

ABOUT NLMK

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OUR TEAM

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ENVIRONMENT

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CORPORATE  
GOVERNANCE

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# REPORT/2016



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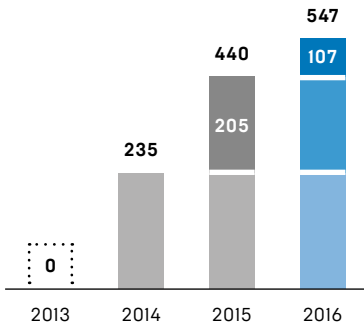
# ABOUT NLMK

## 2016 HIGHLIGHTS

### SUCCESSFUL EXECUTION OF STRATEGY 2017\*

#### SUBSTANTIAL NET GAIN FROM STRATEGIC INITIATIVES

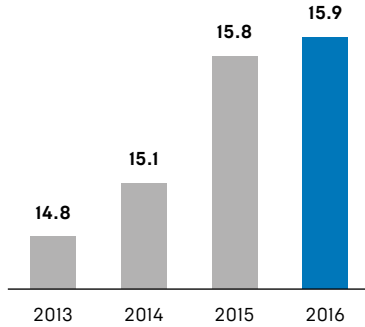
\$ m



### RECORD OPERATING RESULTS

#### CONTINUOUS GROWTH OF SALES VOLUMES

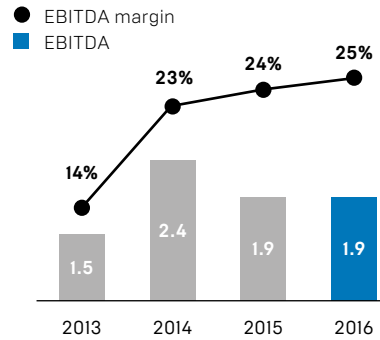
m t



### GROWTH OF BUSINESS PROFITABILITY

#### CONSISTENT GROWTH OF PROFITABILITY

\$ bn



The Group's self-sufficiency in pellets increased to

**100%**

November 2016: Pelletizing Plant launched at Stoilensky, with a capacity of

**6 m t** of pellets per year

**7%** growth in core equipment productivity

Blast Furnace #6 capacity increased by 7% to

**3.1 mtpa**

in October 2016, following major overhaul

### 2016 PLATTS GLOBAL METALS AWARDS

NLMK Group received the Steel Industry Leadership Award from global analytical agency S&P Global Platts in May 2016



**RELATED DOCUMENTS:**

- [Strategy in Action, p. 27](#)
- [Key performance indicators, p. 32](#)

\* With NBH.

## KEY FACTS AND FIGURES

### Setting records in operations

In 2016, NLMK posted record operating results, steel output growing to 16.6 m t, and sales increasing to 15.9 m t.

### Stable financials and debt reduction

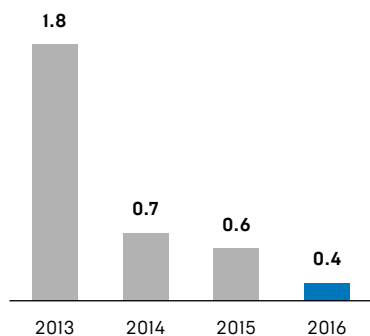
EBITDA margin expanded for a third year running to 25% in a weak market, due largely to gains from Strategy 2017. Debt was at a comfortable level below target.

### Growth in number of independent directors

Independent directors represent an overall majority on NLMK's Board of Directors. 2 of the 3 committees are chaired by independent directors.

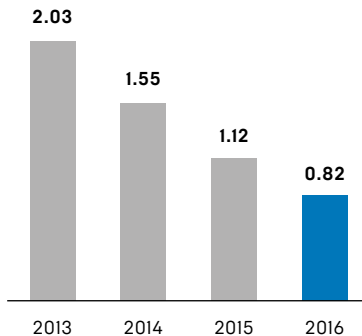
## STRENGTHENING FINANCIAL STANDING

### LOW LEVERAGE (NET DEBT / EBITDA)



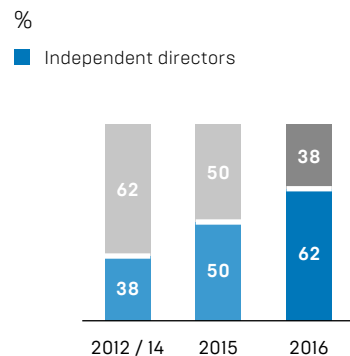
## ENHANCING OCCUPATIONAL HEALTH AND SAFETY

### CONSISTENT LTIFR\* REDUCTION (NLMK Group)



## IMPROVING CORPORATE GOVERNANCE

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



A 7-year Eurobond was issued in June 2016 for

**\$700 million**

with a coupon rate of 4.5% and a maturity date of June 2023. This was used to cover short-term debt

## RESPONSIBLE LEADERSHIP

NLMK Group was ranked among the leaders in the 2016 rating compiled by the Russian Union of Industrialists and Entrepreneurs, in the 'Accountability and Transparency' and 'Vector of Sustainable Development' categories.

## EFFICIENT CORPORATE GOVERNANCE

Shareholders elected 5 independent members to the Group's Board of Directors in June 2016, which represents an overall majority.

[→ For more details](#)

\* LTIFR – Lost Time Injury Frequency Rate.  
 \*\* Without Chairman of the Board of Directors.



# CEO STATEMENT

## OLEG BAGRIN

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

### Dear colleagues,

In 2016, NLMK Group once again performed exceptionally well, with a record high in both production and sales, leverage reaching a minimum and profitability growth for a third year running. Our occupational safety record is among the best in the global steel industry, and we further enhanced environmental performance.

### Market conditions

→ [For more details please refer to p.36 Market Review](#)

2016 proved to be a challenge. The year began with steel prices at a 12 year low and ended with price hikes in key steelmaking raw materials.

Unprecedented Chinese steel exports coupled with anaemic demand in several regions triggered a wave of protectionism and stronger localization of both supply and demand for steel products.

### NLMK leadership

→ [For more details please refer to p.38 2016 Financial and Operating Performance](#)

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

Our EBITDA margin reached 25%, compared to the industry average of 10%. Free cash flow increased and with it our level of liquidity, shoring up the Company's financial sustainability, as reflected by one of the highest credit ratings among Russian steel companies.

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

Our successes were recognized by the expert community, with S&P Global Platts announcing NLMK as winner of the Industry Leadership Awards — Steel in 2016

### Strategy 2017 in action

→ [For more details please refer to p.27 Strategy in Action](#)

Over the past four years, we have implemented over a hundred investment projects and around 2,500 operational efficiency projects, which generated net gains of \$547 million. Operational efficiency and employee initiatives contributed about 70% of this.

Active employee engagement in continuous improvement processes not only impacts our bottom line today but also establishes the corporate culture that lays a strong foundation for the long-term growth and sustainable leadership of NLMK Group.

*Our successes were recognized by the expert community, with S&P Global Platts announcing NLMK as winner of the Industry Leadership Awards — Steel in 2016.*

*NLMK to grow throughout the value chain.*



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



2017 will be decisive for NLMK both in terms of delivery of Strategy 2017, and in terms of further development.

In 2016, NLMK Group solidified its position on 'home' markets of Russia, Europe and the USA. A drop in demand couldn't prevent a sharp upturn in delivery of finished products in Russia and the USA. Our European operations were back to black thanks to an increase in sales of finished products that outstripped the market.

**THE EVENT OF THE YEAR IN THE RUSSIAN METALS & MINING INDUSTRY WAS THE LAUNCH OF THE STOILENSKY PELLETIZING PLANT, ONE OF THE LARGEST AND MOST MODERN IN EUROPE**

Captive production of iron ore pellets will deliver a gain of about \$150 million as early as 2017 by eliminating the need to buy expensive stock from the market.

**Looking to the future**

We are counting on the gain from investment projects executed by NLMK companies to be around \$300 million over the next two years. We expect further gains of more than \$150 million from our operational efficiency projects.

We have begun development of a new strategic programme: Strategy 2022. We are discussing a number of developmental scenarios but it's already clear the new

cycle will be based on operational efficiency, profitable growth and innovation.

**One team**

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

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

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

GROWTH OF SALES VS. 2013  
**+7%**

GROWTH OF EBITDA MARGIN TO  
**25%**

GROWTH OF LABOUR PRODUCTIVITY VS. 2013 BASE  
**+22%**

GAINS FROM STRATEGY 2017  
**+\$547<sup>M</sup>**

DECREASE IN LTIFR\* VS. 2013  
**-60%**

→ Please see p.27 Strategy in Action for more details

\* LTIFR – Lost Time Injury Frequency Rate.

# COMPANY PROFILE

NLMK Group is a leading international manufacturer of high-quality steel products with a vertically integrated business model.

## PRODUCTION CAPACITIES

**17** MILLION  
TONNES  
PER YEAR

**0.4x**

## NET DEBT/EBITDA

*Solid financial standing supported by a balanced financial policy and stable free cash flow generation*

**100%**

## STEELMAKING CAPACITY UTILIZATION RATE

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

**22%**

## OF RUSSIA'S STEEL PRODUCTION

*Leading steelmaker in Russia and among Top 20 leading steelmakers globally*

**\$194**

## CASH COST PER TONNE OF SLABS

*Most competitive cash cost among global steel manufacturers*

## EFFICIENT VERTICAL INTEGRATION

**55%**

*Self-sufficiency in energy*

**75%**

*Self-sufficiency in scrap*

**90%**

*Self-sufficiency in iron ore concentrate*

**100%**

*Self-sufficiency in pellets and coke*

**25%** EBITDA  
MARGIN

*Stable growth in profitability over the last few years against a backdrop of market instability thanks to execution of Strategy 2017*

## HIGH STANDARDS OF SUSTAINABILITY

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

- Group LTIFR\* is 0.82 (0.34 for NLMK's Russian companies) vs. best practice of 0.6;
- Specific air emissions are 20.8 kg/t vs. best practice of 18.9 kg/t.

\* LTIFR — Lost Time Injury Frequency Rate (per million man-hours worked).



**MINING AND STEELMAKING  
OPERATIONS ARE LOCATED  
IN COST-EFFECTIVE  
REGIONS, AND FINISHED  
PRODUCTS ARE  
MANUFACTURED CLOSE  
TO CORE CUSTOMERS IN  
RUSSIA, NORTH AMERICA,  
AND THE EU.**

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## PRODUCTS

NLMK's steel products are used in a number of industries, from construction and engineering to the manufacture of power-generating equipment and offshore wind turbines.

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## PERFORMANCE

NLMK has the most competitive cash cost among global manufacturers and one of the highest levels of profitability in the industry.

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## SHARES

NLMK's ordinary shares, with a 16% free-float, are traded on the Moscow Exchange (ticker "NLMK") and its global depository shares are traded on the London Stock Exchange (ticker "NLMK:LI").

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## GLOBAL LEADERSHIP

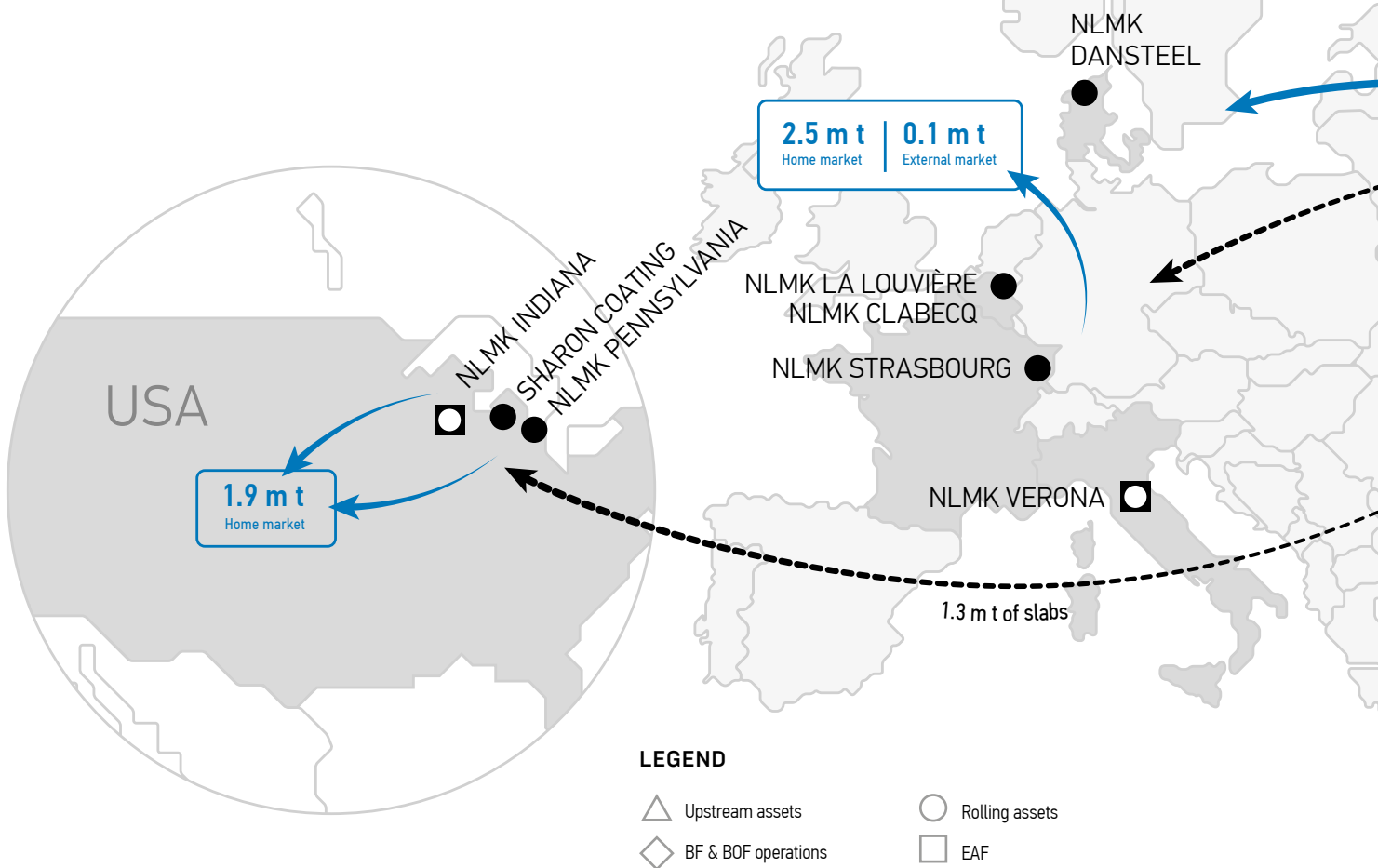
In 2016, NLMK Group received the Steel Industry Leadership Award from S&P Global Platts, a global analytical agency.

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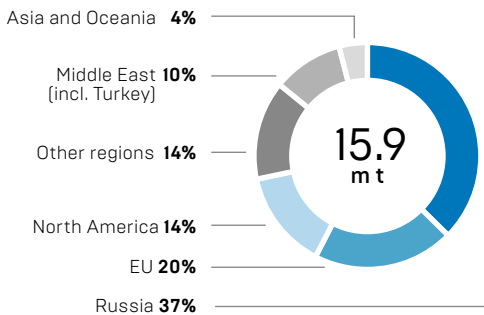
## OUR TEAM

Our corporate culture, which targets continuous development and brings together more than 54,000 professionals across multiple regions, serves as a solid foundation for further growth.

