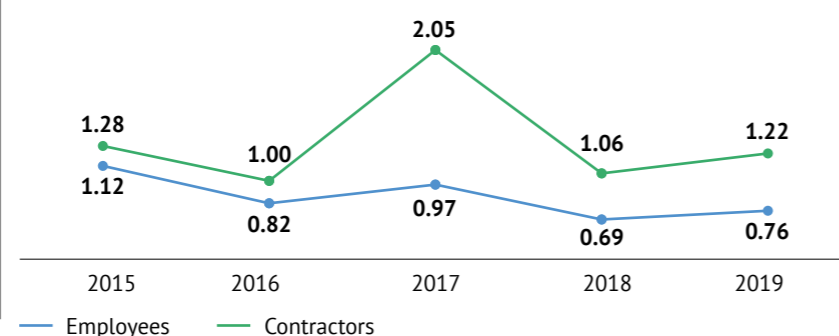
**WORK-RELATED ACCIDENTS RESULTING IN INJURY TO NLMK GROUP EMPLOYEES AND CONTRACTORS IN 2015-2019<sup>1</sup>** GRI 403-9



**NLMK GROUP'S LTIFR COMPARED WITH THE INDUSTRY AVERAGE IN 2015-2019** GRI 403-9



**LTIFR FOR NLMK GROUP EMPLOYEES AND CONTRACTORS IN 2015-2019** GRI 403-9



<sup>1</sup> Due to changes in the accounting methodology, the number of accidents for previous periods has been corrected.

## PLANS FOR 2020 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 five risk categories identified during the current reporting period. We also plan to implement a pre-work risk assessment process (changes will be made to the current regulations on occupational health and safety risk management at NLMK Group's facilities).

The following three important areas of occupational safety and health will be prioritized in 2020:

- 1 Personnel injury risk management system: risk assessment and managing a reduction in injury risk
- 2 Development of a safety culture: defining safe behaviour rules and promoting safe conduct among personnel
- 3 Development of the OHS role model

The following measures will be implemented as part of a comprehensive programme to systematically reduce the risks of working at heights:

- Audit of the system for ensuring work safety at heights from organizational, technical, and technological standpoints
- Development of a programme to ensure work safety at heights at Russian companies

- Development of an Engineering Standard for Working at Heights for the Group's own employees and contractors (including capital construction as well as major and routine repairs)
- Visualization of a properly organized workplace at heights that takes into account the requirements of the Standard and the creation of an album and a video for use during safety briefings

The Company plans to approve and introduce regulations on emergency medical care at production facilities at all NLMK Group's companies. According to the regulations, the Group is planning to develop:

- Reporting and notification systems (emergency reporting systems) regarding employee injuries and methodological guidelines for supervising victims at medical institutions
- A free mobile application teaching how to provide first aid to accident victims and sick people
- A system of unified dispatcher services for emergency calls and alerts

The Group will continue to hold training programmes for NLMK employees and contractors at its Corporate University. It plans to update and develop new educational solutions for OHS tools that aim to achieve the Company's goals to reduce injuries, such as the investigation of accidents, work permits, pre-work risk assessments, stop work, line round routes focusing on the top 5 risks as well as interactive briefings and safety behaviour dialogues. The programme will target the Company's employees as well as managers of contractor companies. Tools will be implemented through project teams and OHS specialists. In 2020, the first phase of the projects will start at NLMK Lipetsk and Stoilensky.

In addition, the Company is planning to conduct advanced training on international best practices for 300 people.

NLMK also plans to establish an internal institute of auditors to assess the efficiency of the OHS system at the Group's enterprises. In 2020, the Company plans to carry out an action plan to implement the LOTO (lock-out tag-out) pilot project at NLMK Group. This programme aims to reduce injuries and ensure control over hazardous energy sources at NLMK Group's enterprises.

In 2020, NLMK plans to launch an electronic work permit system throughout the entire Group. The system will make it possible to achieve the following objectives:

- Minimizing risks during the preparation and execution of high risk work
- Avoiding errors in the issuance of work permits
- Issuing high quality work permits in a timely manner and eliminating forgery
- Reducing overall work preparation time
- Reducing the non-productive downtime of equipment and personnel
- Accelerating the work permit process





# RUB 5.7 bn

NLMK's total social investment

# RUB 571 m

investment in external social programmes

# 41

projects supported through the Steel Tree grant competition

## DEVELOPING LOCAL COMMUNITIES

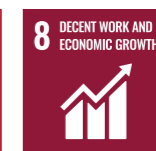
### MAJOR THEMES

- Indirect economic impact
- Local communities

### KEY EVENTS IN 2019

- Metallurgists' Park reconstruction (Lipetsk)
- The Steel Tree grant competition geography expansion

### GLOBAL SUSTAINABLE DEVELOPMENT GOALS





# OUR APPROACH TO MANAGING EXTERNAL SOCIAL ACTIVITIES

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 facilities are located in cities and regions across Russia, Denmark, Belgium, Italy, France, and the United States. **GRI 203-2**

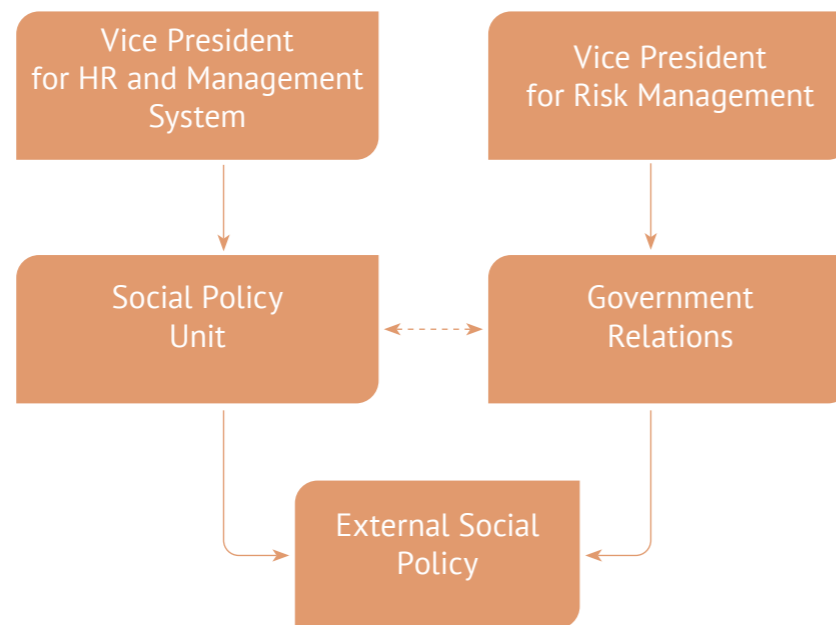
The Social Policy Unit within the Human Resources function, together with Government Relations, coordinates local community engagement and the implementation of projects that fall under NLMK's external social policy.

The chief aim of these units in terms of developing local communities is to determine common interests shared by the Company, its employees, local communities as well as governmental and local administrative bodies related to the sustainable development of the Company and the regions in which it operates and to create a positive environment for both employees and local communities.

In an effort to improve the approaches taken to implement social programmes in 2019, NLMK Group developed and approved its Sustainable Development Policy. According to the standards set forth in this document, one of NLMK Group's key goals in sustainable development is to contribute to the social development of the regions in which the Company operates.

NLMK's social and charitable activities to support and develop the regions in which it operates are pursued chiefly in collaboration with the Company's social partner, the Miloserdnye (Mercy) Charitable Fund for Social Assistance. The Fund supports the development of sport and healthcare, the preservation of cultural heritage, and provides assistance to retirees, veterans, and other vulnerable social groups. The Miloserdnye

## ORGANIZATIONAL STRUCTURE OF EXTERNAL SOCIAL POLICY MANAGEMENT



← - - - → Collaboration  
 ← — — — → Subordination

Fund is a longstanding trusted partner of NLMK in the Lipetsk and Belgorod Regions and in Altai Territory.

Over 30,000 people benefit from the Miloserdnye Fund each year. Miloserdnye implements charity projects in the following key areas:

- 1 Assistance for veterans:** supporting veterans' organizations and former NLMK employees in their retirement, providing assistance in obtaining medicines and reimbursing treatment costs, and organizing cultural events.
- 2 Health:** providing assistance by paying for expensive surgeries, targeted funding for medical organizations, and health resort packages for children with disabilities and wheelchair users.

- 3 Sport:** support for sports federations, funding for children's and young people's sports schools, and purchasing equipment.
- 4 Children:** supporting children's homes and residential schools and conducting charity campaigns for children.
- 5 Science and culture:** supporting gifted children (winners of science, music, and art competitions), creative groups, libraries, museums, and art galleries.
- 6 Environment:** purchasing specialized equipment, feed, and medicines for use in nature reserves and parks, forests, and veterinary practices.
- 7 Cultural development:** funding charity concerts, drama festivals, and holiday events for residents of Lipetsk and the Lipetsk Region.
- 8 One-off assistance:** providing one-off assistance to public organizations, municipal institutions, and citizens affected by terrorist attacks or natural or man-made disasters.

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 the Lipetsk Municipality's highest honour, the Mitrofan Klyuev medal, for his many years of charitable work.

In 2019, the Fund won the 'Starting Point' 10<sup>th</sup> All-Russian Competition of Voluntary Public Annual Reports by NGOs. The Miloserdnye Annual Report was awarded the highest prize, the competition's gold standard.

The Fund may have some outstanding achievements to its name, but it nevertheless continues to evolve. In 2019, it celebrated the 20<sup>th</sup> anniversary of its charity activities for the benefit of local communities in the regions where NLMK Group's companies operate.

NLMK is committed to enhancing the tools it uses to collaborate and engage with communities. Since 2017, the Fund, together with NLMK Group, has

## Development of a personal donation programme for employees

In 2019, a personal donations programme for employees evolved further and extended to the Miloserdnye Charitable Fund's website. A total of more than RUB 900,000 have been raised for the treatment of seriously ill children since August 2019. One initiative put forward by employees at one of the Company's divisions is particularly noteworthy: instead of buying gifts for one another on February 23 (Defender of the Fatherland Day) and March 8 (International Women's Day), they transferred

Also in 2019, employees at the Company's Moscow office took part in a national charitable event called #TheFartherIn in support of children and adolescents with Down syndrome in partnership with the Downside Up Family Support Centre and the Love Syndrome Foundation. Company employees sent money for useful gifts that help children develop, for example, consultations with a speech therapist or a special-needs expert, literary works, or an annual subscription to a specialized magazine for parents, among other things.

## Steel Tree grant competition

In 2017, NLMK Group's social partner, the Miloserdnye Charitable Fund, launched the Steel Tree grant competition in Lipetsk. The competition offered local employees the opportunity to develop their own programmes to support the environment and to obtain grants to fund them. In 2018, the competition included a wider range of areas: the grant programme encompassed social projects aimed at improving the quality of citizens' life. In the reporting period, the programme expanded its reach to include employees at NLMK's companies in the Sverdlovsk and Kaluga Regions as well as in Sary Oskol (Belgorod Region) and Zarinsk (Altai Territory). The grant competition was open to employees at the Lipetsk site and residents of Lipetsk and the Lipetsk Region. The winners of the competition received a grant of up to RUB 300,000 for the implementation of their projects. A total of 41 projects were supported, with NLMK allocating RUB 11 m for the grant competition.

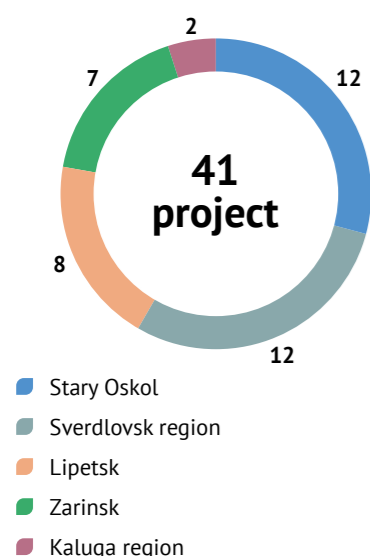
been implementing the Steel Tree programme – a grant competition to support social and environmental public initiatives.

Another charity fund operating in the Sverdlovsk Region is Zabota, Pomosch, Miloserdnye (Care, Help, Mercy).

NLMK also operates various volunteering and charity programmes and conducts research on the needs of local communities in areas where it operates. It determines such needs through surveys and public hearings as well as various internal corporate communication channels.



STEEL TREE PROJECT GEOGRAPHY, NUMBER OF PROJECTS



Steel Tree in Yekaterinburg

The kids in Verkh-Isetsky neighbourhood of Yekaterinburg got a new delightful playground on Tatishchev Street. A modern outdoor sports-and-play area was installed as part of the Steel Tree grant programme of Miloserdie Charitable Fund, a social partner of NLMK Group.

Corporate volunteers turned the inaugural opening of the playground into a fun holiday with sporting contests and sweet treats.

The playground on Tatishchev Street is not the first project of the Steel Tree programme to get realized in the Sverdlovsk Region. Other projects were a playground in the Yekaterinburg 50 Years of Komsomol Park, a beach volleyball court built in Nizhniye Sergi as well as a park plaza that was revamped. Newly built facilities in Beryozovskoye were an extreme sports park, a playground and a sporting ground. In a waste dump was cleaned up in a residential area.

TOOLS USED TO ENGAGE AND DETERMINE THE NEEDS OF LOCAL COMMUNITIES GRI 413-1

No.	Measure	Description
1	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.
2	Direct engagement via internal communication channels	Given that many of NLMK Group's 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>
3	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>
4	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 consider their opinions as it conducts its business. In 2019, NLMK Group held a series of public hearings and public discussions in Lipetsk and Stary Oskol on six major investment projects. All the projects considered were approved by the residents.

2019 PERFORMANCE

Each year, NLMK allocates significant resources to social programmes in a variety of areas. In 2019, NLMK Group allocated RUB 571 m to external social programmes, including support for veterans and retired employees.

SUPPORT FOR 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 people with serious illnesses, including by helping to pay for expensive operations, medicines, and rehabilitation.

A total of RUB 4 m was allocated for healthcare support in 2019, or 1% of the Company's total investment in external social programmes.

DEVELOPING SOCIAL INFRASTRUCTURE OF REGIONS WHERE NLMK GROUP OPERATES

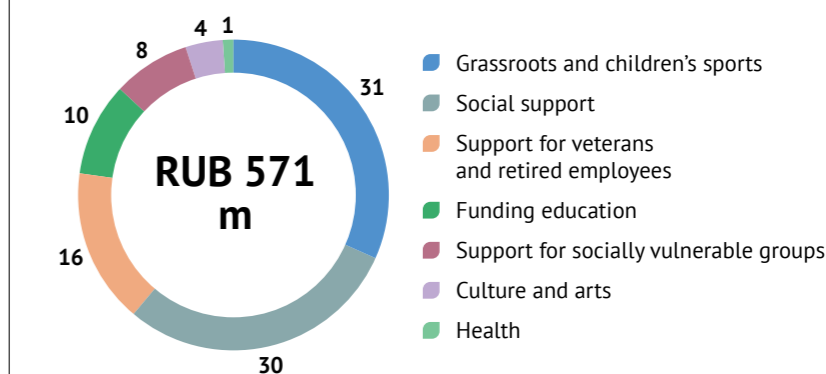
The main priorities of NLMK Group's external social programmes include social infrastructure development as well as determining and facilitating solutions to issues that currently affect the regions where the Company operates.

In 2019, a total of RUB 169 m was allocated to develop the social infrastructure of the regions where NLMK Group operates, or 30% of the Company's total investment in external social programmes.

SUPPORT FOR GRASSROOTS AND CHILDREN'S SPORTS

The development of grassroots and children's sport is one of the priorities within the Company's social activities. NLMK creates conditions for engaging in sports not only for the Company's employees and their family members, but also for local communities, regularly allocating resources for the maintenance

INVESTMENT IN EXTERNAL SOCIAL PROGRAMMES, 2019, % GRI 203-1



Health School

In 2019, the Company opened a Health School in Lipetsk. The Health School is a joint project of NLMK and ROSBANK that aims to promote a healthy lifestyle and improve the quality of preventive care against chronic diseases among the Company's employees and other residents of the city. The School was established on the basis of the Novolipetsk outpatient clinic with the support of NLMK's social partner, the Miloserdie Charitable Fund. Anyone can take part in the classes offered at the Health School. The subjects taught at the classes include such topics as healthy eating, prevention of cardiovascular diseases, good sleep, psycho-emotional balance and the prevention of emotional burnout, proper breathing techniques, the prevention of excess weight, and physical activity, among other things. The Health School's first students were NLMK veterans and employees, participants in the 'Healthy Choice' programme as well as members of their families.

Reconstruction of Metallurgists' Park

A key infrastructure project in 2019 to support the regions where the Company operates was the large-scale reconstruction of Metallurgists' Park. The Russian architectural bureau Front Architecture together with landscape architect Ivan Zanchevsky developed the reconstruction project. Metallurgists' Park is the largest park in the Lipetsk Region: the project covers a total area of 25 hectares. Work on the reconstruction of Metallurgists' Park began in April 2019. NLMK Group and the city of Lipetsk funded the project together. Architects from Front Architecture utilized a fully ecological approach that made it possible to preserve the park's existing ecosystem as much as possible: not a single tree was cut down during the project. The territory of the park, which had previously been in decline and a state of neglect, was completely cleared and thoroughly landscaped. Bike paths and eco-trails have been opened all around the perimeter of the park.

of sports facilities and to provide 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 Lipetsk Metallurg sports club in Lipetsk and for Olympic Reserve School No. 13, which was set up on the core of the club. The school trains world-class athletes in skeet shooting: around half of the current Russian skeet shooting team are former students.

In 2019, the Company allocated RUB 184 m to support grassroots and children's sports in the regions where it operates, or 31% of total investment in the Company's external social programmes.

## SUPPORT FOR SOCIALLY VULNERABLE GROUPS IN REGIONS WHERE NLMK GROUP 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 grant competitions.

The Company pursues charitable activities at a number of its international companies through specially organized Charity Councils. NLMK is also actively implementing a vision for corporate charitable activities whereby employees are given the opportunity to make their own personal contribution to resolving specific social issues by becoming volunteers. **GRI 413-1**

In 2019, a total of RUB 43 m was allocated to provide support for socially vulnerable groups in regions where NLMK Group operates, which amounted to 8% of the Company's total investment in external social programmes.

## Helping charities at NLMK Pennsylvania (USA)

*In 2019, NLMK Pennsylvania employees managed to donate \$43,268 to local charities. In total, NLMK Pennsylvania employees have raised \$257,505 and made donations to 23 local charities since 2013. Although some recipients change from year to year depending on the needs or the amount collected, there are certain organizations that receive support each year. These include the Community Food Warehouse of Mercer County: for every dollar donated, the warehouse can purchase \$5 worth of food.*

## SUPPORT FOR 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 works by veterans as well as 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 bolster 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 on courage in schools and colleges basic educational institutions.

A total of RUB 89 m was allocated to support veterans and retired employees in 2019, which accounts for 16% of NLMK's total investment in external social programmes.

## SUPPORT FOR EDUCATION

The main focuses of scientific and educational development pursued in NLMK Group's social policy consist of multifaceted support for certain educational institutions in the regions where the Company operates, and support for high-quality technical education for young people. The Company provides targeted funding for scientific and educational activities at educational institutions, and also arranges

## NLMK sponsors IT-Cube, a new digital education centre for schoolchildren in Lipetsk

*IT-Cube is a platform for the continuing education of schoolchildren in information technologies that is equipped with modern gadgets for acquiring knowledge and developing skills in such areas as information technology, robotics, and IT engineering. The Company allocated RUB 2.5 m for the purchase of virtual and augmented reality equipment, a classroom for robotics studies as well as other computer equipment. As many as 400 students will study at the Lipetsk IT-Cube. Training includes joint practical projects with leading federal and regional companies. The centre will become a base camp for the specific business tasks of NLMK.*

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 days and trips to production facilities for schoolchildren as well as industrial internships at the Company's enterprises for students from certain 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.

In 2019, a total of RUB 59 m was allocated to support science and education in regions where the Company operates; this amount represented 10% of the Company's total investment in external social programmes.

## SUPPORT FOR CULTURE AND ARTS

As part of efforts to support culture and arts, NLMK Group provides assistance to organizations that promote cultural history and education in the regions where the Company operates and makes financial contributions to the preservation and proper maintenance of cultural and architectural monuments and other sites with cultural and historic value.

The Group also supports the activities of corporate museums, including NLMK

## NLMK partners with CASE-IN international engineering championship

*NLMK became the general partner of the international engineering championship CASE-IN 2019 (Student League) in the Iron and Steel category. The CASE-IN Championship is the largest case-solving competition among engineers in Russia and the CIS. The championship consists of five leagues, including a student league. During the qualifying stage, participants need to solve an engineering case study that is relevant to a particular enterprise. In 2019, employees from the NLMK Data Analysis and Simulation Department offered a case study on 'Digital Transformation' that was solved by students from 10 universities in Russia and CIS countries.*

## Stoilensky supports youth theatre festival

*In 2019, Stoilensky Mining and Beneficiation Plant supported 'Stary Oskol – the City of Youth', a youth theatre festival in memory of director Boris Rovenskikh. The festival was held in Stary Oskol for the first time. Stoilensky allocated RUB 1 m for the events of the festival. The initiative to hold the festival came from Vera Vasilyeva, an honoured Soviet actress. Moscow drama schools held their graduation performances at the festival. Stoilensky Director Sergey Napolskikh, who also heads the theatre's Board of Trustees, invited all the festival participants – close to 200 students and teachers – to take a tour of an open-pit mine and Stoilensky's Paleontological Museum.*

Museum in Lipetsk, the Demidov Centre in the Sverdlovsk Region town of Revda, and museum sites at Stoilensky and Altai-Koks.

A total of RUB 22 m was allocated to support culture and the arts in 2019, which amounted to 4% of the Company's total investment in external social programmes.

# PLANS FOR 2020 AND THE MEDIUM TERM

The Company plans to update its Charity Policy in 2020 in order to further structure it and improve the efficiency of social investments.

In 2020, the Company plans to expand the Steel Tree grant programme to include residents of Yekaterinburg, Revda, Beryozovsky, and Nizhniye Sergi as well as residents of the Kaluga Region.





# ENVIRONMENTAL PROTECTION

Environmental protection  
Energy efficiency





**\$430 m**

allocated to investment projects with an environmental impact as part of Strategy 2022

**\$78 m**

allocated to investment projects with an environmental impact in 2019

**97%**

of water in production is recycled and reused

**92%**

of generated waste is reused (not including mining waste: overburden and tailings)

#### Awards

NLMK Lipetsk won the 16<sup>th</sup> High Social Performance Mining and Metallurgical Enterprise Industry Competition, finishing first in the Environmental Activity and Resource Saving category

The 'NLMK Lipetsk Eco-ideas' project won a competition as part of the Environmental Culture, Peace and Harmony international project in the Environmental Culture in Industry and Energy category

NLMK was awarded with a certificate for active participation in the Green Spring' National Volunteer Clean-up Saturday for taking the initiative and contributing to environmental protection

The Group received a gold medal at the Metal-Expo2019 international industry awards for its briquetting plant project

For the third consecutive year NLMK Kaluga was a winner in the regional Eco Organization 2019 competition, taking first place among major corporations in the Protecting Environmental Safety and Preserving a Healthy Environment category

NLMK Kaluga was awarded with a Certificate of Merit for active participation in the High Social Performance Mining and Metallurgical Enterprise Industry Competition

# ENVIRONMENTAL PROTECTION

## MAJOR THEMES

- Water
- Discharge
- Biodiversity
- Atmospheric emissions
- Waste
- Supplier environmental assessment
- Environmental compliance

## KEY EVENTS IN 2019

- The Board of Directors approved a programme to reduce CO<sub>2</sub> emissions, including GHG reduction targets
- The Board of Directors established environmental protection as the key principle of NLMK Group's Sustainable Development Policy
- Drafting of NLMK Group's Policy for an Integrated Management System in Quality, Environmental Protection, Energy Efficiency, and Occupational Health and Safety
- Completion of 3 major projects to reduce emissions, with a reduction of over 5,000 tonnes

## 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





# OUR APPROACH TO MANAGING ENVIRONMENTAL PROTECTION

The efficient use of natural resources and a responsible attitude towards the environment are important aspects of NLMK's work. The Group 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 takes a comprehensive approach to environmental management by focusing on improving energy efficiency, reducing air emissions by upgrading equipment, reusing and processing waste, conserving water resources, and rehabilitating contaminated land.

## IMS POLICY<sup>1</sup>

We continue to analyse and enhance our policies and approaches to environmental protection management. In 2019, the Company updated the Group's Environmental Policy when drafting NLMK Group's Policy for an Integrated Management System in Quality, Environmental Protection, Energy Efficiency, Occupational Health and Safety (IMS Policy). The IMS Policy is the Group's fundamental document on environmental protection. It reflects the responsible and sound approach that NLMK takes to managing activities relating to environmental protection and safety. NLMK Group's management recognizes its responsibility for key aspects of the environmental impact on atmospheric air, water resources, biodiversity, climate change, and the social sphere from NLMK Group's operations and production processes. Our policy also confirms the commitment of the Group's companies 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.

### IMS Policy goals:

- Be a global leader in the quality of metal products and raw materials by continuously upgrading and expanding the product mix with the aim of increasing our customers' competitiveness
- Comply with the best industry practices in the sustainable use of material, technical, fuel, and energy resources as well as the occupational and environmental health and safety of production processes
- Be a global leader in adopting best practices to increase the energy efficiency of operations, and to achieve the minimum technically and economically feasible level of specific energy intensity and cost of production
- Ensure efficient production with zero accidents, emergencies, and near-misses through global excellence in operational health and safety practices and the continuous development and promotion of a safety culture among NLMK Group's employees and contractors
- Ensure the ecological and climate efficiency of operations, as well as respond to the changing environmental and climate conditions in balance with the social and economic needs

## ORGANIZATIONAL STRUCTURE

NLMK is committed to ensuring that all industrial processes are eco-efficient and conform to best global practices.

NLMK's management team is actively involved in the environmental management process:

- The Group's CEO and Board of Directors review environmental performance on an annual basis.
- The Strategic Planning Committee under the Board of Directors studies risks related to sustainable development, including those related to environment, atmospheric air, water resources, soil, biodiversity, and climate change (including greenhouse gas emissions).
- The Management Board's Investment Committee is directly involved in reviewing NLMK's Environmental Strategy and Environmental Programme. The Investment Committee includes vice presidents and directors of NLMK companies. It 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, including managing environmental risks and implementing advanced eco-friendly technologies.

Each of the Group's companies has an environmental protection expert who is responsible for, among other things, 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 a risk assessment, the Company has established the following targets:

- Minimizing the impact that the Group's Russian and international companies have on the environment, and complying with all applicable environmental standards and environmental risk management commitments
- Increasing the waste recycle rate at NLMK Group's Russian sites to 96%
- Reducing specific emissions at NLMK Group's Russian sites to 18.8 kg/t of steel

An important highlight in 2019 was the Board of Directors' approval of NLMK Group's CO<sub>2</sub> emissions reduction programme, which focuses on reducing specific CO<sub>2</sub> emissions across NLMK Group to 1.94 t/t of steel in 2023.

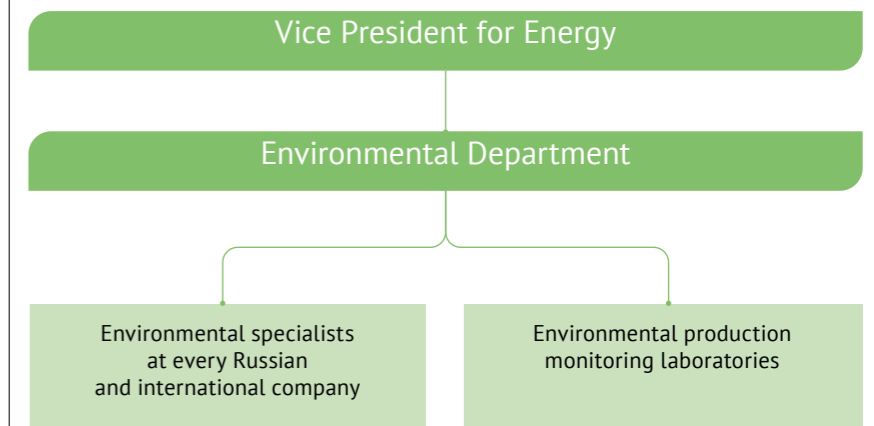
## CERTIFICATION

NLMK works continuously to systematize its environmental management operations in accordance with modern international standards. NLMK Group has an Environmental Management System in place, which enables it to identify and monitor environmental issues and the risks of its activities.

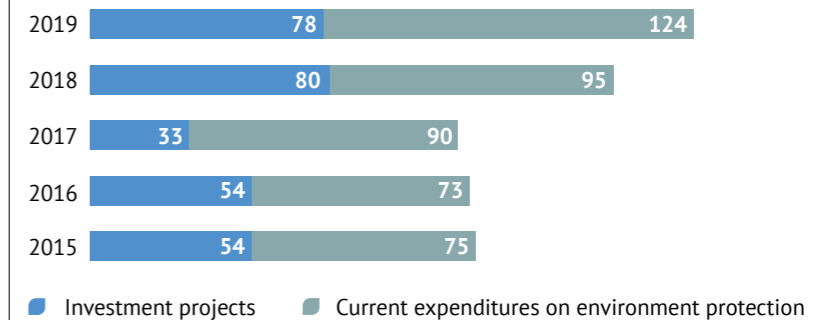
The ISO 14001:2015 standard has been implemented at 14 of the Group's facilities. The certified companies include: NLMK Lipetsk, VIZ-Steel, Altai-Koks, Dolomit, NLMK Kaluga, NLMK Metalware, NLMK Ural, Stagdok, Stoilensky, NLMK Verona, NLMK DanSteel, NLMK Clabecq, NLMK La Louvière, and NLMK Strasbourg.

In order to ensure a systematic approach to environmental management at the Group's facilities, supervision and recertification audits for compliance with ISO 14001:2015 are carried out on a regular basis.

## ORGANIZATIONAL ENVIRONMENTAL MANAGEMENT STRUCTURE



## NLMK GROUP SPENDING ON ENVIRONMENTAL PROTECTION, 2015–2019, \$ M



## INVESTMENT IN ENVIRONMENTAL PROTECTION

Each year NLMK Group commits significant resources to ensuring the accident-free operation of equipment and the implementation of investment projects that have an environmental impact. Spending on environmental management over the reporting period totalled more than \$200 m, an increase of 60% over the past five years.

NLMK Group maintains a high level of environmental investments, further increasing the share of nature conservation activities in current spending on environmental protection in 2019. In February 2019 the Company launched another operational effort to process technological and slag dump waste that has accumulated since Soviet times.

Since the commissioning of Blast Furnace No. 1 and up until the 1970s, the slag dump was used to collect and process blast furnace slag. In the early 1970s, a slag processing facility was built, and the slag dump was converted to collecting refractory shards, dust, and slag spilled from steelmaking shops. About 5 m t of materials were accumulated by 1990. No additional materials were accumulated at the slag dump after 1990. In post-Soviet times, all the waste from repairing key process units was fully recycled at the slag dump and used for reclamation and by specialized organizations. Recycling the slag dump will put roughly 20 hectares of useful area back into economic operations and allow for the sales of the accumulated process waste as building materials (different grades of crushed stone, scrap, etc.), and as raw materials for the Group's steelmaking operations.

<sup>1</sup> NLMK Group's Policy for an Integrated Management System in Quality, Environmental Protection, Energy Efficiency, and Occupational Health and Safety

## MONITORING, CONTROL, AND COMPLIANCE

NLMK conducts internal audits to assess its environmental impact. It also has a production control system in place. Internal environmental audits involve the comprehensive monitoring of operations at the Group's companies, including treatment facility performance tests, measures to reduce the environmental impact of generated waste, and an environmental production plan to reduce specific air emissions.

The Group employs environmental production monitoring procedures with support from accredited laboratories 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. These procedures have been agreed with state supervisory bodies and are regulated by legal documents. [GRI 303-2](#)

Supervisory bodies conduct regular annual checks, both scheduled and unscheduled, of the Group's companies to ensure they comply with Russian legislation as well as stakeholder expectations. A total of 48 checks were carried out by local environmental supervisory bodies in 2019. 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 seeking compensation for damage to the environment or to third parties. [GRI 307-1](#)

The payments have been decreasing over the last five reporting years, which serves as a confirmation that the Group has reduced its negative impact on the environment.

### PAYMENTS FOR NEGATIVE ENVIRONMENTAL IMPACT, \$ M

	2015	2016	2017	2018	2019
Entire Group <sup>1</sup>	4.0	2.4	2.6	2.3	1.7
Including payments for negative environmental impact of the Group's Russian sites	3.2	1.6	1.9	1.3	1.0

In 2019, the share of over-the-limit payments within the overall structure of payments by the Group's Russian sites for their negative environmental impact was slashed to 4% (from 21% in 2018).

NLMK also involves employees of all levels in the environmental monitoring process, by giving them an opportunity to register on an online system where they can note and propose solutions to issues associated with environmental safety and support for environmental welfare.

### All employees are personally involved in responding to environmental issues

*In an effort to continuously improve environmental management, an internal environmental improvement system (IEIS) has been set up at ten of the Group's companies, including at all key production sites. This is the only project being implemented by steel producers in Russia to get assistance from the Group's 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 entered into a computer system. The individual responsible is assigned and a timeframe is established for eliminating the potential threat. All the Company's units are encouraged to eliminate all deficiencies and threats as quickly as possible.*

*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 2019, for the first time in its history, the Group presented awards to the best units and employees for the best annual IEIS results. Over 200 employees received financial rewards for their outstanding IEIS performance.*

## TRAINING

As a company that is committed to improving the efficiency of its activities and reducing its environmental impact, NLMK Group works to boost the environmental protection skills and expertise of its employees.

NLMK 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 the Group's 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. At least 10% of employees go through environmental training sessions and development courses every year.

Another form of such training are animated videos on environmental topics on the corporate portal. Two videos are currently available: *Environmental Initiatives* and *Handling Class I and Class II Hazardous Waste*. The Group uses this accessible and simple format to communicate environmental requirements to its employees.

In 2019, the Company developed and introduced the *Green Office* distant learning course, which promotes an eco-friendly lifestyle at home and at the workplace. This course was developed by the administrators of the *Green Office* community, which



has been active for several years within the Group, with the support of the HR development specialists. In this community, all the employees, who are committed to energy efficiency and environmental protection, share their advice, interesting web links, and discuss important topics concerning how one can use the Company's resources in the most sustainable manner and protect the environment. The *Green Office* programme aims to enhance the environmental commitment of the Group employees and teaches people about how they can contribute to reducing emissions into the air, water, and soil, and also reduce fuel costs in the process.

### The Head of the Environmental Department's Industrial Safety Unit on animated videos developed in cooperation with the Group's PR Service:

*"Our objective is to create favourable conditions for involving our people in environmental protection. Such engagement motivates people, and being able to suggest an idea on improving the environmental situation creates a commitment to the overall cause of environmental protection. The Environmental Initiatives video facilitates this. As regards the waste management, complying with these requirements is of paramount importance, because it directly affects the condition of the nature around us."*

<sup>1</sup> For the Group's international companies, costs of procuring permits are taken as payments for negative environmental impact





## SUPPLIER ENVIRONMENTAL ASSESSMENT

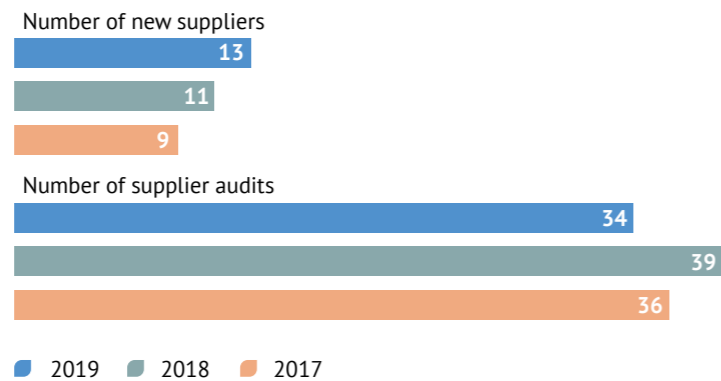
A qualifications procedure for all suppliers has been introduced within NLMK Group, which covers compliance with environmental standards. The environmental criteria for assessing suppliers are set out in NLMK Group's regulatory documents.

One of the key environmental criteria that the Group employs in assessing suppliers is compliance with Russian environmental legislation. All providers of raw materials, supplies, and equipment to NLMK Group as well as suppliers of services (contractors), undergo assessments for compliance with Russian environmental legislation. Contractors who have been found not to meet the established criteria following the qualification and audit procedures are not permitted to supply raw materials, supplies, or equipment or to provide services to NLMK Group companies. In 2018–2019, 100% of new service providers were screened using the environmental criteria. For contractors, assessments are based on an internal document titled Standard Environmental Protection Requirements for Contractors. **GRI 308-1** In 2019, the Company updated the Agreement on occupational health, industrial and fire safety, work performance, environmental protection as well as onsite and access control for relations with its counterparties,

### SUPPLIERS SUBJECT TO MEASURES TO IMPROVE ENVIRONMENTAL COMPLIANCE FOLLOWING AUDITS (% OF TOTAL AUDITS CONDUCTED) **GRI 308-2**

Indicator	2017	2018	2019
Number of suppliers with environmental compliance improvement measures	69	80	41

### SUPPLIERS OF FEEDSTOCK, MATERIALS, AND EQUIPMENT TO NLMK GROUP SCREENED USING ENVIRONMENTAL CRITERIA DURING AUDITS **GRI 308-1**



which will also enable the Group's enterprises to deal efficiently with suppliers and contractors on matters concerning environmental protection and to effectively prevent environmental violations from their side.

Compliance with Russian environmental legislation by qualified suppliers is assessed at NLMK Group through supplier audits, which seek to confirm that supplier activities comply with the environmental criteria applied by NLMK Group. These audits also confirm that the environmental impact of suppliers is not significant enough to indicate non-compliance – this would result in the decision to break off relations with the contractor. In addition, all products supplied to NLMK companies come with safety data sheets that regulate potential hazards associated with the handling of products and prescribe the respective necessary precautions.

The Group works with its suppliers during the audits to eliminate environmental deficiencies. In particular, in 2019, based on the audit results for one of its lubricants suppliers, the Company prevented the risk of soil pollution with petroleum products by implementing measures to reinforce the storage areas. Such continuous efforts helped reduce the number of improvement activities among suppliers.

## MEMBERSHIP AND PARTICIPATION IN ORGANIZATIONS

NLMK works with Russian and international associations to establish an effective dialogue on issues surrounding the sustainable use of natural resources. In particular, NLMK Group is a member of the World Steel Association (WSA), which represents over 170 steel producers across the globe. NLMK is a member of WSA expert groups on the environment, sustainable development and climate, and participates in the Association's events and expert meetings. As part of its collaboration with the WSA, the Group collects and submits data on sustainable development indicators on an annual basis. In 2018, NLMK Group signed the Sustainable Development Charter, which spells out 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.

NLMK Group is also a member of the Russian Steel industry association and takes active part in the work of its environmental committee, which reviews various environmental aspects of steelmaking operations and environmental regulation issues. NLMK is a member of the Committee on Ecology and Environment Management of the Russian Union of Industrialists and Entrepreneurs, the main platform for consolidating the Russian business community's position on various environmental aspects.

NLMK Europe is a member of the European Steel Association (EUROFER), which discusses environmental developments in Europe and is particularly active in the EU carbon regulation activities. NLMK Group is committed to the sustainable steelmaking principles promoted by the EUROFER.

As of the end of 2019, NLMK had consolidated its position among the top ten most environmentally responsible Russian mining and steel companies according to World Wildlife Fund (WWF) data. The main purpose of the report published by WWF Russia was to rank Russian companies according to their transparency in matters of environmental responsibility. The research examines the activities of 40 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.

In 2019, NLMK Group, the Russian Ministry of Natural Resources and the Environment, the Federal Supervisory Natural Resources Management Service (Rosprirodnadzor), and the Administration of the Lipetsk Region have signed a four-way Cooperation Agreement as part of a comprehensive plan to reduce gross air emissions in Lipetsk. Total environmental investment will amount to RUB 21 bn, slashing 8,100 tonnes of gross air emissions by 2024. The Agreement forms part of the Federal Clean Air Project implemented under the Ecology National Project and confirms the Company's commitment to the nationwide effort on environmental protection.

NLMK Group also cooperates with other steelmaking companies in exchanging best practices and promoting sustainability principles, including those related to greenhouse gas emissions. In particular, NLMK Group's office in Moscow hosted a workshop on the Responsible Steel standard – the steel industry's first certification initiative that will be used by steelmaking companies in the future to prove the compliance of their products with global sustainable development standards, including those related to CO<sub>2</sub> emissions. The workshop was attended by over 10 key representatives of the Russian industry companies.

# 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, which is in line with the IMS Policy of NLMK Group.

## 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). Maintaining the same low level of freshwater intake as production volumes grow is an important objective of NLMK Group. 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's 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.

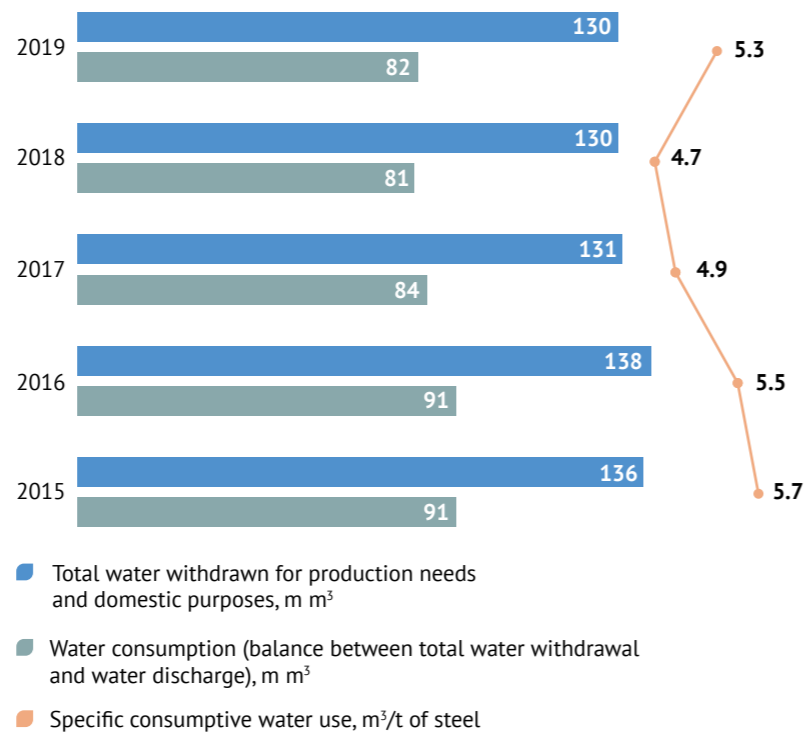
The water bodies that supply NLMK companies are assessed as being not particularly vulnerable given their size, role, or lack of status as being rare, threatened, or endangered.

The Group's 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](#)

In 2019, specific consumptive water use per tonne of steel increased because the main consumers of fresh water – power generation facilities – increased their output (leading to higher water consumption), while major overhauls of steelmaking units resulted in a reduction in steel production, which, in turn, led to an increase in this specific indicator.

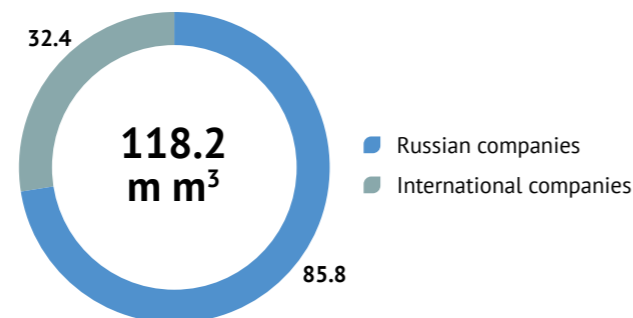
## TOTAL VOLUME OF WATER CONSUMED BY NLMK GROUP, 2015–2019

GRI 303-3, 303-5



## TOTAL VOLUME OF WATER WITHDRAWN FOR NLMK GROUP PRODUCTION NEEDS BY REGION, 2019, M M³

GRI 303-3



## TOTAL VOLUME OF WATER WITHDRAWN FOR NLMK GROUP PRODUCTION NEEDS BY SOURCE, 2015–2019, M M³

GRI 303-3

Source type	2015	2016	2017	2018	2019
Surface water	63.2	61.5	60.9	60.1	60.9
Ground water	59.4	62.6	58.1	58.0	57.1
Rainwater collected and stored by organization	0.2	0.1	0.1	0.1	0.1
<b>Group total</b>	<b>122.7</b>	<b>124.3</b>	<b>119.1</b>	<b>118.2</b>	<b>118.2</b>

Over the last 45 years (since 1974), the annual withdrawal of fresh water from the Voronezh River by the Group's core site in Lipetsk has been reduced by over nine times down to 21 m³/year (from the level of 194 m³/year in 1979 when production output was merely 9 m t).

## RECYCLED AND REUSED WATER

In order to reduce their negative impact on water resources, the majority of NLMK Group's companies are equipped with water recycling systems. This also mitigates the Group's water-related risks.

Water recycling solutions have been put in place at NLMK Lipetsk, 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. This helps to reduce water withdrawal and effluent discharge into surface water bodies. The share of recycled water supply at NLMK Group remains at a consistently high level. The goal is to maintain a recycled water supply of at least 96% amid increasing production output.

The figures provided for recycled water supply show the additional water consumption by NLMK Group that would have occurred if no water recycling had been in place at its enterprises.

## WATER WITHDRAWAL (CONSUMPTION FROM WATER UTILITIES) FOR POTABLE WATER SUPPLY AT NLMK GROUP COMPANIES, 2015–2019, M M³

GRI 303-3



## SHARE OF RECYCLED WATER IN NLMK GROUP'S TOTAL WATER CONSUMPTION, %



## VOLUME OF WATER RECYCLED AT NLMK GROUP COMPANIES, M M³



The regions where the Group operates offer a high availability of water resources. The Group has no operations in water-stressed areas.

Only one location, namely the Belgorod Region where Stoilensky is situated, is exposed to a local water shortage as related to potable and household water supply in some areas of the region during dry years. This local water shortage



risk is addressed in the federal target programme *Development of Water Management in the Russian Federation*, which provides for the construction of new water reservoirs and renovations of engineering structures at existing ones.

Recognizing the importance of preserving the water resources in light of shortage risks, Stoilensky is implementing projects to cut down potable water consumption and taking action to protect water resources from the harmful effects of its operations, including though better safety and the reliability of hydraulic structures. A dedicated certified laboratory regularly samples and checks the quality of water withdrawn, sewerage, and water bodies in the area of potential impact.

## DISCHARGE

Monitoring of discharge into water bodies at all sites is an important environmental aspect of NLMK Group operations.

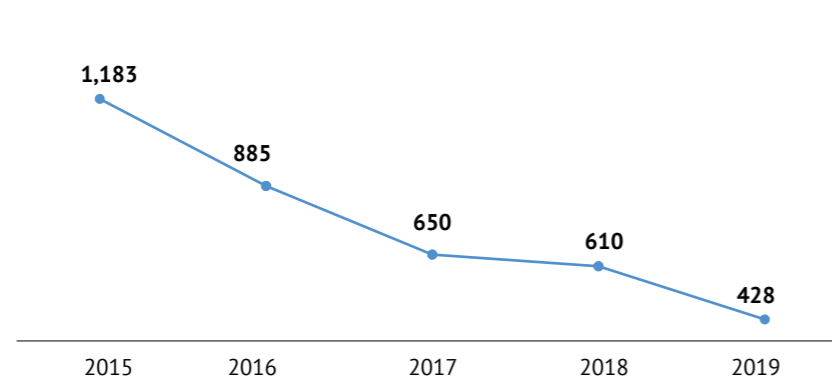
The Group's international companies mainly discharge water that is used for cooling equipment in once-through systems. This water does not get polluted in use and is discharged into water bodies in the same conditions as it was withdrawn, without disrupting the natural state of the environment.

In 2019, actions were taken at the main site in Lipetsk to reduce discharges of household wastewater into the Voronezh River.

Over the last five years, water discharge from NLMK Lipetsk decreased by 2.8 m<sup>3</sup> (-24%), while the total mass of discharged pollutants decreased by 3,200 t (-24%).

In 2019, NLMK Ural shut down two of its three wastewater discharge sites. As a result, the volume of water discharge decreased in 2019 versus 2018 by 0.1 m<sup>3</sup> (-17%), while the discharge of pollutants declined by 100 t (-73%). The total discharge reduction over the last five years amounted to 0.6 m<sup>3</sup> (-51%), and the reduction of discharged pollutants by weight amounted to 200 t (-89%).

### POTABLE AND HOUSEHOLD WATER CONSUMPTION AT STOILENSKY, K M<sup>3</sup>



### Swan Lake Environmental Park – a natural indicator of NLMK's commitment to a clean environment and biodiversity

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 occupies more than 5 hectares of land situated between the BOF shops of the Lipetsk site. It is home to some 500 birds of over 40 species, including 20 rare species. The lake is also inhabited by fish (common and bighead carps), which helps ensure that the waterfowl have a natural diet. Many bird species can only live in natural or near-wildlife conditions. The quality of the environment in the park allows these picky and demanding birds to enjoy long lives and reproduce regularly. In 2019, half of the species produced offspring, including three species listed in the Red Book of Russia: the bar-headed goose, red-crowned crane, and demoiselle crane. A new spawn of ostriches is expected too. Swan Lake works closely with leading Russian zoos and nature reserves to grow and replenish the animal populations.

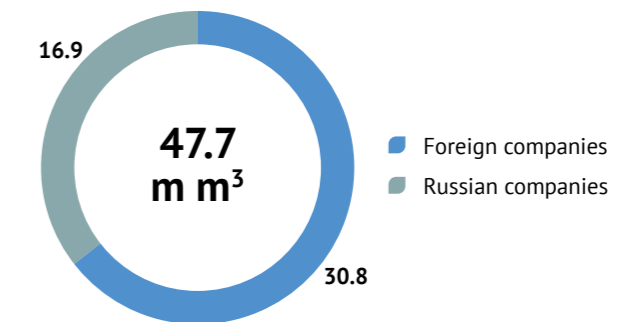
The park's premises underwent improvements and renovations in 2019. Flowerbeds were installed over an area of 100 m in length. More than 230 willows and lindens were planted around the park, as well as more than 400 shrubs of juniper, spirea, rhododendron and panicled hydrangea, 50 shrubs of beach rose, 100 bushes of silvergrass, and 50 bushes of stefanandra. A pavilion for feeding birds was built at the park by NLMK's own repair service. Amenities for the birds were not left out either, floating pontoons were installed along the shoreline. Older, derelict houses were replaced by block-house structures with soft roofing. Pontoons with on-top cabins were already floating on the lake in autumn. This was done to give the birds a chance to get used to the new facilities so that they can readily occupy them early in spring.

In 2019, Swan Lake Park was visited by over 5,000 people.

Each company makes use of water purification and treatment technologies that ensure the quality of wastewater as well as water used for industrial and domestic purposes meets the standards set by applicable regulations. The appropriate methods are applied according to the type of wastewater in question (mechanical purification, oil/water interceptors, biological purification, decontamination). All discharged materials have mineral content of less than 1,000 mg/L. No untreated discharges are made into water bodies. GRI 303-4, 306-1

The Group has been pursuing the Steel Tree initiative for several years now. In 2019, a new project called Environmental Patrol was launched. Led by Mariya Trukhacheva, volunteers went down the Voronezh River in kayaks and cleaned up municipal waste along 10 km of the river and on over 500 m<sup>2</sup> of adjacent lands. Waste entangled in aquatic vegetation was sent for treatment.

### TOTAL VOLUME OF DISCHARGE BY NLMK GROUP, INCLUDING RUSSIAN AND INTERNATIONAL COMPANIES, 2019, M M<sup>3</sup> GRI 303-4, 306-1



### TOTAL VOLUME OF DISCHARGE BY RECEIVING WATER BODY<sup>1</sup>, M M<sup>3</sup> GRI 303-4, 306-1

Indicator	2015	2016	2017	2018	2019
Total volume of water discharge for NLMK Group	45.2	46.5	47.3	49.0	47.7
Water discharge as % from total water supply	1	1	1	1	1
into surface water bodies, including rivers, lakes, reservoirs, and canals	43.2	44.4	45.2	46.8	45.7
including into seas and oceans	0.2	0.2	0.2	0.3	0.3
transferred to third-party organizations for treatment	2.0	2.1	2.1	2.1	2.0

### ACTIONS TAKEN AT NLMK LIPETSK TO REDUCE WASTEWATER DISCHARGES INTO THE VORONEZH RIVER

No.	Description of activities	Environmental improvement at the point of discharge at NLMK treatment facilities on the Voronezh River
1	Retrofitting of local treatment facilities	In 2019, as compared with 2018, wastewater discharge was reduced by 1.5 m <sup>3</sup> (-15%)
2	Reuse of water from drawdown sites of the Refractory Shop in the water recycling system instead of withdrawal of river water	
3	Optimization and redistribution of water flows in the process water supply system	
4	Elimination of discharges into the household sewage system at seven subdivisions of the site	
5	Elimination of rainwater discharge from the site premises into the household sewerage system by resealing wells	

<sup>1</sup> Data for the previous year was corrected after the 2018 report had been published due to a revision of Stoilensky's indicators.

# AIR EMISSIONS

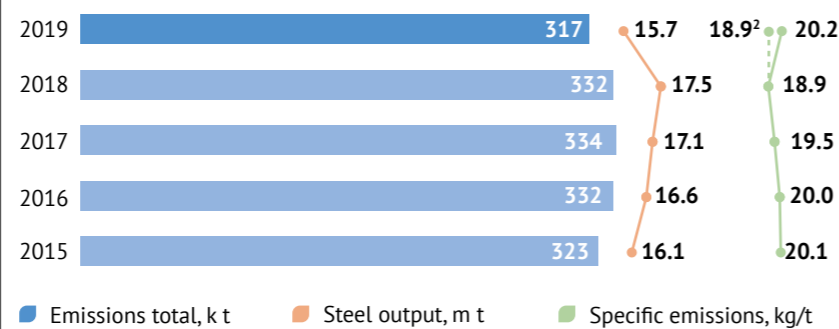
NLMK Group devotes considerable efforts to reducing its air emissions and has set a target of reducing specific air emissions from 19.8 kg/t of steel in 2018 to 18.8 kg/t of steel by 2023.

In order to attain this target, the Environmental Programme 2022 envisages over 30 investment projects that aim to reduce the impact on the atmosphere. When upgrading its purification equipment, NLMK seeks to integrate and utilize best available technologies (BAT). For emission reduction projects implemented in 2019, see the table below.

## Lipetsk – one of Russia’s cleanest steelmaking centres

Since 2014 the city of Lipetsk, which is home to NLMK Group’s largest site, has been officially recognized as 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 (IAP)<sup>1</sup> in the city of Lipetsk fell by a factor of almost 10 between 2000 and 2019.

SPECIFIC VOLUME OF AIR EMISSIONS BY NLMK GROUP IN 2015–2019<sup>2</sup>



## ENVIRONMENTAL PROGRAMME EMISSION REDUCTION PROJECTS IMPLEMENTED IN 2019

Site	Measure	Effect
NLMK Lipetsk	Revamp of de-dusting systems, replacement of hot-blast stoves and re-tooling of slag granulation plants during overhauls of Blast Furnace No. 6	<ul style="list-style-type: none"> <li>Reduction of H<sub>2</sub>S, SO<sub>2</sub>, dust and CO</li> <li>Total effect – 4,806 tpa</li> </ul>
	Reconstruction of off-gas ducts at BOF No. 2 and construction of secondary emission treatment systems at BOF Shop No. 2	<ul style="list-style-type: none"> <li>Reduction of dust and CO</li> <li>Total effect – 500 tpa</li> </ul>
	Revamp of the de-dusting unit (ATU-24) in the refractory shop	<ul style="list-style-type: none"> <li>Over 90% reduction in dust emissions at the facility</li> <li>Performance of de-dusting system up by 20% to 240,000 m<sup>3</sup>/h</li> <li>Total effect – 100 tpa</li> </ul>
NLMK Indiana	Revamp of by-product collection facilities, including merging of coke gas flows from coke batteries	<ul style="list-style-type: none"> <li>Reduction of phenol, H<sub>2</sub>S and other specific substances.</li> <li>Total effect – 20 tpa</li> </ul>
	Installation of dust catchers for truck unloading	<ul style="list-style-type: none"> <li>Elimination of visible emissions during loading and unloading</li> </ul>

<sup>1</sup> The IAP 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.

<sup>2</sup> Specific emissions without the impact of temporary decline in production output at NLMK Lipetsk amid overhauls of blast furnace and steelmaking operations.

In 2019, specific emissions increased compared with 2018, while gross emissions fell by only 4.3% and steel production was the lowest in five years (-10%) amid major overhauls of steelmaking units at the Lipetsk site. This was driven by sources at the site that generate emissions independently of steel production output (power generation, mining, rolling lines, and upstream operations at the Lipetsk site). The other driver was the transition of NLMK Lipetsk to full captive supply of pellets from Stoilensky, which increased emissions at the mining plant compared with 2018. Given the steel production plan as per Strategy 2022 and the implementation of upcoming emission reduction measures, there is no risk of the failure to meet the specific emission target (18.8 kg/t of steel in 2023).

## NLMK launches green coke and chemical by-product recovery complex

NLMK Lipetsk, the Group’s flagship production site, launched a recovery complex to capture and process chemical by-products from coke and chemical operations. The project makes it possible to increase the production of raw materials for the chemical industry and the agricultural sector, and halves the shop’s air emissions. The new complex was built with the use of best available technologies (BAT).

The new equipment and sustainable technologies will allow for the recovery of 100% of ammonium sulphate dust and significantly reduce the shop’s emissions: hydrogen sulphide by 31%, phenol by 71%, ammonia by 79%, and naphthalene by 23%.

The company’s total investment in the project amounted to RUB 4.6 bn.

## VOLUME OF SIGNIFICANT AIR EMISSIONS BY NLMK GROUP BY SUBSTANCE TYPE, KT GRI 305-7

Indicator	2015	2016	2017	2018	2019
<b>Total</b>	<b>323.4</b>	<b>332.4</b>	<b>333.8</b>	<b>331.5</b>	<b>317.0</b>
<b>NOx emissions</b>	<b>22.0</b>	<b>24.8</b>	<b>27.1</b>	<b>27.2</b>	<b>26.2</b>
per unit of production, kg/t	1.4	1.5	1.6	1.6	1.7
<b>SO<sub>2</sub> emissions</b>	<b>27.7</b>	<b>28.9</b>	<b>31.8</b>	<b>31.7</b>	<b>29.5</b>
per unit of production, kg/t	1.7	1.7	1.9	1.8	1.9
<b>Particulate matter emissions</b>	<b>25.5</b>	<b>25.2</b>	<b>25.7</b>	<b>24.4</b>	<b>22.5</b>
per unit of production, kg/t	1.6	1.5	1.5	1.4	1.4
<b>CO emissions</b>	<b>244.9</b>	<b>249.6</b>	<b>245.9</b>	<b>244.8</b>	<b>235.3</b>
per unit of production, kg/t	15.3	15.0	14.4	14.0	15.0
<b>Volatile organic compounds</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>	<b>2.8</b>
Hazard class 1 substances, t	2.0	1.0	1.0	1.0	1.0



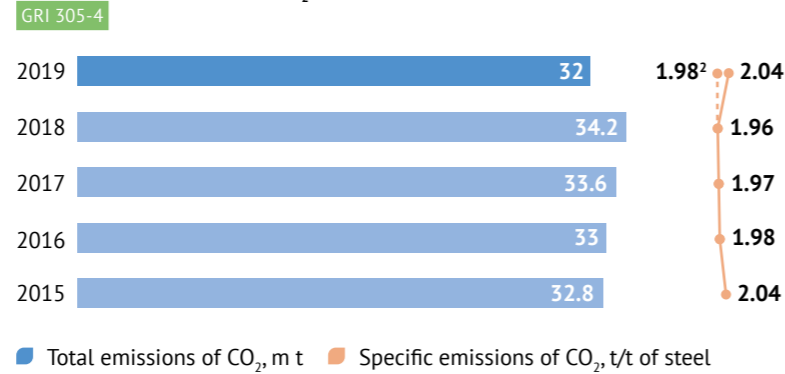
# GREENHOUSE GAS EMISSIONS

NLMK Group is aware of the importance of climate change prevention and the transition to a low-carbon economy, 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. The Group carries out regular monitoring, analysis, and evaluation of climate-related regulatory, reputational, and market risks. The most significant risk, which the Group focuses on and monitors closely, is the introduction of a carbon border tax / emission allowances for products imported into the European Union.

The increase in specific CO<sub>2</sub> emissions in 2019 versus 2018 is due to an increase in captive power generation amid lower steel production and the remaining constant CO<sub>2</sub> emissions generated by non-steel producing assets.

During the reporting year, two of NLMK Group's Russian companies, namely Altai-Koks and Dolomit, took part

## SPECIFIC EMISSIONS OF CO<sub>2</sub> BY NLMK GROUP, 2015–2019, T / T OF STEEL<sup>1</sup>



in the Climate and Responsibility 2019 Russian national competition and were nominated in the categories *Best Russian organization in GHG emission reduction among organizations emitting over 150,000 t of CO<sub>2</sub> equivalent per year* and *...emitting less than 150,000 t of CO<sub>2</sub> equivalent per year*.

In 2019, NLMK Group developed its Greenhouse Gas Emissions Reduction Programme. The objective of this Programme is to reduce CO<sub>2</sub> emissions (Scope 1 and 2) to 1.94 t/t of steel by 2023 versus 1.96 t/t of steel in 2018. To this end, the Group put together a set of measures, some of which were already completed in 2019. Their effect will be captured in 2020. The main effect will be achieved by the Strategy 2022 projects that are developing captive power generation. This includes a new power plant to recover secondary fuel gases at the Lipetsk site, co-generation units at NLMK Ural, and a reduction in coke consumption as the iron content is increased in the ore that goes into charge materials. The Group will continue looking into opportunities to further slash CO<sub>2</sub> emissions beyond those stated in the Programme.

## DIRECT AND INDIRECT ENERGY EMISSIONS OF CO<sub>2</sub> (SCOPE 1 AND 2), 2015–2019, T CO<sub>2</sub> EQUIVALENT<sup>3</sup>

Indicator	2015	2016	2017	2018	2019
Direct CO <sub>2</sub> emissions (Scope 1), m t	29.20	29.20	29.60	30.20	28.40
Specific direct CO <sub>2</sub> emissions (Scope 1), t/t of steel	1.82	1.76	1.73	1.73	1.81
Indirect energy CO <sub>2</sub> emissions (Scope 2), m t	3.60	3.80	4.00	4.00	3.60
Specific indirect energy CO <sub>2</sub> emissions (Scope 2), t/t of steel	0.22	0.23	0.23	0.23	0.23
<b>Total CO<sub>2</sub> emissions (Scope 1 and 2), m t</b>	<b>32.80</b>	<b>33.00</b>	<b>33.60</b>	<b>34.20</b>	<b>32.00</b>
<b>Specific CO<sub>2</sub> emissions (Scope 1 and 2), t/t of steel</b>	<b>2.04</b>	<b>1.98</b>	<b>1.97</b>	<b>1.96</b>	<b>2.04 (1.98<sup>2</sup>)</b>
<b>CO<sub>2</sub> emissions, kg/\$ revenues</b>	<b>4.09</b>	<b>4.32</b>	<b>3.34</b>	<b>2.84</b>	<b>3.03</b>

<sup>1</sup> Includes revised data from previous periods as additional flows of carbon-containing materials were accounted for at the Lipetsk site.

<sup>2</sup> Specific emissions without the impact of a temporary decline in production output.

<sup>3</sup> NLMK Group's CO<sub>2</sub> emissions were calculated based on total emissions at the Group's sites. Emissions at the Group's sites are calculated on the basis of applicable national (regional) methodologies for determining emissions and indirect energy emission factors (for different countries or regions of Russia).

# WASTE HANDLING AND SOUND USE OF NATURAL RESOURCES

## WASTE MANAGEMENT

NLMK Group's waste-handling operations are orientated towards key modern steelmaking trends: minimizing waste generation, disposing of waste safely, and increasing the proportion of waste that is processed and reused. For example, a priority of the Environmental Programme 2022 is to increase waste utilization at NLMK Group to 96% (not including such mining waste as 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 specialized organizations that hold relevant licences.

The potential environmental impact is minimized through compliance with safe waste-handling standards and by implementing corresponding measures.

## NLMK Group launches new by-product fuelled facility

*NLMK Group launched a facility to manufacture metallurgical briquettes for use in blast furnace operations. The project allows for the production of feedstock from blast furnace by-products, and the recycling of previously accumulated waste. The plant uses processes that NLMK developed in-house. The new production facility has total capacity of 700,000 t of briquettes per year.*

*Briquettes are produced from Fe-containing waste generated during blast furnace gas treatment as well as coke and coal dust recovery.*

*Investment in the project totalled RUB 3 bn. The project created about 200 new jobs at NLMK.*

*This project will help achieve the Group's target of increasing waste utilization to 96% (not including such mining waste as overburden and beneficiation tailings).*

In 2019, total waste generation increased by 14% (by 7.1 m t) due to increased mining output at Stoilensky and the implementation of major investment projects at the Lipetsk site, which involved significant amounts of construction waste. The volume of recycled waste increased by 0.6 m t, while the volume of waste disposed at third-party landfills remained flat due to actions taken to increase the share of recycled waste as well as the implementation of waste sorting and separation and separation from previously disposed waste and recycled waste (paper, plastic, wood).

## TOTAL WASTE GENERATED BY NLMK GROUP, 2015–2019, M T

Indicator	2015	2016	2017	2018	2019
Waste generation	63.5	60.0	57.3	49.9	57.0
Mining waste	58.1	55.3	53.9	46.6	53.7
Waste generation, excluding mining waste	5.4	4.7	3.4	3.4	3.4
Volume of recycled (processed and neutralized) waste (excluding mining waste)	5.2	4.4	3.0	3.0	3.1
Waste recycling, excluding mining waste, %	95.7	93.6	86.7	89.3	92.0

A total of 99.7% of the waste generated by NLMK Group is non-hazardous, with 97.2% of the waste generated by the Group's Russian sites classified as Hazard Class 5 (non-hazardous). This waste category has virtually no impact on ecosystems and requires no special handling measures, including licensing.

### TAILINGS DAMS AND HYDRAULIC ENGINEERING STRUCTURES

The organizational structure of NLMK Group includes dedicated services and units responsible for the safety of hydraulic structures.

The Stoilenskoye iron ore deposit is mined using the open-pit method. The sole tailings dam at NLMK was built in 1984, and the tailings dams at Stoilensky are being built on the upstream slope. Throughout its operation, no environmental incidents related to the tailings dam systems and structures have been recorded.

The safe operation of the tailings dam is ensured by means of a number of internal and independent inspections. Among other things, during the inspections:

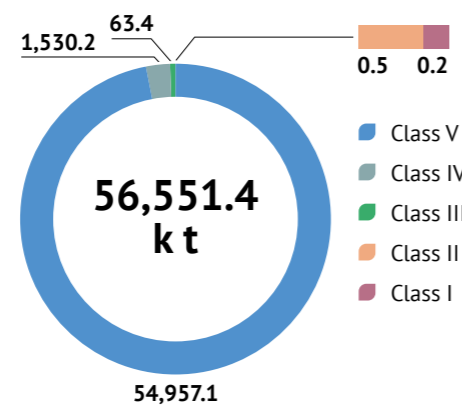
- Water level is checked at least twice a day
- Visual inspection of engineering structures is performed at least once a day
- Quality control of tailings is performed at least once every quarter
- Water filtration is checked at the dams at least once a month
- The facility's safety is checked weekly by inspectors from the Federal

### NLMK Group uses innovative technology for road in Lipetsk Region

*NLMK Lipetsk, NLMK Group's flagship production site, completed the construction of a road in the Lipetsk Region village of Teploye by employing a new soil stabilization technology that uses steel slag. This road will not need repairs for at least three years, and has a price tag three times lower than that of regular asphalt and concrete roads.*

*In July 2019, NLMK Group hosted guests from the World Steel Association at a Conference on Industrial Safety in Ore Mining and Beneficiation in the city of Stary Oskol, where the Stoilensky tailings dam is located. The participants exchanged best practices on ways to ensure safety of hydraulic structures.*

WASTE GENERATED BY NLMK GROUP BY HAZARD CLASS, 2019, KT GRI 306-2



Service for Environmental, Industrial, and Nuclear Supervision Service (Rostekhnadzor)

- Environmental compliance assessment is performed twice a month
- Geological survey is carried out annually
- Planned inspections of the dam's technical condition and safety are performed annually involving specialized government agencies

- Hydraulic engineering structures at the tailings dam are checked involving government organizations, the general designer, and expert organizations at least once every three years

In September 2018, a comprehensive survey of Stoilensky TMF hydraulic engineering structures was conducted together with representatives of Rostekhnadzor, EMERCOM, and other specialized government agencies and entities. The survey assessed the ultimate safety level of the Stoilensky tailings hydraulic engineering structures as 'normal' (the best possible option).

There is a local warning system in place at Stoilensky and its operability is checked monthly by Stoilensky's own staff and Rostekhnadzor specialists. A contingency plan for hydraulic structures at the tailings dam has been drafted and is updated each year. Staff training is administered at least once a month. In April 2019, training sessions were held with participation of experts from EMERCOM. There is no need to monitor seismic activity in the area according to the appropriate determination of a specialized state committee.