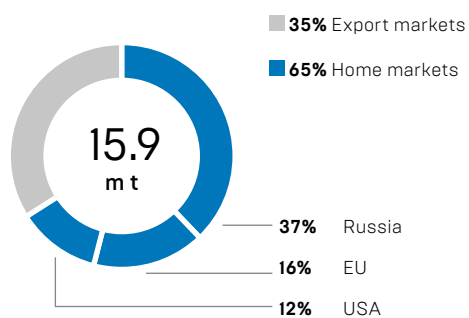
# WHERE WE MAKE AND MARKET STEEL

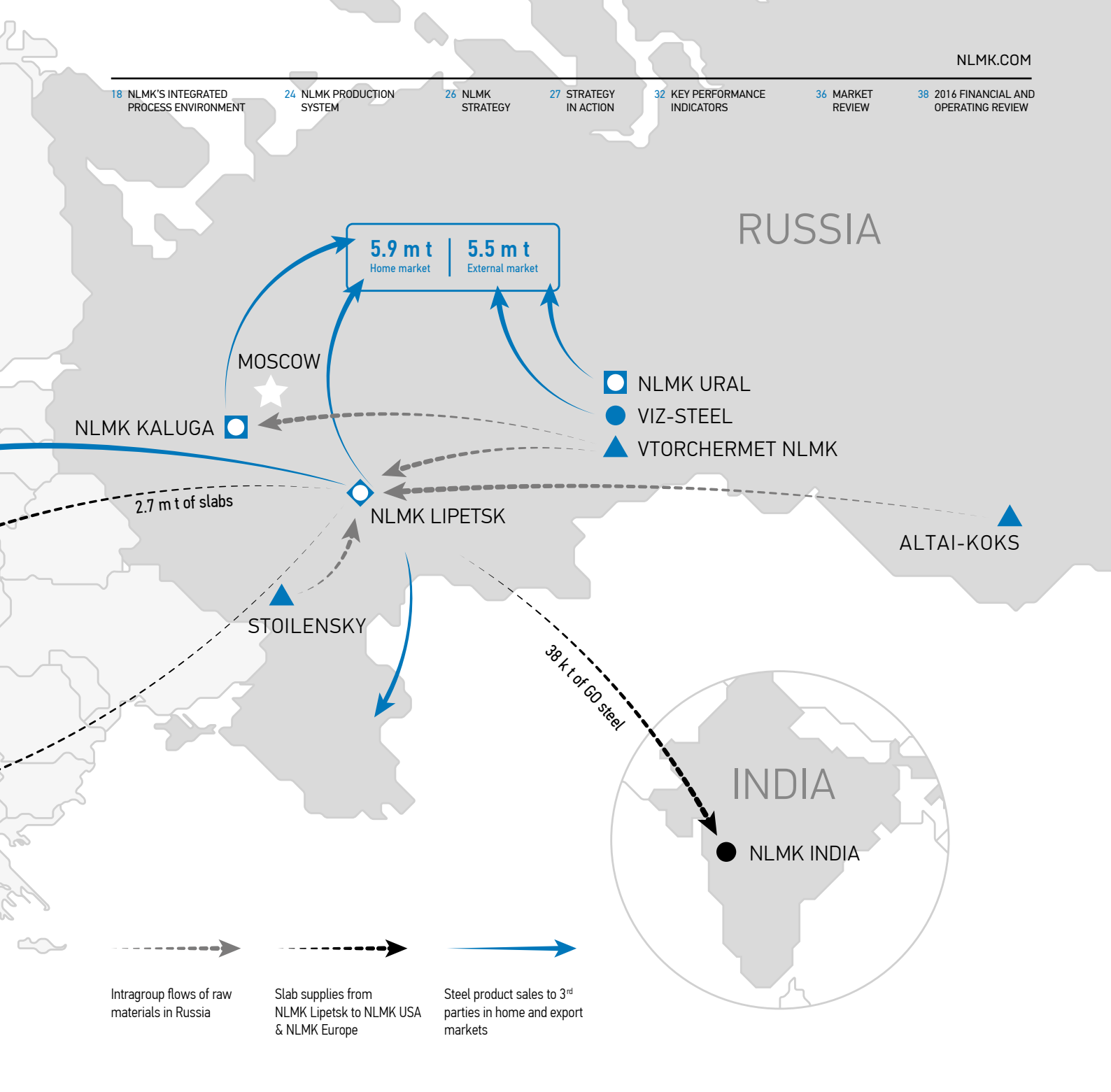


STEEL PRODUCT SALES BY REGION

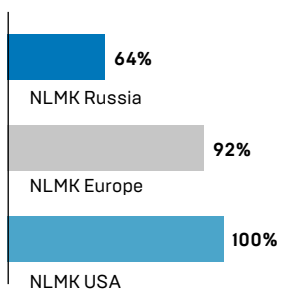


STEEL PRODUCT SALES BY MARKET



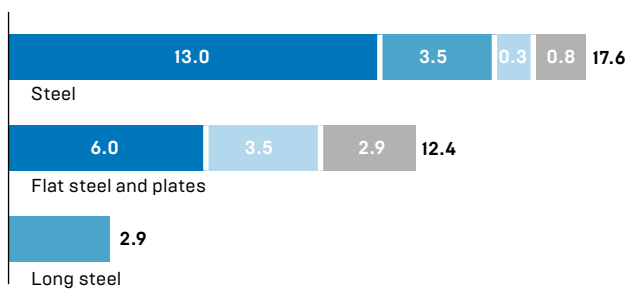


**SHARE OF FINISHED STEEL SALES IN HOME MARKETS**



**NLMK PRODUCTION CAPACITIES**

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

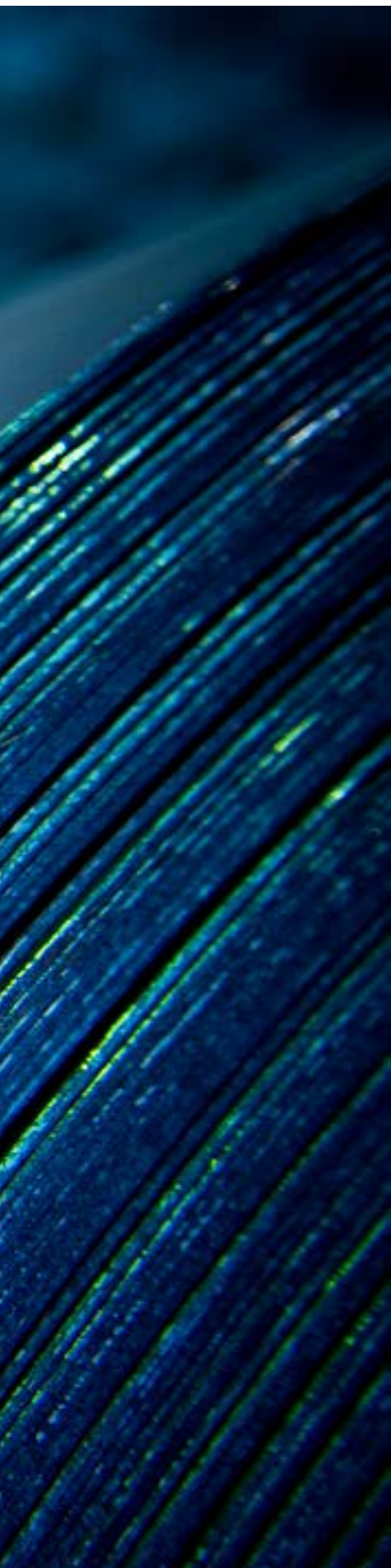


NLMK 2016

# WHAT WE MAKE AND MARKET







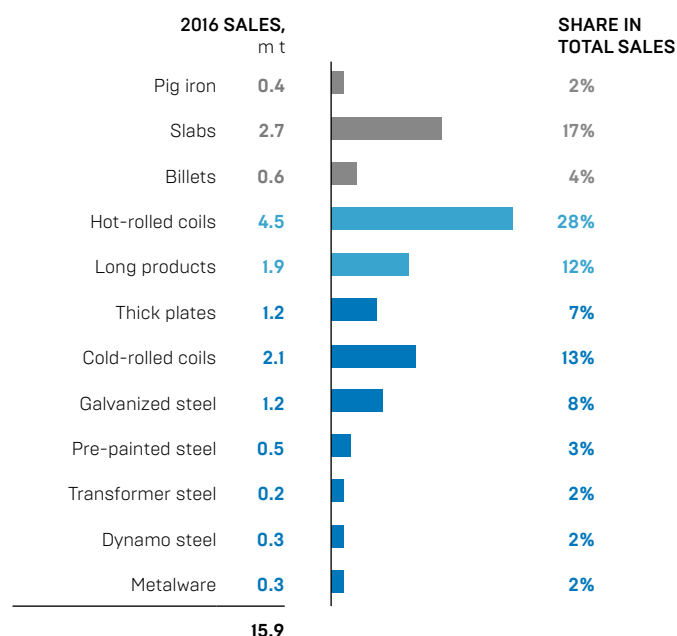
*NLMK 2016 steel product sales: 15.9 m t.*

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

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

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





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



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



## OUR PRODUCTS

	 <b>SEMI-FINISHED PRODUCTS</b>	 <b>THICK PLATE</b>	 <b>HOT-ROLLED STEEL</b>	 <b>COLD-ROLLED STEEL</b>
<b>PRODUCTS</b>	<p>Semi-finished steel products for further processing: slabs are processed into flat steel products, billets are processed into long steel products.</p> <p>A wide range of semi-products, both standard and niche products with specific chemical composition, physical properties and dimensions.</p>	<p>Flat steel products. A range of standard products and niche abrasion-resistant and high-strength plates.</p> <p>Produced at NLMK Group's European plants from slabs supplied by NLMK Lipetsk.</p>	<p>Flat steel products that have been hot-rolled.</p> <p>A wide range of hot-rolled steel in sheets and coils with a variety of physical properties and performance characteristics.</p>	<p>Flat steel products that have been cold-rolled.</p> <p>A wide range of cold-rolled steel sheets and coils with a variety of physical properties and performance characteristics, including niche high ductility products.</p>
<b>SHARE OF TOTAL SALES</b>	<b>21%</b>	<b>7%</b>	<b>28%</b>	<b>13%</b>
<b>CONSUMING SECTORS</b>	Steelmaking, pipe industry.	Lifting and transport equipment, offshore wind power engineering, drilling platforms, shipbuilding, pipelines, boilers, tanks for aggressive environment (pressure, temperature, load, etc.).	Pipe industry, steel structures, shipbuilding, machine building, high-pressure vessels, yellow machinery, commercial, residential and infrastructure construction.	Automotive manufacturing, machine building, pipe industry, yellow machinery and white goods, commercial, residential and infrastructure construction.
<b>SITES</b>	NLMK Lipetsk NLMK Kaluga	NLMK Dansteel NLMK Clabecq NLMK Verona	NLMK Lipetsk NLMK La Louvière NLMK Indiana NLMK Pennsylvania	NLMK Lipetsk NLMK La Louvière NLMK Pennsylvania
<b>MARKET SHARE*</b>	<i>Global slab market</i> <b>12%</b>	<i>European market</i> <b>15%</b>	<i>Russian market</i> <b>11%</b>	<i>Russian market</i> <b>27%</b>

\* NLMK's share in apparent consumption.

## KEY FACTS AND FIGURES

### Balanced product portfolio

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

### Consumers in home markets

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

### NLMK's position in the global steelmaking sector

NLMK is one of the 20 largest steel producers in the world. The Company sells steel to 70 countries around the world. NLMK holds around 12% of the global slab market and is one of the world's largest producers of transformer steel.



### COATED STEEL

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

Available in coils, strip and sheets.

**11%**

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

NLMK Lipetsk  
NLMK Strasbourg  
Sharon Coating

Russian market  
**20%**  
galvanized steel

**24%**  
pre-painted steel



### ELECTRICAL STEEL

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

Available in coils, strip and sheets.

**4%**

Electrical machines, transformers, power engineering, instrument making.

NLMK Lipetsk  
VIZ-Steel

Russian market  
**76%**  
dynamo steel

**~100%**  
transformer steel



### LONG PRODUCTS

Rebar in rods and coils, wire rod, sections.

**12%**

Construction.

NLMK Ural  
NLMK Kaluga

Russian market  
**20%**  
rebar



### METALWARE

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

**2%**

Construction, machine building.

NLMK Metalware

Russian market  
**21%**  
metalware

# NLMK GROUP BUSINESS MODEL

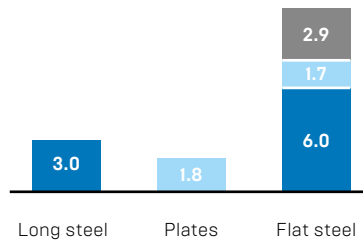
*A flexible and well-balanced business model secures industry leadership for NLMK Group.*



### FLAT STEEL PRODUCTION CAPACITIES

m t

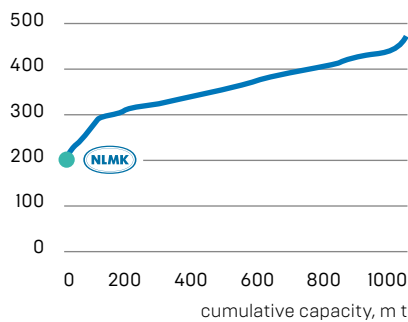
- Russia
- Europe
- USA



Production of a wide range of steel products from captive semis close to end consumers

### GLOBAL STEEL PRODUCTION COSTS IN 2016\* (integrated producers)

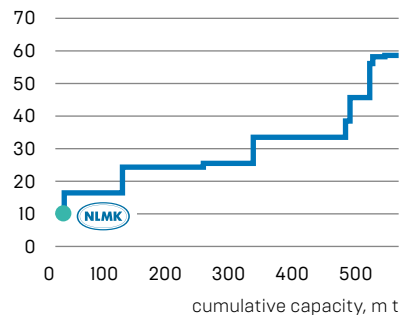
\$/t



High-quality cost-efficient steel produced from captive feedstock using advanced equipment

### IRON ORE CONCENTRATE PRODUCTION COST IN 2016\*\*

\$/t



One of the most cost-efficient iron ore producers in the world

\* Source: World Steel Dynamics.  
\*\* Source: Bloomberg.

# UPSTREAM

Worldwide cost leadership is achieved through a world-class resource base with leading-edge technology for mining and processing, an optimal process environment and the professionalism of the NLMK team.

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

## NLMK ADVANTAGES

### ➤ CAPTIVE ELECTRIC ENERGY

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

### ➤ CAPTIVE PRODUCTION OF COKE

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

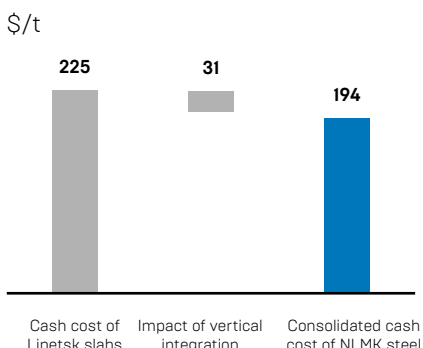
### ➤ IRON ORE PRODUCTION

Stoilensky is one of the most efficient iron ore producers in the world, with a production cost of around \$10/tonne of iron ore concentrate. Stoilensky's iron-ore reserves are upward of 5 billion tonnes. It is located 250 km from the Group's main production facility in Lipetsk.

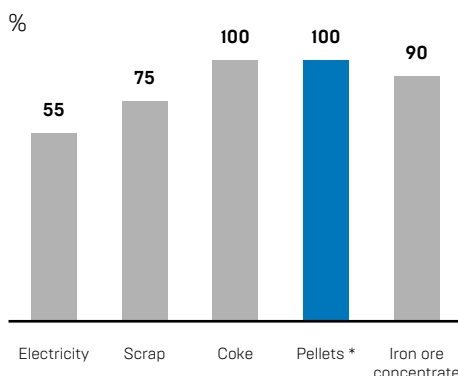
### ➤ NLMK'S SCRAP COLLECTION AND PROCESSING NETWORK

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

## IMPACT OF VERTICAL INTEGRATION ON REDUCTION IN CASH COST PER 1 TONNE OF STEEL IN 2016



## SELF-SUFFICIENCY IN KEY RESOURCES



## ORE RESERVES OF AROUND 5 BNT

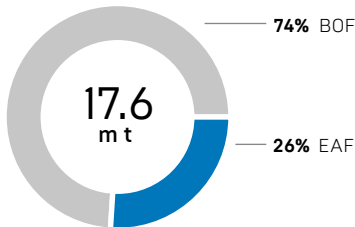
2016 FACTS AND FIGURES	IRON ORE PRODUCTION	PRODUCTION COST OF IRON ORE CONCENTRATE	PRODUCTION COST OF IRON ORE CONCENTRATE	DEVELOPMENT IN 2016	LAUNCH OF PELLETIZING PLANT WITH A PRODUCTION CAPACITY OF
	<b>17.2 MT</b> INCLUDING 0.2 M T OF PELLETS	<b>6.9 MT</b> EXCEEDS 100% OF NLMK LIPETSK'S NEEDS	<b>\$10</b>		<b>6 MT OF PELLETS PER YEAR</b> HIGH PRESSURE GRINDING ROLLER (HPGR) TECHNOLOGY AT STOILENSKY TO BOOST CONCENTRATE OUTPUT BY 1 M T

\* After pelletizing plant ramp-up.

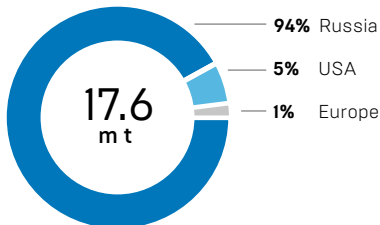
# MIDSTREAM

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

## NLMK STEEL PRODUCTION MIX (BY TYPE)



## NLMK STEEL PRODUCTION MIX (BY REGION)



## NLMK ADVANTAGES

### ➤ COST LEADERSHIP

NLMK is among the global leaders in cost. NLMK Group enjoys sustainable cost leadership through its unique business model and efficient vertical integration. The production cost of Lipetsk steel in 2016 was \$194 per tonne, compared to an industry average of \$340 per tonne.

### ➤ SALES VS. FURTHER PROCESSING

71% of NLMK steel is processed into finished products, 29% 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

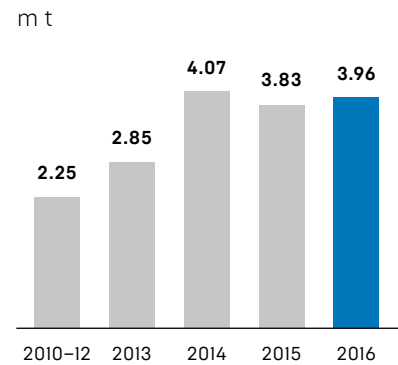
An expansive product offering and diversification of the Company's sales geography allow NLMK to maintain a high-capacity utilization rate.

NLMK's facility in Lipetsk, home to 80% of the Group's steel production capacity, posted 100% capacity utilization throughout the cycle in 2016, while the Group average was 95%.

### ➤ OPTIMAL LOGISTICS

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

## SLAB SUPPLIES TO SUBSIDIARIES AND AFFILIATES



2016 FACTS AND FIGURES	STEEL PRODUCTION	16.6 MT (INCL. NBH)
	NLMK GROUP STEELMAKING CAPACITY UTILIZATION RATE	95%
DEVELOPMENT IN 2016	PRODUCTION COST OF LIPETSK STEEL	\$194
	THE SCHEDULED OVERHAUL OF BLAST FURNACE NO.6 (BF-6) IN LIPETSK INCREASED ITS PRODUCTIVITY BY 7% TO	3.1 MT



# DOWNSTREAM

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

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

## NLMK ADVANTAGES

### ➤ HIGH QUALITY

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

### ➤ BALANCED PRODUCT PORTFOLIO

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

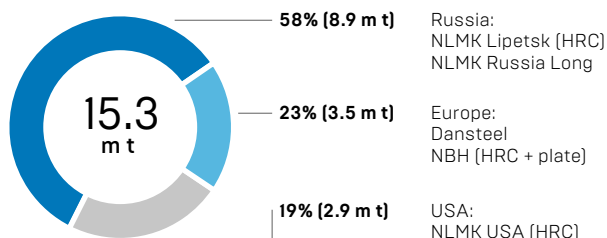
### ➤ DIVERSIFICATION OF SALES

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

### ➤ OPTIMAL PRODUCTION FOOTPRINT

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

## NLMK ROLLING CAPACITY BREAKDOWN (FLAT STEEL)



2016 FACTS AND FIGURES

MANUFACTURING OF FINISHED PRODUCTS

**12.2 MT** (INCL. NBH)

**+8%**

GROWTH IN SALES TO HOME MARKETS VS. 2013

SALES TO MORE THAN 70 COUNTRIES AROUND THE WORLD

**82%**

OF OUTPUT IS FLAT STEEL

**18%**

IS LONG PRODUCTS

DEVELOPMENT IN 2016

LIPETSK SITE:

OVERHAUL OF HOT-DIP GALVANIZING LINE NO. 1 INCREASED PRODUCTION CAPACITY OF HDG PRODUCTS BY 11% TO

**1.25 MT**

# NLMK'S INTEGRATED PROCESS ENVIRONMENT

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

NLMK Group is an integrated process environment that stretches from the Urals in Russia to the Great Lakes in the USA. All our facilities across the globe share common values and work for a common goal.