The Group duly informs local communities about the existence of the tailings dam and holds regular public hearings regarding the development of the facility.

Stoilensky has introduced an Environmental Management System in accordance with ISO 14001:2015.

### EFFICIENT TAILINGS STORAGE TECHNOLOGY

Stoilensky, one of Russia's leading iron ore producers, employs an efficient and environmentally friendly treatment process for the beneficiation of waste rock. It involves liquid extraction followed by the forced transfer of thickened tailings to storage. This process returns 80% of industrial water used during transportation back into the beneficiation process. Additionally, the better resilience of thickened tailings to weathering significantly reduces the dust levels at the tailings dam. As there is no way for excessive water to come into the facility, the overflow risk is mitigated and pressure on the dams is reduced. Thus, given that the tailings are thickened and measures are taken to ensure the safety of hydraulic structures, the risk of dam failure at Stoilensky is under control and has a conditionally acceptable level. Estimates indicate that a transition to fully dry storage of tailings at Stoilensky would inevitably lead to strong dusting, and it would be impossible to completely curb dust, especially in summer. In light of this, the Group considers dry tailings storage to be an unacceptable environmental risk and considers tailings thickening to be the most effective technology for managing environmental risks.

### 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. About 25% of the liquid steel output is produced from ferrous scrap. Thus NLMK Group's operations are part of the circular economy.

### Vtorchermet NLMK – a leader in scrap ferrous metal reprocessing

*One NLMK Group asset, 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 is given a second life in the form of products that are in high demand across various industries: rebar, channels, angles, wire, fasteners, 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 whose mission and objectives 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 in line with applicable law. The Company's activities have no direct significant impacts on biodiversity. [GRI 304-2](#)

NLMK Group production sites are not located on industrial sites that are leased. More specifically, they are not situated on environmentally protected land or on land with a high biodiversity value. NLMK Group's activities do not pose any threat to animal or plant species registered on the IUCN Red List or in the Russian Red Book, or to species threatened with extinction. [GRI 304-1, 304-4](#)

The Group regularly implements measures that aim to rehabilitate land disturbed by the operations 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. [GRI 304-3](#) In 2019, rehabilitation was carried out on 15 hectares of disturbed land.

### NLMK Lipetsk is getting greener

*The first stage of tree and bush stocktaking has been completed at the Lipetsk site along the plant's arterial transport route running from the HQ Building to Blast Furnace Shop No. 2. Over 2,500 trees were checked by specialists from the Voronezh State Academy of Forestry Engineering.*

*As a result, an action plan was put together to replenish greenery at the site. It was launched in 2019, as October saw 680 poplars and 1,250 shrubs (spiraea, lilac) planted along the route. The plan for 2020 is to plant more than 530 seedlings of the Amur maple and to prepare planting locations for 2021.*

*The main objective of this long-term programme is to renew greenery. This should foster a favourable microclimate and create a natural green barrier to reduce the environmental impact of production operations. The premises of NLMK Lipetsk have always been green thanks to numerous trees, shrubs and planters. However, this new, deliberate, and fact-based effort will enable the industrial site to become even livelier and add a wide variety of canopies and leaves.*

### The Steel Tree initiative rolls out in five Russian regions

*NLMK Group is committed to promoting an environmentally aware culture and ensuring high environmental management standards in the regions where it operates. It aims to achieve this goal 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 that aim to resolve current issues faced by local residents.*

*The Steel Tree initiative was launched in 2017 and provides environmental projects with financial support from NLMK's Miloserdiye Charitable Fund. Anyone can submit ideas as part of the initiative. In 2019, the programme was rolled out in five regions where NLMK Group operates: the Lipetsk, Kaluga, Belgorod and Sverdlovsk Regions as well as Altai Territory. The Steel Tree selection commission has received almost 200 ideas that aim to create a more favourable urban environment as well as implement social, environmental, and educational measures. The number of project participants has exceeded 15,000 people.*

### VIZ-Steel reclaims waste storage as parks

*VIZ-Steel launched a project to reclaim land in the industrial waste storage area that is now out of commission. The project to reclaim land in the former storage area was favourably received at a public hearing and received a positive review by the State Environmental Impact Assessment Authority. In 2019, during the technical stage of land reclamation, the site was stripped of asphalt and topsoil, and the subsoil was levelled and fertile ground was spread over it. The next biological stage, which includes planting out perennial grass, rowan trees, firs and ornamental shrubs on the reclaimed land, is set to kick off in 2020.*

*In 2019, VIZ-Steel also completed a project to reclaim the former industrial-waste landfill Lesnoy. According to an official conclusion by the Centre for Environmental Monitoring and Supervision of the Sverdlovsk Region's Ministry of Natural Resources, the landfill was delisted in the Sverdlovsk Regional Waste Cadastre under the 'reclaimed' status. The land plot, which is now suitable for recreational activities, has been handed over to a new owner for forestry. Thus, a source of negative environmental impact has been transformed into an environmentally friendly site.*

*Since 2007, the enterprise has been carrying out reclamation work, including technical and biological work, according to a project approved by a state environmental expertise review. The first stage involved the clean-up of drainage facilities, the construction of access roads, building slopes, and putting a multifunctional soil cover and a fertile soil layer into place. The second stage involved a set of agriculture engineering measures: planting about 3,000 coniferous and foliage trees, and sowing the slopes with perennial grasses.*

*The project resulted in the full restoration of 4.1 hectares of land and turned the former landfill into an eco-friendly environment. For example, forest birds have been nesting and raising chicks there for several years now. Continuous monitoring by the accredited environmental laboratory at VIZ-Steel confirms that the condition of soil, water and air in the Lesnoy area meets sanitary standards.*

## PLANS FOR 2020 AND THE MEDIUM TERM

NLMK Group is planning to implement significant environmental protection initiatives in future reporting periods under its Environmental Programme 2022. The initiatives seek to minimize our environmental impact, including by revamping major production facilities in line with the best available technologies.







# 532.8 PJ

total energy consumption in 2019 (-8.1% yoy)

# 0.172 Gcal/t

increase in specific energy intensity of steel production at the Lipetsk site (+3.1% yoy)

## Awards

NLMK Group was ranked third in the Top 20 Energy Efficient Companies annual ranking compiled by Expert RA based on performance data for 600 leading Russian companies

NLMK Lipetsk won the *Environmental Activity and Resource Saving* category at the *16th High Social Performance Mining and Metallurgical Enterprise Industry Competition*

NLMK employees received awards at the 2019 *International Contest of Scientific, Engineering, and Innovative Developments Aimed at the Development of the Fuel, Power, and Mining Industries*. The contest is supported by the Russian Ministry of Energy

# ENERGY EFFICIENCY

## MAJOR THEMES

Energy

## KEY EVENTS IN 2019

- Large-scale overhauls were carried out at the Lipetsk site: at Blast Furnace No. 6, and at Basic Oxygen Furnace No. 2 in BOF Shop No. 2
- The fourth high-efficiency walking beam re-heating furnace was commissioned at the Hot Rolling Shop at the Lipetsk site
- Project documentation was completed and preparations began at the construction site for a new recovery power plant to be fuelled by recyclable gases from steel production
- Investment projects to optimize power supply systems were implemented at the NLMK Ural sites. Co-generation plants were put into operation at the sites in Beryozovsky and Nizhniye Sergi, and a new gas boiler house was commissioned at the Revda site

## 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





# OUR APPROACH TO MANAGING ENERGY EFFICIENCY

Steelmaking is an energy-intensive industry. NLMK Group systematically pursues energy efficiency improvements in its operations. This includes identifying and applying integrated solutions to ensure the reliable supply of energy resources and reduce costs as well as using energy sparingly in order to minimize the environmental impact.

In 2019, the Company developed NLMK Group's Integrated Management System Policy in Quality, Environmental Protection, Energy Efficiency, and Occupational Health and Safety (IMS Policy). The new policy, which supersedes the NLMK Energy Policy, sets forth an updated vision, goals, principles, and management commitments related to the improvement of energy efficiency.

Some of the goals of the IMS Policy are to become a leader in the adoption of international best practices to drive energy efficiency in operations and to achieve the minimum technically and economically feasible level of specific energy intensity and production costs. The main principles of the IMS Policy aim to ensure that NLMK Group reduces the resource intensity of its operations by consistently acting on the following items:

- Reduction of the specific consumption of natural raw materials, water, fuel, and energy
- Improvement of production process efficiency
- Integration of resource reuse systems and best available technologies (BATs)

The Group's commitments under the IMS Policy go beyond introducing advanced energy efficient technologies and solutions that reduce the consumption of natural and secondary energy

resources. The Group is additionally committed to developing power generation capabilities that utilize metallurgical gases and other secondary energy resources, and to supporting the use of renewable energy sources where applicable and reasonable.

The Unified Technical Policy on Energy Complex Management has been in effect at NLMK Group's Russian companies since 2014. One of this policy's objectives is to introduce the most advanced technical solutions, machinery, and technologies that bolster the reliability, efficiency, and safety of the Group's energy complex. The policy also sets out priorities and rules for applying technical solutions related to the utilization of energy facilities, the implementation of investment programmes for new construction and the re-tooling of core equipment, and overhauls of energy assets belonging to NLMK Group companies along with the innovative and promising development of these companies.

The Vice President for Energy and the units reporting to him work to frame the principles and strategic goals for improving the energy efficiency of production and to develop energy facilities in addition to setting energy efficiency KPIs and tracking them. Each year the directors of NLMK Group companies approve a list of initiatives to improve energy efficiency and the targets for the rational use of energy resources.

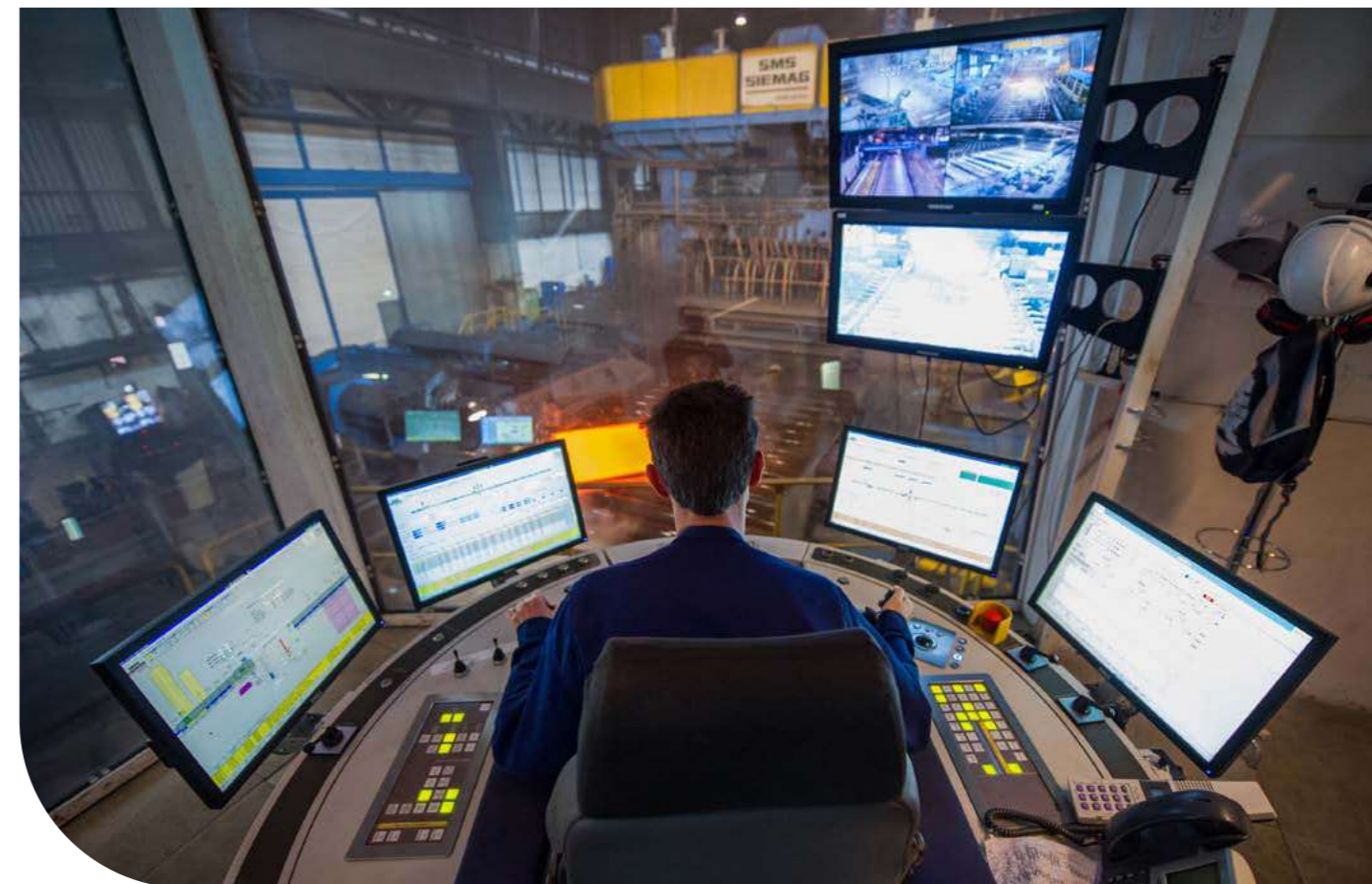
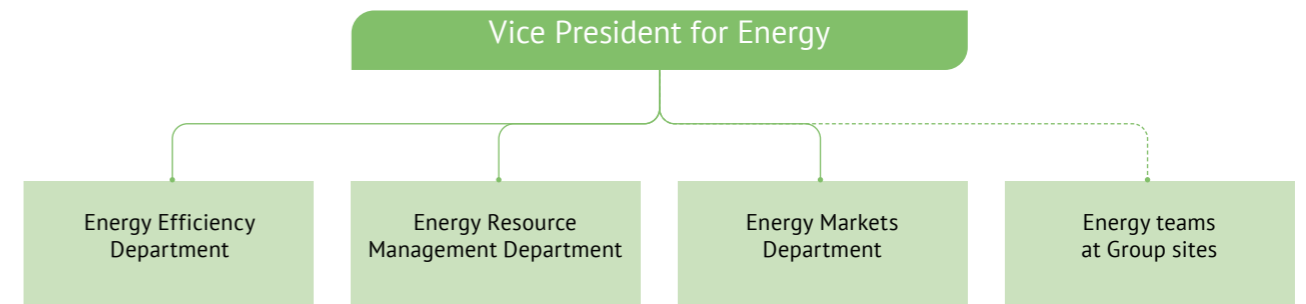
A key performance indicator for improving energy efficiency is the specific energy intensity of production (Gcal/t of output). The targets for key performance indicators are determined based on statistical data, an analysis of the potential for process improvements, and the results of benchmarking similar machinery and conversion stages, both within and outside the Company.

## CERTIFICATION

The Company operates an 'umbrella' energy management system, as approved by Certificate No. ENMS 598731, which encompasses nine core production sites:

- 1 NLMK Lipetsk
- 2 VIZ-Steel
- 3 Altai-Koks
- 4 Dolomit
- 5 NLMK Kaluga
- 6 NLMK Metalware
- 7 NLMK Ural
- 8 Stagdok
- 9 Stoilensky

## ENERGY MANAGEMENT STRUCTURE AT NLMK GROUP



NLMK DanSteel is also certified under ISO 50001 Energy management.

All the Group's companies are certified for compliance by international certification bodies.

In 2019, the Group took action to bring the energy management systems of its companies into compliance with the 2018 version of ISO 50001. This work should

be completed in 2020 and the appropriate certification authority will verify its results.

## MEMBERSHIP AND PARTICIPATION IN ORGANIZATIONS

NLMK Group is a member of the Russian Association of Energy Consumers, a non-profit partnership that aims to protect the interests of member companies on industry platforms and within federal bodies that regulate energy development.

# ENERGY RESOURCE CONSUMPTION IN 2019

NLMK Group uses a variety of non-renewable energy resources in its production activities. Approximately 17.1% of all energy consumed comes from natural gas and 37.1% comes from coal.

In 2019, total energy consumption within the Company stood at 532.8 PJ, which is 46.8 PJ lower than in 2018. This reduction was achieved thanks to energy-saving measures and decreased output due to the repair of production units.

In 2019, the use of electrical power generated from renewables accounted for 5.1% of total power consumption<sup>1</sup>.

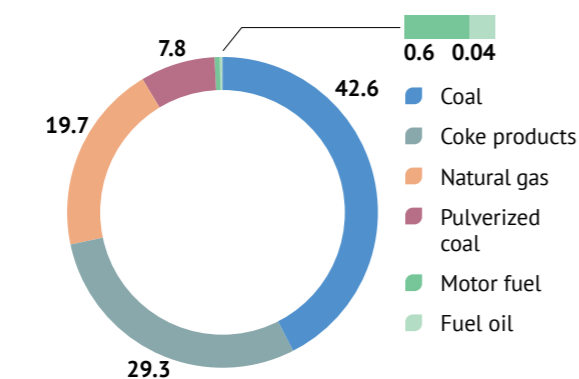
**GROSS ENERGY CONSUMPTION BY NLMK GROUP IN 2015–2019<sup>2</sup>, PJ** GRI 302-1



**CONSUMPTION FROM NON-RENEWABLE SOURCES BY NLMK GROUP IN 2015–2019<sup>2</sup>, PJ** GRI 302-1



**BREAKDOWN OF NON-RENEWABLE FUEL CONSUMPTION BY NLMK GROUP IN 2019, %** GRI 302-1



**NLMK GROUP CONSUMPTION OF NON-RENEWABLE FUELS IN 2015–2019<sup>3</sup>, PJ** GRI 302-1

Fuel type	2015	2016	2017	2018	2019
Coal	240.8	237.5	234.8	217.5	197.6
Natural gas	103.5	99.4	91.6	87.2	91.3
Coke products (coke breeze, lump coke, coke nut)	162.4	158.9	158.4	153.4	136.2
Pulverized coal	15.6	18.1	28.4	43.3	36.2
Motor fuel (petrol, diesel, liquefied gas)	2.7	2.7	2.6	2.7	2.8
Fuel oil	0.2	0.3	0.0	0.0	0.2
<b>Total</b>	<b>525.2</b>	<b>516.8</b>	<b>515.9</b>	<b>504.1</b>	<b>464.2</b>

**CONSUMPTION, GENERATION, AND SALE OF ELECTRICITY AND THERMAL ENERGY BY NLMK GROUP, 2015–2019, PJ** GRI 302-1

Indicator	2015	2016	2017	2018	2019
<b>Electricity and thermal energy obtained for consumption</b>					
Electrical power obtained	79.43	83.06	87.32	87.30	78.47
Thermal energy obtained as steam	0.46	0.45	0.51	0.50	0.48
Thermal energy obtained as hot water	1.51	1.64	1.52	1.59	1.33
<b>Total</b>	<b>81.40</b>	<b>85.15</b>	<b>89.35</b>	<b>89.39</b>	<b>80.28</b>
<b>In-house electricity and thermal energy generation</b>					
Electricity generation	50.22	46.99	46.34	49.36	50.01
Thermal energy as steam	24.83	23.76	23.74	21.86	21.72
Thermal energy as hot water	8.45	8.70	7.99	9.84	7.47
<b>Total</b>	<b>83.50</b>	<b>79.44</b>	<b>78.06</b>	<b>81.06</b>	<b>79.20</b>
<b>Electricity and thermal energy sold to external consumers</b>					
Electricity sold and transmitted	13.35	11.06	11.78	10.70	8.98
Thermal energy sold and transmitted as steam	0.35	0.34	0.36	0.35	0.37
Thermal energy sold and transmitted as hot water	2.62	2.69	2.56	2.76	2.36
<b>Total</b>	<b>16.33</b>	<b>14.08</b>	<b>14.70</b>	<b>13.81</b>	<b>11.71</b>

**SPECIFIC ENERGY INTENSITY<sup>4</sup> AT THE LIPETSK SITE IN 2015–2019, GCAL/T** GRI 302-3

Indicator	2015	2016	2017	2018	2019
Specific energy intensity	5.665	5.599	5.491	5.469	5.641

<sup>1</sup> The share of 1.6% (source: hydro) in the electricity purchased by sites located within the Centre Integrated Power System (NLMK Lipetsk, Stoilensky, Stagdok, Dolomit, NLMK Kaluga); share of 2.3% (sources: hydro, wind, solar) in the electricity purchased by sites located within the Urals Integrated Power System (NLMK Ural, NLMK Metalware, VIZ-Steel) [Share of generation from renewables as assumed for the Russian Federation as of the end of 2018 according to the annual operations report of the Unified Energy System of Russia in 2018 [https://so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups\\_rep2018.pdf](https://so-ups.ru/fileadmin/files/company/reports/disclosure/2019/ups_rep2018.pdf) p. 19]

The share of 22% (source: wind, solar, biofuel) in the electricity purchased by sites located in Belgium (NLMK La Louvière, NLMK Clabecq); the share of 20% (source: hydro, wind, solar, biofuel) in the electricity purchased by sites located in France (NLMK Strasbourg); the share of 40% (source: hydro, wind, solar, biofuel) in the electricity purchased by sites located in Italy (NLMK Verona); the share of 75% (source: wind, solar, biofuel) in the electricity purchased by sites located Denmark (NLMK Dansteel) [Share of generation from renewables as assumed for Europe as of the end of 2018 according to the report 'The European Power Sector in 2018' [https://www.agora-energiewende.de/fileadmin/Projekte/2018/EU-Jahresauswertung\\_2019/Agora-Energiewende\\_European-Power-Sector-2018\\_WEB.pdf](https://www.agora-energiewende.de/fileadmin/Projekte/2018/EU-Jahresauswertung_2019/Agora-Energiewende_European-Power-Sector-2018_WEB.pdf) p. 7]

The share of 17% (source: hydro, wind, solar, biofuel) in the electricity purchased by sites located in the U.S. (NLMK Indiana and NLMK Pennsylvania). [Share of generation from renewables as assumed for the U.S. as of the end of 2018 according to Monthly Energy Review US by the Energy Information Administration <https://www.eia.gov/totalenergy/data/monthly/pdf/mer.pdf> p. 127].

The share of renewables in the total volume of electrical power generation is shown without transit flows; NLMK Group companies made no direct purchases from renewable energy suppliers.

<sup>2</sup> The methodology was adjusted to calculate the consumption of electric power, natural gas, and motor fuel so as to isolate consumption volumes by individual sites.

<sup>3</sup> Consumption of natural gas, fuel oil and motor fuel was adjusted in line with changes to the calculation methodology

<sup>4</sup> Specific energy intensity = (energy consumption during steel production / extraction and processing of raw materials, Gcal) / (steel production / extraction and processing of raw materials, t)

The following types of energy resources were used in the calculation: purchased – coking coal, pitch coke, lump coke, coke breeze, pulverized coal, natural gas, fuel oil, thermal energy as hot water, steam, electricity, oxygen (NLMK Kaluga), and heat from chemically treated water (VIZ-Steel); sold – coke breeze, coke nut, chemical products, blast furnace gas, steam, thermal energy as hot water, oxygen, nitrogen, compressed air, industrial water, hydrogen, and commercial pig iron.



## CAPTIVE ELECTRICITY GENERATION

The Company has managed to reduce energy costs by implementing optimization initiatives and increasing captive electricity generation.

Maximizing the utilization of available recyclable energy is one of the main challenges faced by NLMK Group; overcoming this challenge will make it possible to not only minimize costs, but to also reduce our environmental impact by slashing emissions of harmful substances and greenhouse gases.

In the reporting period, the total installed in-house generation capacity was 733 MW: 522 MW at the Lipetsk site and 200 MW at Altai-Koks; the installed capacity of gas-piston units at NLMK Ural was 11 MW.

Electricity is generated at the Company's captive power plants, which are chiefly powered by recycled fuel gases from steel production.

Over half of the electricity consumed at the Lipetsk site and 100% of the electricity consumed at Altai-Koks is generated using NLMK Group's captive recyclable resources.

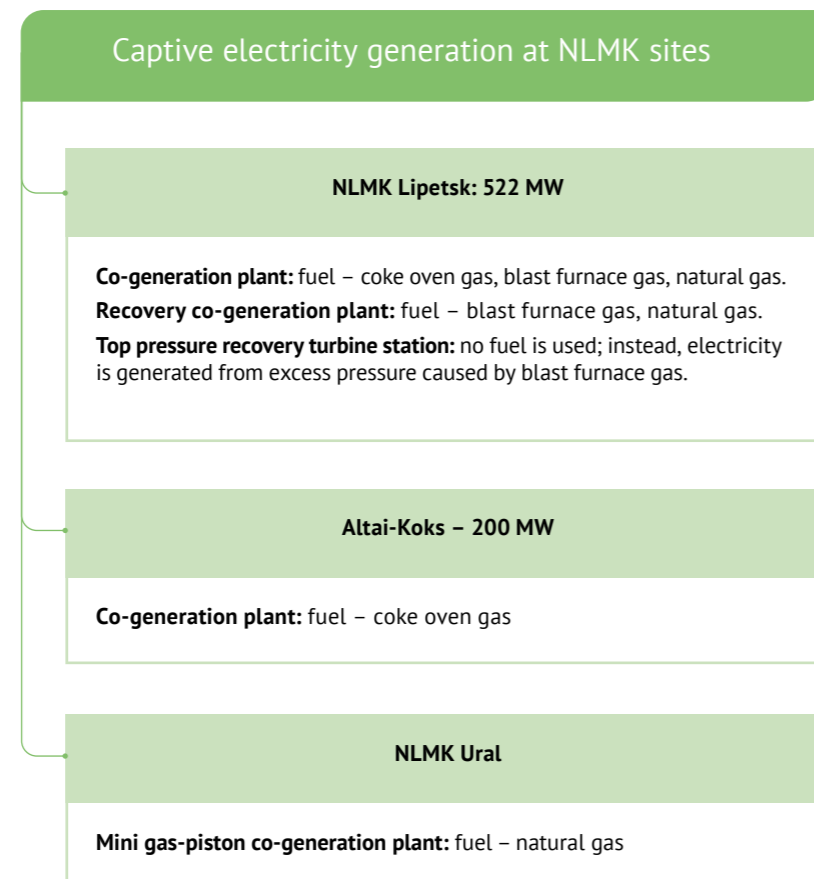
The recovery of secondary energy resources for the purposes of power generation is an important tool to improve the energy efficiency and lessen the environmental impact of production operations. The Lipetsk site in particular generates electricity using by-product gases from coke and blast furnace production processes as fuel. Between 2017 and 2019, the share of captive generation at NLMK Lipetsk rose from 53% to a record high of 65% in the power consumption mix. The increase resulted from the commissioning of the 60 MW turbine generator unit No. 5 at the co-generation plant in 2018 and the implementation of an equipment efficiency project at this plant and the recovery plant.

### Launch of new waste energy plant running on by-product gases to boost Lipetsk site's self-sufficiency in electricity to 94%

*In 2019, NLMK Group began drafting project documentation and preparing a construction site for the new recovery co-generation plant at NLMK Lipetsk. Recyclable BOF and BF gases from steel production will fuel the new plant. The new recovery co-generation plant will have installed capacity of 300 MW. Investment in the project is estimated at RUB 35 bn.*

*The plant will make it possible to reduce greenhouse gas emissions (CO<sub>2</sub>) by 650,000 t per year. The construction of the new recovery power plant running on by-product gases from steelmaking operations is in line with industry BAT's and advances the objective of Russia's national Clean Air initiative as part of Ecology National Project. Once commissioned, the new recovery co-generation plant will increase the self-sufficiency of the Lipetsk site in electricity from the current 65% up to 94%.*

#### CAPTIVE ELECTRICITY GENERATION AT NLMK SITES



## IMPLEMENTING ENERGY-SAVING MEASURES

During the reporting period, NLMK Group implemented a number of energy efficiency projects at its sites to address the following issues:

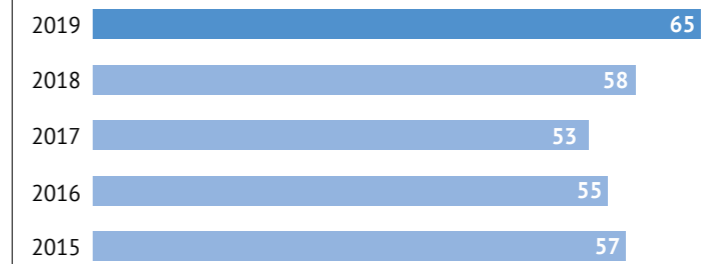
- Improving the energy efficiency of core and auxiliary processes
- Efficient management of energy distribution based on the source load
- Reducing energy consumption through the analysis and monitoring of each production stage

Specifically, measures were taken in 2019 to optimize the operating modes of boilers at the co-generation and recovery plants at the Lipetsk site and upgrade turbine units. Additionally, the configuration of heat supply networks at the Lipetsk site was optimized.

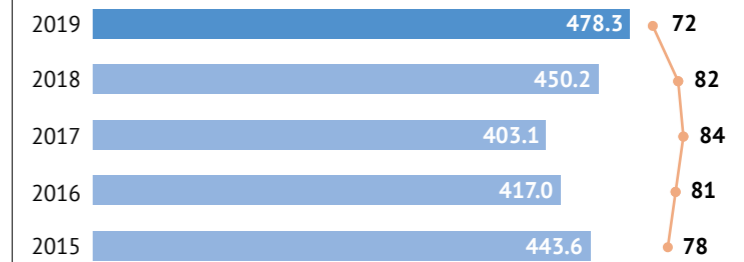
As part of target-oriented programmes, lighting fixtures at NLMK Group sites were replaced with more advanced and efficient solutions. Previous work to improve efficiency was continued, such as the replacement of pumping equipment and projects to improve the efficiency of compressor operation. The optimization of the cooling towers created better water cooling efficiency, which in turn increased the generation of captive electricity.



#### SHARE OF CAPTIVE ELECTRICITY IN TOTAL ELECTRICITY CONSUMPTION AT NLMK LIPETSK, 2015–2019, %



#### CAPTIVE ELECTRICITY GENERATED AT NLMK LIPETSK, 2014–2019<sup>1</sup>

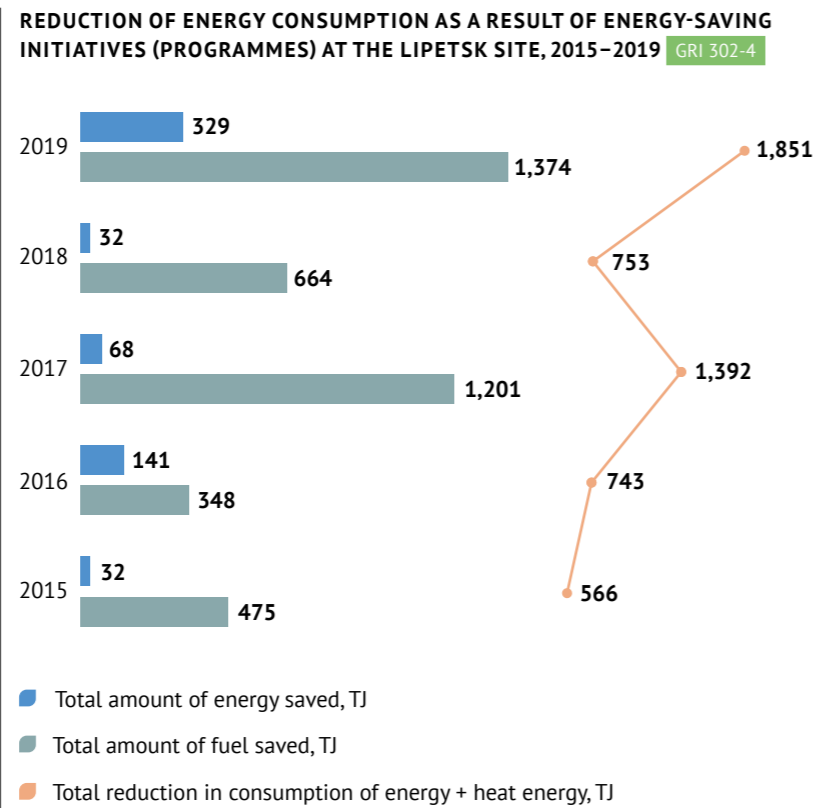


■ Captive electricity generation, MW  
● Captive electricity generation from secondary fuel gases, %

<sup>1</sup> The share of captive electricity generation from secondary fuel gases was reduced in 2019 due to shutdowns of blast furnaces related to major repairs.

### OPTIMIZATION INITIATIVES UNDERTAKEN BY NLMK GROUP IN 2019

The energy efficiency and optimization projects carried out in 2019 for the co-generation and recovery plants at NLMK Lipetsk and the co-generation plant at Altai-Koks aimed to improve the operating modes and control algorithms of the main boiler and turbine regulator, overhaul turbine nozzle blades, utilize industrial extraction from the turbine, optimize steam turbocharger operating conditions, and improve algorithms for the boiler burner switchover. Intra-shop process diagrams and configuration networks for the transmission of air separation products have been optimized at the Oxygen Shop. The heat supply system to VIZ-Steel was modified with heat insulation, and pumping equipment was retrofitted with more efficient units at Stoilensky and NLMK Ural. NLMK Lipetsk and VIZ-Steel completed another stage of comprehensive upgrades to their lighting equipment.



### NLMK Ural builds new energy facility to supply electricity and heat

The energy facility is located at the NLMK Ural site in Nizhniye Sergi. The facility includes three 7 MW hot water boilers and a gas-piston plant to generate electricity. The heart of the complex is a generator powered by a 4.5 MW gas-piston engine. In addition to electrical power, the energy facility generates heat. The project uses modern equipment to further cut the cost of purchased power and heat. The project budget was RUB 300 m.

### New types of energy facilities launched at NLMK Long sites

The new mini co-generation plant increases the efficiency of power supply to the production site in Beryozovskoye. Construction on the mini plant began in late 2018 and was completed in 2019. The power plant will supply the NLMK Metalware and NLMK Ural production sites with captive electrical power, heat, and hot and chemically treated water for rolling operations. The new facility is equipped with energy-efficient cascaded controls and runs two gas-piston units with total installed capacity of 6.5 MW (2 MW + 4.5 MW). The units are capable of generating both electrical and thermal energy. If the temperature drops, hot water boilers are put into operation: the boiler house has installed thermal capacity of 31.7 MW.

## PLANS FOR 2020 AND THE MEDIUM TERM

One of the key goals of Strategy 2022 is to improve operational efficiency, including the efficiency of energy supplies to the Group.