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

## VALUE CHAIN

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



# NLMK RUSSIA

## UPSTREAM

### PRODUCTION FACILITIES:

Stoilensky  
Dolomit  
Stagdok

### FUNCTIONS:

Providing raw materials to NLMK Group production facilities

### PRODUCTS:

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

### HEADCOUNT:

**7,100**  
PEOPLE

### PRODUCTION:

**IRON ORE**  
**17.2** MT  
(+1% yoy)

**FLUXES**  
**6.3** MT  
(-9% yoy)

### TOTAL REVENUE:

**\$597** M  
(+1% yoy)

### EBITDA:

**\$318** M  
(+7% yoy)

### INVESTMENTS:

**\$218** M  
(-23% yoy)

**IN NOVEMBER 2016, STOILENSKY LAUNCHED A PELLETIZING PLANT WITH A PRODUCTION CAPACITY OF 6 MILLION TONNES, WHICH WILL MEET 100% OF NLMK GROUP'S DEMAND FOR PELLETS.**

### SALES:

**IRON ORE CONCENTRATE:** 15.4 m t  
(incl. 74% to the Lipetsk site)

**PELLETS:** 0.24 m t  
(100% to the Lipetsk site)

**SINTER ORE:** 1.6 m t  
(78% to the Lipetsk site)

**LIMESTONE:** 2.2 m t  
(80% to the Lipetsk site)

**DOLOMITE:** 3.6 m t  
(75% to the Lipetsk site)

### CONSUMERS:

**INTERNAL:** NLMK Group's Lipetsk site

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

## NLMK RUSSIA FLAT

### PRODUCTION FACILITIES:

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

### FUNCTIONS:

Steel production, including semis for international subsidiaries and flat products

### PRODUCTS:

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

### HEADCOUNT:

**34,800**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**13.0** MT

**FLAT PRODUCTS**  
**6.0** MT

### TOTAL REVENUE:

**\$5,586** M  
(-8% yoy)

### EBITDA:

**\$1,342** M  
(-15% yoy)

### INVESTMENTS:

**\$301** M  
(+13% yoy)

**SALES OF FINISHED ROLLED STEEL TO EXTERNAL CONSUMERS INCREASED BY 3% YOY TO 5.7 MT, THE SHARE IN TOTAL SALES WAS 66% (+6 P.P. YOY)**

### SALES TO EXTERNAL CUSTOMERS:

**COMMODITY PIG IRON:**  
0.4 M T (-44% YOY)

**SLABS:** 2.6 M T (-13% YOY)

**HOT-ROLLED STEEL:** 2.6 M T (+3% YOY)

**COLD-ROLLED STEEL:** 1.5 M T (+2% YOY)

**GALVANIZED STEEL:** 0.6 M T (-5% YOY)

**PRE-PAINTED STEEL:** 0.5 M T (+23% YOY)

**NGO STEEL:** 0.3 M T (+11% YOY)

**GO STEEL:** 0.2 M T (-11% YOY)

### PRODUCTION:

**COKE:** 6.9 m t (+1% yoy)

**PIG IRON:** 12.7 m t (-1% yoy)

**STEEL:** 13.0 m t (+1% yoy)

**COMMODITY SEMIS:**  
6.6 m t (-2% yoy)

**FINISHED STEEL:**  
5.8 m t (+2% yoy)

### STEELMAKING CAPACITY UTILIZATION:

**100%**

### CONSUMERS:

**INTERNAL:** NLMK Group international rolling divisions

**EXTERNAL:** construction industry, pipe manufacturers, automotive industry, machine building, manufacturers of white goods and yellow goods, power industry and other sectors

### EXTERNAL SALES GEOGRAPHY:

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

### INTRA-GROUP SALES:

**SUPPLIES TO NLMK USA:**  
1.3 m t (+4% yoy)  
**SUPPLIES TO NLMK EUROPE:**  
2.7 m t (+4% yoy)



**NLMK RUSSIA LONG**

**PRODUCTION FACILITIES:**

Vtorchermet NLMK scrap collection and processing network  
 NLMK Ural  
 NLMK Kaluga  
 NLMK Metalware

**FUNCTIONS:**

Processing of scrap for the Group's steelmaking operations in Russia  
 Production of long products and metalware

**PRODUCTS:**

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

**HEADCOUNT:**

**9,000**  
 PEOPLE

**PRODUCTION CAPACITIES:**

**STEEL**  
**3.5** MT  
**LONG PRODUCTS**  
**2.9** MT

**STEELMAKING CAPACITY UTILIZATION:**

**82%**

**TOTAL REVENUE:**

**\$1,293** M (+12% yoy)

**EBITDA:**

**\$138** M (+181% yoy)

**INVESTMENTS:**

**\$16** M (-35% yoy)

**CONSUMERS:**

Construction industry, machine building

**THE DIVISION'S TOTAL SALES OF STEEL PRODUCTS INCREASED YOY BY 18% TO REACH 2.8 MILLION TONNES, THANKS TO EXPANSION OF SALES GEOGRAPHY**

**PRODUCTION:**

**SCRAP TREATMENT:** 2.1 m t (-6% yoy)  
**STEEL:** 2.9 m t (+14% yoy)  
**LONG PRODUCTS:** 1.9 m t (+1% yoy)  
**METALWARE:** 0.3 m t (-5% yoy)

**SALES TO EXTERNAL CUSTOMERS:**

**BILLETS:** 0.6 m t (+114% yoy)  
**LONG PRODUCTS:** 1.9 m t (+6% yoy)  
**METALWARE:** 0.3 m t (-4% yoy)

**EXTERNAL SALES GEOGRAPHY:**

Russia (59% of sales), European Union, North Africa



## NLMK USA

### PRODUCTION FACILITIES:

NLMK Pennsylvania  
NLMK Indiana  
Sharon Coating

### FUNCTIONS:

Production of flat steel from slabs shipped from NLMK Lipetsk, in addition to slabs produced by NLMK USA itself

### PRODUCTS:

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

### SALES GEOGRAPHY:

100% of sales in the USA

### HEADCOUNT:

**1,000**  
PEOPLE

### PRODUCTION CAPACITIES:

STEEL  
**0.8** MT

FLAT PRODUCTS  
**2.9** MT

### TOTAL REVENUE:

**\$1,162** M  
(+6% yoy)

### EBITDA:

**\$178** M  
(+291% yoy)

### INVESTMENTS:

**\$19** M  
(-2% yoy)

### STEELMAKING CAPACITY

UTILIZATION: **73%**

**THE DIVISION'S SALES INCREASED BY 5% IN SPITE OF A 5% REDUCTION IN US STEEL CONSUMPTION**

### PRODUCTION:

STEEL: 0.6 m t (+23% yoy)

FLAT PRODUCTS: 1.8 m t (+2% yoy)

### SALES:

HOT-ROLLED STEEL: 0.9 m t (+1% yoy)

COLD-ROLLED STEEL: 0.5 m t (+10% yoy)

GALVANIZED STEEL: 0.4 m t (+10% yoy)

### CONSUMERS:

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





# NLMK EUROPE

## NLMK EUROPE STRIP

**PRODUCTION FACILITIES:**

NLMK La Louvière\*  
NLMK Strasbourg\*

**FUNCTIONS:**

Production of flat steel from slabs shipped from NLMK Lipetsk

**PRODUCTS:**

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

**PRODUCTION: FLAT PRODUCTS:**

1.3 m t (+4% yoy)

**HEADCOUNT:**

**900**  
PEOPLE

**PRODUCTION CAPACITIES:**

**FLAT PRODUCTS**  
**1.7** MT

**ROLLING CAPACITY UTILIZATION:**

**84%**

**NLMK LA LOUVIÈRE DEMOTHBALLED A SECOND COLD-ROLLING LINE WITH A 150,000 T CAPACITY ON THE BACK OF STRONG DEMAND**

**SALES:**

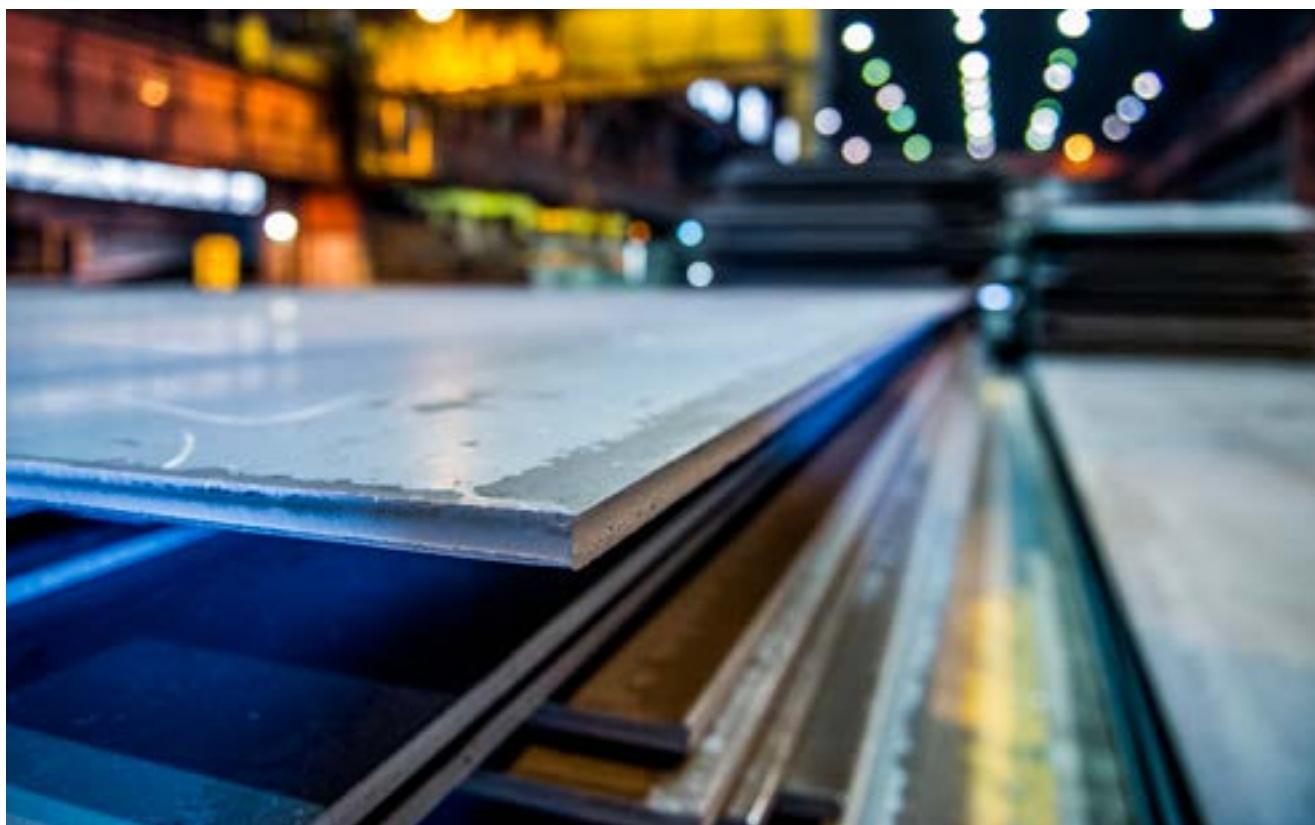
**HOT-ROLLED STEEL:** 1.0 m t (+12% yoy)  
**COLD-ROLLED STEEL:** 0.1 m t (+17% yoy)  
**GALVANIZED STEEL:** 0.3 m t (-16% yoy)  
**PRE-PAINTED STEEL:** 0.1 m t (+8% yoy)

**CONSUMERS:**

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

**SALES GEOGRAPHY:**

92% of sales within the European Union



## NLMK EUROPE PLATE

### PRODUCTION FACILITIES:

NLMK Dansteel  
NLMK Clabecq\*  
NLMK Verona\*

### FUNCTIONS:

Production of plates from slabs shipped from NLMK Lipetsk in addition to semis produced by NLMK Europe itself

### PRODUCTS:

Niche steel semis, thick plates, including branded Quard and Quend grades

### HEADCOUNT:

**1,200**  
PEOPLE

### PRODUCTION CAPACITIES:

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

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

### ROLLING CAPACITY UTILIZATION:

**87%**

**IN 2016, THE SALES OF QUARD AND QUEND NICHE PLATES INCREASED BY 25% YOY TO 89,000 TONNES, ACCOUNTING FOR 23% (+2 P.P. YOY) OF TOTAL SALES**

### SALES:

**PLATE:** 1.2 m t (+12% yoy)

### SALES GEOGRAPHY:

92% of sales within the European Union

### CONSUMERS:

Producers of heavy vehicles and loading equipment, offshore wind turbines, drilling rigs, shipbuilding sector, pipe manufacturers, boilers and vessels designed for use in hostile environments

### PRODUCTION:

**STEEL:** 0.2 m t (+5% yoy)

**PLATE:** 1.2 m t (+8% yoy)

\* Part of NLMK Belgium Holdings.

# NLMK PRODUCTION SYSTEM

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

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

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

## BUILDING A CULTURE OF CONTINUOUS IMPROVEMENT

### NLMK Production System covers 100% of the Group companies

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

NLMK Group began developing its Production System in 2009, bringing together the best practices of leading global manufacturers such as Toyota and BMG, selecting tools suitable as solutions for specific applications and adapting them for NLMK Group's environment, or developing in-house ones where necessary. The challenge then was to develop an integrated system of tools like those we know so well today, such as 6S, A3, the control charts and the initiative system.

The development and roll-out of the NLMK Production System have quickly gone from strength to strength. Strategic goals have been defined, a set of effective tools established and a system of optimization programmes launched.

Today NLMK Production System covers every company within the Group and 42 production stages, providing 11 efficiency improvement tools and enabling online monitoring of 280 technical and financial indicators, of which 95% are within 10% of their targets.

During the scale up of NLMK Production System it became clear there are areas which require improvement and further development.

The main objective of the new stage is to change the approach to production management, engaging employees of all levels in the continuous improvement process by changing their way of thinking and their behaviour.



#### RELATED DOCUMENTS:

- [Corporate Magazine, Issue # 1 2016, p. 28 \(PDF\)](#)
- [Capital Markets Day presentation, 2017 \(PDF\)](#)

## KEY FACTS AND FIGURES

### NLMK Production System (NLMK PS)

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

### Initial stage of PS implementation complete

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

### Corporate culture transformation

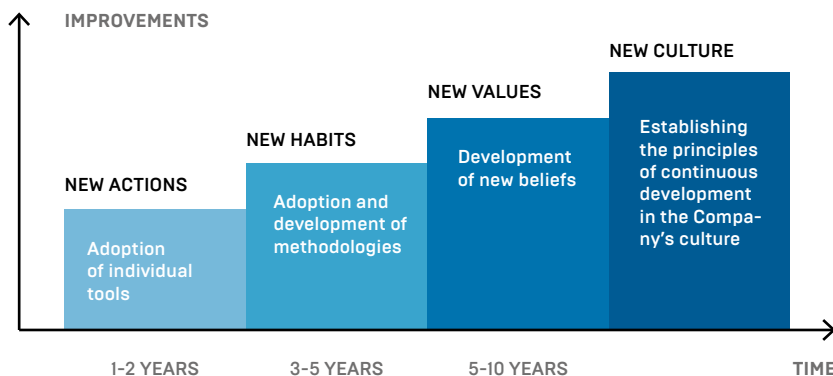
The key task at hand is to alter approach to production management, engaging employees at all levels in the process of continuous improvement through changes in thinking and behaviour.



### Progress in 2016

In 2016, NLMK Production System began the transition to a new development stage which aims to involve each and every employee of the Company in the process of continuous improvement. It kicked off with a pilot project

at NLMK Kaluga in collaboration with DuPont, a leader in the hi-tech marketplace. During the project, a team of NLMK specialists will receive invaluable experience engaging personnel and further upscaling the Production System throughout NLMK Group.



*"The greatest possible use of NLMK's internal resources can only be achieved if the Company's operations are organized as a single business process aimed at achieving strategic objectives by optimizing the use of material and intellectual resources. For this reason, the development and roll-out of NLMK Production System is currently the Company's key optimization process."*

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

# NLMK STRATEGY

## GOALS OF STRATEGY 2017

- AN ANNUAL NET GAIN OF \$1 BILLION VS. 2013 EBITDA
- A SIGNIFICANT REDUCTION IN ANNUAL CAPEX
- CONSERVATIVE LEVERAGE: TARGET NET DEBT/EBITDA OF 1.0X
- STABLE POSITIVE FREE CASH FLOW
- PAYMENT OF DIVIDENDS ACCORDING TO NLMK GROUP'S REVISED DIVIDEND POLICY

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

### KEY ELEMENTS OF STRATEGY 2017 ARE:

#### 1 GLOBAL LEADERSHIP IN EFFICIENCY

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

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

#### 2 WORLD-CLASS RESOURCE BASE

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

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

#### 3 LEADERSHIP IN STRATEGIC MARKETS

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

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

#### 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

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

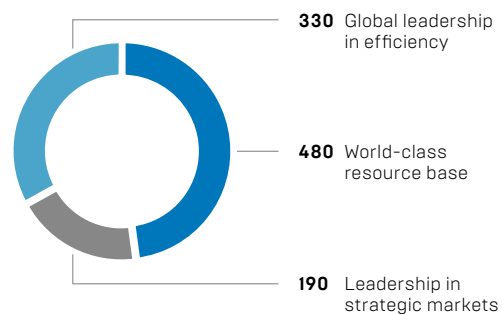


#### RELATED DOCUMENTS:

- [Strategy in Action, p. 27](#)
- [Strategy 2017 announcement, 2014 \[PDF\]](#)
- [Strategy page \[website\]](#)
- [Capital Markets Day presentation, 2017 \[PDF\]](#)

### EXPECTED IMPACT OF STRATEGY 2017 ON EBITDA

\$ m





# STRATEGY IN ACTION

*“NLMK Group continues to implement its strategy. Our goals of strengthening NLMK’s position as one of the world’s most efficient steelmaking companies and generating \$1 billion of EBITDA per year remain unchanged.”*

“We’ve accomplished a lot over the past three years, the long-term financial impact of our strategy to date is an annual net gain of \$547 million, despite the challenging market conditions.

“We achieved record steel output and improved profitability. NLMK’s debt leverage is several times below the industry average, and a moderate capex plan enables us to generate significant free cash flow.

Our shareholders enjoy the full benefit of our financial success through high and stable dividends.

“In 2017, we will continue closing in on our targets, while developing the next phase of our strategy, Strategy 2022, focusing on further consolidation of our competitive advantages and seizing value-creative growth opportunities that our flexible business model opens for us.”

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

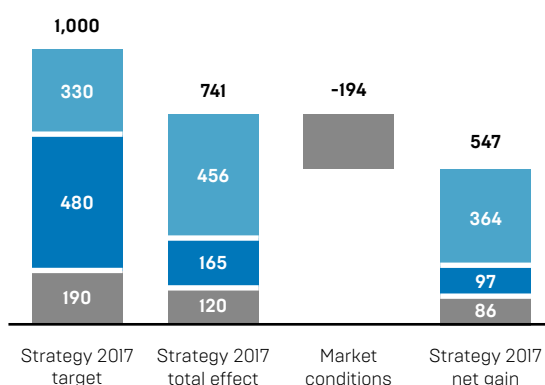
## KEY ACHIEVEMENTS OF STRATEGY 2017

**OVER THE COURSE OF 2014–2016, NLMK GROUP’S STRATEGY 2017 DELIVERED AN ANNUAL NET GAIN OF \$547 MILLION**

**THE KEY OBJECTIVE OF STRATEGY 2017, AN ANNUAL NET GAIN OF \$1 BILLION ON 2013 EBITDA, REMAINS UNCHANGED. NLMK IS ON TRACK TO ACHIEVE THIS GOAL IN 2017–2018**

### KEY ACHIEVEMENTS OF STRATEGY 2017 IN 2014–2016

- 1** Global leadership in efficiency
- 2** World-class resource base
- 3** Leadership in strategic markets

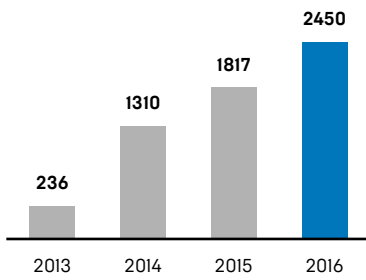


# 1 GLOBAL LEADERSHIP IN EFFICIENCY

## TARGET: COST REDUCTION AND GROWTH IN PRODUCTIVITY

Enhancing operational efficiency is an ongoing process which encompasses all of the Group's operations and stages of production. Over the past three years we have implemented around 2,500 efficiency enhancement initiatives, which required zero or minimal capex.