The main objectives aimed at improving energy efficiency in 2020 and the medium term include:

- Improving the efficiency of power generating equipment

- Optimizing process charts for the production of technical gases
- Improving the efficiency of compressor equipment
- Replacing pumping equipment with more energy efficient units
- Improving the efficiency of cooling equipment
- Reducing the amount of thermal energy procured from third parties
- Developing innovative solutions in energy

### NLMK Ural commissions new boiler house at Revda

The boiler house at the Revda site consists of modern, advanced equipment supplied by leading international vendors. This ensures efficient and safe operation and significantly reduces the cost of heat supply. The boiler house is equipped with three water heating boilers with total capacity of 19 MW and two steam boilers with steam output of 10 tph. The new facility fully covers the plant's need for thermal energy. The steam from the boilers will be used in the operations of the EAF and Energy shops. Since 25 September 2019, the boiler house has been supplying heat to all facilities on the production site itself and outside battery limits, including the Demidov Centre and the plant management and administration building at 1 Karl Liebknecht St.

The investment capex in the new boiler plant totalled RUB 150 m. The payback period is about three years.



# APPENDIX

# GRI INDEX

GRI 102-55

Indicator	Reference / Comment	Page	Independent verification
<b>GRI 102: General Disclosures</b>			
<b>1. Organizational profile</b>			
Disclosure 102-1 Name of the organization		p. 9	
Disclosure 102-2 Activities, brands, products, and services		p. 19	
Disclosure 102-3 Location of headquarters		p. 54	
Disclosure 102-4 Location of operations		p. 9, p. 10	
Disclosure 102-5 Ownership and legal form	The organizational structure of the Company can be found on its website at <a href="https://nlmk.com/en/about/group-structure/">https://nlmk.com/en/about/group-structure/</a> The legal form of all companies belonging to NLMK Group is presented in the <i>About the Report</i> section.		
Disclosure 102-6 Markets served		p. 10	
Disclosure 102-7 Scale of the organization		p. 9, p. 12, p. 134	
Disclosure 102-8 Information on employees and other workers	Information on the type of contract is disclosed without breakdown by gender and region. There is no breakdown by type of employment (full-time or part-time)	p. 134, p. 135	<b>V</b> Only for the Group's average headcount
Disclosure 102-9 Supply chain		p. 124, p. 125	
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.	p. 125	
Disclosure 102-11 Precautionary Principle or approach		p. 95	
Disclosure 102-12 External initiatives		p. 45	
Disclosure 102-13 Membership of associations		p. 45	
<b>2. STRATEGY</b>			
Disclosure 102-14 Statement from senior decision-maker		p. 7	
<b>3. ETHICS AND INTEGRITY</b>			
Disclosure 102-16 Values, principles, standards, and norms of behaviour		p. 38, p. 102	
<b>4. CORPORATE MANAGEMENT</b>			
Disclosure 102-18 Governance structure		p. 61	
Disclosure 102-22 Composition of the highest governance body and its committees		p. 67, p. 77	



Indicator	Reference / Comment	Page	Independent verification
Disclosure 102-23 Chair of the highest governance body		p. 65	
Disclosure 102-32 Highest governance body's role in sustainability reporting		p. 79	
<b>5. DIALOGUE WITH STAKEHOLDERS</b>			
Disclosure 102-40 List of stakeholder groups		p. 113	
Disclosure 102-41 Collective bargaining agreements		p. 147	
Disclosure 102-42 Identifying and selecting stakeholders		p. 113	
Disclosure 102-43 Approach to stakeholder engagement		p. 112	
Disclosure 102-44 Key topics and concerns raised		p. 113	
<b>6. REPORTING PRACTICE</b>			
Disclosure 102-45 Entities included in the consolidated financial statements		p. 50	
Disclosure 102-46 Defining report content and topic boundaries		p. 52	
Disclosure 102-47 List of major themes		p. 53	
Disclosure 102-48 Restatements of information		p. 54	
Disclosure 102-49 Changes in reporting		p. 54	
Disclosure 102-50 Reporting period		p. 50	
Disclosure 102-51 Date of most recent report		p. 50	
Disclosure 102-52 Reporting cycle		p. 50	
Disclosure 102-53 Contact point for questions regarding the report		p. 54, p. 109	
Disclosure 102-54 Claims of reporting in accordance with the GRI Standards		p. 50	
Disclosure 102-55 GRI content index		p. 50, Appendix	
Disclosure 102-56 External assurance		p. 53, Appendix	
<b>MAJOR THEMES</b>			
<b>GRI 200 ECONOMIC</b>			
<b>GRI 201: Economic Performance</b>			
GRI 103: Management Approach		p. 46	
Disclosure 201-1 Direct economic value generated and distributed		p. 44	
<b>GRI 203: INDIRECT ECONOMIC IMPACTS</b>			
GRI 103: Management Approach		p. 166	

Indicator	Reference / Comment	Page	Independent verification
Disclosure 203-1 Infrastructure investments and services supported		p. 169	
Disclosure 203-2 Significant indirect economic impacts		p. 166	
<b>GRI 205: ANTI-CORRUPTION</b>			
GRI 103: Management Approach		p. 102	
Disclosure 205-1 Operations assessed for risks related to corruption		p. 103	
Disclosure 205-2 Communication and training about anti-corruption policies and procedures		p. 102, p. 103, p. 104	
Disclosure 205-3 Confirmed incidents of corruption and actions taken		p. 104	
<b>GRI 300 ENVIRONMENTAL</b>			
<b>GRI 302 ENERGY</b>			
GRI 103: Management Approach		p. 196	
Disclosure 302-1 Energy consumption within the organization	Information on the volume of renewable energy consumption is disclosed only in relative terms without breakdown by type of renewable fuel	p. 198, p. 199	V Excluding fuel consumption from renewable sources
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	p. 199	
Disclosure 302-4 Reduction of energy consumption		p. 202	V
<b>GRI 303: WATER AND EFFLUENTS</b>			
GRI 103: Management Approach		p. 176, p. 182	
Disclosure 303-1 Interactions with water as a shared resource		p. 182	
Disclosure 303-2 Management of water discharge-related impacts		p. 178, p. 182	V
Disclosure 303-3 Water withdrawal	Information on collected water is disclosed without breakdown by categories («Fresh water» /»Other water») and without specifying the volume of water intake from regions where water is scarce	p. 182, p. 183	V
Disclosure 303-4 Water discharge	Information on water discharges is disclosed without breakdown by categories («Fresh water» /»Other water») and without specifying the volume of water discharge in regions where water is scarce	p. 185	V
Disclosure 303-5 Water consumption	Information is disclosed without specifying the volume of water consumption in regions where water is scarce	p. 182	V



Indicator	Reference / Comment	Page	Independent verification
<b>GRI 304: BIODIVERSITY</b>			
GRI 103: Management Approach		p. 176, p. 192	
Disclosure 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		p. 192	
Disclosure 304-2 Significant impacts of activities, products, and services on biodiversity		p. 192	
Disclosure 304-3 Habitats protected or restored		p. 192	
Disclosure 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations		p. 192	
<b>GRI 305: EMISSIONS</b>			
GRI 103: Management Approach		p. 176, p. 186, p. 188	
Disclosure 305-1 Direct (Scope 1) GHG emissions	Only information on total direct greenhouse gas emissions is disclosed (Scope 1)	p. 188	V
Disclosure 305-2 Energy indirect (Scope 2) GHG emission	Only information on total indirect greenhouse gas emissions is disclosed (Scope 2)	p. 188	V
Disclosure 305-4 GHG emissions intensity		p. 188	
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 (NOX), sulfur oxides (SOX), and other significant air emissions		p. 187	V
<b>GRI 306: EFFLUENTS AND WASTE</b>			
GRI 103: Management Approach		p. 176, p. 189	
Disclosure 306-1 Water discharge by quality and destination		p. 185	
Disclosure 306-2 Waste by type and disposal method	Only information on total generated waste is disclosed	p. 189, 190	V
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.		

Indicator	Reference / Comment	Page	Independent verification
<b>GRI 307: ENVIRONMENTAL COMPLIANCE</b>			
GRI 103: Management Approach		p. 176	
Disclosure 307-1 Non-compliance with environmental laws and regulations		p. 178	
<b>GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT</b>			
GRI 103: Management Approach		p. 176, p. 120	
Disclosure 308-1 New suppliers that were screened using environmental criteria		p. 180	
Disclosure 308-2 Negative environmental impacts in the supply chain and actions taken		p. 180	
<b>GRI 400: SOCIAL</b>			
<b>GRI 401: EMPLOYMENT</b>			
GRI 103: Management Approach		p. 134	
Disclosure 401-1 New employee hires and employee turnover		p. 137	
<b>GRI 403: OCCUPATIONAL HEALTH AND SAFETY</b>			
GRI 103: Management Approach		p. 152	
Disclosure 403-1 Occupational health and safety management system		p. 152	
Disclosure 403-2 Hazard identification, risk assessment, and incident investigation		p. 156	
Disclosure 403-3 Occupational health services		p. 138, p. 146	
Disclosure 403-4 Worker participation, consultation, and communication on occupational health and safety		p. 156	
Disclosure 403-5 Worker training on occupational health and safety		p. 156	
Disclosure 403-6 Promotion of worker health		p. 146	
Disclosure 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		p. 156	
Disclosure 403-8 Workers covered by an occupational health and safety management system		p. 155	
Disclosure 403-9 Work-related injuries	Only LTIFR and TRIFR rates, the number of accidents and the number of man-hours worked for employees and contractors are disclosed	p. 156, p. 161, p. 162	V
Disclosure 403-10 Work-related ill health		p. 146	



Indicator	Reference / Comment	Page	Independent verification
<b>GRI 404: TRAINING AND EDUCATION</b>			
GRI 103: Management Approach		p. 139	
Disclosure 404-1 Average hours of training per year per employee	Only information on the total number of training sessions completed by NLMK Group employees is disclosed	p. 139	V Only for the total number of training sessions completed by NLMK Group employees
Disclosure 404-2 Programs for upgrading employee skills and transition assistance programs		p. 139, p. 140, p. 142, p. 144, p. 146	
Disclosure 404-3 Percentage of employees receiving regular performance and career development reviews		p. 138	
<b>GRI 405: DIVERSITY AND EQUAL OPPORTUNITY</b>			
GRI 103: Management Approach		p. 134	
Disclosure 405-1 Diversity of governance bodies and employees		p. 135, p. 136	
<b>GRI 406: NON-DISCRIMINATION</b>			
GRI 103: Management Approach		p. 128	
Disclosure 406-1 Incidents of discrimination and corrective actions taken		p. 130	
<b>GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
GRI 103: Management Approach		p. 128	
Disclosure 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		p. 128, p. 130	
<b>GRI 408: CHILD LABOUR</b>			
GRI 103: Management Approach		p. 128	
Disclosure 408-1 Operations and suppliers at significant risk for incidents of child labour		p. 128, p. 130	
<b>GRI 409: FORCED OR COMPULSORY LABOUR</b>			
GRI 103: Management Approach		p. 128	
Disclosure 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour		p. 128, p. 130	
<b>GRI 413: LOCAL COMMUNITIES</b>			
GRI 103: Management Approach		p. 166	
Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs		p. 113, p. 168, p. 170	

## 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, 2019 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 2019, 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 2019 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.

CEO (Chairman of the Management Board)



G. Fedorishin



## NLMK's Internal Audit Service conclusion on the risk management and internal control of the Company in 2019

Lipetsk

«06» March 2020

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 2019.

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: procurement, sales, repairs, investments, production, risk management and Anti-corruption compliance.

**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)



E. Sidorova

## Information about Annual Report 2019 approval procedure

No.	Stage	Document
1	Preliminary approve by the Board of Directors	MoM No 270 dd 19.03.2020
2	Approval by the General Shareholders' meeting	MoM No 57 dd 24.04.2020



## Report on compliance with the ‘Directive on information disclosure by security issuers’

No	Regulation	Reference to the clause	Status of compliance	Comments
1	Information about Joint-stock company position in the industry	70.3.	Compliance ensured	Information is represented in part “About Company”, section Company Profile
2	Information about strategy in joint-stock company development	70.3.	Compliance ensured	Information is represented in part “About Company”, section Strategy 2022, 2019 performance review
3	Report of the Board on results of joint-stock company strategy development	70.3.	Compliance ensured	Information is represented in part «About Company”, section Strategy in action
4	Information about consumption of energy resources	70.3.	Compliance ensured	Information is represented in part Environmental protection, section Energy resource consumption in 2019 and in Appendix
5	Information about development perspectives	70.3.	Compliance ensured	Information is represented in part «About Company”, section Strategy 2022
6	Report on dividends declared	70.3.	Compliance ensured	Information is represented in part “Corporate governance”, section Information for shareholders and investors and Appendix
7	Information about key risk factors	70.3.	Compliance ensured	Information is represented in part «Corporate governance”, section Operational control and risk management
8	List of transactions which are recognized as major transactions in line with the Federal Law "On Joint-stock Companies"	70.3.	Compliance ensured	Information is represented in Appendix
9	List of transactions recognized as interested-party transactions in line with the Federal Law "On Joint-stock Companies"	70.3.	Compliance ensured	Information is represented in Appendix
10	Composition of the Board of Directors, changes in Composition of the Board of Directors, information about Board of Directors members, Board of Directors members	70.3.	Compliance ensured	Information is represented in part «Corporate governance”, section Board of Directors

	transactions with company shares			
11	Information about the person holding the position (exercising the functions) of the sole executive body of the Company and the members of the collegial executive body, transactions made by the person holding the position (exercising functions) of the sole executive body and (or) members of the collegial executive body for the acquisition or disposal of shares of the joint-stock company	70.3.	Compliance ensured	Information is represented in part «Corporate governance», section Management Board
12	Joint-stock company policy in the field of remuneration and (or) compensation of expenses	70.3.	Compliance ensured	Information is represented in part «Corporate governance», section Report on remuneration paid to governing bodies
13	Report on compliance with the Corporate Governance Code principles and recommendations	70.3.	Compliance ensured	Information is represented in Appendix
14	Information on the approval of the annual report by the general meeting of shareholders or the board of directors of a joint-stock company	70.3.	Compliance ensured	Information is represented in Appendix
15	Corporate Governance Code: Statement by the board of directors (supervisory board) of the joint-stock company on compliance with corporate governance principles stated in the Corporate Governance Code, and if such principles are not followed by the joint-stock company or are not fully respected by them, indicating these principles and a brief description of what part they are not observed;	70.4.	Compliance ensured	Information is represented in Appendix
16	Corporate Governance Code: A brief description of the most significant aspects of the corporate governance model and practice in a joint-stock company;	70.4.	Compliance ensured	Information is represented in Appendix



17	Corporate Governance Code: Description of the methodology by which the joint-stock company assessed compliance with corporate governance principles enshrined in the Corporate Governance Code;	70.4.	Compliance ensured	Information is represented in Appendix
18	Corporate Governance Code: Explanation of key reasons, factors and (or) circumstances that should be specific, due to which the joint-stock company does not comply or does not fully comply with corporate governance principles enshrined in the Corporate Governance Code;	70.4.	Compliance ensured	Information is represented in Appendix
19	Corporate Governance Code: Description of corporate governance mechanisms and tools that are used by the joint-stock company instead of those recommended by the Corporate Governance Code;	70.4.	Compliance ensured	Information is represented in Appendix
20	Corporate Governance Code: Expected actions and activities of the joint-stock company to improve the corporate governance model and practice, indicating the timing for the implementation of such actions and activities.	70.4.	Compliance ensured	Information is represented in Appendix
21	Section on the status of net assets, if at the end of the second reporting year or each subsequent reporting year the value of the net assets of the joint-stock company is less than its authorized capital	70.5.	Not applicable	-

## NLMK companies and affiliates as of 31.12.2019

No	Company name	Address	Activity	Novolipetsk in Charter Capital, %
1	2	3	4	5
<b>Subsidiary companies</b>				
1.	Altai-Koks, 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
2.	Dolomit, Joint-Stock Company	Dankov, Lipetsk Region, Russia	Mining and processing of dolomite.	100
3.	Stoilensky Mining and Processing Plant, Open Joint-Stock Company	Stary Oskol, Belgorod region, Russia	Mining and processing of iron ore and other minerals.	100
4.	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
5.	«NLMK-Engineering» Joint-Stock Company	Lipetsk, Russia	Design and survey operations.	100
6.	«NLMK-Urals» Joint-Stock Company	Revda, Sverdlovsk Region, Russia	Production of long steel stock, hot-rolled and forged flat steel	92,59
7.	VIZ-Steel, Limited Liability Company	Ekaterinburg, Russia	Production and marketing of electrical steel	100
8.	Vtorchermet NLMK, Limited Liability Company	Ekaterinburg, Russia	Collection, processing and sales of ferrous and non-ferrous scrap	100
9.	Zhernovsky-1 Mining and Processing Complex, Limited Liability Company	Novokuznetsk, Kemerovo Region, Russia	Entire range of works related to coal mining and processing	100

No	Company name	Address	Activity	Novolipetsk in Charter Capital, %
1	2	3	4	5
10.	Usinsky-3 Mining and Processing Complex, Limited Liability Company	Syktyvkar, Komi Republic, Russia	Entire range of works related to coal mining and processing	100
11.	Hotel Metallurg, Limited Liability Company	36 Lenina St., Lipetsk, 398020, Russia	Hotel services	100
12.	NLMK Information Technologies, Limited Liability Company	Lipetsk, Russia	IT, computing and telecom services	100
13.	NLMK Kaluga, Limited Liability Company	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
14.	NLMK-Metiz, Limited Liability Company	Beryozovsky, Sverdlovsk Region, Russia	Production of wire, wire products, fasteners and springs.	100
15.	NLMK-Svyaz, Limited Liability Company	Lipetsk, Russia	Telecom services.	100
16.	NLMK-Sort (NLMK Long Products), Limited Liability Company	Ekaterinburg, Russia	Managing company, trading and procurement activities.	100
17.	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
18.	Novolipetskaya Metallobaza, Limited Liability Company	Lipetsk, Russia	Manufacturing of plastic and steel products	100
19.	Novolipetsky Pechatny Dom (Printing House), Limited Liability Company	Russia, Lipetsk	Printing services.	100



No	Company name	Address	Activity	Novolipetsk in Charter Capital, %
1	2	3	4	5
20.	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
21.	NLMK Trade House, Limited Liability Company	Moscow, Russia	Sale of NLMK Group products	100
22.	Uralvtorchermet, Closely-held Joint-Stock Company	Ekaterinburg, Russia	Consulting services re commercial activities, management, investing in securities, leasing of assets.	100
<b>Affiliated companies</b>				
23.	Neptune, Limited Liability Company	Office 35, 1C Adm. Makarova St.,	Sports and recreation services	25

## Usage of energy resources of NLMK (Novolipetsk) in 2018-2019

Name	Item	2019	2018	Change, %
Electro energy	mIn kWth	2442.42	3061.84	-20.2
	mIn of RUB with VAT	3924.3	4807.1	-18.4
Natural gas	mIn m3.	2144.6	2006.1	+6.9
	mIn of RUB with VAT	11688.9	10694.9	+9.3
Heating energy	GCal	84837.3	134641.1	-36.99
	mIn of RUB with VAT	145.5	219.7	-33.77
Gas oil	'000 liters	21967.2	22942.4	-4.25
	mIn of RUB with VAT	929.8	1129.3	-17.67
Benzine	t	293.6	344.2	-14.7
	mIn of RUB with VAT	15.7	17.8	-11.8
Heating oil	t	1115.4	1110.6	+0.4
	mIn of RUB with VAT	5.8	5.7	+1.75
Coking coal	'000 t	4736	4633	+2.2
	mIn of RUB with VAT	50375	53734	-6.25

**List of transactions performed by NLMK in 2019, 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 2019, 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 2019 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 2019, neither the General Shareholder Meeting nor the Board of Directors passed resolutions regarding interested-party transactions.

No	Material terms of the transaction	Management body that passed the resolution to approve the transaction	Party (parties) interested in the transaction
1.	<p>1. The transaction and parties to the transaction: A financing agreement between Novolipetsk Steel (NLMK), Steel Invest &amp; Finance S.A. (SIF) and SOCIETE WALLONNE DE GESTION ET DE PARTICIPATIONS SA (SOGEPA).</p> <p>2. Purpose of the transaction: Shareholders (SIF and SOGEPA) provide financing to NLMK Belgium Holdings S.A. and its subsidiaries (NBH) towards investments provided for by NBH's business plan for 2019-2022, and support to NBH in the form of shareholder guarantees and other forms of financing.</p> <p>3. Subject matter and significant terms of the</p>	<p>The transaction was not subject to approval. According to P. 1.1, Article 81 of Federal Law dd. 26 December 1995 No. 208-FZ 'On Joint-Stock Companies', the Issuer notified the authorized persons of the related-party transaction within the statutory period. There were no requests submitted for the approval of the transaction, as provided for by Article 83 of Federal Law dd. 26 December 1995 No. 208-FZ 'On Joint-Stock Companies'.</p>	<p>Dr. Vladimir Lisin, Chairman of the Board of Directors of NLMK, who is the controlling person at NLMK and SIF. SIF is a beneficiary of the transaction as NLMK is providing guarantees for SIF obligations under the transaction.</p> <p>Mr. Barend de Vos, member of NLMK Management Board, who holds executive positions at NBH and SIF. (a) SIF is a beneficiary of the transaction as NLMK is providing guarantees for SIF obligations under the transaction. (b) NBH is a</p>

<p>transaction:</p> <p>3.1. NLMK shall make an equity contribution through SIF to NBH share capital in the amount of 100 million euro. SOGEPA shall also make an equity contribution to NBH share capital in the amount of 100 million euro. These funds will go towards financing NBH investments approved by NLMK Board of Directors' Strategic Planning Committee as part of NLMK Group Strategy 2022.</p> <p>3.2. SOGEPA shall increase the amount of guarantees provided to secure NBH financing so that the aggregate amount of guarantees provided by SOGEPA is no less than: (a) the aggregate amount of guarantees provided by NLMK to secure NBH Group financing, or (b) 240,000,000 euro (whichever amount is smaller). NLMK shall provide guarantees to secure at least 50% of NBH financing that may require shareholders' guarantees.</p> <p>3.3. In 2019 - 2022 SIF shall provide NBH financing to finance working capital, to finance expenses associated with employee restructuring, and for NBH to comply with legal requirements for the minimum amount of its net assets, among other purposes.</p> <p>3.4. In the period between 1 December 2023 and 31 December 2023, SOGEPA may require SIF to acquire NBH shares held by SOGEPA and representing 24% of NBH share capital (the Put Option). The Put Option price shall total 100 million euro +3.5% interest p.a. accrued from the date of the contribution to the share</p>		<p>beneficiary of the transaction as the transaction provides for NBH receiving financing and shareholders' guarantees.</p>
<p>capital to the put option completion date. NLMK shall guarantee the payment by SIF of the Put Option price.</p>		

# 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 studied by the Novolipetsk Steel's Board of Directors at the meeting [MoM No 270 dd 19.03.2020].

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 2019.

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
<b>1.1</b>	<b>The Company shall provide equal and fair treatment to all shareholders exercising their right to participate in the Company governance.</b>			
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.	<ol style="list-style-type: none"> <li>The Company's internal document approved by the General Meeting and regulating the General Meeting procedures is publicly available.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



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
1.1.2.	The procedure of General Meeting holding and submission of materials for the General Meeting shall enable shareholders to get properly prepared for participation therein.	<ol style="list-style-type: none"> <li>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.</li> <li>2. The notice of the General Meeting specifies the venue of the meeting and the documents needed to get access to the venue.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.1.3.	In preparation to the General Shareholders' Meeting and its convocation, shareholders had an opportunity to receive information on the meeting and materials therefor, to ask executive bodies and members of the Company's Board of Directors questions and to communicate with each other freely and in a timely manner.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

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
1.1.4.	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	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.1.5.	Every shareholder had an opportunity for unhindered exercise of their voting right in the simplest and the most convenient manner.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

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
<b>1.2 The shareholders are provided an equal and fair opportunity to participate in the Company's profit by receiving dividends.</b>				
1.2.1	The Company developed and implemented a transparent and obvious mechanism of dividends determination and their payment.	<ol style="list-style-type: none"> <li data-bbox="494 448 766 571">1. The Dividend policy was developed by the Company, approved by the Board of Directors and disclosed.</li> <li data-bbox="494 571 766 806">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.</li> </ol>	<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.	<ol style="list-style-type: none"> <li data-bbox="494 817 766 974">1. The Company's dividend policy contains clear indications of financial/ economic circumstances under which dividends should not be paid.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.2.3	The Company does not allow for impairment of dividend rights of its shareholders.	<ol style="list-style-type: none"> <li data-bbox="494 1115 766 1238">1. In the reporting period, the Company did not take any actions resulting in impairment of dividend rights of its shareholders.</li> </ol>	<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.	<ol style="list-style-type: none"> <li data-bbox="494 1249 766 1865">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</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



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
<b>1.3</b>	<b>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.</b>			
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	
<b>1.4</b>	<b>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.</b>			
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	
<b>2.1</b>	<b>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.</b>			
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	

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

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
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.	<ol style="list-style-type: none"> <li data-bbox="513 409 790 488">1. The Board of Directors approved the Regulations on Information Policy.</li> <li data-bbox="513 488 790 645">2. The Company appointed persons responsible for ensuring compliance with the Information Policy.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.1.7.	The Board of Directors exercises control over the corporate governance practices in the Company and plays a key role in the Company's significant corporate events.	<ol style="list-style-type: none"> <li data-bbox="513 656 790 891">1. During the reporting period the Board of Directors reviewed the corporate governance practices of the Company.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>2.2 The Board of Directors is accountable to the Company's shareholders.</b>				
2.2.1.	Information on activities of the Board of Directors is disclosed and provided to shareholders.	<ol style="list-style-type: none"> <li data-bbox="513 936 790 1149">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.</li> <li data-bbox="513 1149 790 1328">2. The Annual Report contains information on the key results of evaluation of the Board of Directors' activities performed during the reporting period.</li> </ol>	<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.	<ol style="list-style-type: none"> <li data-bbox="513 1339 790 1541">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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>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.</b>				
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.	<ol style="list-style-type: none"> <li data-bbox="513 1608 790 1821">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.</li> <li data-bbox="513 1821 790 2096">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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



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
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	
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	

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
<b>2.4 The Board of Directors has a sufficient number of independent directors.</b>				
2.4.1	An independent director is a person who has sufficient competence, experience and independence to form their own position, is able to make objective and fair judgments that are independent of the influence of the Company's executive bodies, certain groups of shareholders or other interested parties. It should be borne in mind, however, that in ordinary circumstances a candidate (elected member of the Board of Directors), who is associated with the Company, its significant shareholder, significant counterparty or a competitor, or is associated with the state, can not be regarded as an independent candidate.	1. During the reporting period, all independent Board members met all the independence criteria set out in recommendations 102-107 of the Code, or were recognized as independent by the decision of the Board of Directors.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.4.2	The candidates to members of the Board of Directors are evaluated for compliance with the independence criteria; independent directors are also regularly evaluated for compliance with the independence criteria. During this evaluation, the content should prevail over the form.	1. In the reporting period, the Board of Directors (or the Board's Nominating Committee) formed an opinion of each candidate's independence and submitted an appropriate conclusion to shareholders. 2. During the reporting period, the Board of Directors (or the Board's Nominating Committee) at least one time evaluated the independence of the current Board members; they are indicated in the Annual Report as independent directors. 3. The Company has procedures in place which define the necessary actions for a Board member to take in case they lose the independent status, including the obligation to inform the Board of this fact in due time.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.4.3	At least one third of the elected members of the Board are independent directors.	1. At least one third of members of the Board are independent directors.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

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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	
<b>2.5 The Chairman of the Board of Directors promotes the most efficient implementation of the functions assigned to the Board of Directors.</b>				
2.5.1.	An independent director is elected Chairman of the Board of Directors, or a Senior Independent Director is chosen from among the elected Independent Directors, who coordinates the activities of independent directors and carries out interaction with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director, or a Senior Independent Director chosen from among independent directors.  2. The role, rights and duties of the Board Chairman (and senior independent director, if any) are duly defined in the internal corporate documents.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	1. Non-compliance The Chairman of the Board of Directors is not an independent director, Senior Independent Director does not chosen from among independent directors. The Chairman of the Board of Directors is a member 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. Independent Directors, who make up the majority of members of the Company's Board have full opportunity to have face-to-face communication with the Chairman of the Board of Directors. The Company has opted for a model whereby having a majority of independent directors ensures their key role in resolving all matters and eliminates the need for a senior independent director. The Company believes that its Chairman of the Board of Directors not being an independent director and there being no senior independent director does not entail additional risks for the Company. The Company recognizes the expediency of introducing the position of senior independent director in case the number of independent directors becomes less than 50% of the Board of Directors. 2. Compliance ensured
2.5.2.	Chairman of the Board instates constructive atmosphere at meetings, ensures open discussions on the agenda items and monitors the implementation of resolutions passed by the Board of Directors.	1. The efficiency of Chairman of the Board's performance was evaluated during the evaluation of the Board's performance in the reporting period.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



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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	
<b>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.</b>				
2.6.1.	Members of the Board take decisions taking into account all available information, with no conflict of interest, on the condition of equal treatment of the Company's shareholders, within the normal business risk.	1. The Company's internal documents state that a Board member must duly notify the Board of Directors if a conflict of interest arises pertaining to any agenda item of the Board meeting or a Board committee meeting, before the start of discussions on the respective agenda item. 2. Internal documents of the Company state that a Board member must refrain from voting on any item they have a conflict of interest. 3. There is a procedure in place in the Company, which entitles the Board of Directors to receive professional consultations on items within their area of expertise at the Company's expense.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.6.2.	The rights and obligations of the Board members are clearly worded and stated in the Company's internal documents.	1. 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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.6.4.	All members of the Board have equal access to the documents and information of the Company. Newly elected members of the Board promptly receive sufficient information on the Company and the Board of Directors' activities.	<ol style="list-style-type: none"> <li>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.</li> <li>The Company has a formal induction procedure for newly elected members of the Board.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>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.</b>				
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.	<ol style="list-style-type: none"> <li>The Board of Directors had at least six meetings during the reporting year.</li> </ol>	<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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<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, except statutorily required cases. That's how full compliance to legislative requirements is achieved. 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> <p>In view of the above, the Company eliminates the possibility of any risks; in case of risk factors, it will take available measures to adjust this system by amending its internal corporate documents.</p>



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
<b>2.8 The Board of Directors sets up committees for pre-review of the most important issues of the Company's activity.</b>				
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.	<ol style="list-style-type: none"> <li>1. The Board of Directors has set up the Audit Committee consisting only of independent directors.</li> <li>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.</li> <li>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.</li> <li>4. Meetings of the Audit Committee were held at least once per quarter during the reporting period.</li> </ol>	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	<ol style="list-style-type: none"> <li>1. Partial compliance The Board of Directors has set up the Audit Committee chaired by an independent director; the majority of Committee members are independent directors. 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. This structure of the Committee is optimal, complies with the requirements of the Moscow Exchange; and the Company believes that it does not entail additional risks for the Company. The Company is monitoring the situation and will take measures to correct the structure if necessary, by setting up the Committee consisting exclusively of independent directors.</li> <li>2. Compliance ensured</li> <li>3. Compliance ensured</li> <li>4. Compliance ensured</li> </ol>
2.8.2	For the pre-view of issues related to the development of an efficient and transparent remuneration practice, a Remuneration Committee has been set up which consists of independent directors and is chaired by an independent director who is not the Board Chairman.	<ol style="list-style-type: none"> <li>1. The Board of Directors has set up a Remuneration Committee, which consists of independent directors only.</li> <li>2. The Chairman of the Remuneration Committee is an independent director who is not Chairman of the Board.</li> <li>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.</li> </ol>	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	<ol style="list-style-type: none"> <li>1. Partial compliance The Board of Directors has set up the Human Resources, Remunerations and Social Policy Committee chaired by an independent director; the majority of Committee members are independent directors. 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. This structure of the Committee in the opinion of the Company is optimal, complies with the requirements of the Moscow Exchange; and the Company believes that it does not entail additional risks for the Company. The Company is monitoring the situation and will take measures to correct the structure if necessary, by setting up the Committee consisting exclusively of independent directors.</li> <li>2. Compliance ensured</li> <li>3. Compliance ensured</li> </ol>

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
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.	<ol style="list-style-type: none"> <li data-bbox="518 409 790 633">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.</li> <li data-bbox="518 645 790 869">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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> 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).	<ol style="list-style-type: none"> <li data-bbox="518 880 790 1160">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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

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
2.8.5	The committees are composed in such a way as to enable comprehensive examination of issues under consideration based on various opinions.	<ol style="list-style-type: none"> <li>1. Committees of the Board are chaired by independent directors.</li> <li>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.</li> </ol>	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	<ol style="list-style-type: none"> <li>1. Partial compliance            Formed in accordance with the Corporate Governance Code, 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, the Board of Directors has formed a Strategic Planning Committee, that provides support to the Board of Directors in matters related to long-term efficiency improvements, on growing the Company's asset base, and on increasing its profitability and investment appeal. The Committee is made up of four independent directors, other members of the Board of Directors, and experts with professional experience required to address the matters listed above. The Company believes that this structure of the Committee is optimal and does not entail additional risks for NLMK. The Company is monitoring the situation and in case of risk factors, it will take available measures to adjust this structure.</li> <li>2. Compliance ensured</li> </ol>
2.8.6	Committee chairs regularly inform the Board of Directors and its Chairman of their respective Committees' performance.	<ol style="list-style-type: none"> <li>1. Within the reporting period the chairs of the Committees regularly reported on their performance to the Board of Directors.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>2.9 The Board of Directors ensures that the performance of the Board, its committees and members is evaluated.</b>				
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



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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>External organizations (consultants) were not engaged in carrying out and independent performance evaluation of the Board of Directors. At the same time, as part of the annual evaluation of the Board of Directors carried out in January 2019 in the format of an online survey of its members in the form approved by the Committee, the Board's strengths and areas for improvement were analyzed. In 2019, the activities of the Board of Directors and the Corporate Secretary were focused on improving the areas for development identified in the course of the performance evaluation, and on implementing the recommendations developed as a result.</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 2019.</p> <p>The Company believes that the self-assessment of the Board of Directors does not entail additional risks for NLMK.</p> <p>The Human Resources, Remuneration and Social Policy Committee is analyzing the expediency of engaging an independent consultant to evaluate the performance of the Board of Directors (the company plans to include the issue in the agenda of the Committee meetings in 2020).</p>
<b>3.1</b>	<b>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.</b>			
3.1.1.	The Corporate Secretary has sufficient knowledge, experience and qualification to perform imposed obligations, impeccable reputation and credibility with shareholders.	1. The Company has adopted and disclosed an internal document: Regulations on the Corporate Secretary. 2. There is a biography of a corporate secretary with the same level of detail as for the Board members and the company's executive management, at the company's Internet site and in the Annual Report.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

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
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	
<b>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.</b>				
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	

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
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	
<b>4.2</b>	<b>System of remuneration of members of the Board of Directors aligns the financial interests of directors with long-term financial interests of shareholders.</b>			
4.2.1	The Company pays fixed annual remuneration to the Board members. The Company does not pay remuneration for participation in individual meetings of the Board of Directors or Committees of the Board. The Company does not use any forms of short-term incentive and additional material incentives for members of the Board of Directors.	1. Fixed annual remuneration was a sole form of monetary remuneration to the Board members for their work on the Board of Directors during the reporting period.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



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4.2.2	Long-term ownership of the Company's shares is most conducive to bringing the financial interests of the Board members closer together with the long-term interests of shareholders. At the same time, the Company does not stipulate the rights to sell shares by achieving certain performance indicators, and members of the Board of Directors do not participate in option programmes.	1. If the Company's internal document (documents) – policy (policies) on remuneration provides for the ownership of the Company's shares by the Board members, clear explicit rules aimed at encouraging long-term ownership of the Company's shares by the Board members should be introduced and disclosed.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
4.2.3	The Company does not provide for additional payments or compensations in the event of early termination of the Board members' appointment in connection with the transfer of control over the Company or other circumstances.	1. 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	
<b>4.3</b>	<b>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.</b>			
4.3.1	Remuneration of members of executive bodies and other key executives of the Company is determined in such a way as to ensure a reasonable and justified correspondence between the fixed part of remuneration and the variable part of remuneration depending on the Company's performance and personal (individual) contribution of the employee to the final result.	1. Within the reporting period annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of members of executive bodies and other key executives of the Company 2. During the latest evaluation of the Company's remuneration system regarding members of executive bodies and other key executives, the Board of Directors (Remuneration Committee) has made sure that efficient ratio of the fixed part and the variable part of remuneration is applied in the Company. 3. The Company provides for a procedure that ensures that the Company's bonuses that have been illegally received by members of executive bodies and other key executives of the Company are returned to the Company.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	1. Compliance ensured 2. Compliance ensured 3. Non-compliance The Company uses a clear mechanism for paying bonuses to members of executive bodies and other senior executives. The participation of the Board of Directors and the Human Resources, Remunerations and Social Policy Committee in the approval of the annual bonus to members of the executive bodies makes it impossible for unjustified payments to take place. The Company believes that this system eliminates the need for an additional procedure for the return of bonuses. The Company is monitoring the mechanism of payment of bonuses and will take measures to correct it if necessary.

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
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).	<ol style="list-style-type: none"> <li data-bbox="512 398 783 651">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).</li> <li data-bbox="512 651 783 1061">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</li> </ol>	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	In conditions when significantly changing market prices have a determining influence on the share price, a long-term incentive programme using the Company's shares has been recognized as ineffective and is not used in the Company. The Company has adopted a long-term incentive programme for members of executive bodies and other key executives of the Company, which does not provide for the use of the Company's shares (financial instruments based on the Company's shares).
4.3.3	The amount of compensation (golden parachute) paid by the Company to members of executive bodies or other key executives in case of their early termination initiated by the Company and with no fraudulent actions on their part, does not exceed the two-fold amount of the fixed part of their annual remuneration.	1. The amount of compensation (golden parachute) paid by the Company to members of executive bodies or other key executives in case of their early termination initiated by the Company and with no fraudulent actions on their part, did not exceed the two-fold amount of the fixed part of their annual remuneration in the reporting period.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>5.1</b>	<b>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.</b>			
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	

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
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	
5.1.3	The Company's risk management and internal control system ensures objective, fair and clear understanding of the Company's current state and prospects; integrity and transparency of the Company's statements; and that the risks assumed by the Company are reasonable and acceptable.	1. The Company has adopted an Anti-corruption policy. 2. There is a procedure in place in the Company aimed at informing the Board of Directors or the Board's Audit Committee on the facts of violation of legislation, the Company's internal procedures, and ethics code.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
5.1.4	The Company's Board of Directors takes the necessary measures to ensure that the 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.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>5.2</b>	<b>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.</b>			
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	



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
<b>6.1 The Company and its activity are transparent for its shareholders, investors and other stakeholders.</b>				
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.	<ol style="list-style-type: none"> <li>1. The Company's Board of Directors has approved the Company's Information Policy developed with regard to recommendations of the Code.</li> <li>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.</li> </ol>	<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.	<ol style="list-style-type: none"> <li>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.</li> <li>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).</li> <li>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.</li> </ol>	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	<ol style="list-style-type: none"> <li>1. Compliance ensured</li> <li>2. Compliance ensured</li> <li>3. Non-compliance</li> </ol> <p>In the reporting period, NLMK did not publish a memorandum of the controlling person regarding their plans with regard to the Company's corporate governance.</p> <p>As part of the Meeting of Shareholders, information on the nomination of candidates to executive bodies by the controlling person is presented in the materials available to an unlimited number of stakeholders. The Company's Annual Report that is approved by the Meeting of Shareholders (the controlling person being a shareholder) contains information on the Company's avenues for development and planned activities aimed at improving its corporate governance.</p> <p>In view of the above, the Company excludes any possible risks. If the Company receives from the controlling person specific statements regarding the Company's corporate governance, the Company undertakes to publish them on its website.</p>

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
<b>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.</b>				
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<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.	<ol style="list-style-type: none"> <li>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.</li> <li>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</li> </ol>	<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.	<ol style="list-style-type: none"> <li>1. The Company's Annual Report contains information on the key aspects of the Company's operations and its financial performance.</li> <li>2. The Company's Annual Report contains information on environmental and social aspects of the Company's activities</li> </ol>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

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
<b>6.3</b>	<b>The Company presents information and documents requested by shareholders in line with the principle of equal and easy access.</b>			
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.	1. In the reporting year, the Company did not refuse to satisfy the shareholders' requests to provide information or such refusals were justified. 2. In cases defined by the Information Policy of the Company, shareholders are warned about the confidential nature of the information and undertake to keep it confidential.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
<b>7.1</b>	<b>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.</b>			
7.1.1	The material corporate events include restructuring of the Company; acquisition of 30 and over percent of the Company's voting shares (takeover); material transactions effected by the Company; increase or reduction of the Company's authorized capital; listing and delisting of the Company's shares; other actions which may cause a significant change of the shareholders' rights or violation of their interests. The Company's Charter lists (specifies the criteria of) transactions and other actions that are recognized as material corporate events and attributed to the area of expertise of the Company's Board of Directors.	1. The Company's Charter lists transactions and other actions that are recognized as material corporate events and the criteria to determine them. Decision-making regarding material corporate events lies in the area of expertise of the Company's Board of Directors. In cases when the decision on performing such corporate actions is statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to shareholders. 2. The Company's Charter lists the following actions among others as material corporate events: restructuring of the Company; acquisition of 30 and over percent of the Company's voting shares (takeover); increase or reduction of the Company's authorized capital; listing and delisting of the Company's shares.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	The Company's Charter does not list transactions and other actions that are recognized as material corporate events and the criteria to determine them. 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 or the General Shareholders Meeting, in line with legislation and Charter of the Company. In cases when such corporate actions are statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to shareholders. In cases when such corporate actions are statutorily attributed to the Board of Directors, these matters are first reviewed by the relevant Committees that provide respective recommendations to Board of Directors. In view of the above, the Company excludes the possibility of any risks. At present moment, the Company evaluates the advisability of including the term "material corporate events" in internal documents.



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
7.1.2	<p>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.</p>	<p>1. The Company has a procedure ensuring that the independent directors declare their opinion on material corporate events before they are approved.</p>	<p><input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance</p>	
7.1.3	<p>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>	<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>	<p><input type="checkbox"/> Compliance ensured  <input checked="" type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance</p>	<p>1. Partial compliance  The Company's Charter does not establish minimal criteria for the attribution of the Company's transactions to material corporate events that are lower than those statutorily required. The Company is guided by statutory criteria for the attribution of the Company's transactions to material corporate events.  The majority of material corporate actions recognized by the Corporate Governance Code fall within the remit of the Company's Board of Directors or the General Meeting of Shareholders. 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.  In cases when such corporate actions are statutorily attributed to the Board of Directors, these matters are first reviewed by the relevant Committees that provide respective recommendations to Board of Directors. In the opinion of the Company, no further measures are required at present to protect the rights and legitimate interests of shareholders, there is no additional risks for the Company. 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>

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
<b>7.2</b>	<b>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.</b>			
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.	1. The Company's internal documents provide for a procedure for engaging an independent appraiser to estimate the value of property to be disposed of or acquired as a material transaction or as an interested party transaction. 2. The Company's internal documents provide for a procedure for engaging an independent appraiser to estimate the value of acquisition and repurchase of its shares. 3. The Company's internal documents provide for an expanded list of grounds on which the Board members and other parties are recognized as an interested party in the Company's transactions under the Russian legislation.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	1. Partial compliance The Company's internal documents do not 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. The Company engages an independent appraiser in cases set out in the legislation of the Russian Federation, and the Company believes that this fully eliminates any risk. The Company is monitoring the system, and in case of any risk factors emerging, it will take the required measures to adjust the system. 2. Compliance ensured 3. Partial compliance The Company's internal documents do not provide for an expanded list of grounds on which the Board members and other parties as required by the law are recognized as an interested party in the Company's transactions. 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, risks are completely excluded and the Company does not deem it appropriate to provide an expanded list of grounds on which the Board members and other parties are recognized as an interested party in the Company's internal documents. The Company is monitoring the system and will take measures to correct it if necessary.

## Report on dividends declared

Year	Period	Dividend per share, RUB.	Declaration date	Amount, RUB.	As a % of Net Income*	Date of payment	Paid** as at 31.12.2019	
							RUB.	As a % from declared
2019	9 month	3.22	20.12.2019	19,298,191,712.80	124	from 10.01.2020 to 13.02.2020 (including)	19,294,237,356.38	99.98
2019	6 month	3.68	27.09.2019	22,055,076,243.20	133	from 11.10.2019 to 15.11.2019 (including).	22,030,072,935.39	99.89
2019	3 month	7.34	07.06.2019	43,990,287,941.60	99	from 20.06.2019 to 24.07.2019 (including)	43,939,200,222.99	99.88
2018	year	22.81 (Taking into account paid interim dividends RUB 5.80 per share to be paid)	19.04.2019	136,705,513,344.40 (Taking into account paid interim dividends RUB,34,760,717,992 to be paid)	104	from 07.05.2019 to 13.06.2019 (including)	136,553,959,949.31	99.89
2018	9 month	6.04	21.12.2018	36,199,092,529.60	84	from 10.01.2019 to 13.02.2019 (including)	36,159,064,171.56,	99.89
2018	6 month	5.24	28.09.2018	31,404,510,737.60,	166	from 13.10.2018 to 19.11.2018 (including).	31,369,721,739.39,	99.89
2018	3 month	5.73	08.06.2018	34,341,192,085.20,,	93	from 21.06.2018 to 25.07.2018 (including)	34,303,609,315.44	99.89
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)	113	from 21.06.2018 to 25.07.2018 (including)	84,051,773,132.50	99.89
2017	9 month	5.13	22.12.2017	30,745,255,741.20	99	from 10.01.2018 to 13.02.2018 (including)	30,711,903,942.03	99.89
2017	6 month	3.20	29.09.2017	19,178,327,168	101	from 13.10.2017 to	19,157,170,246.86	99.89



						17.11.2017 (including)		
2017	3 month	2.35	02.06.2017	14,084,084,014	120	from 15.06.2017 to 19.07.2017 (including)	14,067,476,634.50	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)	84	from 15.06.2017 to 19.07.2017 (including)	55,196,559,498.82	99.89
2016	9 month	3.63	23.12.2016	21,755,414,881.20	75	from 10.01.2017 to 13.02.2017 (including)	21,731,071,691.46	99.89
2016	6 month	1.08	30.09.2016	6,472,685,419.20	65	from 13.10.2016 to 17.11.2016 (including)	6,465,411,301.07	99.89
2016	3 month	1.13	03.06.2016	6,772,346,781.20	37	from 15.06.2016 to 19.07.2016 (including)	6,764,721,958.97	99.89
2015	year	6.95 (Taking into account paid interim dividends RUB 2.43 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)	65	from 15.06.2016 to 19.07.2016 (including)	41,605,507,206.32	99.89
2015	9 month	1.95	21.12.2015	11,686,793,118	44	from 09.01.2016 to 12.02.2016 (including)	11,673,393,760.29	99.89
2015	6 month	0.93	30.09.2015	5,573,701,333.20	50	from 13.10.2015 to 17.11.2015 (including)	5,567,422,046.27	99.89
2015	3 month	1.64	05.06.2015	9,828,892,673.60	52	from 17.06.2015 to 21.07.2015 (including)	9,817,372,504.90	99.88
2014	year	2.44 (Taking into account paid interim dividends RUB 1.56 per share)	05.06.2015	14,623,474,465.60 (Taking into account paid interim dividends RUB 9,349,434,494.40 to	26	from 17.06.2015 to 21.07.2015 (including)	14,606,462,870.22	99.88

		to be paid)		be paid)				
2014	6 month	0.88	30.09.2014	5,274,039,971.20	18	from 12.10.2014 to 18.11.2014 (including)	5,267,898,137.36	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, 2019 dividends payment deadline has not expired. The data is related to the expiry date of the dividend payout period the 9 months of 2019 - deadline expiring – February 13, 2020.



## Independent Limited Assurance Report

To the Management of Novolipetsk Steel

### Introduction

We have been engaged by Novolipetsk Steel (hereinafter – the “Company”) to provide limited assurance on the selected information listed below and included in the 2019 Annual Report of the Company (hereinafter – the “Annual Report”). The Annual Report represents information related to the Company, its subsidiaries and a joint venture (hereinafter together – the “Group”).

### Selected information

We assessed the following qualitative and quantitative information (hereinafter – the “Selected Information”), that is disclosed in the Annual Report and referred to in the GRI content index:

- Disclosure GRI 102-8 Information on employees and other workers, – only in respect of the average number of employees for the Group;
- Disclosure GRI 302-1 Energy consumption within the organization, – except for fuel consumption from renewable sources;
- Disclosure GRI 302-4 Reduction of energy consumption;
- Disclosure GRI 303-2 Management of water discharge-related impacts;
- Disclosure GRI 303-3 Water withdrawal;
- Disclosure GRI 303-4 Water discharge;
- Disclosure GRI 303-5 Water consumption;
- Disclosure GRI 305-1 Direct (Scope 1) GHG emissions;
- Disclosure GRI 305-2 Energy indirect (Scope 2) GHG emissions;
- Disclosure GRI 305-7 Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions;
- Disclosure GRI 306-2 Waste by type and disposal method;
- Disclosure GRI 403-9 Work-related injuries; and
- Disclosure GRI 404-1 Average hours of training per year per employee, – only in respect of the total number of training sessions completed by employees.

The scope of our assurance procedures was limited to the Selected Information for the year ended 31 December 2019 only. We have not performed any procedures with respect to earlier periods or any other items included in the Annual Report and, therefore, do not express any conclusion thereon.

### Reporting criteria

We assessed the Selected Information using relevant criteria, including reporting requirements, in the respective GRI Standards 102, 302, 303, 305, 306, 403 and 404 (hereinafter – the “GRI Standards”) published by the Global Reporting Initiative (GRI) (hereinafter – the “Reporting Criteria”). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.



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## The Group's responsibilities

Management of the Group is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparation, measuring and reporting the Selected Information in accordance with the Reporting Criteria; and
- accuracy, completeness and presentation of the Selected Information.

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## Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the management of the Group.

This report, including our conclusion, has been prepared solely for the management of the Group in accordance with the agreement between us, to assist management in reporting on the Group's sustainability performance and activities. We permit this report to be disclosed in the Annual Report, which may be published on the Company's website<sup>1</sup>, to assist management in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the management of the Group for our work.

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## Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

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## Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our assurance procedures over the Selected information in the Russian Federation.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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<sup>1</sup> The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.



## Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of the Group's management;
- conducted interviews of personnel responsible for the preparation of the Annual Report and collection of underlying data;
- performed analysis of the relevant internal methodology and guidelines, gaining an understanding of the design of the key systems, processes and controls for preparing and reporting the Selected Information; and
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported.

## Reporting and measurement methodologies

The range of different, but acceptable under the GRI Standards, measurement and reporting techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by management in preparing the Annual Report, described therein, and which the Group is solely responsible for.

## Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

for  
02 March 2020  
Moscow, Russian Federation

*A.S. Ivanov*

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

Audited entity: Novolipetsk Steel PJSC

Record made in the Unified State Register of Legal Entities on 9 July 2002 under State Registration Number 1024800823123

Taxpayer Identification Number 4823006703

2, Meta'lurgov so., Lipetsk, 398040, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Taxpayer Identification Number 770505\*102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principle Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

## **FINANCIAL STATEMENTS**

Part 1 – 2019 CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Part 2 – 2019 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 2019**

**(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:

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### Our opinion

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

### What we have audited

The Group's consolidated financial statements comprise:

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

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### Basis for opinion

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

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

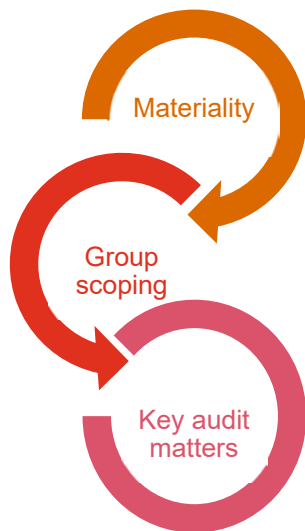
### Independence

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



## Our audit approach

### Overview



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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

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

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



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

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

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

Key audit matter	How our audit addressed the key audit matter
<p>The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment. No indicators that an impairment loss recognised in prior periods may no longer exist or may have decreased have been identified.</p> <p>The recoverable amount of PP&amp;E, intangible assets and goodwill for each CGU subject to testing was calculated by management as of 30 September 2019 (30 November 2019 for CGU NLMK-Kaluga) and updated based on the actual performance of these CGUs as of 31 December 2019.</p> <p>Management assessed the recoverable amount being value in use for each such CGU using discounted cash flow models and concluded that no impairment or reversal of previously recognised impairment were required as of 31 December 2019.</p> <p>We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.</p>	<ul style="list-style-type: none"> <li>• performing a sensitivity analysis over the key assumptions in order to assess their potential impact on impairment results and ranges of possible outcomes of the recoverable amounts;</li> <li>• examining management's assessment of the degree to which steel prices and sales volumes would need to reduce and the discount rates would need to increase, in isolation from other changes in assumptions, before an impairment arises on these CGUs;</li> <li>• validating the key assumptions used in the impairment models also as of 31 December 2019;</li> <li>• assessing compliance with the requirements of IFRS of the related disclosures in the consolidated financial statements.</li> </ul>
<h2>2. Determination of the carrying value of the investment in NBH</h2>	
<p><i>Refer to Note 4 and Note 26 (c) to the Consolidated Financial Statements</i></p>	
<p>NBH is a joint venture between the Group and Societe Wallonne de Gestion et de Participations S.A. (hereinafter – "SOGEPA").</p> <p>In the fourth quarter of 2019, the Group contributed an additional USD 155 million into the share capital of NBH while SOGEPA contributed USD 39 million.</p> <p>The Group management considered that the deficit of SOGEPA's share in this contribution should not be expensed immediately, but the investment in NBH as a whole should be tested for impairment as of the date of this additional contribution using a discounted cash flow model.</p> <p>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</p>	<p>Our audit procedures included:</p> <ol style="list-style-type: none"> <li>1) agreeing the amount of the Group's additional contribution to equity to supporting documentation;</li> <li>2) testing management's impairment assessment of the investment in NBH. We performed audit procedures over the impairment models, including: <ul style="list-style-type: none"> <li>• comparing the key assumptions used within the impairment models to historic performance and approved forecasts of the three CGUs within NBH;</li> <li>• benchmarking the key assumptions used within the impairment models, including price forecasts, inflation and discount rates, against external expert valuations,</li> </ul> </li> </ol>





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

### How we tailored our Group audit scope

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

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

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

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



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### Other information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.





The certified auditor responsible for the audit resulting in this independent auditor's report is A.S. Ivanov.

11 February 2020  
Moscow, Russian Federation

Signed on the original: A.S. Ivanov.

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

Audited entity: Novolipetsk Steel

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

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

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Taxpayer Identification Number 7705051102

Member of Self-regulated organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations –12006020338



**Novolipetsk Steel**  
**Consolidated statement of financial position**  
*(millions of US dollars)*

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

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

The accompanying notes constitute an integral part of these consolidated financial statements.

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



	Note	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	14	10,554	12,046	10,065
Cost of sales		(7,303)	(7,680)	(6,798)
<b>Gross profit</b>		<b>3,251</b>	<b>4,366</b>	<b>3,267</b>
General and administrative expenses		(352)	(375)	(364)
Selling expenses		(843)	(886)	(788)
Net impairment losses on financial assets		(1)	(1)	(7)
Other operating income/(expenses), net		13	(4)	3
Taxes other than income tax	16	(66)	(88)	(80)
<b>Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment</b>		<b>2,002</b>	<b>3,012</b>	<b>2,031</b>
Loss on disposals of property, plant and equipment		(4)	(7)	(1)
Impairment of non-current assets	8, 9	(30)	(4)	(17)
Share of results of joint ventures	4	(88)	(243)	(90)
Losses on investments, net		-	(2)	(5)
Finance income	18	18	21	29
Finance costs	18	(68)	(70)	(87)
Foreign currency exchange (loss)/gain, net	19	(6)	33	17
Other expenses, net		(30)	(11)	(54)
<b>Profit before income tax</b>		<b>1,794</b>	<b>2,729</b>	<b>1,823</b>
Income tax expense	17	(453)	(486)	(371)
<b>Profit for the year</b>		<b>1,341</b>	<b>2,243</b>	<b>1,452</b>
Profit is attributable to:				
<b>Novolipetsk Steel shareholders</b>		<b>1,339</b>	<b>2,238</b>	<b>1,450</b>
<b>Non-controlling interests</b>		<b>2</b>	<b>5</b>	<b>2</b>
<b>Earnings per share:</b>				
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	13	0.2234	0.3734	0.2419
Weighted-average number of shares outstanding: basic and diluted (in thousands)	12(a)	5,993,227	5,993,227	5,993,227

The accompanying notes constitute an integral part of these consolidated financial statements.



**Novolipetsk Steel**  
**Consolidated statement of comprehensive income**  
*(millions of US dollars)*



	<u>Note</u>	<u>For the year ended 31 December 2019</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Profit for the year		1,341	2,243	1,452
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	<u>644</u>	<u>(1,154)</u>	<u>348</u>
<b>Total comprehensive income for the year</b>		<u><b>1,985</b></u>	<u><b>1,089</b></u>	<u><b>1,800</b></u>
attributable to:				
Novolipetsk Steel shareholders		1,981	1,087	1,797
Non-controlling interests		<u>4</u>	<u>2</u>	<u>3</u>

The accompanying notes constitute an integral part of these consolidated financial statements.

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

The accompanying notes constitute an integral part of these consolidated financial statements.

**Novolipetsk Steel**  
**Consolidated statement of cash flows**  
*(millions of US dollars)*



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

The accompanying notes constitute an integral part of these consolidated financial statements.



## 1 Background

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

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

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

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

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

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



## 1 Background (continued)

Among joint ventures the major is:

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

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

## 2 Basis of preparation of the consolidated financial statements

### (a) Basis of preparation

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

### (b) Functional and reporting currency

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

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

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

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

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

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

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

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

## 3 Cash and cash equivalents

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

## 4 Investments in joint ventures

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

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

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





#### 4 Investments in joint ventures (continued)

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

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

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

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

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

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

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

#### 4 Investments in joint ventures (continued)

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

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

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

#### 5 Financial investments

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

The carrying amounts of financial investments approximate their fair values.

#### 6 Trade and other accounts receivable

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

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

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## 6 Trade and other accounts receivable (continued)

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

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

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

## 7 Inventories

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

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

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

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

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



## 8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Total
Cost at 1 January 2017	121	1,799	2,113	5,994	266	858	11,151
Accumulated depreciation and impairment	-	(702)	(1,301)	(3,636)	(184)	-	(5,823)
<b>Net book value at 1 January 2017</b>	<b>121</b>	<b>1,097</b>	<b>812</b>	<b>2,358</b>	<b>82</b>	<b>858</b>	<b>5,328</b>
Additions	-	-	-	-	-	585	585
Disposals	-	-	(4)	(1)	-	(6)	(11)
Impairment	-	-	-	-	-	(8)	(8)
Transfers	-	171	110	314	23	(618)	-
Depreciation charge	-	(52)	(76)	(471)	(18)	-	(617)
Translation adjustment	7	58	44	115	4	44	272
Cost at 31 December 2017	128	2,057	2,328	6,533	279	855	12,180
Accumulated depreciation and impairment	-	(783)	(1,442)	(4,218)	(188)	-	(6,631)
<b>Net book value at 31 December 2017</b>	<b>128</b>	<b>1,274</b>	<b>886</b>	<b>2,315</b>	<b>91</b>	<b>855</b>	<b>5,549</b>
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)
<b>Net book value at 31 December 2018</b>	<b>110</b>	<b>1,074</b>	<b>699</b>	<b>1,768</b>	<b>101</b>	<b>1,046</b>	<b>4,798</b>
Adjustment on adoption of IFRS 16 (Notes 9 and 27)	22	42	2	13	-	-	79
<b>Net book value at 1 January 2019</b>	<b>132</b>	<b>1,116</b>	<b>701</b>	<b>1,781</b>	<b>101</b>	<b>1,046</b>	<b>4,877</b>



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**8 Property, plant and equipment (continued)**

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

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

## 8 Property, plant and equipment (continued)

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

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

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

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

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

## 8 Property, plant and equipment (continued)

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

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

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

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

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

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



## 9 Intangible assets

	Goodwill	Mineral rights	Industrial intellectual property	Beneficial lease interest	Total
Cost at 1 January 2017	267	333	23	9	632
Accumulated amortisation and impairment	(14)	(215)	(9)	(1)	(239)
<b>Net book value at 1 January 2017</b>	<b>253</b>	<b>118</b>	<b>14</b>	<b>8</b>	<b>393</b>
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)
<b>Net book value at 31 December 2017</b>	<b>265</b>	<b>117</b>	<b>39</b>	<b>8</b>	<b>429</b>
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)
<b>Net book value at 31 December 2018</b>	<b>224</b>	<b>117</b>	<b>40</b>	<b>8</b>	<b>389</b>
Adjustment on adoption of IFRS 16 (Note 8)	-	-	-	(8)	(8)
<b>Net book value at 1 January 2019</b>	<b>224</b>	<b>117</b>	<b>40</b>	<b>-</b>	<b>381</b>
Additions	-	1	24	-	25
Impairment	-	(22)	-	-	(22)
Amortisation charge	-	(3)	(14)	-	(17)
Translation adjustment	24	14	5	-	43
Cost at 31 December 2019	262	311	86	-	659
Accumulated amortisation and impairment	(14)	(204)	(31)	-	(249)
<b>Net book value at 31 December 2019</b>	<b>248</b>	<b>107</b>	<b>55</b>	<b>-</b>	<b>410</b>

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

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



## 9 Intangible assets (continued)

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

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

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

### Goodwill impairment testing

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

## 10 Trade and other accounts payable

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

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

## 11 Borrowings

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

\* Rates and maturity as of 31 December 2019

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

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

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

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

The long-term borrowings mature as follows:

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

### Collateral

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



## 11 Borrowings (continued)

### Net debt reconciliation

	Short-term borrowings	Long-term borrowings	Cash and cash equivalents	Short-term bank deposits	Net debt
<b>Balance at 1 January 2017</b>	<b>(468)</b>	<b>(1,801)</b>	<b>610</b>	<b>898</b>	<b>(761)</b>
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)
<b>Balance at 31 December 2017</b>	<b>(380)</b>	<b>(1,901)</b>	<b>301</b>	<b>1,057</b>	<b>(923)</b>
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
<b>Balance at 31 December 2018</b>	<b>(398)</b>	<b>(1,677)</b>	<b>1,179</b>	<b>5</b>	<b>(891)</b>
Cash flows	17	(436)	(456)	143	(732)
Interest accrued	(81)	-	-	13	(68)
Foreign exchange difference	23	184	(94)	(17)	96
Recognition on adoption of IFRS 16 (Note 27)	(8)	(71)	-	-	(79)
Leasing recognised	-	(15)	-	-	(15)
Translation adjustment	(21)	(173)	84	13	(97)
<b>Balance at 31 December 2019</b>	<b>(468)</b>	<b>(2,188)</b>	<b>713</b>	<b>157</b>	<b>(1,786)</b>

## 12 Shareholders' equity

### (a) Shares

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

### (b) Dividends

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

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

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



## 12 Shareholders' equity (continued)

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

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

\* Dividends per share are shown in Russian rubles.

## (c) Capital management

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

When managing capital, the Group uses the following indicators:

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

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

## 13 Earnings per share

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

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

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**14 Revenue**

**(a) Revenue by type**

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

**(b) Revenue by geographical area**

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

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

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

## 15 Labour costs

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

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

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

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

## 16 Taxes other than income tax

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

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

## 17 Income tax

Income tax charge comprises the following:

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

The corporate income tax rate applicable to the Group entities located in Russia, is predominantly 20%. The corporate income tax rate applicable to income of foreign subsidiaries ranges from 10% to 30%.

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**17 Income tax (continued)**

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

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

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

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



17 Income tax (continued)

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

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



## 17 Income tax (continued)

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

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

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

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

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

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

## 18 Finance income and costs

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

## 19 Foreign exchange differences

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

## 20 Operating leases

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

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

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

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

## 21 Segment information

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

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

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

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**21 Segment information (continued)**

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

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

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



21 Segment information (continued)

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

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

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



**Novolipetsk Steel**  
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*(millions of US dollars)*

**21 Segment information (continued)**

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

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

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

## 21 Segment information (continued)

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

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

## 22 Risks and uncertainties

### (a) Operating environment of the Group

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

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

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

### (b) Market risk

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

#### *Interest rate risk*

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

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



## 22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

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

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

### Foreign currency risk

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

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

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

	US dollar	Euro	Hong Kong dollar	Swiss franc
Cash and cash equivalents	115	304	1	1
Trade and other accounts receivable	4	349	-	-
Financial investments	-	133	154	-
Trade and other accounts payable	(82)	(324)	-	-
Borrowings	(1,709)	(784)	-	-
	<u>(1,672)</u>	<u>(322)</u>	<u>155</u>	<u>1</u>
<b>Net foreign currency position</b>	<u>(1,672)</u>	<u>(322)</u>	<u>155</u>	<u>1</u>



## 22 Risks and uncertainties (continued)

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2018.

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

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

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

### Sensitivity analysis

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

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

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

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



## 22 Risks and uncertainties (continued)

### Commodity price risk

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

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

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

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

### (c) Credit risk

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

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

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

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

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

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

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

## 22 Risks and uncertainties (continued)

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

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

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

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

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

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

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

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

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



## 22 Risks and uncertainties (continued)

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

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

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

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

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

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

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



## 22 Risks and uncertainties (continued)

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

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

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
<b>Total</b>	<b>1,129</b>	<b>(38)</b>	<b>1,091</b>

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)	-
<b>Total</b>	<b>1,025</b>	<b>(43)</b>	<b>982</b>



## 22 Risks and uncertainties (continued)

### (d) Liquidity risk

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

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

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

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

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

As at 31 December 2019, 2018 and 2017, the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

### (e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, vehicles and commercial (trade) credits. In respect of legislation requirements, the Group purchases compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance and accident insurance for employees of the Group.

## 23 Related party transactions

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

**23 Related party transactions (continued)**

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

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

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

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

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

**(c) Financial transactions**

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

**(d) Financial guarantees issued**

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

**23 Related party transactions (continued)**

The maturity of the guaranteed obligations is as follows:

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

**(e) Investments transactions**

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

**24 Commitments and contingencies****(a) Anti-dumping investigations**

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

**(b) Litigation**

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

**(c) Environmental matters**

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



**24 Commitments and contingencies (continued)**

**(d) Capital commitments**

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

**(e) Social commitments**

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

**(f) Tax contingencies**

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

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

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

**(g) Major terms of loan agreements**

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



## 25 Significant accounting policies

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

### (a) Basis of consolidation

#### ***Subsidiaries***

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

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

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

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

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

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

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

## 25 Significant accounting policies (continued)

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

### **Joint ventures**

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

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

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

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

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

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

### **Disposals of subsidiaries and joint ventures**

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

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

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

### **(b) Cash and cash equivalents**

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

**25 Significant accounting policies (continued)****(c) Value added tax (VAT)**

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

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

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

**(d) Inventories**

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

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

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

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

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

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

**(e) Property, plant and equipment (PP&E)*****Measurement at recognition***

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

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

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

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



## 25 Significant accounting policies (continued)

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

### **Subsequent measurement**

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

### **Subsequent expenditures**

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

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

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

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

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

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

### **Borrowing costs**

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

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

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

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

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

### **Mineral rights**

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

**25 Significant accounting policies (continued)*****Right-of-use assets***

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

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

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

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

***Depreciation***

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets through an even write-down of historical cost to their net book value. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation commences from the time an asset is available for use, i.e. when the location and condition provide for its operation in line with the Group management's intentions.

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

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

Buildings and land and buildings improvements	10 – 70 years
Machinery and equipment	2 – 30 years
Vehicles	5 – 25 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (h) "Impairment of non-current assets".

## 25 Significant accounting policies (continued)

### (f) Leases

#### **Applicable for the reporting periods starting 1 January 2019**

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

#### **Applicable for the reporting periods earlier 1 January 2019**

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

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

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



## 25 Significant accounting policies (continued)

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

### (g) Goodwill and intangible assets

Goodwill is the difference between:

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

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

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

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

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

#### ***Impairment of goodwill***

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

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

#### ***Disposal of goodwill***

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

#### ***Intangible assets***

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

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

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



## 25 Significant accounting policies (continued)

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

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

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

### **Amortisation**

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

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

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

### **(h) Impairment of non-current assets**

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year and if their carrying amount impairment indicators are identified.

### **Recoverable value measurement**

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

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

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

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units), which in most cases are determined as individual subsidiaries of the Group. Estimated cash flows are adjusted in line with the risk of specific conditions at sites and discounted at the rate based on the weighted average cost of capital. With regard to assets that do not generate cash regardless of cash flows generated by other assets, the recoverable amounts are based on the cash-generating unit to which such assets relate.

**25 Significant accounting policies (continued)*****Impairment loss***

The asset's carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets' impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

**(i) Provisions for liabilities and charges**

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in impairment losses on financial assets in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no legal right to recover cash.

**(j) Income taxes**

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

***Current tax***

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax***

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

## 25 Significant accounting policies (continued)

Deferred tax is not recognised if temporary differences:

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

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

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

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

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

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

### ***Uncertain tax positions***

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

### **(k) Dividends payable**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

**25 Significant accounting policies (continued)****(l) Revenue recognition*****Revenue from sales of goods and provision of services***

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

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

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

***Interest income***

Interest income is recognised on a time-proportion basis using the effective interest method.

***Dividend income***

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

**(m) Segment information**

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, "Operating Segments".