### OPERATIONAL EFFICIENCY PROJECTS



**NET GAIN OF \$364 MILLION PER YEAR, OR 110% OF THE DECLARED TARGET**

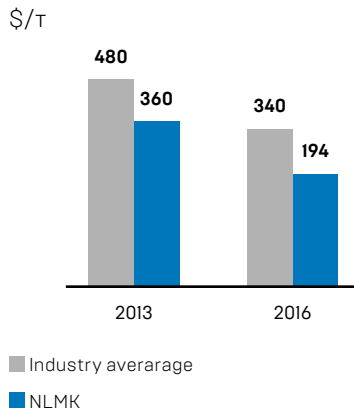
This has led to significant cost reduction and growth in production:

- Cost leadership maintained: in 2016, the slab cash cost decreased by almost 50% from the 2013 level

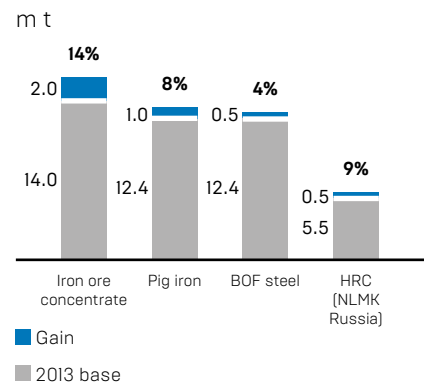
to \$194 per tonne, which is 43% below the industry average.

- Equipment productivity increased: NLMK Group increased pig iron output by 1 million tonnes, while total HRC output at NLMK Lipetsk increased by 500,000 tonnes from the 2013 level.

### STEEL CASH COST, \$/T



### NLMK GROUP EQUIPMENT PRODUCTIVITY GROWTH 2013-2016



### CASE STUDY

OVERHAUL BOOSTS FURNACE PERFORMANCE BY **7%**



### NLMK LIPETSK BOLSTERS RELIABILITY AND EFFICIENCY OF BLAST FURNACE OPERATIONS

NLMK put Blast Furnace No.6 (BF-6) back into operation after a scheduled overhaul at the Group's main production site in Lipetsk.

The overhaul enables uninterrupted operation of the blast furnace and excellent product quality for the long term. It also increases the maximum output of the furnace by 7%, from 2.9 million to 3.1 million tonnes per year.

Additionally, a new gas treatment system has been introduced at BF-6, which provides a five-fold increase in the efficiency of blast furnace gas treatment. The overpressure produced by blast furnace gas is to be utilized by the top-pressure recovery turbine, a 'green' energy generating facility with a 14 MW capacity.

# 2 WORLD-CLASS RESOURCE BASE

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

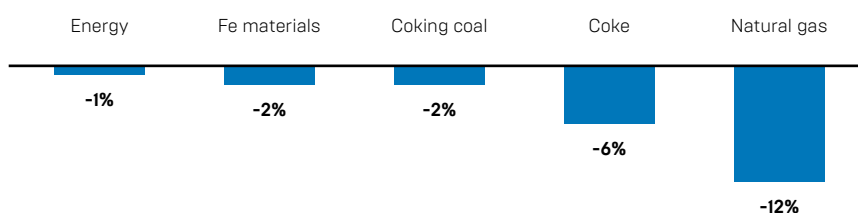
- Self-sufficiency in iron ore increased from 80% in 2013 to 90% in 2016. Stoilensky Pelletizing Plant was launched in November 2016 with a production capacity of 6 million tonnes of pellets per year and the potential to increase output to 7.2 million tonnes.
- Lower consumption of expensive resources vs. 2013: key production sites have reduced consumption of all types of resources, from Fe materials to natural gas.

- In 2017-2018, additional gains are expected from completed and late stage Strategy 2017 investment projects, such as:
- Ramp-up of Stoilensky Pelletizing Plant, with output of 5.5 million tonnes of pellets anticipated in 2017.
- An 1.7 million tonnes per year increase in iron ore fines output during 2017, to reach 16.6 million tonnes by 2018, in order to increase feedstock supply to the newly launched Pelletizing Plant.

**NET GAIN IN 2014-2016 OF \$97 MILLION, OR 20% OF THE TARGET LEVEL**

- There are also projects aimed at reducing consumption of expensive resources through substitution with cheaper alternatives. The Company plans to expand usage of pulverized coal injection (PCI) technology in 2017 across blast furnace operations and increase energy production from secondary energy resources.

## RESOURCE CONSUMPTION FOR NLMK'S RUSSIAN FACILITIES, 2016 VS. 2013



**CASE STUDY**

AT CURRENT PRICES, THE NET GAIN IN EBITDA IS CA.

**\$150** MILLION PER YEAR

## COMMISSIONING OF STOILENSKY PELLETIZING PLANT

The launch of the key investment project of Strategy 2017 enables NLMK Group to reduce the cost of iron ore used in blast furnace operations at NLMK Lipetsk, which results in a lower cash cost of NLMK steel.

The Pelletizing Plant has a design capacity of 6 million tonnes of pellets per year, while the plant's equipment allows for a 20% expansion of capacity to reach 7.2 million tonnes of pellets per year.

The high-tech facility took two years to build. The active phase of the project, the largest in its region, began in 2014 and required total investment of around \$680 million (RUB 34 billion).

The best available technology and hardware was selected during the design phase. The largest induration furnace in Europe ensures the high performance of the plant, with a production output of 780 tonnes of pellets per hour.

# 3 LEADERSHIP IN STRATEGIC MARKETS

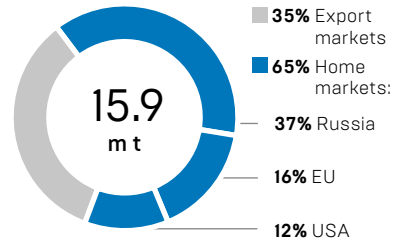
**TARGET: HIGHER CAPACITY UTILIZATION RATES, GROWTH OF SALES IN KEY MARKETS**

- Sales reached a record 15.9 million tonnes in 2016, climbing for a third year running. Total sales volume has grown 7% vs. 2013.
- Sales in NLMK Group’s home markets of Russia, the EU and the USA grew by 8% vs. 2013 to 10.3 million tonnes. Sales growth by the Group’s divisions outperformed

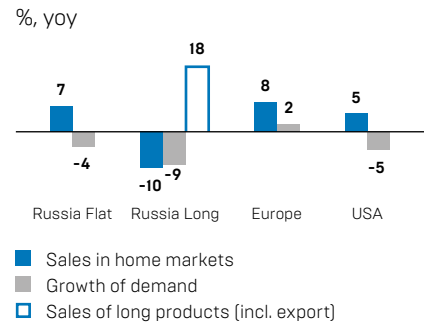
**NET GAIN OF \$86 MILLION IN 2014-2016, OR 45% OF THE TARGET LEVEL**

- the growth of steel consumption in its home markets, which collectively accounted for 65% of sales in 2016.
- The share of finished products in total sales increased by 12%, from 10.9 million tonnes in 2013 to 12.2 million tonnes in 2016.

## BREAKDOWN OF STEEL PRODUCT SALES IN 2016



## GROWTH OF NLMK SALES VS. TRENDS IN HOME MARKETS, 2016/2015



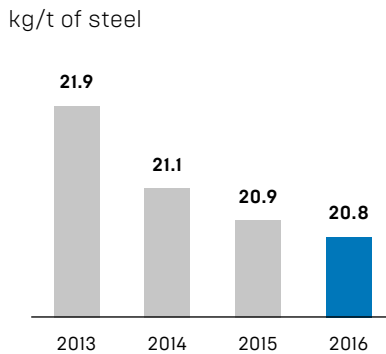
# 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

**TARGET: ENSURE WORKPLACE SAFETY, MINIMIZE ENVIRONMENTAL FOOTPRINT, ENHANCE LABOUR PRODUCTIVITY**

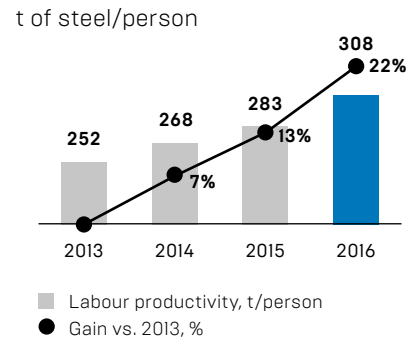
Leadership in sustainability and safety is a priority for NLMK Group.

- LTIFR declined to 0.82 for the consolidated Group and to 0.34 for Russian assets, representing a 60% improvement on 2013 levels.
- Specific air emissions reduced by 5% to 20.8 kg/t vs. 2013.
- Employee productivity grew by 22% vs. 2013.

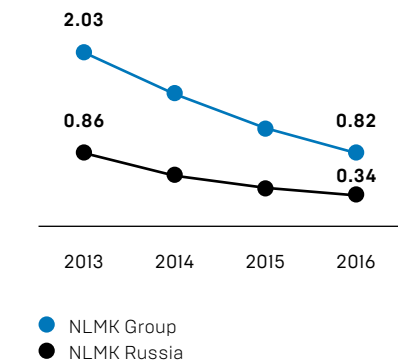
## REDUCTION OF SPECIFIC AIR EMISSIONS (NLMK Russia)



## NLMK GROUP LABOUR PRODUCTIVITY



## LTIFR\*



\* LTIFR – Lost Time Injury Frequency Rate

## KEY FACTS AND FIGURES

### Gains from Strategy 2017 implementation in 2014–2016

Structural net gain in EBITDA was \$547 mpa in 2016, which is over 25% of total 2016 EBITDA.

### \$1 billion objective will be met in late 2018

In 2017–2018, NLMK Group will unlock a further \$0.46 billion through launch of investment projects and implementation of operational efficiency programmes.

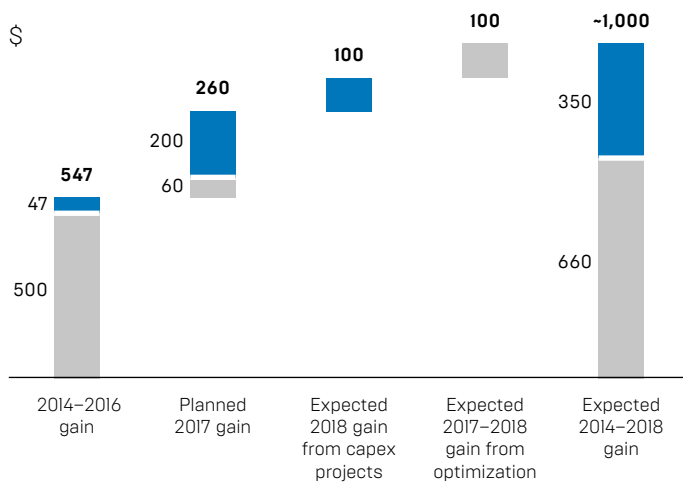
### The key development vectors of Strategy 2022 have been established

A combination of long-term growth projects, ongoing operational efficiency initiatives and the implementation of innovative solutions.

## EXPECTED RESULTS OF STRATEGY 2017 IN 2017–2018

NLMK is confident that the Strategy 2017 target of an annual net gain of \$1 billion will be achieved in 2017-2018, thanks to increased returns on capex and operational efficiency projects, including scale-up of the NLMK Production System.

### EXPECTED EFFECT FROM STRATEGY 2017



■ Gains from operational efficiency growth  
■ Gains from capex projects

## KEY ELEMENTS OF STRATEGY 2022

*The Company is actively developing the next phase of its strategy, Strategy 2022, which is scheduled for announcement in early 2018.*

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

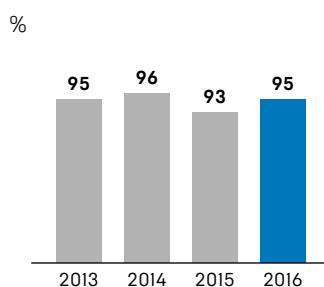
In Strategy 2022, NLMK Group will target a balance between investments in growth projects, a conservative financial policy and high returns for NLMK shareholders.

# KEY PERFORMANCE INDICATORS

## BUSINESS MODEL EFFICIENCY

### STEELMAKING CAPACITY UTILIZATION

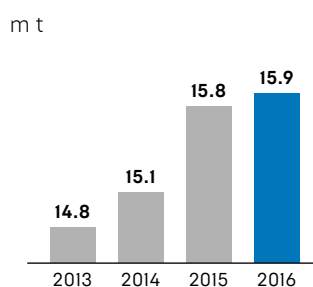
*Utilization rate of crude steel production capacities*



2016 targets met

### STEEL PRODUCT SALES

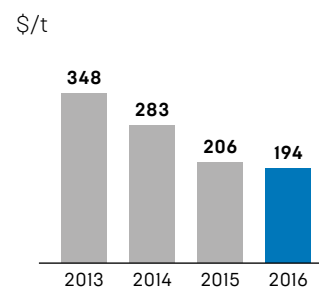
*Total sales of steel products to external consumers of all NLMK Group's facilities*



2016 targets exceeded

### SLAB CASH COST

*Consolidated cash cost for slab production at NLMK Lipetsk*



Target reduction in cash cost related to initiatives employed achieved

## 2016 COMMENTS

NLMK Group was able to ensure high utilization rate of steelmaking capacity thanks to a balanced sales portfolio and its cost advantage

Sales reached a record 15.93 million tonnes (+1%) in 2016, driven by increased sales of HVA products and strong positions in 'home' markets (markets where production facilities are located)

Slab cash cost at NLMK Lipetsk decreased by 5% to \$194 per tonne in 2016, thanks primarily to the implementation of operational efficiency programmes

## 2017 TRENDS

**UTILIZATION RATE OF STEELMAKING CAPACITIES AT ALL NLMK GROUP'S FACILITIES WILL REMAIN HIGH**

**NLMK GROUP PLANS TO MAINTAIN A HIGH SALES VOLUME AND FURTHER INCREASE THE SHARE OF FINISHED PRODUCTS SOLD**

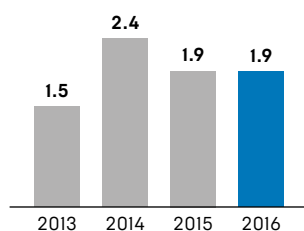
**THE COST OF STEEL WILL BE POSITIVELY IMPACTED UPON BY THE LAUNCH OF THE PELLETIZING PLANT DELIVERING A REDUCTION IN RAW MATERIAL COSTS**

# FINANCIAL PERFORMANCE

## EBITDA

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

\$ bn

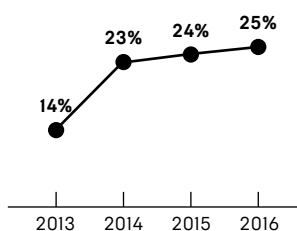


2016 targets exceeded by over 20%

## EBITDA MARGIN

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

%

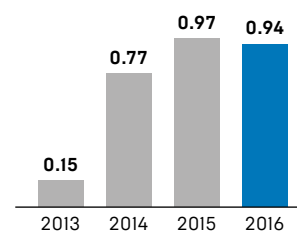


2016 targets exceeded

## NET PROFIT

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

\$ bn



## 2016 COMMENTS

Strong profit in 2016 was largely driven by gains from Strategy 2017 initiatives, which offset the negative impact of market factors

In spite of challenging market conditions an increase in EBITDA margin was achieved thanks to net gains from operational efficiency programme and optimized sales portfolio

A 3% decrease in net profit was largely the result of exchange rate fluctuations and the effect of one-off items in 2015

## 2017 TRENDS

**WE EXPECT SIGNIFICANT STRUCTURAL NET GAINS DRIVEN BY THE IMPLEMENTATION OF STRATEGY 2017 CAPEX AND OPTIMIZATION PROJECTS THAT WILL BOOST NLMK GROUP'S PROFITABILITY**

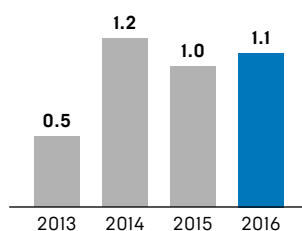


## FINANCIAL PERFORMANCE

### FREE CASH FLOW

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

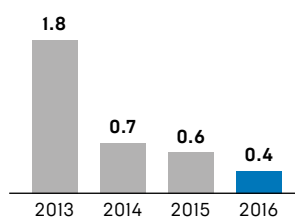
\$ bn



2016 targets exceeded

### NET DEBT / EBITDA

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

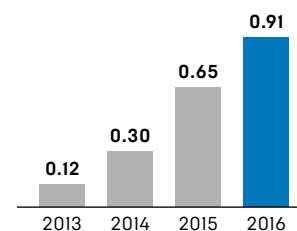


2016 targets exceeded

### DIVIDENDS

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

\$ bn



Above the target level of the dividend policy

## 2016 COMMENTS

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

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

Thanks to a stable financial position and the growth of free cash flow, dividend payments increased by almost 50% to \$0.9 billion

## 2017 TRENDS

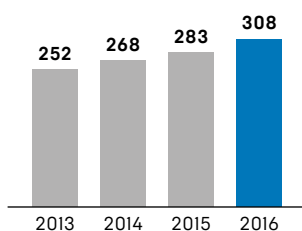
**THE COMPANY IS EXPECTING A POSITIVE FREE CASH FLOW. THE LEVEL OF DEBT LEVERAGE IS EXPECTED TO REMAIN BELOW 1.0X TARGET. THE COMPANY WILL ADHERE TO ITS DIVIDEND POLICY, EXCESS LIQUIDITY WILL BE RETURNED TO SHAREHOLDERS IN THE FORM OF DIVIDENDS**

# SUSTAINABILITY PERFORMANCE

## LABOUR PRODUCTIVITY

Tonnes of crude steel per employee

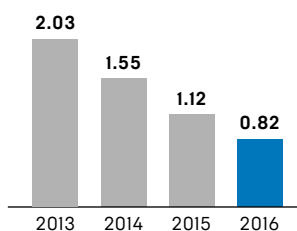
t/person



2016 targets exceeded

## LTIFR

Lost time injury frequency rate across NLMK Group

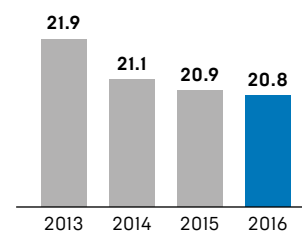


2016 targets exceeded

## SPECIFIC AIR EMISSIONS

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

kg/t



2016 targets met

## 2016 COMMENTS

Growth in labour productivity in 2016 driven by increased operational efficiency

There was a gradual reduction in occupational injury rates thanks to the management's operational safety improvement initiatives

NLMK has continued to reduce air emissions thanks to significant investment in environmental projects and increased environmental safety standards

## 2017 TRENDS

**FURTHER GROWTH IN LABOUR PRODUCTIVITY IS EXPECTED ACROSS NLMK GROUP**

**THE COMPANY TARGETS AN ONGOING REDUCTION IN THE INJURY FREQUENCY RATE**

**REDUCTION OF SPECIFIC EMISSIONS BY 0.1 KG/T STEEL VS. 2016**

# MARKET REVIEW

*Global steel production increased by 1% in 2016 to 1.628 billion tonnes, and capacity utilization stood at an international average 69.3%, according to World Steel Association.*

## STEEL MARKET RECOVERY IN 2016 AFTER PRICES HIT A 10-YEAR LOW

Steelmaking in China, which holds a 50% share in worldwide production, increased by 1.6% to 807 million tonnes. Apparent worldwide demand in 2016 was up by 1.1% year-on-year to 1.516 billion tonnes, while demand in China alone increased by 1.3% year-on-year to 681 million tonnes.