The Group's organisation comprises six reportable segments:

- the Mining segment, which comprises mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, and supplies raw materials to the steel segment and third parties;
- the Russian flat products segment, comprising production and sales of steel products and coke, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanised cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- the Russian long products segment, comprising a number of steel-production facilities combined in a single production system beginning from scrap iron collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- NLMK USA, comprising production and sales of steel products in the United States;
- NLMK DanSteel and Plates Distribution Network, comprising production and sales of plates in Europe and other regions of the world;
- Investments in NBH, comprising production of hot rolled, cold rolled coils and galvanised and pre-painted steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment consist with the principles outlined in significant accounting policies.



## 25 Significant accounting policies (continued)

### (n) Financial instruments

#### **Financial assets**

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

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

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

The Group does not have equity financial instruments.

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

#### **Initial recognition of financial assets**

Financial investments measured subsequently at fair value are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

#### **Write-off**

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

#### **De-recognition**

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

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



## 25 Significant accounting policies (continued)

### **Modification**

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

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

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

### **Financial liabilities**

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

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss, except for the change of the fair value attributable to the change of own credit risk, which is recognized in other comprehensive income.

#### *Borrowings*

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

#### **Initial recognition of financial liabilities**

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

#### **De-recognition**

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

## 25 Significant accounting policies (continued)

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

### **Financial guarantee agreements**

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

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

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

## 26 Critical accounting estimates and judgements

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

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

### **(a) Tax legislation and potential tax gains and losses**

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

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

### **(b) Estimation of useful lives of property, plant and equipment**

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



## 26 Critical accounting estimates and judgements (continued)

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

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

## 27 New or revised standards and interpretations

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

### **IFRS 16 "Leases"**

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

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

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

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

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

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

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

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



27 New or revised standards and interpretations (continued)

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

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

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

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

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

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

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

**27 New or revised standards and interpretations (continued)**

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

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



## Independent auditor's opinion

To: shareholders and the Board of Directors of Public Joint-Stock Company "Novolipetsk Steel":

### Opinion based on the audit of accounting (financial) statements

---

#### Our opinion

We believe that the attached financial statements accurately present in all material respects the financial position of the Public Joint-Stock Company "Novolipetsk Steel" (the "Company") as of December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with the accounting (financial) reporting rules established in the Russian Federation.

#### Subject of the audit

We have conducted an audit of the accounting (financial) statements of the Company that include:

- Balance sheet as of December 31, 2019;
- Statement of financial performance for the year that ended on this date;
- Statement of changes in equity for the year that ended on this date;
- Cash flow statement for the year that ended on this date;
- Explanatory notes to the balance sheet and statement of financial performance, including the main provisions of the accounting policy.



## Grounds for the opinion

We have conducted the audit in line with the International Auditing Standards (IAS). Our responsibility under these standards is further disclosed in the "Auditor's responsibility for audit of accounting (financial) statements" section of our opinion.

We believe that the audit evidence received by us is sufficient and appropriate in order to provide the basis for expression of our opinion.

### Independence

We are independent of the Company in line with the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants (IESBA Code) and ethical requirements contained in Code of professional ethics for auditors and Rules for independence of auditors and audit organizations applicable to our audit of accounting (financial) statements in the Russian Federation. We have fulfilled other ethical obligations as per the requirements and the IESBA Code.

## Our audit methodology

### Summary

#### Materiality

- Materiality at the level of accounting (financial) statements of the Company as a whole: RUB 4,218,000 thousand, which is 1% of the Company's revenue

#### Key audit item

- Impairment of long-term financial investments in NLMK Overseas Holdings and NLMK Kaluga.

During the audit planning, we determined the materiality and assessed the risks of material misstatement of the financial statements. In particular, we reviewed areas where the management made subjective judgments, e.g. in relation to material estimates, which included the use of assumptions and consideration of future events that are uncertain by nature. As in all our audits, we have also considered the risk of the management's avoidance of internal control, including, but not limited to, assessing whether there is any indication of management's bias, which creates the risk of material misstatement due to fraud.

We defined the scope of our audit so that we could perform our work to the extent sufficient to express our opinion on the accounting (financial) statements as a whole, taking into account the Company's structure, accounting processes and controls used by the Company, as well as the specifics of the industry in which the Company operates.

### Materiality

Our application of the materiality principle has affected the definition of the scope of our audit. The audit is designed so as to obtain reasonable assurance that the financial (accounting) statements do not contain any material misstatements. Misstatements may be caused by fraudulent actions or errors. They are





considered to be material if it can be reasonably expected that, jointly or individually, they could affect the economic decisions of users based on such accounting (financial) statements.

Based on our professional judgment, we have set certain quantitative threshold values for materiality, including for materiality at the Company's accounting (financial) statements as a whole, as indicated in the table below. Using these values and taking into account qualitative factors, we determined the scope of our audit, as well as the nature, timing and scope of our audit procedures, and assessed the impact of distortions (taken individually and in aggregate) on the financial statements as a whole.

---

<b>Materiality at the level of accounting (financial) statements of the Company as a whole</b>	RUB 4,218,000 thousand
<b>Definition method</b>	1% of the Company's revenue
<b>Grounds for using base indicator to determine the materiality level</b>	We made a decision to use the Company's revenue as a base indicator to determine the level of materiality because we believe that this base figure most objectively reflects the Company's performance over a period of time when financial results are volatile. We have set the materiality at level 1%, which, based on our experience, falls within the range of acceptable quantitative thresholds of materiality for public companies in this industry. Also, we take into account distortions and/or potential distortions that we believe to be material due to qualitative factors.

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## Key audit items

The key audit items are the items that, in our professional judgment, were the most significant for our audit of the accounting (financial) statements in the current period. These items were considered in the context of our audit of the accounting (financial) statements as a whole and in building our opinion on these statements, and we do not express a separate opinion on these items.

### Key audit item

#### Impairment of long-term financial investments in NLMK Overseas Holdings and NLMK Kaluga

As of the reporting date, the Company management annually reviews impairment of financial investments, including investments in subsidiaries whose market value is not determined.

When there is evidence of impairment, the management determines the estimated value of the financial investments and compares it with their reported (book) value.

If the check for impairment shows a steady decline in the value of the investment, an impairment provision is made for the difference between the reported value of the investment and its estimated value.

The estimated value of the investment in NLMK Overseas Holdings, which has invested in its own subsidiaries, is determined as the value of its net assets, adjusted for the estimated value of its final investment targets. The latter, in turn, is determined on the basis of discounted cash flow models for major production facilities and net assets for other companies. The model data and calculations were prepared as of December 31, 2019. In the course of testing, the management identified a significant excess of the reported value of the financial investment in NLMK Overseas Holdings vs. its estimated value. Following that, an impairment provision of RUB 30,900,000 thousand was charged.

The estimated value of the investment in NLMK Kaluga was determined based on the discounted cash flow model as of December 31, 2019. In the course of testing, the management identified a significant excess of the reported value of the investment vs. its estimated value. Following that, an impairment provision of

### Audit procedures that have been performed on the key audit items

We have received, reviewed and evaluated the investment impairment review documentation prepared by the management and have not identified any additional factors that should have been, but were not considered in this review.

We have reviewed the estimated value of investments in NLMK Overseas Holdings subsidiaries where the management determined the value based on their net assets.

As part of the review of the estimated value of the investment in NLMK Overseas Holdings, which included a review of the estimated value of its investment targets, and the investment in NLMK - Kaluga, which was determined on the basis of discounted cash flow models, we carried out the following main procedures:

- Review of the discounted cash flow models prepared by management with the assistance of the auditor's valuation experts to assist us in testing the methodology and assumptions used in the models;
- Comparing the key assumptions used in the models with the performance of NLMK Kaluga and the investment targets of NLMK Overseas Holdings for the previous reporting periods, as well as with their approved budget indicators;
- Comparing the key assumptions used in the models, including selling prices, inflation rates, discount rates with external expert estimates, macroeconomic and industry forecasts;
- Critical analysis of the management's judgment, to which calculation



### Key audit item

RUB 7,218,000 thousand was charged.  
We have paid special attention to this issue due to a high degree of judgment in estimating impairment of financial investments, as well as the significant carrying value of the assets under consideration and the provisions charged.

### Audit procedures that have been performed on the key audit items

results are particularly sensitive, as well as analysis of sensitivity of calculation results to changes in such judgments.

### Other information

The management is responsible for other information. Other information includes information contained in the Company's Annual Report for 2019 and the Issuer's Report for Q1 2020, but does not include the accounting (financial) statements and our audit opinion on such statements. Both of these reports will be made available to us after the date of this audit opinion.

Our opinion on the accounting (financial) statements does not apply to other information, and we will not provide a conclusion expressing confidence in relation to this information in any form.

In connection with our audit of the accounting (financial) statements, it is our responsibility to review the above other information once it has been provided to us, and to consider whether there are any material discrepancies between the other information and the accounting (financial) statements or our knowledge obtained in the course of the audit, and whether other information contains any other material misstatements.

If, when reviewing the Company's Annual Report for 2019 and the Issuer's Report for Q1 2020, we conclude that they contain material misstatements, we are obliged to bring it to the attention of persons responsible for corporate governance.

### Responsibility of the management and persons responsible for corporate governance for accounting (financial) statements

The management is responsible for preparation faithful presentation of these accounting (financial) statements in accordance with the accounting (financial) reporting rules established in the Russian Federation and for the internal control system it considers necessary to prepare the accounting (financial) statements that are free from material misstatements due to fraud or error.

In preparing the accounting (financial) statements, the management is responsible for evaluating the Company's ability to continue as a going concern, for disclosing, where appropriate, information relating to business continuity and for preparing the financial statements on the going concern assumption, unless management intends to liquidate the Company or cease operations or has no realistic alternative but to do so.

Persons responsible for corporate governance are responsible for supervision over preparation of accounting (financial) statements of the Company.



## Auditor's responsibility on for the audit of accounting (financial) statements

Our objective is to obtain reasonable assurance that the accounting (financial) statements do not contain any material misstatements due to fraud or error, and to issue an audit report containing our opinion. Reasonable assurance represents a high degree of confidence, but is not a guarantee that an audit conducted in accordance with the IAS will always reveal material misstatements, if any. Misstatements may be due to fraud or error, and are considered to be material if it can be reasonably expected that, jointly or individually, they could affect the economic decisions of users based on such accounting (financial) statements.

During IAS-compliant audits, we exercise professional judgment and maintain professional skepticism throughout the audit. Also, we:

- identify and assess the risks of material misstatement of the accounting (financial) statements due to fraud or error; develop and perform audit procedures in response to such risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatements resulting from fraud is higher than the risk of not detecting material misstatements resulting from error, as fraud may include collusion, sham, wilful omission, misrepresentation or actions to circumvent the internal control system;
- Get an understanding of the internal control system relevant to the audit in order to develop audit procedures appropriate to the circumstances, but not with the aim to express the opinion about the Company's internal control efficiency.
- Evaluate appropriateness of accounting policies used and validity of estimates made by management, and related information disclosures;
- Conclude whether the management's use of the going concern assumption was valid, and, based on the audit evidence we have obtained we conclude whether there is any material uncertainty regarding the 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, it is our obligation to draw attention in our audit report to the relevant disclosures in the accounting (financial) statements or, if such disclosures are inappropriate, to modify our opinion. Our findings are based on audit evidence obtained before the date of our audit opinion. However, future events or conditions may result in the Company losing the ability to continue as a going concern;
- Evaluate presentation of the accounting (financial) statements as a whole, their structure and content, including information disclosure, as well as whether the accounting (financial) statements present underlying transactions and events in a way that ensures their fair presentation.

We communicate with corporate governance officers, and provide, among other things, the planned scope and timing of the audit and material audit observations, including material deficiencies in the internal control system that we identify during the audit.

Also, we provide corporate governance officers with a statement that we have complied with all relevant ethical requirements regarding independence and have informed such officers of all relationships and other matters that can reasonably be considered to affect the independence of the auditor and, where appropriate, the appropriate safeguards.





From the matters that we have brought to the attention of the corporate governance officers, we select those that were most relevant to the audit of the current period's accounting (financial) statements and, therefore are the key audit items. We describe these items in our audit report, unless public disclosure of such items is prohibited by laws or regulations, or when in very rare cases we conclude that information on an item should not be disclosed in our report because it can reasonably be assumed that the adverse consequences of disclosing such information would exceed the public benefit of its disclosure.

Manager of the engagement that was used as a source for this auditor's opinion is A. Ivanov.

February 11, 2020

Moscow, Russia

**A. Ivanov, Engagement Manager (Qualification certificate No. 01-000531), Joint-Stock Company "PricewaterhouseCoopers Audit"**

Audited entity:  
Public Joint-Stock Company "Novolipetsk Steel"

An entry was made to the Unified State Register of Legal Entities on July 9, 2002 and assigned with the State Registration Number 1024800823123.

Taxpayer's identification number (INN): 4823006703

2, pl. Metallurgov, Lipetsk 398040, Russian Federation

Independent Auditor:  
Joint-Stock Company "PricewaterhouseCoopers Audit".

Registered by Moscow Registration Chamber on February 28, 1992 with the number 008.890

An entry was made to the Unified State Register of Legal Entities on August 22, 2002 and assigned with the State Registration Number 1027700148431

Taxpayer's identification number (INN): 7705051102

Member of the self-regulating auditor organization Association "Sodruzhestvo"

The basic registration number of the entry in the register of auditors and auditing organizations is 12006020338



**NOVOLIPETSK STEEL**

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# **ACCOUNTING (FINANCIAL) STATEMENTS NOVOLIPETSK STEEL FOR 2019**



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**BALANCE SHEET**  
as of 31 December 2019

Entity **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of business entity / form of ownership **Public Joint Stock Company /**

**Joint private and foreign property**

Unit of measurement – RUB k

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

The accounting statements are subject to obligatory auditing

Auditor **PWC Audit**

The auditor's taxpayer identification number

The auditor's main state registration number

Form acc. to OKUD

Date (day, month, year)

OKPO

TIN

OKVED2

OKOPF/ OKFS

OKEI

CODES

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OGRN

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Indicator	Code	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017	Disclosure in Notes
1	2	3	4	5	6
<b>ASSETS</b>					
<b>I. Non-current assets</b>					
Intangible assets	1110	1,707,636	1,666,241	1,603,351	2.1, 3.1
R&D results	1120	2,510	5,760	18,810	2.2
Fixed assets	1150	165,776,831	139,314,267	130,017,060	2.3, 3.2
Financial investments	1170	158,223,497	177,809,199	147,965,809	2.4, 2.6, 3.3
Deferred tax assets	1180	1,222,741	1,770,135	161,667	2.12, 3.11
Other non-current assets	1190	7,563,601	7,043,877	6,158,438	2.7, 3.5.1
<b>Total for Section I</b>	<b>1100</b>	<b>334,496,816</b>	<b>327,609,479</b>	<b>285,925,135</b>	
<b>II. Current assets</b>					
Inventories	1210	55,675,785	61,111,447	54,022,366	2.5, 3.4
Input VAT	1220	1,176,619	553,567	3,037,696	
Accounts receivable	1230	109,715,882	126,333,555	145,021,914	2.6, 3.5.1
Financial investments (excluding cash equivalents)	1240	9,481,811	2,497,606	62,557,498	2.4, 2.6, 3.3
Cash and cash equivalents	1250	26,636,800	60,339,735	8,910,318	2.8, 3.6
Other current assets	1260	43	67	67	
<b>Total for Section II</b>	<b>1200</b>	<b>202,686,940</b>	<b>250,835,977</b>	<b>273,549,859</b>	
<b>BALANCE (sum of lines 1100 + 1200)</b>	<b>1600</b>	<b>537,183,756</b>	<b>578,445,456</b>	<b>559,474,994</b>	



Accounting  
(Financial)  
Statements  
for 2019

Indicator	Code	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017	Disclosure in Notes
1	2	3	4	5	6
<b>LIABILITIES</b>					
<b>III. Capital and reserves</b>					
Authorized capital	1310	5,993,227	5,993,227	5,993,227	
Revaluation of non-current assets	1340	3,275,807	3,290,822	3,300,202	
Additional capital (without revaluation)	1350	771,777	771,777	771,777	3.7
Reserve capital	1360	299,661	299,661	299,661	
Retained earnings (uncovered loss)	1370	289,131,900	325,751,607	329,936,615	
<b>Total for Section III</b>	<b>1300</b>	<b>299,472,372</b>	<b>336,107,094</b>	<b>340,301,482</b>	
<b>IV. Long-term liabilities</b>					
Debt	1410	105,703,843	84,066,622	79,363,678	2.6, 2.9, 3.8
Deferred tax liabilities	1420	10,847,050	10,985,025	10,954,069	2.12, 3.11
Other liabilities	1450	385,320	15,510	4,296	2.6, 3.5.2
<b>Total for Section IV</b>	<b>1400</b>	<b>116,936,213</b>	<b>95,067,157</b>	<b>90,322,043</b>	
<b>V. Short-term liabilities</b>					
Debt	1510	30,406,203	21,823,828	25,360,981	2.6, 2.9, 3.8
Accounts payable	1520	86,497,982	118,357,751	99,017,922	2.6, 3.5.2
Estimated liabilities	1540	3,870,986	7,089,626	4,472,566	2.10, 3.9
<b>Total for Section V</b>	<b>1500</b>	<b>120,775,171</b>	<b>147,271,205</b>	<b>128,851,469</b>	
<b>BALANCE (sum of lines 1300 + 1400 + 1500)</b>	<b>1700</b>	<b>537,183,756</b>	<b>578,445,456</b>	<b>559,474,994</b>	

**NLMK Manager**

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

**O. Zarubina**

11 February 2020



PROFIT AND LOSS STATEMENT  
for 2019

Entity **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of ownership / ownership  
**Public joint-stock company / Joint private and foreign property**  
Unit of measurement – RUB k

Form acc. to OKUD  
Date (day, month, year)

CODES	
0710002	
31/12/2019	
OKPO	05757665
TIN	4823006703
OKVED2	24.10.4
OKOPF/ OKFS	12247 / 34
OKEI	384

Indicator	Code	For 2019	For 2018	Disclosure in Notes
1	2	3	4	5
Revenue	2110	421,816,321	493,828,974	2.11, 3.10.1
incl. sales of iron and steel products	2110.1	419,595,963	491,972,262	
Cost of sales	2120	(316,087,072)	(331,447,152)	2.11, 3.10.1
incl. iron and steel products sold	2120.1	(313,940,919)	(329,713,933)	
Gross profit (loss)	2100	105,729,249	162,381,822	
Selling costs	2210	(30,065,720)	(32,374,486)	
Administrative costs	2220	(15,020,523)	(16,302,947)	
<b>Sales profit (loss)</b>	<b>2200</b>	<b>60,643,006</b>	<b>113,704,389</b>	
Income from shareholding in other organizations	2310	72,099,211	21,967,357	3.3.
Interest receivable	2320	571,485	846,760	2.4, 3.3
Interest payable	2330	(4,651,585)	(4,181,852)	2.9, 3.8
Other income	2340	28,474,056	23,560,769	
Other expenses	2350	(61,338,214)	(19,488,934)	2.11, 3.10.2
<b>Profit (loss) before tax</b>	<b>2300</b>	<b>95,797,959</b>	<b>136,408,489</b>	
Current profit tax	2410	(12,521,271)	(20,104,083)	
incl. fixed tax liabilities (assets)	2421	(6,228,901)	(8,755,128)	2.12, 3.11
Change in deferred tax liabilities	2430	137,974	(30,956)	
Change in deferred tax assets	2450	(547,394)	1,608,468	
Other	2460	(1,501)	(27,989)	
Profit tax redistribution among a consolidated group of taxpayers	2465	554,305	5,499	2.12, 3.11
<b>Net profit (loss)</b>	<b>2400</b>	<b>83,420,072</b>	<b>117,859,428</b>	3.7



*Accounting  
(Financial)  
Statements  
for 2019*

Indicator	Code	For 2019	For 2018	Disclosure in Notes
1	2	3	4	5
Consolidated financial performance for the period	2500	83,420,072	117,859,428	
FOR REFERENCE				
Base profit (loss) per share (RUB)	2900	13.92	19.67	3.7

**NLMK Manager**

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

**O. Zarubina**

11 February 2020

*Profit and  
Loss Statement*





STATEMENT OF CHANGES IN EQUITY  
for 2019

Entity **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of ownership / ownership  
**Public joint-stock company / Joint private and foreign property**  
Unit of measurement – RUB k

	CODES
Form acc. to OKUD	0710004
Date (day, month, year)	31/12/2019
OKPO	05757665
TIN	4823006703
OKVED2	24.10.4
OKOPF/ OKFS	12247 / 34
OKEI	384

**1. Capital flow**

Indicator	Code	Authorized capital	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
1	2	3	4	5	6	7
<b>Capital as of 31 December 2017</b>	<b>3100</b>	<b>5,993,227</b>	<b>4,071,979</b>	<b>299,661</b>	<b>329,936,615</b>	<b>340,301,482</b>
<b>For 2018</b>						
Capital increase – total:	3210	--	--	--	<b>117,887,651</b>	<b>117,887,651</b>
including:						
net profit	3211	X	X	X	117,859,428	117,859,428
income directly pertaining to the capital increase	3213	X	--	X	28,223	28,223
Capital reduction – total:	3220	--	--	--	<b>(122,082,039)</b>	<b>(122,082,039)</b>
including:						
dividends	3227	X	X	X	(122,082,039)	(122,082,039)
Additional capital change	3230	X	(9,380)	--	9,380	X
<b>Capital as of 31 December 2018</b>	<b>3200</b>	<b>5,993,227</b>	<b>4,062,599</b>	<b>299,661</b>	<b>325,751,607</b>	<b>336,107,094</b>
<b>For 2019</b>						
Capital increase – total:	3310	--	--	--	<b>83,469,552</b>	<b>83,469,552</b>
including:						
net profit	3311	X	X	X	<b>83,420,072</b>	<b>83,420,072</b>
income directly pertaining to the capital increase	3313	X	--	X	49,480	49,480
Capital reduction – total:	3320	--	--	--	<b>(120,104,274)</b>	<b>(120,104,274)</b>
including: dividends	3327	X	X	X	(120,104,274)	(120,104,274)
Additional capital change	3330	X	(15,015)	--	15,015	X
<b>Capital as of 31 December 2019</b>	<b>3300</b>	<b>5,993,227</b>	<b>4,047,584</b>	<b>299,661</b>	<b>289,131,900</b>	<b>299,472,372</b>



### 3. Net assets

Indicator	Code	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
	1	2	3	4
Net assets	3600	299,472,372	336,107,094	340,301,482

**NLMK Manager**

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

**O. Zarubina**

11 February 2020



Accounting  
(Financial)  
Statements  
for 2019

**CASH FLOW STATEMENT**  
**for 2019**

Entity **NLMK**  
Taxpayer Identification Number  
Type of business **Production of cold-rolled steel flats**  
Type of ownership / ownership  
**Public joint-stock company / Joint private and foreign property**  
Unit of measurement – RUB k

	CODES
Form acc. to OKUD	0710005
Date (day, month, year)	31/12/2019
OKPO	05757665
TIN	4823006703
OKVED2	24.10.4
OKOPF/ OKFS	12247 / 34
OKEI	384

Indicator	Code	For 2019	For 2018
1	2	3	4
<b>Cash flow from current operations</b>			
<b>Inflow – total</b>	<b>4110</b>	<b>408,881,905</b>	<b>512,656,155</b>
including:			
from sales of goods, products, works and services	4111	407,183,814	510,838,214
from rent, license payments, royalties, commissions and other similar payments	4112	250,581	171,193
other inflow	4119	1,447,510	1,646,748
<b>Payments - total</b>	<b>4120</b>	<b>(367,992,527)</b>	<b>(401,918,395)</b>
including:			
to suppliers (contractors) for feedstock, materials, works and services	4121	(307,353,266)	(337,617,529)
related to employee salaries and wages	4122	(33,443,101)	(27,932,017)
interest on liabilities	4123	(4,783,662)	(4,197,415)
corporate income tax	4124	(11,104,188)	(21,079,805)
other payments	4129	(11,308,310)	(11,091,629)
<b>Balance of cash flows from current operations</b>	<b>4100</b>	<b>40,889,378</b>	<b>110,737,760</b>
<b>Cash flow from investment operations</b>			
<b>Inflow – total</b>	<b>4210</b>	<b>85,551,206</b>	<b>113,652,062</b>
including:			
from sale of non-current assets (except financial investments)	4211	58,538	29,973
from sale of interest (shares) in other companies	4212	23,911	80,905
from repayment of loans granted, from sale of debt securities (rights of demand of funds from other persons)	4213	28,837,253	24,038,187
from dividends, interest on debt financial investments and similar incoming funds from participation in other organizations	4214	56,631,504	26,560,165
other inflow	4219	--	62,942,832

Cash Flow Statement



Accounting  
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ANNUAL  
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Indicator	Code	For 2019	For 2018
1	2	3	4
<b>Payments – total</b>	<b>4220</b>	<b>(60,105,441)</b>	<b>(45,023,445)</b>
including:			
those related to acquisition, set-up, upgrade, reconstruction and preparation for usage of non-current assets	4221	(36,796,408)	(19,652,914)
those related to acquisition of debt securities (rights of demand of funds from other persons), granting of loans to other entities	4223	(12,631,076)	(10,242,741)
interest on debt liabilities included into the cost of an investment asset	4224	--	(1,582)
other payments	4229	(10,677,957)	(15,126,208)
<b>Balance of cash flows from investment operations</b>	<b>4200</b>	<b>25,445,765</b>	<b>68,628,617</b>
<b>Cash flow from financial operations</b>			
<b>Inflow – total</b>	<b>4310</b>	<b>57,156,316</b>	<b>2,687,579</b>
including:			
receiving loans and credits	4311	57,156,316	2,687,579
<b>Payments – total</b>	<b>4320</b>	<b>(152,005,832)</b>	<b>(134,952,673)</b>
including:			
payment of dividends and other payments related to profit distribution in favour of owners (participants)	4322	(130,848,683)	(111,364,561)
related to repayment (buy-back) of bills of exchange and other debt securities, repayment of loans and credits	4323	(15,104,232)	(18,585,778)
other payments	4329	(6,052,917)	(5,002,334)
<b>Balance of cash flows from financial operations</b>	<b>4300</b>	<b>(94,849,516)</b>	<b>(132,265,094)</b>
<b>Balance of cash flows for the reporting period</b>	<b>4400</b>	<b>(28,514,373)</b>	<b>47,101,283</b>
<b>Balance of cash and cash equivalents as of the beginning of the reporting period</b>	<b>4450</b>	<b>60,339,683</b>	<b>8,910,224</b>
<b>Balance of cash and cash equivalents as of the end of the reporting period</b>	<b>4500</b>	<b>26,636,609</b>	<b>60,339,683</b>
Foreign currency to RUB exchange rate fluctuation effect	4490	(5,188,701)	4,328,176

**NLMK Manager**

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

**O. Zarubina**

11 February 2020





*Accounting  
(Financial)  
Statements  
for 2019*

# **NOTES TO BALANCE SHEET AND PROFIT AND LOSS STATEMENT**



## 1. GENERAL INFORMATION

Novolipetsk Steel (hereinafter referred to as “the Company”) is an integrated steel-making company specializing in production of a wide variety of flats.  
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 is licensed for all types activities subject to licensing.

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

As of 31.12.2019, the Company’s headcount was 27,401 employees, as of 31.12.2018 – 27,502.

### Board of Directors as of December 31, 2019:

Chairman of the Board of Directors – Vladimir Lisin

Members:

- Oleg V. Bagrin
- Thomas Veraszto
- Nikolai Gagarin
- Joachim Limberg
- Marjan Oudeman
- Karen Sarkisov
- Stanislav Shekshnya
- Benedict Sciortino

### Management Board as of December 31, 2019:

Grigory Fedorishin	– President (Chairman of the Management Board)
Tatiana Averchenkova	– Vice-President, Operational Efficiency
Mikhail Arkhipov	– Vice President, HR & Management System
Ilya Guschin	– Vice President, Sales
Barend de Vos	– Vice-President, International Operations



Sergey Likharev	– Vice President, Logistics
Shamil Kurmashov	– Vice President, CFO
Evgeny Ovcharov	– Vice-President, Risk Management
Sergei Chebotarev	– Vice President, Energy and Utilities

President (Management Board Chairman) is a sole executive body of the Company.  
Information on risk management, internal control and internal audit is presented on the Company's website<sup>1</sup>.

**Information on the Register Holder and the Auditor:**

Register Holder of the Company is JSC Agency "RNR"; license No. 042-13984-000001, dd. 29.11.2002 with an unlimited validity. The Register of the issuer's registered securities owners has been held by the registrar since March 4, 2004.

The company's auditor is PWC Audit

**Financial and tax accounting**

Financial and tax accounting of the Company's business to the extent established by the current legislation is conducted by the Corporate Solutions Centre in line with Service Contract No. 91408 dd. 01.02.2011. The authorized signatory of the accounting (financial) statements is O. Zarubina, Advisor to the Director General of the Corporate Solutions Centre, on the basis of a power of attorney.

**The Company's operational environment**

The Russian economy demonstrates some characteristics typical of emerging markets. The country's economy is mostly susceptible to oil and gas prices. Continuous political tension in the region as well as the extended international sanctions against some Russian companies and nationals are having a negative impact on the Russian economy. Sustainable oil price growth, low unemployment level and increase in salary contributed to economic growth in 2019. Moreover, the existing tax, currency and customs legislation is subject to various interpretations and thus creates additional difficulties for Russian companies. Such economic environment cannot but influence the Company's business. The Management takes all necessary steps to assure sustainable financial standing of the Company. However future consequences of the economic situation are difficult to foresee and their influence on the Company's business might differ from today's expectations of the Management.

Main financial risks intrinsic to the Company's operations include market risks, credit risks, currency risks and underliquidity risks. Financial risk management is aimed at determination of risk limits and subsequent observance of the established limits. Risk management is to ensure proper functioning of the Company's internal policy and procedures for the purpose of minimizing these risks. The Company discloses its procedures for management of these risks at its official website<sup>1</sup>.

The Russian Law on transfer pricing provides for a possibility of additional charging of tax liabilities to monitored transactions (transactions with related parties and certain transactions between independent parties), if the transaction price does not correspond to the market one.

In order to meet requirements of the applicable legislation on transfer pricing the Company's Management introduced internal control procedures. In the reporting year the Company submitted the "Notice of controlled transactions for 2018" to the Tax authority (in 2018 - for 2017).

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

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<sup>1</sup>Posted on the website of NLMK (<http://www.nlmk.com>)



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

The Company has established a consolidated taxpayer group (hereinafter - CTG) for the purpose of calculation and payment of corporate income tax, taking into account the total financial result of a business, in which it acts as the responsible party. 20 NLMK Group companies are included into the CTG.

The Company concluded an agreement with various banks on accession to Cash pooling service for a Master account where NLMK acts as a Parent Company for the purpose of NLMK Group companies' liquidity management by cash consolidation. Cash consolidation is performed through conducting operations under loan agreements between the Company and NLMK Group companies.

## 2. SIGNIFICANT ASPECTS OF ACCOUNTING POLICY AND BASIS OF ACCOUNTING (FINANCIAL) STATEMENTS PREPARATION

The accounting (financial) statements have been prepared in accordance with the rules of accounting and reporting effective in the Russian Federation, in particular, with the Federal Law "Accounting" and Regulation on accounting and reporting in the Russian Federation approved by the RF Ministry of Finance.

The unit of measurement for accounting indicators is RUB thousand without decimal digits. In the accounting (financial) statements, negative figures or figures deductible from relevant indicators in order to calculate intermediate or total values, are given in round brackets.

The companies whose names were brought in line with the Civil code requirements (renaming to Public Company, Joint-Stock Company or Production Cooperative) as of the reporting date, are presented with their names changed.

The Company's consolidated financial statements have been compiled in line with the International Financial Reporting Statements (IFRS).

### 2. 1 INTANGIBLE ASSETS

Intangible assets are reflected in balance sheets upon actual costs of acquisition, manufacture and additional expenses in order to bring assets to a state in which they could be used as intended, less depreciation charged.

Depreciation of intangible assets is calculated by a straight-line method with an exclusion of cases when application of another method to determine depreciation can be justified by a reliable calculation of expected receipt of future economic benefits from using the intangible asset, including financial result from potential sale of that asset.

When useful life of an intangible asset is checked in order to revise it, more accurate definition of the useful life is performed in case of significant change in the period (for 12 months and longer of the previously defined one) within which the Company plans to use that asset. Should it be impossible to define useful life for intangible assets accounted before January 1, 2008, standard depreciation charges are established on the basis of a 20-year term. For similar intangible assets accounted from January 1, 2008, depreciation is not charged.

There are no regular revaluations of intangible assets or checks for their impairment.

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





## 2. 2 R&D RESULTS

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

## 2. 3 FIXED ASSETS AND CONSTRUCTION IN PROGRESS

### Structure of fixed assets

Fixed assets acquired from January 1, 2011 with the initial cost of RUB 40 thou. per item and below, are accounted within inventories.

Special tools, devices and equipment the lifetime of which is longer than 12 months and the cost of which is over RUB 40 k per item are accounted under the procedure established for fixed asset accounting.

### Evaluation basis

The original value of fixed assets acquired by the Company for payment, is formed by the actual costs of acquisition, construction and manufacture less taxes refundable. The initial cost of fixed assets received under agreements which provide for the fulfilment of liabilities (payments) by non-monetary means shall be recognized as the price of valuables handed over or to be handed over, based on the price upon which the Company usually defines the value of similar valuables in comparable circumstances.

Costs related to completion, additional supply of equipment, modernization and upgrading increase the initial cost of fixed assets.

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

Fixed assets purchased before 01.01.1997 are shown in the balance sheet at replacement cost, and those purchased after 01.01.1997 – at initial cost, minus accumulated depreciation amounts respectively.

### Depreciation

Depreciation of fixed asset items is charged on a straight-line basis from the initial (replacement) value of items and using depreciation norms calculated for established useful lives of such items.

Groups of fixed assets	Useful life (years) of items taken onto the books	
	before 01.01.2003	since 01.01.2003
Buildings	5-256	5-45
Structures	8-106	2-45
Machinery and equipment including household equipment and other items.	4-100	1-42
Vehicles	13-35	3-25
Cultivated resources of plant origin	40	30



For fixed asset items commissioned before 01.01.2003, useful life is set on the basis of depreciation norms approved by USSR Ministers Council's Resolution No. 1072 "On uniform norms of depreciation for complete recovery of national economy of the USSR" dd. 22.10.1990, and for those acquired starting from 01.01.2003 - according to the norms calculated based on the useful lives set by the Company.

Depreciation is not charged for objects under preservation for longer than three months as well as within renewal period longer than 12 months.

#### **Retirement, writing-off and disposal**

Retired or disposed fixed asset items are written off from the balance sheet along with the accrued depreciation amount. The revaluation surplus amount of a retired fixed asset item shall be transferred from additional capital to retained profit of the Company, remaining within the equity.

Any profits and expenses induced by fixed asset retirement shall be reflected in the Profit and Loss Statement for the reporting period when they were incurred as other income and expenses.

#### **Construction in progress**

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

Settlements between the Company (Builder) and contractors are performed on a monthly basis according to the agreements on construction, after step-by-step (intermediate) acceptance of the construction and installation works done. Information on value of works done contained in Forms KC-2 and KC-3 is a basis for reflection of expenses related to construction of fixed assets. The value of works is reflected in the contract prices, also in the estimated costs according to which the settlements of NLMK with the contractors are effected with the progressive total since the beginning of the works, the beginning of the year also including the reporting period.

#### **2. 4 FINANCIAL INVESTMENTS**

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

Financial investments are accounted on the basis of actual acquisition costs. Debt securities for which current market value is not determined are accounted before the retirement at original cost. Financial investments, for which the current market value is determined under the established procedure, are reflected as of the quarter end at their current market value.

Debt securities and granted loans are not estimated in terms of discounted value. Financial investments in securities (shares, bonds), for which the current market value is not defined, are depreciated at time of retirement upon the average acquisition cost for that type of securities.

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

In order to show the impairment of the Company's financial investments a provision for their impairment is set up calculated according to the method summarizing information on cost reduction factors and signs of depreciation. If there are signs of impairment of financial investments for which market value is not defined, as of the end of reporting year the Company generates a provision amounting to the excess of book value of such investments over their estimated value determined based on the information available to the Company.

Short- term deposits placed for a period not exceeding 3 months, are classified as cash equivalents and reported as part of other cash assets.



## 2. 5 INVENTORIES

Evaluation of inventories acquired at a charge, as of the end of the reporting period is done at actual costs. In the reporting period accounting is carried out at book prices, determined when first assigning a nomenclature number. When materials arrive, their cost is determined based on the price specified in the delivery order on the basis of a contract or other data. Subsequently actual first cost of materials based on the data for the period preceding the previous period is used as accounting price of the acquired materials. Entry of materials purchased is accounted using control accounts 15 “procurement and acquisition of tangible assets” and 16 “Deviation of tangible assets cost”. In the end of a reporting period, any deviations of the actual cost of materials from their cost of acquisition are written off pro rata the value of materials consumed in the reporting period at book prices to accounting accounts in accordance with the purposes of materials usage and to account 10 “Materials” for the adjustment of its balance by the amount of deviations related to the unused materials balance.

Inventories received without settlement documents of suppliers are recorded as non-invoiced deliveries at book prices.

When tangible assets are released into production or otherwise retire they are valued within the reporting period at book prices with subsequent writing off of deviations of actual cost from the book prices to the relevant accounts at the end of the reporting period. When materials are written off, their evaluative calculation includes their quantity and cost as per the nomenclature number as of the beginning of the month, and also all incomings during the month.

Finished products are valued as of the end of the reporting period at actual costs for each product type, which is formed by the cost of finished product balances as of the beginning of the reporting period and the first cost of the reporting period.

Within the reporting period, finished products accounting is carried out on the basis of book prices without application of account 40 “Product (works, services) output”. Actual first cost of the finished products upon the data of the reporting period before the last one is used as a book price.

Difference between actual first cost and book price of the finished goods is charged to a separate subaccount of account 43 “Finished goods” broken down to product types.

Finished goods are written off at book prices when dispatched. At the same time deviations related to finished goods sold are written off to sales accounts pro rata their quantity. Deviations related to the balance of finished goods are written off from deviations subaccount to finished goods subaccounts at the end of the reporting period, when actual calculation is formed, by product type for the purpose of determination of actual first cost.

Work-in-progress as of the reporting period end is valued on the basis of the actual first cost generated based on work-in-progress value as of the period beginning and production costs of the reporting period. The order-by-order calculation of work-in-progress is evaluated on the basis of actual costs.

In the balance sheet inventories, including work-in-progress, are accounted less the assessed reserves charged quarterly. The method of reserves estimation takes into account the value of identified non-used long-term stored stocks and probable price of their sale.

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

Accounts payable and receivable, including indebtedness under credits and loans, are accounted as short- term assets and liabilities, if their maturity does not exceed 12 months from the balance sheet date in accordance with contractual conditions, or if not fixed. Financial investments are classified as short- term or long- term depending on estimated time of their use (circulation, ownership or repayment).

As of the end of reporting period, long-term assets and liabilities are shown in the balance sheet as short-term ones when their remaining maturity (repayment period) does not exceed 12 months from the balance sheet date.



## 2. 7 ADVANCE PAYMENTS MADE AGAINST NON-CURRENT ASSETS

For a more reliable accounting of information on the property status of the Company, the amounts of advances, given for capital construction, purchasing fixed asset items and other non-current assets, are reflected in Section I of the Balance sheet in line 1190 "Other non-current assets".

## 2. 8 CASH AND CASH EQUIVALENTS

Short-term deposits placed for a period not exceeding 90 days, are classified as cash equivalents and reported in the accounting (financial) statements as part of other cash assets. Interest received on cash equivalents is accounted in cash flow statement as part of ongoing operation.

Cash flow amount in foreign currency is converted into roubles at the official rate of this foreign currency to rouble established by the Central Bank of the Russian Federation as of the date of the payment effecting or receipt.

In the presentation of cash flows in the cash flow statement, the following items are presented in summarized form as cash inflow (payments) in accordance with cash flow type:

- placement and refund of deposits for 3 months and up;
- indirect taxes as part of cash inflow from buyers and customers, payments to suppliers and contractors and payments to / refunds from the RF budget system;
- inflow from contractors as refund of payments made earlier;
- currency exchange transactions;
- execution and receipt of payments as refunds under earlier transactions;
- receipt and granting of loans in the framework of cash pooling.

Cash flows from current, investment and financial transactions are included in the same reporting segment identified by the type of activity.

The cash flow necessary to maintain the current Company's business volume is included in current transactions. The cash flow associated with the Company's business expansion is included in investment operations.

Proceeds and payments on the investment activities include cash flows related to interest-free loans granted to related parties on the grounds of the economic benefits the Company receives from them as dividends or in any other indirect way.

## 2. 9 CREDITS AND LOANS

Interest payable to a lender (creditor) is recognized in the cost of an investment asset or as part of other expenses evenly over the contract validity period.

Additional borrowing costs for the received credits and loans are accounted in the balance sheet and statements in the reporting period which they belong to.

The discount on placed bonds is reflected in other expenses proportionally over the term of the loan agreement.

## 2. 10 ESTIMATED LIABILITIES

The Company accepts estimated liabilities for forthcoming expenses on vacation pays and on payment of bonuses to employees. The Balance Sheet has such liabilities which are reported in short-term liabilities. The procedure for this estimated liabilities accrual and their further accounting is governed by the methodologies approved by the Company.

The necessity of recognizing other estimated liabilities is subject to consideration by the Company on the basis of the financial and economic activity.





## 2. 11 INCOME AND EXPENSES

Income and expenses of the Company are classified as operational and other income and expenses.

Sales proceeds are defined as of transfer date of title for products, goods, results of works, services rendered (for charge) on the basis of settlement documents presented to buyers (customers).

Production costs of products (works, services) sold domestically or exported are defined by straight-line calculation on the basis of types of products and their actual costs.

Expenses related to the sales of products (services, works) and general expenses are recognized in full in costs of products (services, works) sold in the reporting period as operational expenses.

Expenses for licenses, certificates are included into the cost of goods manufactured (works, services) on a monthly basis by equal amounts during their validity.

Actual expenses related to routine and major repairs are recognized as current period expenses upon repairs completion.

Income generated from granting of assets, rights, arising out of patents for inventions, industrial models and other kinds of intellectual property for temporary use and possession subject to payment, from holding shares in nominal capitals of other organizations, interests received from granting organization's monetary funds for use, and other income from securities not related to the organization's core activity is attributed to other income.

The Company generates provisions for inventory impairment, shortage and losses from tangible assets impairment, for financial investment depreciation, provisions for bad debts. Accrual of evaluation reserves is effected on the account of other expenses.

## 2. 12 TAXES

### Income tax

Accounting and taxable profit are defined according to current legislative requirements of the Russian Federation using different methods of assessment and accounting of income and expenses.

The amount of the current profit tax is determined on the basis of the accounting data based on the amount of contingent expense (contingent income) adjusted in line with the sums of permanent tax liabilities (asset), deferred tax asset and deferred tax liability of the reporting period.

The Company takes into account constant and temporary differences which are generated on the basis of analytical data by comparison of balances on accounts and tax accounts with regards to income and expense. The data are recorded in the tax registers for accounting differences regarding the groups of uniform objects.

Deferred tax assets and liabilities are shown in the balance sheet as non-current assets and long-term liabilities, respectively.

CTG's consolidated taxation base shall be defined as arithmetic sum of the profits of all CTG participants decreased by the arithmetic sum of all CTG participants' expenses taking into account the provisions of the Tax Code of the Russian Federation.

Settlements with participants in respect of CTG's income tax are included in other receivables (line 1230 "Accounts Receivable") and other payables (line 1520 "Accounts Payable").

The Company states individually calculated profit tax in line 2410 "Current profit tax" of the income statement.

The due share of savings on CTG's operating results is shown in the Profit and Loss statement in line 2465 "Profit tax redistribution within a consolidated taxpayer group" Cash flows of CTG members are reflected within the cash flows from current operations of the Cash Flow Statement.

**Land tax**

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

**2. 13 ASSETS, LIABILITIES AND OPERATIONS IN FOREIGN CURRENCY**

For accounting items in foreign currencies, the official exchange rate of a foreign currency to the Russian rouble as of the date of operation is used.

In order to prepare accounting (financial) statements, funds on bank accounts (bank deposits), cash and payment documents, securities (except for the shares), accounts receivable including for borrowing liabilities (except for granted and received advance payments and down-payments, prepayments) expressed in foreign currency are recalculated into rubles at the exchange rate valid for the reporting date.

Exchange rate differences are shown in the balance sheet as part of other income and expenses separately from other kinds of income and expenses including financial results from operations with foreign currency during the period they occurred in.

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

<i>Foreign currency</i>	<i>(RUB)</i>		
	<b>As of 31.12.2019</b>	<b>As of 31.12.2018</b>	<b>As of 31.12.2017</b>
1 USD	61.9057	69.4706	57.6002
EUR 1	69.3406	79.4605	68.8668

**2. 14 INFORMATION BY SEGMENTS**

The Company owns assets only in the territory of the Russian Federation and is a sole integrated facility for the production and sale of ferrous products.

The Company identifies reporting segments based on the activity type. Key indicators: proceeds from sale of products, financial result (profit or loss). The information on assets and liabilities within a reporting segment is not disclosed, because for the Company as a whole the segment share in the production and sales is exceeding. Besides the key indicators, proceeds from sales by product types, the share of proceeds from export sales are disclosed additionally.

Reporting segment information is stated using the same valuation techniques as used for the presentation of similar figures in the Company's financial statements taken as a whole.

Besides, the Company discloses segment information in its consolidated financial statements in line with the International Financial Reporting Standards (IFRS), where the Company is included in the Russia Strip Segment without further subdivision by product types.

**2. 15 CHANGES IN ACCOUNTING POLICY**

No significant changes have been made to the accounting policy.



## 2. 16 COMPARATIVE DATA

In the present statements the comparative data have been derived by carrying over the respective reporting parameters for the previous reporting period, excluding aggregated cash flows from loan agreement overdrafts. The changes made do not affect the Company's reporting, however, they improve its understanding-

		<i>(RUB k)</i>		
	<b>Line code</b>	<b>before adjustment</b>	<b>adjustment</b>	<b>after adjustment</b>
<b>Cash flow statement for 2018</b>				
Income from investment operations - total	<b>4310</b>	8,615,462	(5,927,883)	2,687,579
from repayment of loans granted, from sale of debt securities (rights of demand of funds from other persons)	<b>4311</b>	8,615,462	(5,927,883)	2,687,579
Income from investment operations - total	<b>4320</b>	(140,880,556)	5,927,883	(134,952,673)
those related to acquisition of debt securities (rights of demand of funds from other persons), granting of loans to other entities	<b>4323</b>	(24,513,661)	5,927,883	(18,585,778)



### 3. DISCLOSURE OF SIGNIFICANT INDICATORS

#### 3. 1 INTANGIBLE ASSETS

##### Availability of intangible assets

(RUB k)

Description	As of 31.12.2019			As of 31.12.2018			As of 31.12.2017		
	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation
Groups of intangible assets – <b>total</b>	1,790,481	(118,767)	1,671,714	1,748,155	(122,539)	1,625,616	1,692,832	(114,973)	1,577,859
including:									
research and development	36,739	(15,180)	21,559	35,584	(12,766)	22,818	32,727	(10,613)	22,114
software and data bases	1,751,019	(100,903)	1,650,116	1,709,844	(107,111)	1,602,733	1,657,349	(101,694)	1,555,655
trademarks and service marks	629	(590)	39	629	(565)	64	658	(570)	88
original works of entertainment books or art	2,069	(2,069)	--	2,073	(2,072)	1	2,073	(2,071)	2
other intellectual property items	25	(25)	--	25	(25)	--	25	(25)	--
Costs for purchase of intangible assets	X	X	35,922	X	X	40,625	X	X	25,492
<b>Total</b>	<b>X</b>	<b>X</b>	<b>1,707,636</b>	<b>X</b>	<b>X</b>	<b>1,666,241</b>	<b>X</b>	<b>X</b>	<b>1,603,351</b>
<i>For reference:</i>									
<i>intangible assets, created by the organization itself</i>	<i>31,373</i>	<i>(12,399)</i>	<i>18,974</i>	<i>30,219</i>	<i>(10,313)</i>	<i>19,906</i>	<i>27,362</i>	<i>(8,487)</i>	<i>18,875</i>
<i>intangible assets with fully repaid value</i>	<i>100,030</i>	<i>(100,030)</i>	<i>--</i>	<i>105,659</i>	<i>(105,659)</i>	<i>--</i>	<i>84,485</i>	<i>(84,485)</i>	<i>--</i>

There are no intangible assets with undetermined useful life.





### 3. 2 FIXED ASSETS AND CONSTRUCTION IN PROGRESS

#### Availability of fixed assets and capital investments in progress

(RUB k)

Accounting  
(Financial)  
Statements  
for 2019

Description	As of 31.12.2019			As of 31.12.2018			As of 31.12.2017		
	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation	Original value	Depreciation	Balance valuation
<b>Fixed assets</b>									
Buildings	35,773,855	(11,882,138)	23,891,717	33,764,420	(10,895,534)	22,868,886	32,856,070	(9,955,710)	22,900,360
Structures	35,227,726	(17,784,886)	17,442,840	33,432,076	(16,559,848)	16,872,228	32,551,043	(15,224,151)	17,326,892
Machinery and equipment including household equipment and other items.	186,947,935	(114,806,928)	72,141,007	156,284,039	(104,631,896)	51,652,143	149,840,879	(93,851,423)	55,989,456
Vehicles	5,318,957	(2,768,108)	2,550,849	4,600,444	(2,599,971)	2,000,473	3,911,984	(2,414,458)	1,497,526
Cultivated resources of plant origin	1,370	(553)	817	1,370	(513)	857	1,370	(474)	896
Land lots and land improvement expenses	1,345,426	--	1,345,426	1,343,370	--	1,343,370	1,052,339	--	1,052,339
<b>Total</b>	<b>264,615,269</b>	<b>(147,242,613)</b>	<b>117,372,656</b>	<b>229,425,719</b>	<b>(134,687,762)</b>	<b>94,737,957</b>	<b>220,213,685</b>	<b>(121,446,216)</b>	<b>98,767,469</b>
<i>For reference:</i>									
<i>the cost of real estate objects, received for use and undergoing state registration.</i>	6,122,476	x	x	4,655,283	X	X	4,740,599	X	X
<i>cost of leased out main assets</i>	1,513,213	(938,194)	575,019	1,523,186	(880,753)	642,433	1,525,902	(795,928)	729,974
<b>Capital investments in progress</b>									
Facilities construction <sup>1</sup>	X	X	37,429,523	X	X	32,910,122	X	X	23,673,727
Acquisition of objects	X	X	850,685	X	X	304,607	X	X	121,558
Equipment to be installed	X	X	6,809,043	X	X	8,259,617	X	X	6,331,156
Materials and spare parts for construction and installation works	X	X	3,314,924	X	X	3,101,964	X	X	1,123,150
<b>Total</b>	<b>X</b>	<b>X</b>	<b>48,404,175</b>	<b>X</b>	<b>X</b>	<b>44,576,310</b>	<b>X</b>	<b>X</b>	<b>31,249,591</b>

<sup>1</sup> The largest constructions in progress as of 31.12.2019 are construction of a set of stoves, replacement of BOFs with off-gas systems, revamping of a RCGP including a turbine blower installation, reconstruction of BF-6 complex and refurbishment of a continuous casting machine.



**Fixed assets flow (original value)**

Description	For 2019		For 2018	
	Acquired <sup>1</sup>	Retired	Acquired	Retired
Buildings	2,036,819	(27,384)	1,486,617	(578,267)
Structures	1,927,640	(131,990)	907,841	(26,808)
Machinery and equipment including household equipment and other items.	31,992,646	(1,328,750)	7,024,324	(581,164)
Vehicles	825,786	(107,273)	743,897	(55,437)
Land lots and land improvement expenses	2,056	--	291,030	--
<b>Total</b>	<b>36,784,947</b>	<b>(1,595,397)</b>	<b>10,453,709</b>	<b>(1,241,676)</b>
<i>For reference:</i>				
<i>The increase of the objects' value due to additional construction, installation of additional equipment, reconstruction</i>	3,320,403		2,112,108	--
<i>the decrease of the objects' value as a result of partial liquidation</i>	--	(55,680)	--	(20,821)

<sup>1</sup> Major assets commissioned within the reporting year are the assets acquired within the frames of NLMK Investment Programme, please see the details at [www.nlmk.com](http://www.nlmk.com).

**Non-depreciable fixed assets**

(RUB k)

Description	Original value		
	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Land plots	1,345,426	1,343,369	1,052,339
Facilities on preservation	694,231	704,708	728,025
Housing facilities	17,541	17,541	--
<b>Total</b>	<b>2,057,198</b>	<b>2,065,618</b>	<b>1,780,364</b>

As of 31.12.2019 the Company rents fixed assets (including land lots) for the amount of RUB 4,267,248,000, as of 31.12.2018 – RUB 4,792,233,000, as of 31.12.2017 – RUB 4,564,719,000 (off-balance sheet price under lease agreements). The Company rents land lots with the total area of 2,369 thousand square meters. The land lots rented are located in Lipetsk and Lipetsk Region.



### 3. 3 FINANCIAL INVESTMENTS

#### Availability of financial investments

(RUB k)

Accounting  
(Financial)  
Statements  
for 2019

Description	As of 31.12.2019			As of 31.12.2018			As of 31.12.2017		
	Original value	Provision for financial investment impairment	Balance valuation	Original value	Provision for financial investment impairment	Balance valuation	Original value	Provision for financial investment impairment	Balance valuation
<b>Long-term financial investments - total</b>	<b>209,619,174</b>	<b>(51,395,677)</b>	<b>158,223,497</b>	<b>189,469,630</b>	<b>(11,660,431)</b>	<b>177,809,199</b>	<b>174,759,372</b>	<b>(26,793,563)</b>	<b>147,965,809</b>
Investments in charter capitals of other entities	209,128,494	(50,945,128)	158,183,366	189,017,696	(11,225,918)	177,791,778	173,708,827	(26,399,511)	(147,309,316)
of which:									
NLMK Overseas Holdings	90,362,843	(30,900,000)	59,462,843	70,362,843	--	70,362,843	55,362,843	(15,160,000)	40,202,843
NLMK Kaluga	39,185,090	(7,218,000)	31,967,090	39,185,090	--	39,185,090	39,185,090	--	39,185,090
Stoilensky	21,196,293	--	21,196,293	21,196,293	--	21,196,293	21,196,293	--	21,196,293
Altai-Koks	18,477,302	--	18,477,302	18,477,302	--	18,477,302	18,477,302	--	18,477,302
VIZ Steel	14,754,878	--	14,754,878	14,754,878	--	14,754,878	14,754,878	--	14,754,878
Uralvtorchmet	12,901,320	(11,225,918)	1,675,402	12,901,320	(11,225,918)	1,675,402	12,901,320	(11,225,918)	1,675,402
NLMK Metalware	4,196,960	--	4,196,960	4,196,960	--	4,196,960	4,196,960	--	4,196,960
Zhernovsky-1 Mining & Concentration Complex	2,772,287	--	2,772,287	2,772,287	--	2,772,287	2,772,287	--	2,772,287
Usinsky-3 Mining & Concentration Complex	1,624,717	(1,601,210)	23,507	1,624,717	--	1,624,717	1,624,717	--	1,624,717
Loans granted	40,131	--	40,131	15,971	--	15,971	654,782	--	654,782
Other financial investments	450,549	(450,549)	--	435,963	(434,513)	1,450	395,763	(394,052)	1,711
<b>Short-term financial investments - total</b>	<b>9,482,811</b>	<b>(1,000)</b>	<b>9,481,811</b>	<b>2,498,606</b>	<b>(1,000)</b>	<b>2,497,606</b>	<b>65,952,322</b>	<b>(3,394,824)</b>	<b>62,557,498</b>
Loans granted	12,926	(1,000)	11,926	2,497,950	(1,000)	2,496,950	6,623,516	(3,394,824)	3,228,692
of which:									
NLMK Kaluga	--	--	--	2,489,342	--	2,489,342	3,004,731	--	3,004,731
Maxi-Group	--	--	--	--	--	--	3,383,171	(3,383,171)	--
Deposits	9,469,885	--	9,469,885	656	--	656	59,328,806	--	59,328,806
<b>Total</b>	<b>219,101,985</b>	<b>(51,396,677)</b>	<b>167,705,308</b>	<b>191,968,236</b>	<b>(11,661,431)</b>	<b>180,306,805</b>	<b>240,711,694</b>	<b>(30,188,387)</b>	<b>210,523,307</b>

As of 31.12.2019, 31.12.2018 and 31.12.2017 there were no financial investments for which the current market value was to be determined.



### Financial investments flow

In January 2019 the Company completed the sale of 100% of interest in Corporate Solutions Centre to FLETCHER GROUP HOLDINGS LIMITED. The sales revenue was RUB 23,900,000, while the book value of the retired asset was RUB 19,202,000.

In April 2019 NLMK Engineering was reorganized through merging Ural Research and Development Institute for Architecture and Construction into it. The book value of the Company's investment into NLMK Engineering increased by RUB 108,118,000.

In order to increase net assets of LLC NLMK Overseas Holdings the Company in 2019 made contribution to the property by the way of offsetting monetary claims of the Company in the amount of RUB 20,000,000,000 (in 2018: cash contribution in the amount of RUB 15,000,000,000) and recognized it in financial investments subject to paragraph 7 of PBU 1/2008 "Accounting policies of an organization".

The Company granted loans to its related parties.

### Impairment of financial investments

High volatility accompanied by the sales volume and prices decline on the market of certain finished products and raw materials triggered impairment assessment of the Company's investments in LLC NLMK Overseas Holdings and LLC NLMK Kaluga, which required the reassessment of the recoverable amounts. The recoverable amount of investments in the capital of subsidiary company LLC NLMK Overseas Holdings, which has also including in assets the investments in its own subsidiaries and jointly controlled companies, is determined as the value of net assets of LLC NLMK Overseas Holdings according to its financial reporting, adjusted for the difference between the total amount of book values of LLC NLMK Overseas Holdings' investments and corresponding estimated value of investments objects of low level. The latter, in turn, is determined based on models of recoverable amount assessment of investments in major production facilities and based on net assets to estimate the recoverable amount of investments in other companies. Information on the main approaches to determining the key premises and assumptions, used to evaluate the recoverable amount of investments objects of low level as at 31 December 2019, as well as on the sensitivity of recoverable amount to changes in assumptions, is provided in consolidated financial statements of Novolipetsk Steel for the 2019, prepared in accordance with the International Financial Reporting Standards. As a result of impairment assessment of the investments in LLC NLMK Overseas Holdings in the reporting year the provision in the amount of RUB 30,900,000,000 was charged. In 2018, previously created provision has been reversed in the amount of RUB 15,160,000,000, income from the reversal of provision is recorded in line 2340 "Other income» of Statement of financial results.

As a result of impairment assessment of the investments in LLC NLMK Kaluga performed in the reporting year the provision in the amount of RUB 7,218,000,000 was charged. As of 31 December 2019 the Company hasn't not identified any additional signs of impairment or reversal of previously recognized provisions, except of the decision of termination of coal exploration works and return of the license, therefore in the reporting year the Company recognized impairment the investments in the Usinsky-3 Mining & Concentration Complex in the amount of RUB 1,601,210,000.





### Income from financial investments

Description	Income, RUB k	
	For 2019	For 2018
Income from short-term deposits (from 3 months up to 1 year)	227,510	199,687
Dividends from subsidiaries	72,099,211	21,967,357
Interests on loans granted	13,229	273,697
<b>Total</b>	<b>72,339,950</b>	<b>22,440,741</b>

### 3. 4 INVENTORIES

#### Structure of inventories

Type of stock	As of 31.12.2019			As of 31.12.2018			As of 31.12.2017		
	Production costs	Provisions for inventory impairment	Balance valuation	Production costs	Provisions for inventory impairment	Balance valuation	Production costs	Provisions for inventory impairment	Balance valuation
Raw and other materials, other similar valuables	30,949,980	(1,909,124)	29,040,856	31,278,579	(1,981,883)	29,296,696	28,374,650	(2,715,456)	25,659,194
WIP costs	11,181,845	(358,371)	10,823,474	11,277,562	(277,791)	10,999,771	10,590,667	(290,844)	10,299,823
Finished products and goods for reselling	8,208,828	--	8,208,828	8,367,664	--	8,367,664	8,808,085	--	8,808,085
Goods shipped	7,439,395	--	7,439,395	12,269,445	--	12,269,445	8,889,954	--	8,889,954
Deferred expenses	163,232	--	163,232	177,871	--	177,871	365,310	--	365,310
<b>Total</b>	<b>57,943,280</b>	<b>(2,267,495)</b>	<b>55,675,785</b>	<b>63,371,121</b>	<b>(2,259,674)</b>	<b>61,111,447</b>	<b>57,028,666</b>	<b>(3,006,300)</b>	<b>54,022,366</b>

Inventories to be sold to buyers instead of further processing are accounted in finished products.



## 3. 5 ACCOUNTS RECEIVABLE AND PAYABLE

## 3. 5. 1 ACCOUNTS RECEIVABLE

## Structure of accounts receivable

(RUB k)

Type of debt	As of 31.12.2019			As of 31.12.2018			As of 31.12.2017		
	Accounted as per the Contract terms	Bad debt provision	Balance valuation	Accounted as per the Contract terms	Bad debt provision	Balance valuation	Accounted as per the Contract terms	Bad debt provision	Balance valuation
<b>Long-term accounts receivable - total</b>	<b>60,988,431</b>	<b>--</b>	<b>60,988,431</b>	<b>5,598,831</b>	<b>--</b>	<b>5,598,831</b>	<b>17,034,573</b>	<b>--</b>	<b>17,034,573</b>
including:									
settlements with buyers and customers	--	--	--	--	--	--	14,102	--	14,102
advance payments made <sup>1</sup> - total	1,400,653	--	1,400,653	716,043	--	716,043	1,870,896	--	1,870,896
including:									
under current operations	77,664	--	77,664	79,796	--	79,796	77,391	--	77,391
for non-current assets <sup>3</sup>	1,322,989	--	1,322,989	636,247	--	636,247	1,793,505	--	1,793,505
other	59,587,778 <sup>4</sup>	--	59,587,778 <sup>4</sup>	4,882,788	--	4,882,788	15,149,575	--	15,149,575
<b>Short-term accounts receivable - total</b>	<b>64,729,561</b>	<b>(8 438 509)</b>	<b>56,291,052</b>	<b>136,396,105</b>	<b>(8,617,504)</b>	<b>127,778,601</b>	<b>143,102,584</b>	<b>(8,956,805)</b>	<b>134,145,779</b>
including:									
settlements with buyers and customers	13,189,398	(169,846)	13,019,552	8,662,779	(396,393)	8,266,386	16,692,163	(348,103)	16,344,060
advance payments made - total	8,754,720	(142,353)	8,612,367	9,941,378	(177,281)	9,764,097	6,682,037	(186,884)	6,495,153
including:									
under current operations	2,512,790	(141,035)	2,371,755	3,532,430	(175,963)	3,356,467	2,315,786	(185,566)	2,130,220
for non-current assets <sup>3</sup>	6,241,930	(1,318)	6,240,612	6,408,948	(1,318)	6,407,630	4,366,251	(1,318)	4,364,933
Other	42,785,443	(8 126 310) <sup>2</sup>	34,659,133	117,791,948	(8,043,830)	109,748,118	119,728,384	(8,421,818)	111,306,566
<b>Total</b>	<b>125,717,992</b>	<b>(8,438,509)</b>	<b>117,279,483</b>	<b>141,994,936</b>	<b>(8,617,504)</b>	<b>133,377,432</b>	<b>160,137,157</b>	<b>(8,956,805)</b>	<b>151,180,352</b>

<sup>1</sup> Here and hereafter the advance payments made are shown VAT included.

<sup>2</sup> There were no significant changes in the structure and composition of the provisions. Including the provision for Stalkonstruksiya Concern in the amount of RUB 2,046,892,000, to N. Maksimov in the amount of RUB 5,583,697,000.

<sup>3</sup> Advance payments, given for the purposes of capital construction, purchase of fixed assets and other non-current assets, reflected in line 1190 "Other non-current assets" of the balance sheet.

<sup>4</sup> Including interest-free long-term loan to NLMK Overseas Holdings LLC in the amount of RUB 45,736,659,000 and interest accrued liability of NLMK Ural in the amount of RUB 11,327,235,000.

## Notes



Other debtors

(RUB k)

Type of debt	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
<b>Other long-term receivables - total</b>	<b>59,587,778</b>	<b>4,882,788</b>	<b>15,149,575</b>
including:			
settlements with personnel on other operations	257,209	296,044	338,120
interest-free loans granted	2,265,637	2,400,492	3,622,856
interest on long-term financial investments	11,327,273 <sup>2</sup>	2,186,252	11,188,599
interest-free loan to NLMK Overseas Holdings LLC	45,737,659 <sup>3</sup>	--	--
<b>Other short-term receivables - total</b>	<b>34,659,133</b>	<b>109,748,118</b>	<b>111,306,566</b>
including:			
interest-free loans granted	1,923,308	66,961,937	81,567,692
of which			
interest-free loan to NLMK Overseas Holdings LLC	--	64,636,685	78,686,487
received non-interest bearing notes	1,822,526	1,766,000	400,500
settlements on interest accrued	167,459	10,266,086 <sup>1</sup>	2,624,736
calculations of assignment of claims	--	9,594,590	12,306,651
including:			
debt related to claim assignment transactions			
NLMK Overseas Holdings	--	9,594,590	12,305,940
settlements with budget and off-budget funds in terms of taxes and duties	43,310	39,545	590,339
budget settlements on VAT	5,762,672	6,872,621	3,907,073
settlements with customs	321,288	483,163	188,315
claim settlements	133,519	153,754	15,344
settlements with CTG participants	238,902	1,092,704	585,152
settlements related to reimbursable services	31,913	33,178	11,961
lease settlements	15,942	36,746	22,834
settlements with personnel on salaries and other operations	6,723	2,390	7,059
settlements with reporting persons	60,324	20,578	2,248
settlements related to dividends	22,155,942	5,550,034	8,012,324
interest-free loans granted (cash pooling)	1,777,782	6,615,627	822,220
other	198,523	259,165	242,118
<b>Total</b>	<b>94,246,911</b>	<b>114,630,906</b>	<b>126,456,141</b>

<sup>1</sup> Including the interest on NLMK Ural's loan as of 31.12.2018 in the amount of RUB 10,181,855,000 maturing in 2019.

<sup>2</sup> Including the interest on NLMK Ural's long-term loan as of 31.12.2019 in the amount of RUB 10,181,855,000 maturing in 2022, 1,145,380 maturing in 2021.

<sup>3</sup> Interest-free loan to NLMK Overseas Holdings LLC maturing before 31.12.2021.



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### Overdue accounts receivable

(RUB k)

Type of debt	As of 31.12.2019		As of 31.12.2018		As of 31.12.2017	
	Accounted as per the Contract terms	Balance sheet value	Accounted as per the Contract terms	Balance sheet value	Accounted as per the Contract terms	Balance sheet value
<b>Total</b>	<b>2,481,211</b>	<b>1,674,609</b>	<b>2,407,029</b>	<b>1,421,432</b>	<b>2,073,734</b>	<b>776,493</b>
including:						
settlements with buyers and customers	1,277,607	1,107,761	1,256,149	859,756	611,252	263,149
advance payments made - total	574,710	433,675	566,669	390,706	548,680	363,114
including:						
under current operations	574,710	433,675	566,669	390,706	548,680	363,114
other	628,894	133,173	584,211	170,970	913,802	150,230

### 3. 5. 2 Accounts payable

#### Structure of accounts payable

(RUB k)

Type of debt	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
<b>Long-term accounts payable - total</b>	<b>385,320</b>	<b>15,510</b>	<b>4,296</b>
including:			
settlements with suppliers and contractors	385,320	15,510	4,296
<b>Short-term accounts payable - total</b>	<b>86,497,982</b>	<b>118,357,751</b>	<b>99,017,922</b>
including:			
advances received <sup>1</sup>	31,556,300	45,586,665	37,226,487
suppliers and contractors	31,356,508	32,537,043	26,049,774
settlements related to payables to employees	962,781	834,152	772,034
settlements related to taxes and duties	1,777,048	1,986,221	3,050,388
settlements related to debt to state off-budget funds	655,058	615,138	692,730
debt to the shareholders in terms of dividends	19,666,723	36,475,355	30,922,278
other	523,564	323,177	304,231
<b>Total</b>	<b>86,883,302</b>	<b>118,373,261</b>	<b>99,022,218</b>

<sup>1</sup> Hereinafter advance payments received from buyers and customers are indicated net of VAT to be paid to the budget.