Steel consumption in developed markets remained flat year-on-year, while Chinese steel exports contracted by 3% year-on-year to 109 million tonnes. The increase in trade investigations on international markets continued apace in 2016, in support of domestic producers.

### USA MARKET

Steel production in the USA in 2016 remained at the same level as the previous year.

Imports of steel products decreased by 15% to 30 million tonnes, while steel product exports decreased by 7% to 8.5 million tonnes.

Consumption of finished steel products in 2016 decreased by 4.7% to 91.6 million tonnes, against the backdrop of destocking by consumers and trading companies and a reduction in demand from the energy sector.

### EU MARKET

Steel production in the EU declined in 2016 for the second consecutive year to 162 million tonnes, which is a 2.3% year-on-year decrease.

Apparent consumption of steel in the EU in 2016 increased by 2.3% year-on-year to 157.4 million tonnes, thanks to upward trends in key sectors, aside from construction (-0.2%).

### RUSSIAN MARKET

There was a 4% decrease in apparent consumption of finished steel during 2016, against a backdrop of continued economic slowdown.

Russian steel production in 2016 remained unchanged at 70.8 million tonnes, thanks to a 9% increase in exports alongside a 4% decrease in imports.

Prices on the Russian steel market demonstrated a recovery throughout 2016 in line with that of global steel prices.

## KEY FACTS AND FIGURES

### Global steel production

A moderate recovery of production (+1%) to 1.63 billion tonnes, which is below the 2014 peak value of 1.66 billion tonnes. Low steelmaking capacity utilization rate in the world of 69.3%. Continued growth of protectionism.

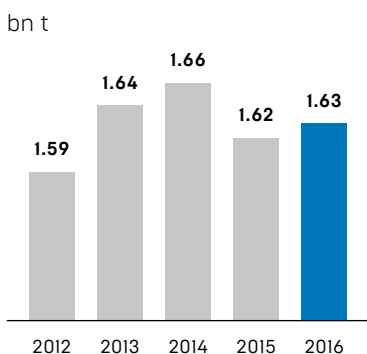
### Regional trends

EU and US markets saw demand recover. In Russia, the drop in demand decelerated, with production levels kept stable.

### Slowdown of exports from China and price trends

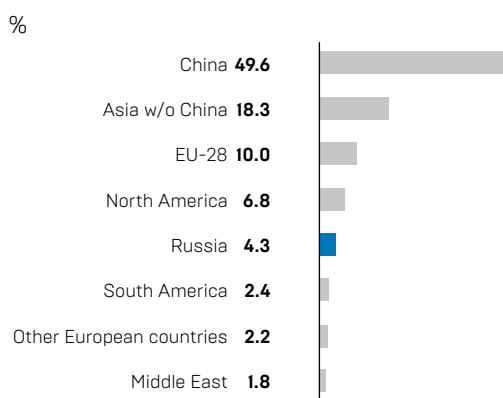
China's exports surged, resulting in a slump in prices at the end of 2015. This trend ceased in 2016. Prices for steel and raw materials at the beginning of 2016 hit a 10-year low.

### GLOBAL STEEL PRODUCTION

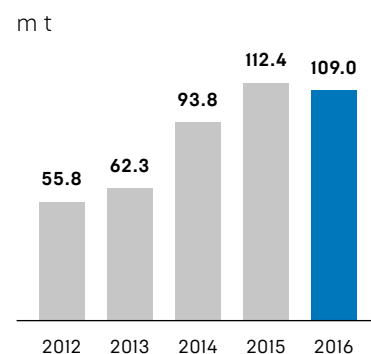


The Russian share of global steel production in 2016 was 4.3%

### REGIONAL BREAKDOWN OF STEEL PRODUCTION IN 2016



### CHINESE EXPORTS



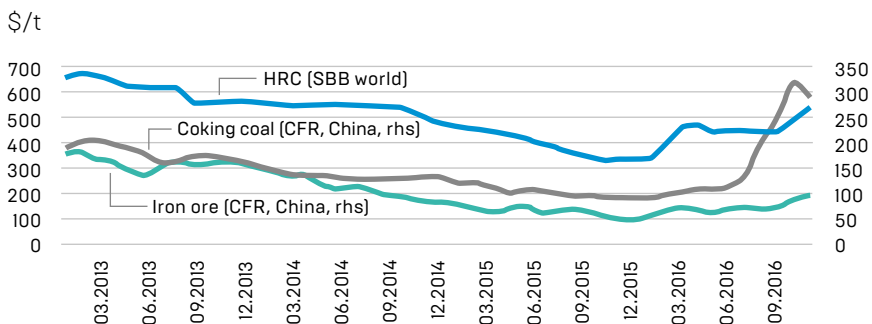
Source: Bloomberg

## PRICE TRENDS

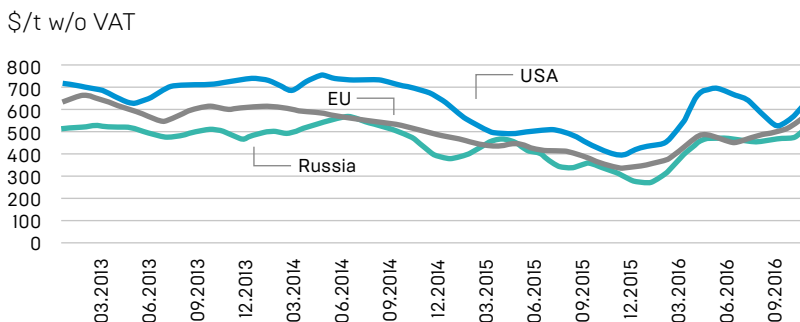
Prices for raw materials and steel products recovered during 2016 from the ten-year low experienced at the turn of the year. The price of iron ore concentrate and coal increased 2x and 2.5x, respectively, from the beginning of the year. Average steel product prices remained relatively flat year-on-year; despite 60-90% price spikes since the beginning of the year tied mainly to raw material price increases.

### GLOBAL PRICES

Source: Metal Bulletin



### HRC 'DOMESTIC' PRICES



# 2016 FINANCIAL AND OPERATING REVIEW



## KEY FACTS AND FIGURES

### Record operational performance

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

### Sustainable profitability growth

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

### Financial flexibility

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



*“NLMK’s business model, which is built on operational efficiency, a world-class resource base, and leading positions in key markets, has delivered strong operational and financial results.*

*“Our proximity to end consumers in the markets where we operate and our well-oiled supply chain from Russia have supported high capacity utilization and sales growth to an all-time record 15.9 million tonnes.*

*“The gradual recovery of prices from their early 2016 bottom, increased productivity and operational efficiency emerged as the main factors driving EBITDA margin expansion to 25%.*

*“Increasing profitability and restrained investment have led to a free cash flow of \$1.1 billion and a reduction of net debt to \$0.7 billion. This strengthening of the Company’s financial standing has enabled NLMK to increase dividend payout to above our Dividend Policy targets.”*

**GRIGORY FEDORISHIN,**  
NLMK Group Senior,  
Vice President and Deputy CEO

## OPERATING PERFORMANCE

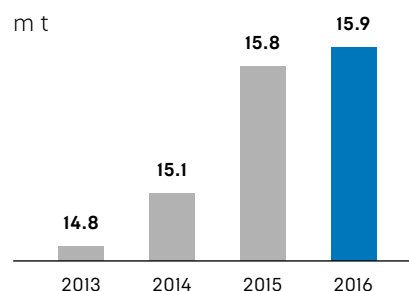
**C** rude steel output: all-time high crude steel output of 16.64 million tonnes (+4% yoy) achieved on the back of improved equipment productivity across NLMK Group sites.

Sales hit an all-time high of 15.93 m t (+1%) in 2016. This growth was the result of an improved sales mix and strong performance in NLMK’s ‘home’ markets (markets where production is localized).

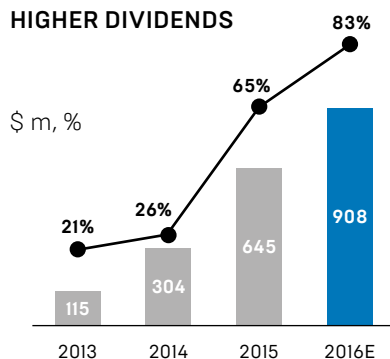
‘Home’ markets accounted for 65% of sales in 2016. Sales to external markets were primarily exports from our Russian operations to the Middle East and Turkey, Europe and Latin America.

Sales of finished goods increased by 4% yoy to reach 10.21 million tonnes, thanks to a 5% yoy increase in long product sales, driven mainly by exports, and a 4% yoy increase in flat products sales predominantly in the ‘home’ markets of Russia, Europe and the USA. The share of finished product sales totalled 64% (+2 p.p. yoy).

### CONTINUOUS GROWTH OF SALES VOLUMES



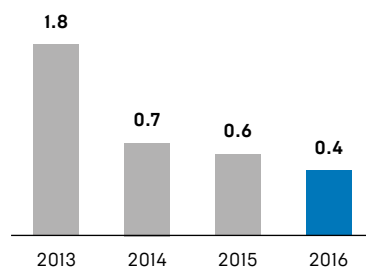
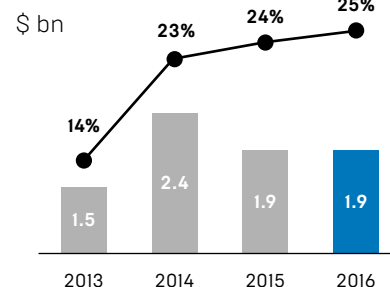


**HIGHER DIVIDENDS**

■ Dividends  
● Share of FCF

**LOWER DEBT**

Net debt/EBITDA

**CONSISTENT GROWTH OF PROFITABILITY**

■ EBITDA  
● EBITDA margin

**FINANCIAL REVIEW****REVENUE**

2016 revenue contracted by 5% to \$7,636 m due to somewhat lower average sales prices. At the same time, 2016 saw an improvement in the sales mix, with the revenue share of finished products climbing to 67% (+3 p.p. yoy).

'Home' markets accounted for 70% of 2016 revenue (flat yoy). Operations in external markets accounted for 30% of revenue, including 8% from sales to the Middle East and Turkey, and 4% from sales to South East Asia.

**OPERATING PROFIT**

Operating profit\* in 2016 was up 7% yoy to \$1,489 m, against a backdrop of a decrease in costs which outstripped and offset the drop in sales prices.

**FREE CASH FLOW**

Free cash flow in 2016 was up 9% yoy to \$1,089 m, against a backdrop of growth in operating profit and a 6% reduction in capex.

Operating cash flow in 2016 was up 3% yoy to \$1,695 m, taking into account the \$34 million decrease in working capital at year-end: growth

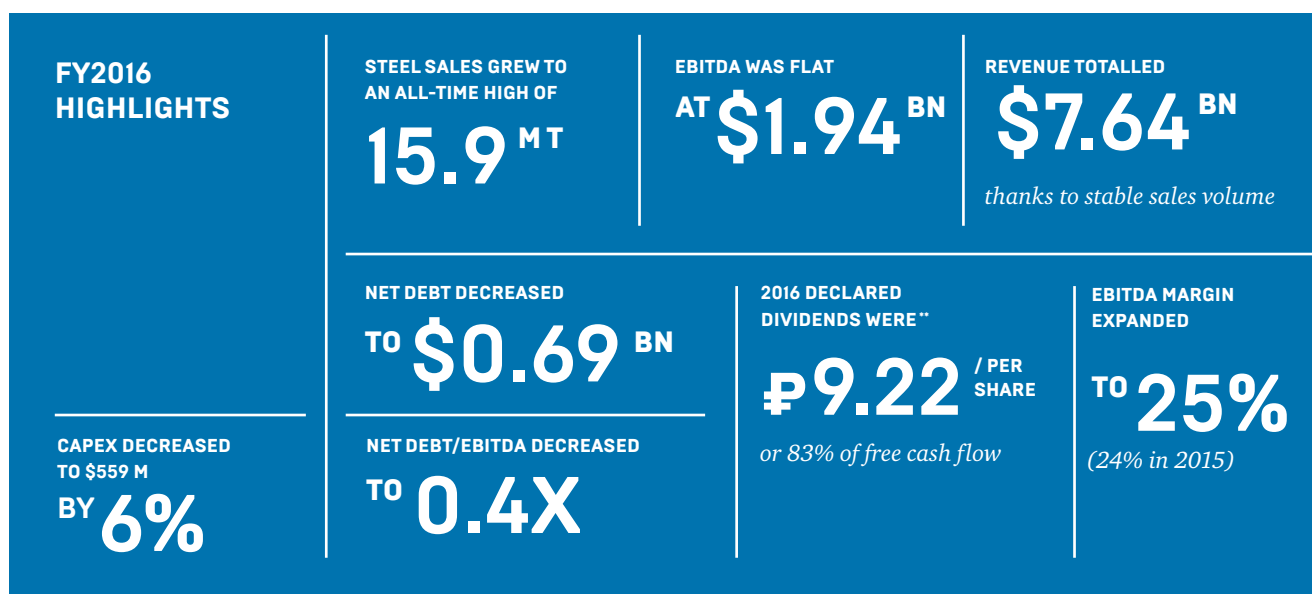
of payables fully offset the growth of inventory.

Capex in 2016 was down by 6% yoy to \$559 million, with maintenance capex totalling \$296 million.

**DIVIDENDS**

The cash outflow for dividends in 2016 amounted to \$583 million, which includes dividend pay-out for Q4 2015 and Q1-Q3 2016.

At a meeting held on 3 March 2017, the NLMK Group Board of Directors recommended shareholders approve dividends of RUB 3.38 per share



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

\*\* Preliminary.

for Q4 2016. The total amount of dividends recommended for Q4 2016 was \$347 m (at the prevailing FX rate). Taking into consideration the dividends which had already been paid for Q1-Q3 2016, this represents 83% of the free cash flow and 97% of net profit for 2016.

## DEBT LEVERAGE

NLMK's total debt decreased by 15% to \$2.27 billion.

Short-term liabilities account for 21% of debt. These are represented by ruble bonds, targeted investment loans and revolving credit lines to finance working capital.

Net debt in 2016 was down by 37% yoy to \$0.69 billion as a result of growth in free cash flow. Net debt/EBITDA at the end of 2016 was 0.4x (0.6x at the end of 2015).

Debt portfolio optimization resulted in the average maturity of the Company's debt increasing from 2.9 years to 3.6 years due to the following measures:

- In June 2016, the Company announced a buyback offer for its outstanding Eurobonds (7-year bonds with a coupon rate of 4.95% for a total of \$500 million due in 2019 and 5-year bonds with a coupon rate of 4.45% for a total of \$800 million due in 2018). Investors took up the offer to a total of \$571 million. The buyback in July 2016 was financed by a new issue of 7-year Eurobonds for a total of \$700 million with a coupon rate of 4.5% due in 2023.
- In Q3 2016, NLMK paid off a total of RUB 15 billion (\$232 million) of ruble bonds using its own funds.

- In Q4 2016, NLMK paid off \$200 million, ahead of schedule, of the \$400 million PXF (pre-export finance) loan taken out in 2015.

Interest payments in 2016 decreased to \$104 million (-13% yoy), including \$40 million of capitalized interest expenses accounted for as capex.

## SEGMENTAL ANALYSIS

### *Russian Flat Products*

EBITDA was down in 2016 by 15% yoy to \$1,342 million as a result of the 3% reduction in sales volume and 8% reduction in revenue. These factors were partially offset by operational efficiency gains, and an improved sales mix. EBITDA margin was 24% (-2 p.p. yoy).

### *Russian Long Products*

EBITDA in 2016 increased 2.8 times yoy to \$138 million, thanks to an 18% increase in sales volume, a widening of the spreads between long product and scrap prices, and operational efficiency gains. EBITDA margin increased to 11% in 2016 (+7 p.p. yoy).

### *Mining Segment*

EBITDA in 2016 was up by 7% yoy to \$318 million, with a 2% increase in sales volume to 17.3 million tonnes, and productivity improvements from operational efficiency enhancements. EBITDA margin was 53% (+3 p.p. yoy).

### *NLMK USA*

EBITDA increased to \$178 million, driven by both widening spreads between the price of feedstock slabs from NLMK Lipetsk and finished products, and a 5% increase in sales

volume to 1.9 million tonnes. EBITDA margin was 15% vs. -9% the previous year.

### *NLMK DanSteel and plate sales network*

EBITDA came back into the black to \$0.3 million (+0.1% EBITDA margin) as a result of an 11% increase in sales volume to 500,000 tonnes and operational efficiency gains that partially offset the decline in prices.

### *Associated company (NBH) results*

In spite of decreasing average sales prices, the widening of price spreads, an 8% increase in sales volume to 2.2 million tonnes and operational efficiency gains enabled the Company to almost break-even in 2016 EBITDA at (-) \$2 million, compared to a (-) \$92 m loss in 2015.



#### RELATED DOCUMENTS:

- [Financial press release FY2016](#)
- [Capital Markets Day presentation, 2017 \(PDF\)](#)
- [5-year highlights](#)

# GLOSSARY

## HIGH-PRESSURE GRINDING ROLLS (HPGR) TECHNOLOGY

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

## PULVERIZED COAL INJECTION (PCI) TECHNOLOGY

This technology involves feeding natural gas and fine coal granules into the blast furnace, which enables a reduction in the consumption of expensive raw materials. Usage of natural gas and coke is reduced through introduction of a cheaper alternative mix of power-generating coal. This delivers a reduction in the cash cost of pig iron, and therefore the cost of steelmaking, without affecting quality and efficiency.

## IRON ORE PELLETS

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

## NLMK PRODUCTION SYSTEM

An approach to business management based on a combination of processes and optimization tools which maximize the use of existing resources and eliminate losses.

## OPERATIONAL EFFICIENCY GAINS

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

## INVESTMENT PROJECT EFFECTS

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

## HOME MARKETS

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

## LTIFR

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

# 10-YEAR HIGHLIGHTS

## FINANCIAL PERFORMANCE\*, \$ m

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales revenue	7,719	11,699	6,140	8,351	11,729	12,157	10,818	10,396	8,008	7,636
Net income**	2,247	2,279	215	1,255	1,315	596	145	773	967	935.1
EBITDA	3,412	4,689	1,414	2,322	2,254	1,900	1,480	2,381	1,948	1,941
EBITDA margin, %	44	40	23	28	19	16	14	23	24	25
Operating cash flow	2,524	2,781	1,394	1,431	1,315	1,825	1,333	1,806	1,651	1,695
Investments	958	1,934	1,121	1,463	2,048	1,453	756	563	595	559
Net debt	302	842	796	1,454	3,355	3,574	2,736	1,598	1,091	689
Free cash flow	1,566	846	273	-32	-243	371	536	1,153	997	1,089
Dividend per share, \$ (2016E)	0.123	0.079	0.007	0.063	0.063	0.061	0.019	0.051	0.108	0.152

## OPERATING PERFORMANCE, '000 t

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Steel production (w/o NBH)	10,840	10,955	10,614	11,544	11,968	14,923	15,429	15,921	15,866	16,438
Total steel sales	9,230	10,261	10,600	11,730	12,840	15,184	14,831	15,126	15,863	15,925
Finished product sales	5,280	5,995	6,324	7,051	8,664	10,607	10,929	10,223	9,793	10,211
Sales to home markets	3,353	4,246	3,485	4,644	6,012	8,684	9,537	10,605	10,173	10,275

## SUSTAINABLE DEVELOPMENT INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NLMK Group headcount, '000 people	60.2	70.1	62.8	59.4	60	62.5	62.1	60.1	56.7	54.0
Labour productivity, t of steel / person	260	249	269	308	329	406	420	437	463	482
LTIFR for NLMK Group's Russian assets	n/a	n/a	n/a	n/a	0.87	0.87	0.86	0.55	0.43	0.34
Specific air emissions, kg/t of steel	37.0	30.5	30.4	28.5	26.1	22.6	21.9	21.1	20.9	20.8

# OUR TEAM 2016 HIGHLIGHTS

NLMK Group improved its key sustainability indicators in 2016.

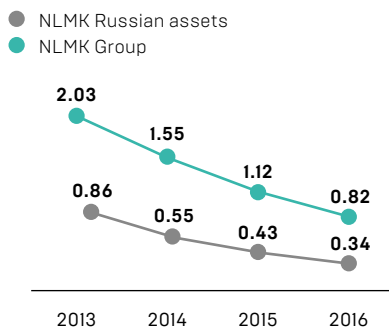






### OCCUPATIONAL SAFETY IMPROVEMENT

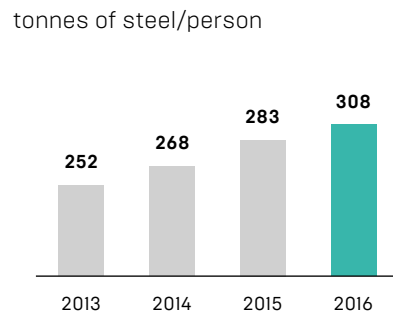
#### THE LOST TIME INJURY FREQUENCY RATE (LTIFR) DECREASED



Almost all 2016 OHS targets were met. NLMK introduced the position of Vice President for Occupational Health and Safety and the Environment.

### INCREASED LABOUR PRODUCTIVITY

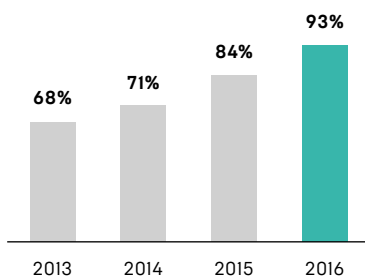
#### CONTINUED LABOUR PRODUCTIVITY GROWTH ACROSS THE GROUP



NLMK's significant efforts to consistently enhance the efficiency of its business and drive employee engagement supported the high growth rate in labour productivity, delivering an increase across NLMK Group of 22% vs. the 2013 level.

### PROFESSIONAL DEVELOPMENT OF OUR EMPLOYEES

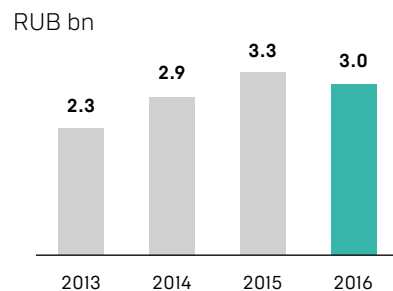
#### THE SHARE OF NLMK GROUP'S EMPLOYEES THAT RECEIVED PROFESSIONAL TRAINING



In 2016, NLMK Group was focused on the professional development of its employees. Development of personnel is a prerequisite to the Company's leadership of the industry.

### FOCUS ON LOCAL COMMUNITIES

#### NLMK GROUP'S SOCIAL INVESTMENT AT ITS RUSSIAN OPERATIONS



NLMK's social investments into the development of the regions where it operates were used to promote sport, health, education, culture, children and youth outreach and charitable activities.

# NLMK VALUES



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

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

**OLEG BAGRIN,**

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

## RESPONSIBLE LEADERSHIP

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

*We understand the concept of responsible leadership as:*

### Continuous improvement of processes

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

### Protecting the health and safety of our employees

Unwavering commitment to protecting 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.

### Efficient use of resources

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

### Helping customers secure leadership

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

### Ensuring equal opportunities for employees

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

### Active approach to social responsibility

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

# HUMAN RIGHTS PROTECTION

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

NLMK ensures a socially responsible attitude towards its more than 54,000 employees across three continents. The Company guarantees that the labour of its employees is not forced or compulsory and that each employee receives commensurate compensation.

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

country and irrespective of its business practices.

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

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

### ➤ PROHIBITION OF FORCED LABOUR:

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

### ➤ PROHIBITION OF CHILD LABOUR:

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

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

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

### ➤ PROHIBITION OF DISCRIMINATION:

The Company's employees are free from any form of harassment and unlawful discrimination, irrespective of their race, colour, religion, ethnicity, gender, age, family status or any other status protected by the legislation of the countries where the Company operates.

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

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

# SUSTAINABLE DEVELOPMENT PRIORITIES

## NLMK'S SUSTAINABLE DEVELOPMENT PRIORITIES:

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

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

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## SUSTAINABLE DEVELOPMENT AS THE BEDROCK FOR BUSINESS SUCCESS

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### Increasing operational efficiency

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

### Occupational health and safety

The Company operates production facilities which are potentially hazardous and takes responsibility for the welfare of its employees. The Company is striving to achieve global leadership in occupational health and safety among steel companies through the use of advanced OHS

practices, efficient risk management and by motivating and actively involving its employees in OHS programmes.

### Minimizing environmental footprint

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

### Increasing energy efficiency

is one of NLMK Group's strategic priorities, aimed at decreasing



the amount of energy resources purchased and growing captive energy generation through utilizing by-product gases.

**Development of its employees**

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

a direct impact on the development of NLMK’s corporate culture.

**Improving the quality of life**

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

**Safety**

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

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



# DIALOGUE WITH STAKEHOLDERS



**MUTUALLY BENEFICIAL  
COOPERATION IN  
AN EFFORT TO BALANCE  
BUSINESS PRIORITIES  
WITH THE INTERESTS  
OF A BROAD SPECTRUM  
OF STAKEHOLDERS  
PROVIDES THE BASIS  
FOR DIALOGUE.**

## STAKEHOLDER ENGAGEMENT

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

NLMK Group's management understands that the Company can achieve its full potential only through mutually beneficial cooperation with all stakeholders. At the same time, NLMK makes an effort to balance its business development priorities with the interests of a broad spectrum of stakeholders, from the Company's employees to regulatory bodies.

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

In identifying key stakeholders, the Company considered the extent of their influence over NLMK Group's operations. This approach generated the following list of stakeholders: shareholders and investors, Company employees, customers and suppliers, government regulators and supervisors, trade unions, public organizations and local communities in the regions where the Company operates, including potential employees and various public organizations.

STAKEHOLDER'S INTERESTS	TOOLS FOR BILATERAL DIALOGUE	FEEDBACK	EXTENT OF INFLUENCE
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**SHAREHOLDERS AND INVESTORS**

Operational and financial performance, Company strategy, dividend payments, corporate governance issues, number of ordinary NLMK shares floating freely on Russian stock exchanges; number of Global Depository Shares issued by NLMK and traded at the London Stock Exchange	Shareholder meetings, annual Capital Markets Days, participation by NLMK top-managers in industry conferences and meetings with the investment community and shareholders, site visits, annual reports, financial releases and trading updates, media publications, Company website	Dedicated services for shareholder and investor relations, dedicated section for shareholders and investors on the Company website	Stakeholder → Company: <b>High</b> Company → stakeholder: <b>High</b>
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**COMPANY EMPLOYEES**

Salary, social package and social guarantees, self-fulfilment and career growth, professional training and development, safety and favourable working conditions	Corporate online portal, opinion polls, Dial 06 counselling service, union meetings, appointments to discuss personal issues, change-of-shift meetings, corporate media	Salary indexation, social package development, swift response to applications, employees' ideas put to practice, possibilities for further career and personal development, improvements in working conditions	Stakeholder → Company: <b>High</b> Company → stakeholder: <b>High</b>
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**CONSUMERS**

Fulfilment of contractual obligations, product quality and price, timely review and settlement of customer complaints and claims, anticorruption measures, product mix expansion, technical upgrades and development, operational and financial performance, risks management	Corporate guidelines on business-partners interaction, annual reports and financial statements, conferences, forums, business meetings, Russian and international professional associations and organizations, media publications, Company website	A dedicated client service, NLMK Sales call centre, use of customer satisfaction monitoring results for future contracts, NLMK products website	Stakeholder → Company: <b>High</b> Company → stakeholder: <b>Average</b>
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**SUPPLIERS**

Possibility of long-term cooperation, fulfilment of contractual obligations, timely review and settlement of supplier complaints and claims of customers, operational and financial statements of the Company	Annual reports and financial statements, conferences, forums, business meetings, Russian and international professional associations and organizations, media publications, Company website	Unified principles for suppliers relations (Supplier Code of Conduct), open tenders, active procurement management system, contact information for procurement department on the Company website	Stakeholder → Company: <b>Average</b> Company → stakeholder: <b>High</b>
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STAKEHOLDER'S INTERESTS	TOOLS FOR BILATERAL DIALOGUE	FEEDBACK	EXTENT OF INFLUENCE
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**GOVERNMENT AUTHORITIES**

Compliance with applicable laws, tax liabilities, regional social and economic development, environmental protection	Participation in the work of state authorities including legislative bodies, participation in international and Russian professional and public organizations, meetings, dialogue with the media	A dedicated service for communication with representatives of state and local authorities, Company participation in different federal and regional programmes	Stakeholder → Company: <b>High</b> Company → stakeholder: <b>Average</b>
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**TRADE UNIONS**

Compliance with sectoral tariff agreement, compliance with collective agreements, observance of employment legislation, awareness of the Company's operations, employee salary level and social protection, working conditions and occupational safety	Meetings and negotiations, discussion and conclusion of collective agreements, labour dispute commissions, Joint Commission involving administration and union, social insurance commission, occupational safety commission, qualification and staff review commissions	Strict application of all social benefits and guarantees specified in collective agreements, joint implementation of measures, response to applications, following unions' recommendations	Stakeholder → Company: <b>Average</b> Company → stakeholder: <b>Average</b>
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**LOCAL COMMUNITIES**

Regional social and economic development, the environment, public health, funding of charity programmes, awareness of Company operations, reliability and transparency of information, job opportunities offered by the Company	Media, representatives of public organizations, members of representative and legislative bodies at different levels, career guidance events, conferences, meetings	Investments in the development of the regions where the Company operates, including funding to support sports, healthcare, education and culture, financing child healthcare programmes and projects to promote a healthy lifestyle, charitable aid to disadvantaged social groups	Stakeholder → Company: <b>Low</b> Company → stakeholder: <b>Average</b>
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**PUBLIC ORGANIZATIONS**

Compliance with applicable laws, the environment, regional social and economic development, charitable activities	Conferences, clubs, meetings and other events, media, letters, Company website	Handling of all issues, participation in the implementation of joint projects	Stakeholder → Company: <b>Low</b> Company → stakeholder: <b>Low</b>
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### ACTIVE DIALOGUE WITH KEY STAKEHOLDERS

#### Transparency boosts reputation



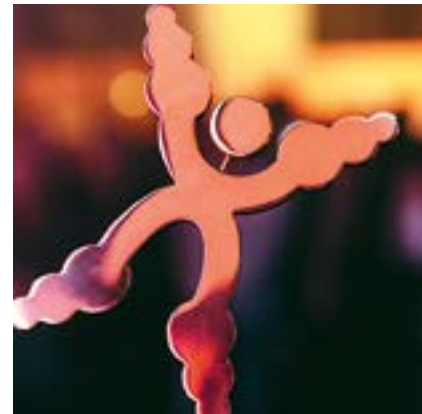
2016 PLATTS GLOBAL METALS AWARDS WINNER

In 2016, NLMK Group was announced as winner of the *Industry Leadership Awards — Steel*. The awards programme was hosted by leading international periodical S&P Global Platts, which provides analytical information on commodities and energy markets. International recognition of NLMK Group’s leadership is based on the achievements of the Company as covered in the media and published on the Company’s website for its stakeholders, including the judges of S&P Global Platts.

Granting access to information and providing full disclosure are underlying factors in a positive corporate image. NLMK Group uses all communications media to provide on-stream status updates on its activities, including press releases, management interviews, press service comments, press tours and conferences and publications in social media and multimedia sources. The Company has become more active in using photo stories and corporate videos as a means of communication.

In 2016, NLMK Group shot 90 corporate advertising and information videos available at NLMK’s YouTube channel (nlmkonair) and on the Company’s websites. For the first time in its history, NLMK Group received a Silver Dolphin award in the Integrated Communications nomination for its communication campaign organized in support of ‘Fusion’, NLMK’s new corporate film at the prestigious Cannes Corporate Media & TV Awards 2016 international festival.

In 2016, about 3,000 photos and dozens of videos of NLMK Group were uploaded to a public resource at media.nlmk.com, which has proved a convenient multimedia tool not only for the media, but also for Company employees and anyone wishing to learn more about NLMK’s operations.



NLMK Group continued to update and improve its online corporate resources system, which is a convenient and informative source of official information about the Company and its subsidiaries. In early 2016, NLMK Group launched its new corporate website at www.nlmk.com, which is a one-stop shop representing all subsidiaries. A single point of corporate contact was highly appreciated by the professional community, and the site won the ‘Industrial or Fuel & Energy Company Website’ nomination at the Golden Site awards, the biggest and longest-running competition for Russian internet projects.



The most important event for NLMK Group in 2016 was the grand opening of its pelletizing plant at Stoilensky, which was attended by the Russian Prime Minister Dmitry Medvedev. The key investment project of NLMK Group’s Strategy 2017 has been recognized as 2016 Event of the Year in the Russian steel industry at the Metal-Expo’2016 international exhibition.

**KONSTANTIN LAGUTIN,**  
NLMK Group Vice President, Investment Projects, at the Event of the Year in the Russian Steel Industry award ceremony



centres; the answers to which were published in corporate media. Some feedback prompted functional audits resulting in decisions which improved the performance of certain departments or reworked certain processes.

**NLMK GROUP IS AN INTERNATIONAL COMPANY THAT UNITES MORE THAN 20 FACILITIES IN SEVEN COUNTRIES.**

## CORPORATE COMMUNICATIONS

*NLMK Group continues developing an effective internal communications system that covers all production sites and encompasses several advanced communication channels:*

- Extensive feedback network, including helplines and trust mailboxes, SMS feedback centres, Q&A service on the corporate portal, letters to the editors of NLMK Group’s corporate magazines and newspapers;
- Corporate-wide intranet, which in late 2016 became available to all employees of NLMK Group’s Russian facilities due to the release of its mobile version;
- 5 corporate newspapers issued by NLMK Group’s Russian companies, published in a new format, providing group-wide and local news;
- NLMK Group corporate magazine, which was updated to a theme-oriented showcase format and is now published in three languages: Russian, English, and French;
- Newsletters at NLMK Europe companies;

- NLMK-TV with stories streamed not only to the intranet, but also in pilot mode on the TV screens of NLMK Group’s Moscow office.

In 2016, the Group’s internal communications continued the upward trend in employee generated informational content. Employees created around 10% of the news material on the corporate intranet portal. They also left more than 1,000 comments on the news and sent more than 200 messages to SMS feedback

One of the most important tasks of internal communications is to unite employees from different countries and enterprises around common and understandable goals and values. This is facilitated by information campaigns, in which employees get to know each other, and their colleagues; and talk about themselves and their enterprises. One such project in 2016 was the #teamNLMK international video greeting competition. More than 400 employees of the Group from across different countries recorded 124 videos for this competition, which generated overall more than 50,000 views on the corporate portal, social networks, and the Company’s YouTube channel. As a follow-up to the initiative, a special website – people.nlmk.com – was launched, where NLMK Group’s employees can talk about their work. This campaign was honoured at





**RECOGNITION**

**TOP 10**  
BEST CORPORATE IR IN METALS & MINING IN EUROPE  
BY EXTEL – 2016

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**TOP 10**  
BEST IRO IN RUSSIA  
BY EXTEL – 2016

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**TOP 3**  
BEST INVESTOR RELATIONS – INSTITUTIONAL INVESTOR ALL-EUROPE EXECUTIVES TEAM 2017 (METALS AND MINING)

the prestigious Cannes Corporate Media & TV Awards 2016.

In 2017, the Company will continue to be guided by best global information transparency practices, developing its internal and external communication channels, which play an important role in improving employee awareness, motivation and loyalty.

**NLMK’S DIALOGUE WITH INVESTORS AND ANALYSTS**

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

The company uses a variety of effective methods of interaction to keep in touch with the investment and analytical communities, from regular disclosure of financial and operational performance to arrangement of personal meetings between the Company management and the Company’s partners and potential investors.

**Capital Markets Day**

On 24 March 2016, NLMK Group held a conference call with the key managers of the Company who commented on NLMK’s 2015 IFRS results, gave an update on the execution of Strategy 2017 and held a Q&A session with the investment community.

*For more detailed information please visit Investor Relations → Capital Markets Day on NLMK’s corporate website (www.nlmk.com)*



**WHETHER NLMK IS PURSUING THE RIGHT STRATEGY (SELLSIDE)**



We think the company follows a pretty clear and reasonable strategy. We think next spring they will update us with a new 5-year strategy and we are really looking forward to that.

**Disclosure of operating and financial performance**

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

**INFORMATION TRANSPARENCY BUILDS A POSITIVE IMAGE**

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

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

*For more detailed information please visit Investor Relations → Reporting Center on NLMK’s corporate website (www.nlmk.com)*

**Site visits**

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

In 2016, the Group held three visits to its key production sites. For the schedule of upcoming tours, please contact our Investor Relations team (st@nlmk.com).