### Overdue accounts payable

(RUB k)

Indicator	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
<b>Total</b>	<b>6,226,536</b>	<b>7,419,724</b>	<b>2,835,415</b>
including:			
settlements with suppliers and contractors	5,454,612	4,328,335	2,418,120
advance payments received	716,298	3,060,404	407,083
other	55,626	30,985	10,212

### 3. 6 CASH AND CASH EQUIVALENTS

(RUB k)

Description	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Settlement accounts	478,934	2,869,096	497,259
Currency accounts	14,948,889	17,510,928	1,516,315
Deposits (up to 3 months)	11,203,786	39,954,627	6,892,858
Other cash equivalents	5,191	5,084	3,886
of which: financial documents	191	52	94
<b>Total</b>	<b>26,636,800</b>	<b>60,339,735</b>	<b>8,910,318</b>

### Other income and payments from current operations

(RUB k)

Description	For 2019	For 2018
<b>Other income from current operations</b>	<b>1,447,510</b>	<b>1,646,748</b>
Income from litigation, claims	607,295	298,531
Interest on cash equivalents	363,027	302,199
Remuneration under the program of Depositary Receipts	169,143	531,363
Other income	308,045	514,655



Description	For 2019	For 2018
<b>Other payments under the current operations</b>	<b>(11,308,310)</b>	<b>(11,091,629)</b>
Tax payments	(7,629,908)	(6,683,594)
<i>Including VAT</i>	<i>(6,094,553)</i>	<i>(4,729,864)</i>
Funds transfer to Group companies	--	(1,183,977)
Other settlements with personnel	(901,270)	(912,973)
Settlements with various creditors	(968,379)	(752,647)
Insurance settlements	(475,596)	(452,213)
Settlements related to claims	(691,442)	(500,906)
Charity expenses	(273,359)	(157,464)
Land lease settlements	(30,830)	(110,131)
Settlements with the pension fund	(85,833)	(104,378)
Purchase - sale of currency	(197,162)	(163,454)
Other remittance	(54,531)	(70,232)

Within the cash flows of current operations under line 4124 "Corporate income tax", CTG participants' cash transfers to the Company as well as CGT income tax payments to the budget have been shown in summarized form.

#### Other inpayments from investment activity

Description	For 2019	For 2018
<b>Other inpayments from investment activity</b>	<b>--</b>	<b>62,942,832</b>
Placement of deposits for a period of over 3 months and up to one year	--	(14,633,932)
Refund of deposits from over 3 months to one year	--	77,576,764
<b>Other payments on investment activities</b>	<b>(10,677,957)</b>	<b>(15,126,208)</b>
Placement of deposits for a period of over 3 months and up to one year	(57,156,471)	--
Refund of deposits from over 3 months to one year	46,590,471	--
Contribution to the property of LLC NLMK Overseas Holdings in order to increase net assets	--	(15,000,000)
Other payments on investment activities	(111,957)	(126,208)

As part of other payments under financial transactions, there is reflection of cash flow for the transfer of tax withheld when paying dividends in the amount of RUB 5,832,550 k (in 2018 - RUB 4,989,133 k).



Cash flows with Subsidiaries and Affiliates (including VAT)

(RUB k)

Description	Inflow		Payments	
	For 2019	For 2018	For 2019	For 2018
<b>Cash flow from current operations</b>	<b>206,560,874</b>	<b>316,903,708</b>	<b>(159,016,858)</b>	<b>(166,951,815)</b>
Subsidiaries	15,781,524	14,938,426	(158,622,747)	(166,464,234)
Other companies <sup>1</sup>	190,779,350	301,965,282	(394,111)	(487,581)
of which:				
NLMK Trading SA	190,774,184	301,963,172	(294,795)	(354,255)
<b>Cash flow from investment operations</b>	<b>72,835,139</b>	<b>39,021,503</b>	<b>(4,124,018)</b>	<b>(16,643,957)</b>
Subsidiaries <sup>3</sup>	72,835,139	39,021,503	(4,124,018)	(16,643,957) <sup>2</sup>
<b>Cash flow from financial operations</b>	<b>22,382,637</b>	<b>1,735,267</b>	<b>(1,760,622)</b>	<b>(4,846,892)</b>
Subsidiaries	22,382,637	1,735,267	--	(2,327,859)
Other companies <sup>1</sup>	--	--	(1,760,622)	(2,519,033)
<b>Total</b>	<b>301,778,650</b>	<b>357,660,478</b>	<b>(164,901,498)</b>	<b>(188,442,664)</b>

<sup>1</sup> Cash flows of NLMK Trading SA, Novexco (Cyprus) Limited, NLMK DanSteel A/S.

<sup>2</sup> Including a contribution to the property of LLC NLMK Overseas Holdings in order to increase net assets in the amount of RUB 15,000,000 k reflected under line 4229 "other payments on investment activities" of the Cash Flow Statement.

<sup>3</sup> receipt and granting of loans in the framework of cash pooling were reflected in summarized form.

3. 7 CAPITAL AND DIVIDENDS

(RUB k)

Description	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Authorized capital	5,993,227	5,993,227	5,993,227
Reserve capital	299,661	299,661	299,661
Paid-in capital - <b>total</b>	4,047,584	4,062,599	4,071,979
including:			
revaluation of fixed assets	3,275,807	3,290,822	3,300,202
other sources	771,777	771,777	771,777
Retained profit (loss)	289,131,900	325,751,607	329,936,615
<b>Total</b>	<b>299,472,372</b>	<b>336,107,094</b>	<b>340,301,482</b>



### Company shares

As of 31.12.2019 the authorized capital is paid up in full and consists of 5,993,227,240 common shares at par value 1 ruble each.

#### Shareholders holding more than 5% of the nominal capital

Description	Share, %		
	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
FLETCHER GROUP HOLDINGS LIMITED	81	84	84

Other free-floating shares (including: global depository shares traded on London Stock Exchange (Deutsche Bank Trust Company Americas is NLMK's depository bank) and shares traded on Moscow Stock Exchange.

### Earnings per share

Description	For 2019	For 2018
Net profit for the reporting period, RUB k	83,420,072	117,859,428
Weighted average number of outstanding common shares, pcs.	5,993,227,240	5,993,227,240
Basic profit (loss) per share, RUB	13.92	19.67

Diluted profit per share was not calculated due to absence of factors, having the diluting effect on the basic profit per share indicator.

### Dividends

The Annual General Shareholders' Meeting held on 19.04.2019 approved payment of dividends in the amount of RUB 22.81 per common stock upon 2018 performance results that made in total RUB 136,705,513 k. with account of interim dividends of RUB 101,944,795 k accrued in 2018.

In 2019 the following interim dividends were declared: 7.34 ruble per common stock for Q1 which made RUB 43,990,288 k.; 3.68 ruble per common stock for H1 which made RUB 22,055,076 k; 3.22 ruble per common stock for 9 months which made RUB 19,298,192 thou.

As of 31.12.2019 the dividends for 2018, Q1 and H1 of 2019 accrued to the main company running business, are paid in full.

Detailed information on the dividend structure and dividend policy is published on the Company's web-site (<http://www.nlmk.com>).





### 3. 8 CREDITS AND LOANS

#### Structure of credits and loans

	(RUB k)		
Type of liabilities	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
<b>Long-term liabilities - total</b>	<b>105,703,843</b>	<b>84,066,622</b>	<b>79,363,678</b>
including:			
loans	105,703,843	84,066,622	77,660,747
credits	--	--	1,702,931
<b>Short-term liabilities - total</b>	<b>30,406,203</b>	<b>21,823,828</b>	<b>25,360,981</b>
including:			
loans	814,132	12,763,225	15,618,871
Loans followed-up by Cash-pooling agreement	29,497,258	7,099,572	5,313,838
of which:			
Stoilensky	22,081,120	2,426,330	2,830,769
NLMK Kaluga	2,745,339	--	--
Altai-Koks	1,453,136	--	455,440
VIZ-Steel	550,397	2,167,695	649,542
Uralvtorchermet	866,621	705,792	556,766
credits	94,813	1,961,031	4,428,272
<b>Total</b>	<b>136,110,046</b>	<b>105,890,450</b>	<b>104,724,659</b>

#### Bank credits

As of 31.12.2019 and 31.12.2018 the Company signed agreements with ALFA-BANK, Sberbank and VTB Bank on the opening of credit facilities with the limit not exceeding RUB 80,000,000 k, for working capital financing and for other corporate purposes. Unused credit limit for all the credit facility agreements makes RUB 80,000,000 k.

#### Bank credits

	(RUB k)			
Lender description	Maturity	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Deutsche Bank AG <sup>1</sup>	2019	--	1,960,905	6,116,765
Other credit institutions	2020	94,813	126	14,438
<b>Total bank credits, incl. interest accrued</b>		<b>94,813</b>	<b>1,961,031</b>	<b>6,131,203</b>
including:				
with maturity up to 1 year, incl. current portion of long-term credits		94,813	1,961,031	4,428,272

<sup>1</sup> This credit was obtained from a syndicate of banks, the agent bank is specified as the creditor here.



## Loans

Lender	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Steel Funding DAC (Eurobonds) <sup>2</sup>	105,795,552 <sup>1</sup>	94,104,684 <sup>1</sup>	86,463,327 <sup>1</sup>
Subsidiaries and other related parties	722,423	2,725,163	6,816,291 <sup>1</sup>
of which: interest-free loans	150,000	150,000	2,430,859
Loans under cash-pooling	29,497,258	7,099,572 <sup>1</sup>	5,313,838 <sup>1</sup>
of which: interest-free loans	25,246,398	5,922,538	4,467,771
<b>Total loans, incl. interest accrued</b>	<b>136,015,233</b>	<b>103,929,419</b>	<b>98,593,456</b>
including:			
with maturity up to 1 year, incl. current portion of long-term loans	30,311,390	19,862,797	20,932,709

<sup>1</sup> Including the interest accrued.

<sup>2</sup> As of 31.12.2019 three issues of Eurobonds due in 2023-2026. The rest of the debt is a short-term debt.

Detailed information on the structure and terms and conditions of the debt portfolio is published on the Company's web-site (<http://www.lipetsk.nlmc.com>)

### 3. 9 ESTIMATED LIABILITIES

(RUB k)

Name of an estimated liability	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
<b>Estimated liabilities - total</b>	<b>3,870,986</b>	<b>7,089,626</b>	<b>4,472,566</b>
including:			
on upcoming expenses for vacations	1,667,478	1,536,035	1,769,827
on upcoming expenses for bonuses	1,904,749	5,239,128	2,668,608
on unsettled court proceedings and claims	298,759	314,463	34,131

### 3. 10 INCOME AND EXPENSES

#### 3. 10. 1 Income and expenses related to ordinary activities

##### Income from ordinary activities

(RUB k)

Description	For 2019	For 2018
Revenue from sales of products (services) outside the RF	217,814,677	306,233,760
Revenue from sales in the RF	204,001,644	187,595,214
<b>Total</b>	<b>421,816,321</b>	<b>493,828,974</b>



## Expenses for production

(RUB k)

Description	For 2019		For 2018	
	Income	Expenses	Income	Expenses
Material expenses - total		303,071,463		331,379,173
including: raw and other materials		208,202,825		226,588,181
fuel, energy		56,913,336		67,572,987
work and services rendered by third parties <sup>1</sup>		37,955,302		37,218,005
Labour costs		22,717,625		23,698,068
Social allocations		7,583,720		6,625,889
Depreciation		13,983,065		13,731,986
Other costs		9,386,301		8,799,164
<b>Total by components</b>		<b>356,742,174</b>		<b>384,234,280</b>
Balance change (increase [-], decrease [+]): construction in progress, semi-finished products, finished products		4,431,141		- 4,109,695
<b>Total expenses on ordinary activities</b>		<b>361,173,315</b>		<b>380,124,585</b>
<i>For reference: Expenses for capital and routine repair</i>		<i>16,435,159</i>		<i>13,550,390</i>

<sup>1</sup>Including expenses related to the sale of products in the amount of RUB 27,879,910 k (for 2018– RUB 30,491,532 k).

### 3. 10. 2 Other income and expenses

#### Other income and expenses

(RUB k)

Description	For 2019		For 2018	
	Income	Expenses	Income	Expenses
Sale of foreign currency	3,200,162	3,381,428	100,586	309,263
Exchange rate difference	6,327,099	--	1,443	9,973,437
The right of claim assignment	13,660,496	13,653,928	3,558,104	3,525,698
Valuation reserves	286,739	39,858,270	15,724,918	--
Profit and loss of previous years	114,344	325,113	316,193	92,304
Sales of inventories	2,000,124	1,708,838	1,641,078	1,391,683
Retirement of fixed assets, capital investments	406,811	142,613	258,859	384,266
Transactions with securities	23,911	19,308	24,100	24,745
Expenses on credits	--	328,719	--	51,031
Writing-off of inventories, tare, inventories from repairs	1,658,454	487,323	667,444	752,619
Other expenses over the Group Companies (Explanation 3.14.2)	--	203,129	--	1,183,977
Other	795,916	1,229,545	1,268,044	1,799,911
<b>Total</b>	<b>28,474,056</b>	<b>61,338,214</b>	<b>23,560,769</b>	<b>19,488,934</b>



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### 3. 11 CURRENT PROFIT TAX FORMATION

Calculation of profit tax according to Accounting rules PBU 18/02

(RUB k)

Description	For 2019	For 2018
Book profit (loss) before tax	95,797,959	136,408,489
Contingent expenses (income) for profit tax (according to accounting data)	19,159,592	27,281,699
Fixed tax liabilities (assets)	(6,228,901)	(8,755,128)
Change in deferred tax assets	(547,394)	1,608,468
Change in deferred tax liabilities	137,974	(30,956)
Current profit tax	12,521,271	20,104,083
Taxable profit (according to the tax accounting data)	62,606,356	100,520,415
Permanent difference leading to taxable profit increase according to the tax accounting data	41,325,328	--
Permanent difference leading to taxable profit decrease according to the tax accounting data	(72,469,832)	(43,775,638)
Taxable temporary differences	689,871	(154,780)
Deductible temporary differences	(2,736,970)	(8,042,342)

Calculation of the taxation base with reference to the profit tax does not include profits in the form of dividends from participation in authorized capitals. Expenses not used for taxation purposes are mainly related to the accrual of valuation reserves.

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

The deductible temporary differences are due to differences in the recognition in accounting and taxation of deferred expenses, losses from auxiliary productions and servicing facilities, losses from the sale of depreciable property, estimated liabilities related to employee benefits, and also remuneration to customers for achieving the planned supply volumes.

### 3. 12 INFORMATION BY SEGMENTS

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

Indicator	Segment		Not distributed		Company as a whole	
	2019	2018	2019	2018	2019	2018
Sales revenue, RUB k	418,999,111	490,937,913	2,817,210	2,891,061	421,816,321	493,828,974
Share of sales revenue in total proceeds, %	99.33	99.41	0.67	0.59	100	100.00
Total production cost, RUB k	359,088,130	378,231,894	2,085,185	1,892,691	361,173,315	380,124,585
Sales profit (loss), RUB k	59,910,981	112,706,019	732,025	998,370	60,643,006	113,704,389
Share of profit in total profit, %	98.79	99.12	1.21	0.88	100.00	100.00





(RUB k)

Type of product	Sales revenue		Change
	for 2019	for 2018	
Pig iron	9,705,606	17,446,733	-7,741,127
Slabs	169,814,242	228,152,443	-58,338,201
Hot-rolled coils	90,688,176	90,387,501	300,675
Cold-rolled coils	59,740,497	57,767,400	1,973,097
Coated steel	61,137,598	64,989,096	-3,851,498
Electrical steel	20,283,245	23,601,545	-3,318,300
Other by-products and energy resources	7,629,747	8,593,196	-963,449
<b>Total</b>	<b>418,999,111</b>	<b>490,937,914</b>	<b>-71,938,803</b>

In the reporting year the proceeds from sales to foreign customers accounted for 51.98% (62.38% in 2018) of the total sales revenue in the segment.  
In 2019 two major customers (at least 10% of sales) amounted to 48.40% (in 2018 – 59.17%) of the Company's sales revenue in total (see Explanation 3.15.2)

### 3. 13 SECURITY OF LIABILITIES

(RUB k)

Description	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Received – total	5,037,995	4,379,463	4,734,313
including:			
Bank guarantees for advance payment return and payment guarantees	5,037,995	4,379,463	4,734,313
Granted sureties	76,720,020	72,259,568	56,884,966
including:			
Contribution liability of Steel Invest & Finance (Luxembourg) S.A. <sup>1</sup>	4,507,139	--	--

<sup>1</sup> The Company is liable to contribute Euro 65,000 k in 2020 – 2021 under the contract between the Company, Steel Invest & Finance (Luxembourg) S.A. and Belgian Investment Fund SOGEPa for effecting additional contributions to authorized capital of NLMK Belgium Holdings.

As of 31.12.2019, 31.12.2018, 31.12.2017 the Company has liabilities under the surety agreements (RUB 76,289,420 k, RUB 71,491,738 k, and RUB 56,580,595 k Accordingly) issued to the Lenders of the affiliates. The liabilities in accordance with the terms and conditions of the agreements will remain valid by 2022 and they cease to exist pro rata the repayment of the credits by the related parties.



### 3. 14 INFORMATION ON RELATED PARTIES

#### 3. 14. 1 The list of related parties<sup>1</sup>

The list of related parties includes the affiliates of the Company<sup>1</sup> in accordance with the RF legislation as well as related parties acting on other grounds.

The main business entity owning 81% of the Company's stock is FLETCHER GROUP HOLDINGS LIMITED.

The Beneficiary of the above companies in accordance with definition of this notion by the Russian legislation is Mr. Vladimir Lisin.

There are no predominant (participating) business entities.

In addition to those listed in this disclosure, the related ones are the members of the Board of Directors and the Management Board, disclosed in the General Information.

#### List of NLMK's subsidiaries and affiliates as of 31.12.2019:

Description	Stake in authorized capital as of 31.12.2019, %	Description	Stake in authorized capital as of 31.12.2019, %
VIZ-Steel	100	NLMK Overseas Holdings	100
NLMK- Communications	100	NLMK Trade House	100
Vtorchermet NLMK	100	Construction and Assembly Trust NLMK	100
Stagdok	100	Stoilensky	100
Dolomit	100	NLMK Long Products	100
Uralvtorchermet	100	Novolipetsk Steel Service Centre	100
NLMK Metalware	100	Hotel Complex "Metallurg"	100
NLMK Kaluga	100	Novolipetsk Printing House <sup>2</sup>	100
Mining & Concentration Complex Zhernovsky-1	100	NLMK Engineering	100
Mining & Concentration Complex Usinsky-3	100	NLMK Ural	92.59
Altai-Koks	100	Neptune	25.00
NLMK – Information Technologies	100		

All the companies specified are registered in the Russian Federation.

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

<sup>1</sup> The complete list of the Company's affiliates is subject to mandatory disclosure by the Issuer of issue-grade securities and is published at NLMK's web-site (<http://www.nlmk.com>).

<sup>2</sup> The Company passed a resolution on liquidation of Novolipetsk Printing House in 2020.



### Other affiliated parties

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

### Other related parties with whom the Company had operations in the reporting year and/or in regards of which there are balances under settlements of operations not completed on the reporting date

Freight One	PO TatVtorchermet
Universalny Expeditor	JSC 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 <sup>1</sup>	Vtorchermet NLMK Western Siberia
NLMK Trading SA <sup>1</sup>	Vtorchermet NLMK Ural
NLMK DanSteel A/S <sup>1</sup>	Vtorchermet NLMK Black Belt Region
NLMK Pennsylvania <sup>1</sup>	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 <sup>1</sup>	Vtorchermet NLMK Bashkortostan
NLMK Verona SpA	Vtorchermet NLMK Volga
NLMK Belgium Holdings S.A.	NLMK Plate Sales S.A.
NLMK Indiana	NLMK La Louvière S.A.
NLMK India Service Centre Pvt Ltd	NLMK Sales Europe S.A.
Social Security Charity Fund "Miloserdiye"	NLMK Clabecq S.A.
Verkh-Isetsky Steel Plant	Novolipetsk Medical Centre
Blinovskoye	SC Lipetsk Metallurg
Lisya Nora	Pride Media
Ural Health-Center Nizhnie Sergi	NLMK International B.V. <sup>1</sup>
Association of ferrous metallurgy enterprises "Russian steel"	Corporate Solutions Centre <sup>2</sup> (subsidiary until 25.01.2019)
Advocate Bureau "Reznik, Gagarin & Partners", Moscow	

<sup>1</sup> Other affiliates controlled by Novolipetsk Steel through NLMK Overseas Holdings

<sup>2</sup> Until 31.03.2019 NLMK - Accounting Center



### 3. 14. 2 Operations with related parties

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

The Company makes transactions with the related parties in line with market principles.

#### Sales to related parties

(RUB k)

Description	For 2019					For 2018				
	Total	Products, commodities	Inventories	Services	Rent	Total	Products, commodities	Inventories	Services	Rent
Subsidiaries	15,146,468	13,971,688	586,710	559,204	28,866	14,538,967	13,805,319	305,936	376,485	51,327
of which:										
VIZ-Steel	7,884,953	7,850,314	1,755	32,884	--	9,260,144	9,230,698	--	29,446	--
Novolipetsk Steel Service Centre	4,328,502	4,254,079	36,341	25,347	12,735	3,803,167	3,732,044	37,045	34,078	--
Other affiliated parties	205,305,563	205,001,093	8,743	256,908	38,819	293,286,079	293,096,676	569	178,045	10,789
of which:										
NLMK Trading SA	204,177,163	204,148,188	--	28,975	--	292,381,096	292,359,318	--	21,778	--
<b>Total</b>	<b>220,452,031</b>	<b>218,972,781</b>	<b>595,453</b>	<b>816,112</b>	<b>67,685</b>	<b>307,825,046</b>	<b>306,901,995</b>	<b>306,405</b>	<b>554,530</b>	<b>62,116</b>

#### Purchases from other related parties

(RUB k)

Description	For 2019				For 2018			
	Total	Inventories	Services	Rent	Total	Inventories	Services	Rent
Subsidiaries	162,341,960	156,688,940	5,642,799	10,221	167,424,509	163,951,524	3,465,297	7,688
of which:								
Altai-Koks	39,274,837	39,274,646	--	191	48,852,619	48,852,619	--	--
Stoilensky	94,044,024	94,043,824	--	200	85,403,759	85,403,759	--	--
Vtorchermet NLMK	21,270,732	21,270,732	--	--	27,639,626	27,639,626	--	--
Other affiliated parties	23,439,610	726,898	22,371,316	341,396	23,753,457	2,327	23,250,972	500,158
of which:								
Freight One	19,469,632	290,051	18,838,183	341,396	20,599,399	--	20,099,241	500,158
<b>Total</b>	<b>185,781,570</b>	<b>157,415,838</b>	<b>28,014,115</b>	<b>351,617</b>	<b>191,177,966</b>	<b>163,953,851</b>	<b>26,716,269</b>	<b>507,846</b>



## Accounts receivable

(RUB k)

Description	As of 31.12.2019			As of 31.12.2018			As of 31.12.2017		
	Debt	Bad debt provision	Balance valuation	Debt	Bad debt provision	Balance valuation	Debt	Bad debt provision	Balance valuation
Subsidiaries	35,451,349	(42,309)	35,409,040	29,535,768	(175,060)	29,360,708	35,514,203	(571,099)	34,943,104
of which:									
NLMK Ural	11,376,449	(23,215)	11,353,234	12,385,445	(30,434)	12,355,011	13,123,572	(1,459)	13,122,113
NLMK Overseas Holdings	--	--	--	9,594,626	--	9,594,626	12,305,971	--	12,305,971
Stoilensky	20,098,892	(4,819)	20,094,073	5,189,590	(106,263)	5,083,327	8,059,235	(629)	8,058,606
Other affiliated parties	1,647,721	(86,317)	1,561,404	1,927,250	(76,523)	1,850,727	1,693,491	(45,281)	1,648,210
of which:									
Freight One	1,423,895	(84,029)	1,339,866	1,821,481	(64,999)	1,756,482	1,125,886	(42,018)	1,083,868
<b>Total</b>	<b>37,099,070</b>	<b>(128,626)</b>	<b>36,970,444</b>	<b>31,463,018</b>	<b>(251,583)</b>	<b>31,211,435</b>	<b>37,207,694</b>	<b>(616,380)</b>	<b>36,591,314</b>

## Payables

(RUB k)

Description	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Subsidiaries	11,014,524	11,280,261	10,518,733
of which:			
Stoilensky	6,858,162	6,500,365	5,502,852
Altai-Koks	3,362,928	3,994,568	4,460,019
Other affiliated parties	27,389,844	40,745,593	32,031,094
of which:			
NLMK Trading SA	27,145,681	40,634,698	31,454,493
<b>Total</b>	<b>38,404,368</b>	<b>52,025,854</b>	<b>42,549,827</b>





### Dividends received from subsidiaries

Description	For 2019		For 2018	
	Granted	Repaid	Granted	Repaid
Stoilensky	50,018,987		21,016,072	
Altai-Koks	--		2,001,020	
VIZ-Steel	2,700,000		1,000,000	
NLMK Kaluga	2,000,000		--	
Novolipetsk Steel Service Centre	403,000		117,000	
NLMK Engineering	75,113		100,035	
Dolomit	165,202		83,529	
NLMK Communications	--		34,000	
Stagdok	--		19,991	
Novolipetsk Printing House	--		7,000	
Construction and Assembly Trust NLMK	85,000		--	
NLMK Trade House	37,000		--	
NLMK Information Technologies	9,000		--	
Other subsidiaries which ceased to be related parties	--		51,000	
<b>Total</b>	<b>55,493,302</b>		<b>24,429,647</b>	

The total amount of accrued dividends from subsidiaries was disclosed in Explanation 3.3.

### Loans granted to related parties

In the reporting year the Company granted short-term and long-term loans, repayment of which is envisioned not later than 2026:

Description	For 2019		For 2018	
	Granted	Repaid	Granted	Repaid
Subsidiaries	28,356,370	47,256,396	15,213,151	29,743,666
including:				
interest-free loans to NLMK Overseas Holdings	28,356,370	47,256,396 <sup>2</sup>	15,213,151	29,262,953
NLMK Metalware	--	--	--	480,713
Other related parties <sup>1</sup>	30,000	9,840	23,171	874,334
including:				
Blinovskoye	--	7,840	23,171	3,200
<b>Total</b>	<b>28,386,370</b>	<b>47,266,236</b>	<b>15,236,322</b>	<b>30,618,000</b>

<sup>1</sup> Including interest-free loans for 2019 in the amount of RUB 30,000 k (in 2018 - RUB 19,171 k), repaid – RUB 5,840 k (in 2018 - RUB 655,382 k).

<sup>2</sup> Including the contribution to the property of NLMK Overseas Holdings by agreement about termination of mutual commitments by way of offsetting claims in the amount of RUB 20,000,000 k.



Outstanding short-term and long term loans:

Borrower's name	(RUB k)		
	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
Subsidiaries <sup>1</sup>	49,925,603	69,362,429	88,584,372
including:			
NLMK Ural	2,265,638	2,802,438	4,100,041
NLMK Overseas Holdings	45,736,659	64,636,685	78,686,487
Maxi-Group	--	--	3,383,171
Vtorchermet NLMK	1,923,306	1,923,306	1,923,306
Other related parties <sup>2</sup>	40,131	19,971	871,134
<b>Total</b>	<b>49,965,734</b>	<b>69,382,400</b>	<b>89,455,506</b>

<sup>1</sup> Including the interest-free loans to the subsidiaries as of 31.12.2019 and 31.12.2018 and 31.12.2017 in the amount of RUB 49,925,603 k, RUB 69,362,428 k and RUB 85,190,548 k

<sup>2</sup> Interest-bearing loans

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

Borrower's name	(RUB k)			
	For 2019		For 2018	
	Granted	Repaid	Granted	Repaid
Subsidiaries <sup>1</sup>	76,290,757	84,141,204	156,265,103	152,309,973
including:				
NLMK Ural	37,554,920	40,228,785	42,198,514	41,667,103
Vtorchermet NLMK	22,629,103	21,869,227	20,880,597	20,386,038
NLMK Kaluga	3,914,373	6,403,715	34,189,934	34,705,323
Stoilensky	--	2,781,383	41,310,901	38,529,518
NLMK Metalware	3,952,428	3,952,428	6,768,397	6,768,397
Other related parties <sup>2</sup>	911,889	914,513	245,574	220,288
<b>Total<sup>3</sup></b>	<b>77,202,646</b>	<b>85,055,717</b>	<b>156,510,677</b>	<b>152,530,261</b>

<sup>1</sup> Including interest-free loans for 2019 in the amount of RUB 72,332,695 k (in 2018 - RUB -122,053,825 k), repaid - RUB 77,704,717 k (in 2018 -

RUB 117,583,307 k).

<sup>2</sup> Interest-free loans

<sup>3</sup> Repayment and granting of loans were reflected separately.



Outstanding loans granted under cash pooling agreement:

<b>Borrower's name</b>	<b>As of 31.12.2019</b>	<b>As of 31.12.2018</b>	<b>As of 31.12.2017</b>
Subsidiaries	1,754,276	9,067,923	3,815,189
including:			
interest-free loans	1,743,358	6,578,581	810,458
Other related parties	34,424	37,048	11,762
including:			
interest-free loans	34,424	37,048	11,762
<b>Total</b>	<b>1,788,700</b>	<b>9,104,971</b>	<b>3,826,951</b>

Returns on loans:

<b>Borrower's name</b>	<b>For 2019</b>	<b>For 2018</b>
Subsidiaries	10,718	249,460
Other related parties	2,163	23,615
<b>Total</b>	<b>12,881</b>	<b>273,075</b>

#### Loans granted by related parties

The Company received loans from subsidiaries and other related parties.

<b>Lender</b>	<b>For 2019</b>		<b>For 2018</b>	
	<b>Received</b>	<b>Repaid</b>	<b>Received</b>	<b>Repaid</b>
Subsidiaries	--	--	--	2,331,875
including:				
Stoilensky	--	--	--	1,930,859
Other related parties	--	1,859,735	--	2,652,332
including:				
Novexco (Cyprus) Limited	--	1,859,735	--	2,652,332
<b>Total</b> <sup>1</sup>	<b>--</b>	<b>1,859,735</b>	<b>--</b>	<b>4,984,207</b>

<sup>1</sup> Including the interest accrued. In 2019 and 2018 no interest free loans were granted, in 2019 none were repaid (in 2018 – RUB 2,280,859 k).



Interest payable:

Lender	(RUB k)	
	For 2019	For 2018
Subsidiaries	20,520	26,645
Other related parties	18,252	149,013
<b>Total</b>	<b>38,772</b>	<b>175,658</b>

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

Lender	For 2019		For 2018	
	Received	Repaid	Received	Repaid
Subsidiaries	198,607,578	176,405,739	173,027,847	171,363,205
including:				
Stoilensky	121,909,084	102,254,294	114,749,037	115,153,477
NLMK Kaluga	24,386,383	21,723,345		
VIZ-Steel	12,476,178	14,093,576	15,412,427	13,894,273
Vtorchermet NLMK	9,635,679	9,653,679	21,893,514	21,893,514
Altai-Koks	8,956,685	7,503,549	8,621,870	9,077,310
Other affiliated parties	392,319	363,463	891,962	842,866
<b>Total</b> <sup>1</sup>	<b>198,999,897</b>	<b>176,769,202</b>	<b>173,919,809</b>	<b>172,206,071</b>

<sup>1</sup> Including interest-free loans for 2019 in the amount of RUB 171,543,389 k (in 2018 - RUB 171,802, 414 k), repaid – RUB 112,219,528 k (in 2018 - RUB 170,347,647 k).

Interest payable for loans received from subsidiaries under cash pooling agreement:

Lender	(RUB k)	
	For 2019	For 2018
Subsidiaries	166,992	71,996
<b>Total</b>	<b>166,992</b>	<b>71,996</b>



## Security

The Company stood surety for subsidiaries and other related parties:

(RUB k)

Security granted by the Company	As of 31.12.2019	As of 31.12.2018	As of 31.12.2017
NLMK Kaluga	279,189	667,144	879,082
VIZ Steel	430,600	812,997	310,192
Stoilensky	5,872,494	9,137,703	8,674,459
NLMK DanSteel A/S	5,637,077	7,364,511	6,473,947
NLMK Trading SA	36,783,570	19,891,501	17,303,357
VIZ-Broker	--	50,013	67,026
NLMK Pennsylvania LLC	7,247,402	12,826,077	5,668,131
NLMK Metalware	--	11,248	--
Dolomit	--	37,461	--
NLMK Belgium Holdings S.A.	3,471,162	3,973,599	3,443,713
NLMK Plate Sales S.A.	4,884,130	7,948,875	5,930,851
NLMK Verona SpA	7,575,435	9,538,438	7,787,569
NLMK Clabecq S.A.	--	--	346,639
NLMK La Louveiere SA	--	--	--
NLMK Ural	31,822	--	--
Steel Invest & Finance (Luxembourg) S.A. (Explanation 3.13)	4,507,139	--	--
<b>Total</b>	<b>76,720,020</b>	<b>72,259,567</b>	<b>56,884,966</b>

Liabilities under the above securities are valid till 2022.

## Operations with key management personnel

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

Conditions and procedure for payment of remuneration and reimbursement of expenses related to the execution of the Board of Directors member's functions, is provided for by NLMK's Regulations on the Board of Directors members' Remuneration ("Regulations") approved by the General Shareholders Meeting.

Terms and procedure of payment of remuneration to the members of the Management Board are determined by the contract concluded with the members on the proposal of the Committee for Human Resources, Remuneration and Social Policy. Data for 2018 is adjusted with consideration of the actual payments in 2019.

(RUB k)

Description	For 2019	For 2018
Bonuses and salaries (without estimated liabilities for upcoming expenses for vacations)	519,481, <sup>1</sup>	510,188
Remunerations	135,697, <sup>2</sup>	145,564
Other payments <sup>3</sup>	5,926	1,043,634
<b>Total</b>	<b>661,104</b>	<b>1,699,386</b>

<sup>1</sup> Bonuses to the members of the Management Board in 2019 include liabilities on their payment based on a preliminary calculation upon the reporting year performance.

<sup>2</sup> Remuneration to the members of the Board of Directors in 2019 are determined on the basis of a preliminary calculation according to the Regulation.

<sup>3</sup> Other payments for 2018 include estimated liability for long-term remuneration programme payments for achieving the Company's strategic goals paid in 2019.





### 3. 15 CONTINGENT LIABILITIES

In the ordinary course of business the Company participates in several legal proceedings acting as a claimant or a defendant. The Company's management believes that its liabilities, which may arise from these proceedings, cannot have a material adverse effect on financial status and performances.

Since the Company fulfils the requirements of regulatory authorities within the framework of environment protection and takes actions aimed at improvement of environmental situation in the region, at present there are no liabilities related to damage to the environment and its elimination.

The Russian tax law admits various interpretations and is subject to frequent changes. The Company's Management does not rule out some possible disputes with supervisory agencies on any transactions that took place in the reporting and previous periods, which could result in changes of performance results. Tax audits may cover three calendar years of business immediately preceding the year of audit. Earlier periods may be subject to auditing under certain circumstances. In the Company management's opinion, as of 31.12.2019 the respective legal regulations have been interpreted correctly by it, and the Company's position in terms of tax laws is going to be stable.

### 3. 16 EVENTS AFTER THE REPORTING DATE

There have been no material events after December 31, 2019 till the signing date of these statements subject to disclosure herein.

**NLMK Manager**

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

**O. Zarubina**

11 February 2020