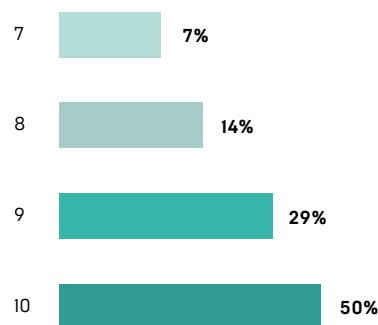
*“So whatever happens with supply and demand, they can generate cash.”*

“They also have very efficient assets. Management is doing a great job extracting maximum amount of resources. It is actually better than what their investment peers can achieve, very impressive. I have visited their mines and plants, and the employees seem motivated and

into the efficiency programs, and see the importance. I also like the managers I have met.”

A quote from Annual NLMK Investor Perception Study

**QUALITY OF MEETINGS WITH NLMK IR DEPARTMENT ON A SCALE FROM 1 TO 10**



**Top management participation in industry-related and analytical events, and meetings with investors**

In 2016, the Company’s key figures and investor relations managers attended a number of industry conferences and events held in Russia, the UK, the USA and continental Europe. These events featured over 450 group and face-to-face meetings with investors where a wide range of issues were discussed, including industry trends, execution of Strategy 2017 and NLMK’s achievements.

**A VISIT TO PRODUCTION SITES:**

In July 2016, a group of analysts and investors visited the production facilities at NLMK Lipetsk and Stoilensky, including the construction site of the Pelletizing Plant. During the visit, they had several meetings with NLMK’s key management and discussed features of NLMK’s production technology, recent performance and prospects for the Company’s further development.



# OUR EMPLOYEES



## KEY HIGHLIGHTS

### **Our people are our greatest asset**

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

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

The main objective of HR policy is to develop and support the specialists at Group companies.

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

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

*Our team is our greatest asset, and our highly-qualified engaged employees are a key factor in delivering strong performance. NLMK's single team of more than 54,000 professionals makes the world a better place and creates a new future.*

## NLMK's HR POLICY

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

The main principle of NLMK's HR policy is the effective interaction between the three elements of individual, company and HR service. This principle calls for the engagement of qualified, motivated and loyal employees in the production processes at NLMK Group's sites, which in turn become the employer benchmark, providing their employees with ample opportunities for professional development, ensuring competitive performance-based remuneration scheme, self-fulfilment, social security and comfortable leisure for their family members, with the active support and involvement of HR.

At the same time, HR employees position themselves as the best in everything they do and support the business, providing qualified motivated personnel to perform well in their roles while preserving the Company's corporate culture.

NLMK's HR policy is an important part of its Production System because the Company's efficiency and sustainable development are determined by the professionalism, commitment and engagement of employees, and their desire to develop.

At present, NLMK's HR policy is based on four strategic projects that focus on the Company's key personnel development areas.

**2017 PROJECTS – KEY ELEMENTS:**

**1 TALENT MANAGEMENT**  
 Effective development of the employees’ professional competencies. The underlying idea is **“The right people in the right place and at the right time”**

**2 MOTIVATION**  
 Aligning remuneration principles across the Group. The underlying idea is **“Remuneration for work based on performance with a unified procedure for all”**

**3 STRUCTURE AND PROCESS OPTIMIZATION**  
 Aligning organizational structure and personnel management principles across the Group. The underlying idea is **“Efficient utilization of human resources in pursuit of high labour productivity”**

**4 EMPLOYEE ENGAGEMENT**  
 Promote employee engagement in all areas of the Company’s activities. The underlying idea is **“Common goals for employees and the Company”**

**HR policy KPI**

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

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

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

*Almost all the targets set for 2016 for HR service development and personnel management were met. Below is a list of the most important ones.*

TARGET	ACTUAL VALUE	STATUS
Develop target HR structure	As a result of the HR service audit, NLMK Group's target HR structure was developed and a transaction centre was established	100%
HR Business Partnership function established	HR Business Partnership function has been established, enabling the provision of a seamless service for customers, the development of a customer management service, segmentation and marketing approach to personnel management (meeting the needs of particular groups of customers), and customization of analytics and services between the centres of expertise and customers.	100%
Competency development and staff assessment	A center of expertise has been established, the competency developed and the service launched. The regulations and standard project charter have been approved. Competency profiles are under development and assessment of the compliance with competency profiles is underway as per the schedule.	100%
105 employees of the Group per 1 HR employee	110	100%
Achieve target coverage of the MBO system (management by objectives) of at least 1,300 employees	1,487	100%
75% share of appointments from within the talent pool	76%	100%

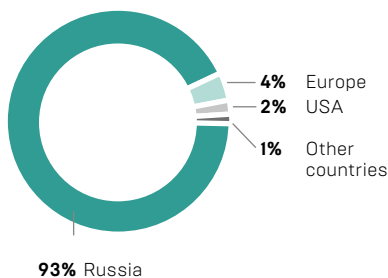




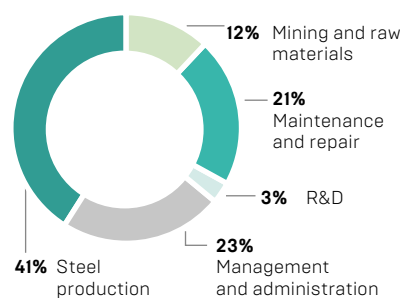
Some 2017 objectives of the Group's HR policy at corporate level:

- Full coverage of all functional areas by business partners;
- Introduce new HR IT systems and automation of HR processes;
- Implement at least 38 projects for the development and evaluation of professional competencies;
- Achieve target coverage of the MBO system of at least 3,500 employees;
- 15% of staff covered by the performance appraisal system;
- Establish a Materials laboratory at the Support centre for gifted children.

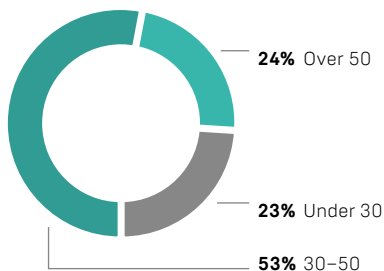
**PERSONNEL BREAKDOWN BY GEOGRAPHY OF OPERATIONS**



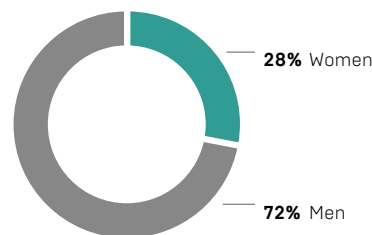
**PERSONNEL BREAKDOWN BY FUNCTION**



**PERSONNEL BREAKDOWN BY AGE**



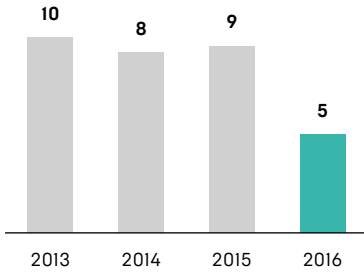
**PERSONNEL BREAKDOWN BY GENDER**





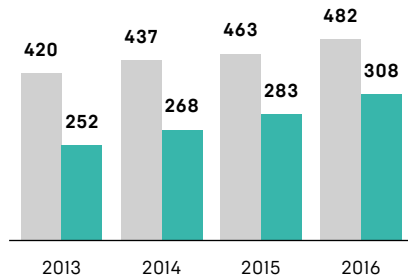
**EMPLOYEE TURNOVER**

%



**LABOUR PRODUCTIVITY**

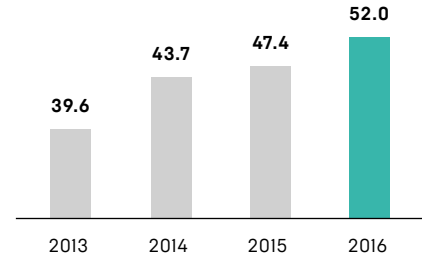
t of steel/person



■ NLMK Lipetsk  
■ NLMK Group

**AVERAGE MONTHLY SALARY AT THE RUSSIAN PLANTS**

'000 rubles/person



**Our employees**

NLMK Group headcount during 2016 was 54,000 people (-4% year-on-year), of which 50,600 people were employed at Russian sites, 2,100 people were employed at NLMK’s European divisions, around 1,000 people were employed at NLMK USA, and around 300 people were employed in other countries where NLMK Group assets are located, including India, China, etc.

Over 51% of NLMK Group personnel are directly involved in the mining and steel production process, whilst 21% are involved in repair and maintenances; and approximately



3% are involved in research and innovative development. The remaining 23% are administrative and management personnel, including services.

NLMK has an active HR policy aimed at attracting prospective young workers from both colleges and universities and among those that have completed their service in the armed forces of Russia. As a result, the Company hires over 1,000 young qualified workers each year that later form the Company’s pool of professional talent, future managers and experts.

NLMK Group has no gender limitations.

**IN 2016, THE TURNOVER RATE FOR NLMK GROUP FELL TO AN ALL-TIME LOW OF 5%.**

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

**Labour productivity**

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

NLMK continues to develop: the strategic target for the next few years is to further increase labour productivity through, first of all, the development of NLMK Production System and process optimization initiatives with active involvement of personnel in the process. Continuous development and efficiency improvement has become the cornerstone of NLMK’s corporate culture.

**Structure and functionality optimization**

Our optimization projects and restructuring efforts enabled us to downsize by 900 full-time employees. In addition to downsizing, 130 new jobs were created in 2016 linked to the launch



of the Pelletizing Plant, our new facility at Stoilensky. During the transition to a divisional process-based management structure, some employees were transferred from the plants to the Group's service companies, including NLMK Accounting Centre.

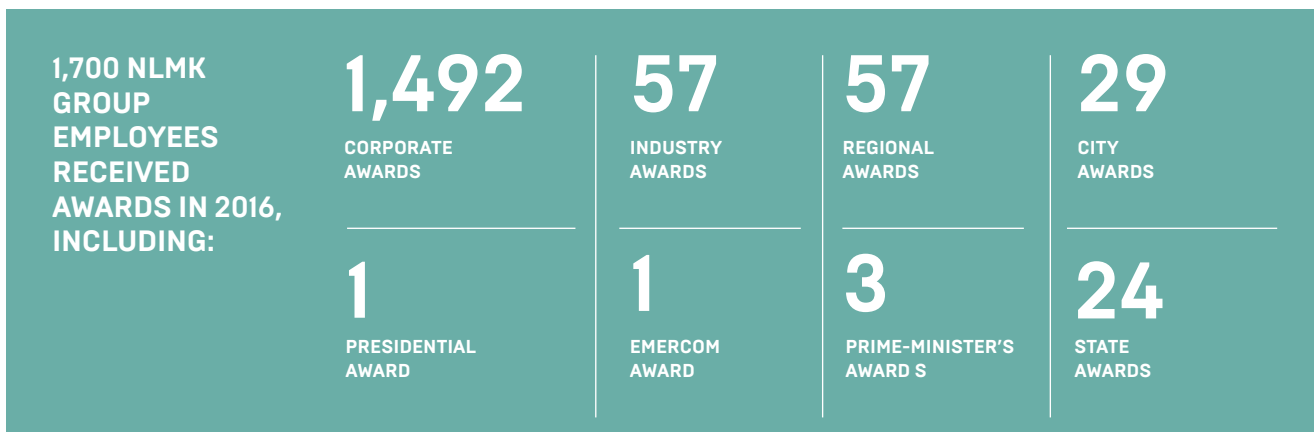
**Personnel motivation**

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

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

on fair financial motivation for high performance.

The most effective technique currently employed by NLMK Group is result-oriented motivation, in which employee performance is measured with the help of key performance indicators (KPIs). By identifying KPIs for senior management and cascading them throughout the organization we can greatly improve





**YOUNG LEADER CONTEST**

The Company established the *Young Leader* contest in 2005. More than 7,000 young employees from across NLMK Group companies have since participated in the contest. The project develops a proactive attitude among young employees, which forms efficient and professional staff that display strong initiative.

The contest traditionally has three stages: qualifying, the main stage and the final stage. In 2016, Occupational Safety was the key topic throughout the stages of the contest.



labour efficiency and productivity across the Group. This principle serves as the basis for management by objectives (MBO), a system actively implemented across all NLMK Group companies in 2016. At year-end 2016, almost 1,500 Company’s employees were transferred the MBO system.

Seeking to protect our employees from inflation, we index wages to keep up with the increase in price levels each quarter. The average monthly salary at NLMK Group companies increased by about 10% year-on-year in 2016, reaching 52,000 rubles at the Russian plants.

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

Alongside the principle of fair pay for the workforce, NLMK employs a number of intangible rewards: psychological motivation, ample opportunity for career development and self-fulfilment, plus various incentives for outstanding results and initiatives and other tools.

Contests and competitions are important elements of the incentive system. They help increase employee commitment to professional development and provide opportunities for career growth. NLMK Lipetsk alone held 25 skills competitions with over 1,600 participants in 2016.

NLMK Group companies annually hold *Young Leader* contests for young employees to stimulate their personal and professional development.

**Social package**

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

All NLMK Group employees have access to such social benefits as provisions for employee health and welfare, catering and recreation, occupational health and safety, motherhood and childhood support, support for pensioners and veterans and further social incentives for the best workers as well as a variety of social payments.



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

NLMK Group also implements a comprehensive youth programme to provide additional support to young employees. Graduates of partner colleges and universities are offered a guaranteed average salary and kickoff bonuses upon employment.





NLMK has another good tradition: we give New Year presents to our employees' children and offer discounts on package holidays to children's summer camps.

### Health and welfare

The health and welfare of NLMK employees is a priority focus of the Company's social activities. NLMK Group focuses close attention on developing a strong corporate health culture, establishing the conditions for a healthier lifestyle and improving mental and physical health.



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



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

The Company organizes regular sports and cultural events.

### Talent development

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



is a key element of NLMK's Production System and Strategy 2017.

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

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



#### RELATED DOCUMENTS:

- [NLMK Group Corporate Magazine, #1 2016, page 28](#)
- [Capital Markets Day, Presentation 2017](#)



The year of 2016 marked the beginning of a new process for NLMK Group: we are assessing our managers and line and administrative personnel to determine whether they meet our job requirements. We look at how they perform their job duties and what personal and professional qualities they demonstrate. Following assessment, we devise individual training plans aimed at improving their performance and develop incentives to encourage them to work more efficiently.

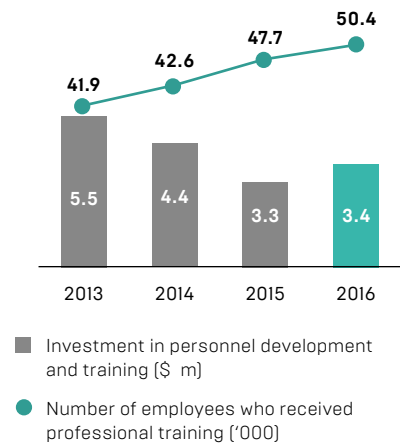
Our talent pool is one of the uppermost priorities of the HR policy. We provide training to employees who are able to perform managerial work to get them ready for specific job openings. The programme includes theory

(seminars and training sessions) and practical training in the prospective position.

NLMK Group has an induction programme that aims at supporting newcomers through the onboarding process and preparing them for their new role.

About 90% of employees are trained in-house, enabling them to benefit from the wealth of knowledge accumulated by NLMK and providing for a more effective training process. Highly qualified managers and specialists as well as professors from leading Russian educational institutions are invited to teach employees.

**PERSONNEL TRAINING**

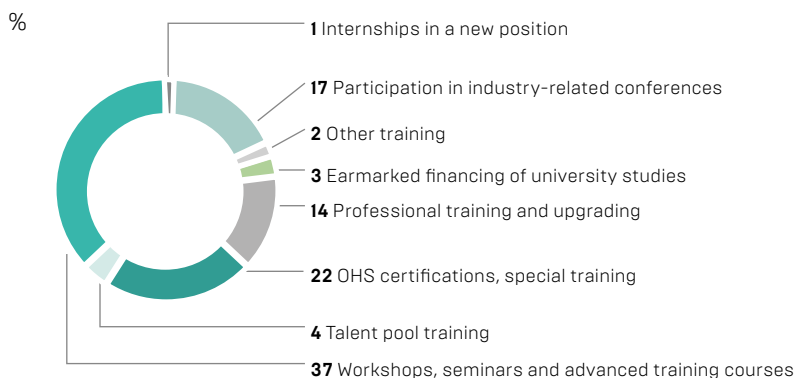




In 2016, NLMK Group spent  
**\$3.4 million**  
 on professional development of its employees

More than 90% of employees participated in a variety of in-house and external training programmes. The main areas of investment include the development of professional competencies through various trainings, seminars and courses (37% of the total expenses), occupational safety certification and target courses (22%), and participation by NLMK employees in industry-related conferences (17%).

**INVESTMENT INTO PROFESSIONAL DEVELOPMENT BY AREA**





# OCCUPATIONAL HEALTH AND SAFETY

The Company continues to improve its Occupational Health and Safety (OHS) performance, with \$65 m spent in 2016 on OHS initiatives.



## KEY HIGHLIGHTS

### Occupational health and safety

is an important element of NLMK's Production System. We strive for leadership in OHS and consider it a key part of Strategy 2017.

### A number of initiatives were implemented in 2016 to improve occupational safety

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

### A significant reduction in industrial injuries

The Lost Time Injury Frequency Rate (LTIFR) has declined almost three-fold vs. 2013.

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

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

### NLMK GROUP'S KEY PRINCIPLES:

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

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

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

### Key OHS initiatives in 2016

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

- The position of Vice President for Occupational Health and Safety and the Environment was introduced, with responsibility for implementation and organization of unified OHS processes across the Group;
- OHS management structure of the Group’s Russian facilities was reconsidered, updated and standardized;
- Positions of corporate managers in fire safety, labour protection development, occupational safety and ecology were introduced.

**Risk management.** NLMK Group’s divisions continued their efforts to implement the risk management programme, aimed at identifying hazardous production factors, their elimination and efficient management of residual risks. More than 100,000 risks of potential occupational trauma and material damage to the Company’s property were eliminated in 2016.

**Personnel engagement.** The ‘In Search of Safety’ programme was successfully implemented. It was launched in order to involve employees in the process of risk management by identifying any dangerous conditions or behaviour. The ‘Lockout-Tagout’ international safety practice was introduced.

**Managers’ training.** NLMK is actively developing advanced training programmes for senior and middle managers aimed at developing the safety culture and occupational safety management skills.

### OHS costs

The Company actively invests in projects aimed at continuous improvement of its OHS practices, industrial and fire safety, elimination or reduction of risks and improvement of working conditions for employees. Capex and operational expenditure on these aims at NLMK Group’s Russian facilities in 2016 amounted to more than 4.35 billion rubles (\$65 million).

### NLMK Group’s occupational injury statistics

NLMK Group achieved a significant reduction in occupational injury rates in 2016 year-on-year:

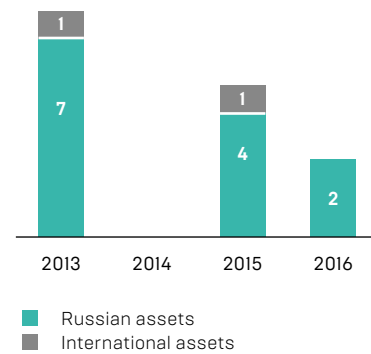
- The total number of lost time injuries dropped by 30%;
- The number of work days lost due to work related accidents fell by 10%;
- Lost time injury frequency rate (LTIFR per 1,000,000 hours worked) among employees was down to:
  - NLMK Group — 0.82 (-27% yoy);
  - NLMK’s Russian assets — 0.34 (-21% yoy).

Eight NLMK Group companies had no lost time injuries at all in 2016, of which Altai-Koks, NLMK Metalware and NLMK Lipetsk were able to pass a two-year milestone without lost-time injuries.

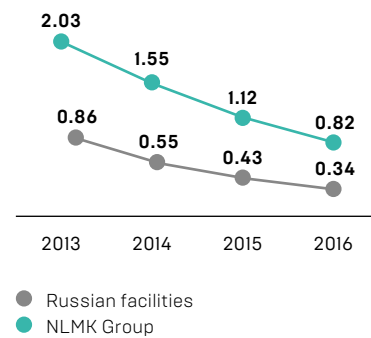
In 2016, NLMK Lipetsk achieved an all-time low lost time injury frequency rate among its Russian peers and in its 82-year history, with an LTIFR of 0.03 injuries per 1,000,000 man-hours worked.

Regrettably, we were not able to avoid two work-related fatalities in 2016.

### WORK-RELATED FATALITIES IN NLMK GROUP



### REDUCTION IN LTIFR

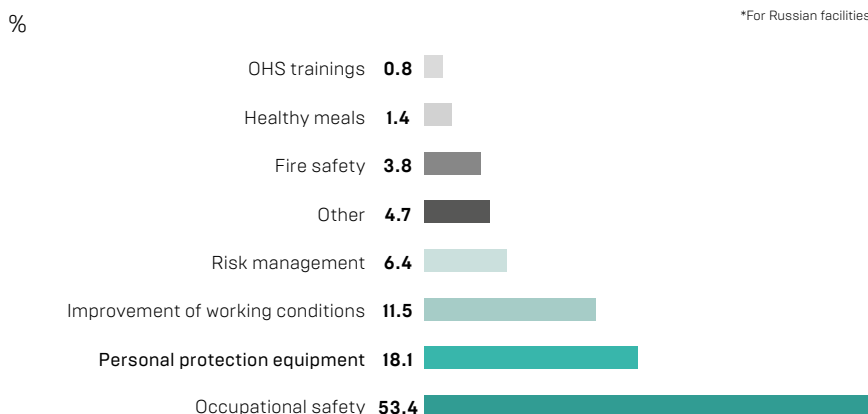




### Target OHS KPI

The efficiency of our OHS efforts is measured with the help of KPIs. An overview of some of our OHS targets for 2016 is presented in the table.

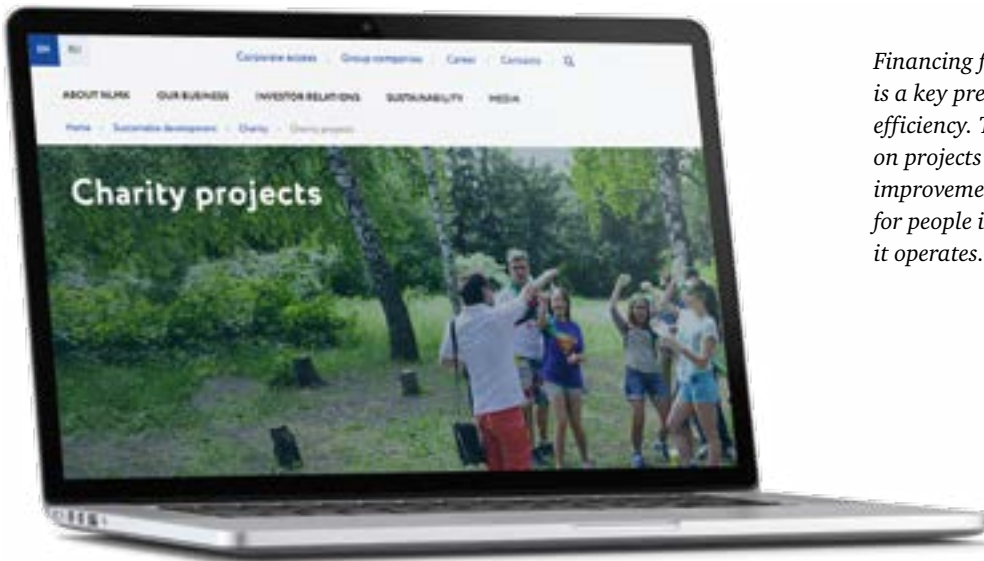
### BREAKDOWN OF OHS COSTS RUB 4.35 BN IN 2016\*



### KEY CORPORATE SOCIAL RESPONSIBILITY ASPECTS

#### Occupational health and safety

TARGETS FOR 2016	PERFORMANCE IN 2016	PROGRESS	TARGETS FOR 2017
Keeping lost time injury frequency rate (LTIFR) at NLMK Group's Russian companies below or equal to 0.60	The lost time injury frequency rate (LTIFR) at NLMK Group's Russian companies decreased by 21% yoy to 0.34	100%	Keeping lost time injury frequency rate (LTIFR) at NLMK Group's Russian companies below or equal to 0.60
Reducing lost time injury frequency rate (LTIFR) at NLMK Group's international companies by 10% from 2015	The lost time injury frequency rate (LTIFR) at NLMK Group's international companies decreased by 34% to 7.71	230%	Reducing lost time injury frequency rate (LTIFR) at NLMK Group's international companies by 10% from 2016
Perform an initial audit of the Group's enterprises to identify OHS hazards as part of the Risk Management programme	The initial audit of the Group's enterprises was performed to identify OHS hazards as part of the Risk Management programme. More than 100,000 hazards were identified	100%	Ensure NLMK Group's LTIFR does not exceed 1.00
Eliminating or reducing no less than 50% of unacceptable risks identified in 2016 that were also revealed in 2015	69% of identified unacceptable risks eliminated or reduced	138%	Eliminating or reducing no less than 50% of unacceptable risks identified in 2017 that were also revealed in 2016
Ensure that no less than 20% of employees are involved in the 'In Search of Safety' programme	More than 20,000 people were involved	210%	
Implementation of best OHS practices	A number of best OHS practices implemented, including the development and introduction of OHS maturity assessment system and other initiatives	100%	Continue the implementation of best OHS practices



*Financing for social programmes is a key prerequisite of their efficiency. The Company is focused on projects that ensure tangible improvement of the quality of life for people in the regions in which it operates.*

**STRATEGY 2017 TARGET INDICATORS**

- SOCIAL RESPONSIBILITY MISSION AND STRATEGIC OBJECTIVES
- IMPROVING THE SOCIAL ENVIRONMENT
- NLMK GROUP'S INVESTMENTS IN THE REGIONS IN WHICH IT OPERATES
- PROMOTION OF SPORT AND HEALTHCARE
- PROMOTION OF EDUCATION AND SCIENCE
- WORK WITH CHILDREN AND YOUNG PEOPLE
- CHARITABLE ACTIVITIES

# COMMUNITY DEVELOPMENT

**Social responsibility mission and strategic objectives**

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

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

**KEY CORPORATE RESPONSIBILITY GOALS:**

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

## KEY FACTS AND FIGURES

### As a socially responsible Company, NLMK invests in development of the regions and local communities of operations

Improving the quality of life for residents of regions in which the Company operates is a key social responsibility goal of the Group.

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

NLMK Group's investment in social development of the regions of its Russian facilities totalled \$44 million in 2016.

### NLMK also involved in charity work in the regions where it operates

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

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

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

### Improving the social environment

Improving the quality of life for people that live in the regions in which the Company operates is one of NLMK's key social responsibility goals. The Company works with local communities, and the authorities at different levels, to strive to create new opportunities for using cutting-edge mechanisms for development of the regions where NLMK operates and to resolve the most burning social issues. The Company makes ongoing investments into programmes that support science and education, culture and sports.

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

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

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

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

KEY ASPECTS OF CORPORATE RESPONSIBILITY	TARGETS FOR 2016	PERFORMANCE IN 2016	PROGRESS	TARGETS FOR 2017
Engagement with local communities  Development of regions where NLMK operates	To implement initiatives that promote the sustainable development of the regions where the Company operates and maintain social and economic stability in local communities	Investment in social needs and the development of the regions where the Company operates totalled 2.95 billion rubles (\$44 million); whilst over 500 million rubles (\$7 million) was allocated to charity	100% NLMK Group actively participated in the development of the regions where its assets operate	To continue implementing measures to promote the sustainable development of the regions where the Company operates





**KEY AREAS OF SOCIAL INVESTMENT:**

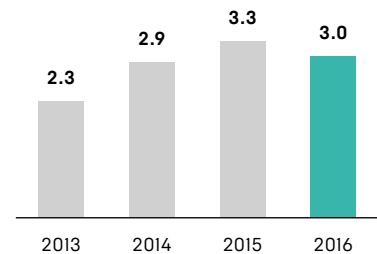
- Promotion of culture, mass and youth sport;
- Promotion of education and science;
- Work with children and young people;
- Charitable activities.

**Promotion of sport and healthcare**

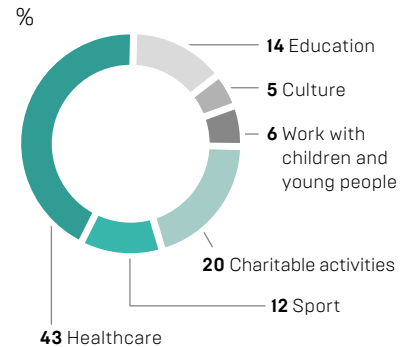
The Company sees the promotion of welfare and a healthy lifestyle for its employees and people in regions in which it operates as a priority of its social responsibility. Special focus is placed on involving children and young people in regular sports activities. NLMK provides assistance to sports groups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

NLMK finances the “Lipetsk Metallurg” sports club that is successfully promoting sport in Lipetsk and creates the conditions for NLMK Lipetsk employees and the members of their families, as well

**NLMK’S SOCIAL INVESTMENT**  
RUB bn



**BREAKDOWN OF 2016 SOCIAL INVESTMENT**  
%



NLMK Group’s social investment at its Russian sites totalled  
**2.95 billion rubles (\$44 million)**  
 in 2016.

as all other Lipetsk dwellers, to practice sports.

More than 2,000 schoolchildren participate annually in sports competitions organized by NLMK. The “Lipetsk Metallurg” sport club fully funded the establishment of the Children’s and Youth Sports School of Olympic Reserve No. 13, where 300 young athletes are trained in clay target and rifle and pistol shooting. As a result, half of the Russian national shooting team are alumni of “Lipetsk Metallurg” sport club. In 2016, the children’s sports school’s trainees included 2 sports masters and 16 candidates for master of sports among its pupils. 25 athletes from Lipetsk are members of the Russian national shooting team.

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

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

**Promotion of education and science**

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

- Earmarked financing of scientific and educational activities of basic educational institutions;
- Development and expansion of science and technology infrastructure of scientific centres in the metals and mining industry;
- Arrangement and funding of science related conferences, R&D creative competitions among students of basic educational institutions;
- Arrangement of Doors Open Days and site visits to production facilities for schoolchildren, on-the-job training at the Group’s facilities for students of specialized vocational education institutions;



- Establishing the conditions necessary for training and motivating students to obtain a quality vocational education, for example by implementing scholarship programmes.

**Work with children and young people**

NLMK invests a lot of effort into organizing healthy recreational activities for children. During the summer vacation the Company arranges trips for children of its

employees to summer camps; which are also open to children from low-income families and orphans.

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

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

“Prometey”, NLMK’s health complex for children, won the “Science and practice of children and youth recreation-2016”, an all-Russian contest of scientific materials and teaching aids that was part of the XXI All-Russian Forum for organizers of childrens and youth recreation and healthcare, titled “Topic of Special Interest: Furthering education, recreation and healthcare for children and youth”.



**IN 2016, NLMK’S CHARITY PROGRAMMES INCLUDED THE FOLLOWING ACTIVITIES:**

<p><b>EASTER SUNDAY</b></p>	<p><b>GIFTED CHILDREN</b></p>	<p><b>WARMTH IN THE HOME</b></p>
<p>ON THE EVE OF EASTER, MORE THAN <b>2,000</b> LOW-INCOME RESIDENTS OF LIPETSK RECEIVED EASTER CAKES</p>	<p>CONVENTION THAT GATHERED <b>120</b> WINNERS OF SCHOOL OLYMPIADS AT PROMETEY CAMP</p>	<p>FORMER NLMK EMPLOYEES LIVING IN HOUSEHOLDS WITH STOVE HEATING RECEIVED FIREWOOD</p>
<p><b>A LAND OF SCHOOL</b></p>	<p><b>HEALTHY PEOPLE – A STRONG NATION</b></p>	
<p>ORPHANS IN CHILDREN’S HOMES AND BOARDING SCHOOLS PREPARING FOR THE NEW SCHOOL YEAR RECEIVED SCHOOL KITS AND TREATS</p>	<p>NLMK EMPLOYEES AND MEMBERS OF THEIR FAMILIES VISITED SPORTS FACILITIES IN THE CITY; NLMK LONG-SERVICE EMPLOYEES AND DIFFERENTLY-ABLE LIPETSK RESIDENTS PARTICIPATED IN AQUA AEROBICS CLASSES</p>	
<p><b>BEAUTY ROUSES THE SPIRIT</b></p>	<p><b>HOPE</b></p>	<p><b>NLMK VETERANS HEALTHCARE</b></p>
<p>NLMK EMPLOYEES AND MEMBERS OF THEIR FAMILIES WERE GIVEN THE OPPORTUNITY TO VISIT URBAN CULTURAL EVENTS</p>	<p>ORPHANS IN CHILDREN’S HOMES AND BOARDING SCHOOLS IN LIPETSK AND THE VICINITY WERE CONGRATULATED ON CHILDREN’S DAY AND RECEIVED PRESENTS</p>	<p><b>150</b> LONG-SERVICE EMPLOYEES RECEIVED VOUCHERS TO SUKHOBORYE AND PARUS HEALTH RESORTS</p>

**Charitable activities**

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

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

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

Over 30,000 people from Lipetsk Region that require additional social support receive help annually. Funds are allocated to pay for long-term medical treatment, medicine, technical

rehab means, trips to resorts and children’s camps and preparation for the beginning of the academic year as well as other social projects.

The ‘Zabota, pomoshch, miloserdiye’ (‘Care, help, mercy’) charity fund in Sverdlovsk region helps promote sports and protect cultural heritage; also supporting veterans and pensioners.

# KEY HIGHLIGHTS

## PERSONNEL

	2012	2013	2014	2015	2016
Number of employees, '000 people	62.5	61.7	60.1	56.7	54.0
Staff turnover, %	10.0	10.0	8.4	8.8	4.7
Number of female employees, %	27.2	27.3	27.2	27.0	28.0
Salary growth, %	9.6	10.0	12.0	8.0	10.0
Investments in employee training, \$ m	5.5	5.5	4.4	3.3	3.4
Total hours spent on employee training, '000 hours	7,014	6,549	5,346	6,188	6,303

## OCCUPATIONAL HEALTH AND SAFETY

	2012	2013	2014	2015	2016
Accidents, total	245	217	177	123	90
<i>Employees</i>	221	194	151	102	73
<i>Contractors</i>	24	23	26	21	17
Fatalities, total	11	8	0	6	5
<i>Employees</i>	6	8	0	5	2
<i>Contractors</i>	5	0	0	1	3
Lost time injury frequency rate (LTIFR), NLMK Group	2.22	2.03	1.55	1.12	0.82
Lost time injury frequency rate (LTIFR), Russian assets	0.87	0.86	0.55	0.43	0.34
Investments in OHS, \$ m	20.29	34.07	39.48	24.57	65.04

## LOCAL COMMUNITIES

	2012	2013	2014	2015	2016
Social investments, \$ m	70	73	75	54	44
Social investments, RUB bn	2.17	2.30	2.91	3.28	2.95

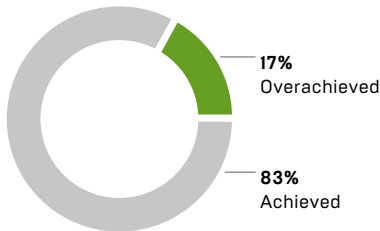
# ENVIRONMENT

## 2016 HIGHLIGHTS

*NLMK Group improved the environmental performance of its operations in 2016*

### TARGET FIGURES SUCCESSFULLY ACHIEVED

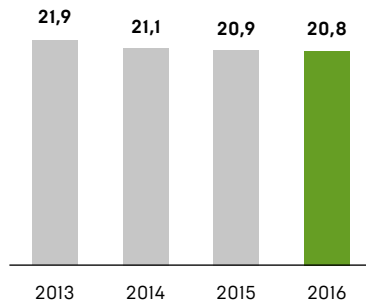
NLMK GROUP ACHIEVED ITS 2016 ENVIRONMENTAL TARGETS



### REDUCED AIR EMISSIONS

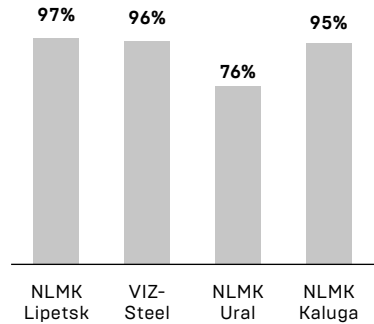
REDUCED AIR POLLUTION

kg/t of steel



### EFFICIENT WASTE MANAGEMENT

HIGH WASTE RECYCLING RATE



**100%**  
OF 2016 TARGETS  
ACHIEVED

**250 tonnes per year**  
reduction in air emissions  
thanks to capex projects

**94%** waste recycling  
rate across  
NLMK Group  
[excluding low-hazard  
mining waste]

→ [For more details, see page 83](#)



## KEY FACTS AND FIGURES

### Successful implementation of environmental initiatives

The Group achieved all the 2016 targets including a reduction of emission rates.

### Efficient use of natural resources

Ongoing reduction of water consumption and high recycling rates lower cash cost and environmental impact.

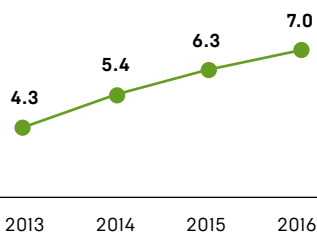
### Significant improvement in energy efficiency

Specific energy consumption has been sequentially declining since 2014, with yet another project implemented in 2016.

## SIGNIFICANT ENVIRONMENTAL INVESTMENTS

### MAINTAINED SIGNIFICANT INVESTMENT INTO ENVIRONMENTAL PERFORMANCE

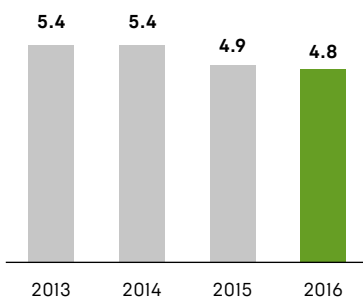
● Investments, RUB bn



## EFFICIENT USE OF WATER RESOURCES

### ONGOING REDUCTION OF WATER CONSUMPTION

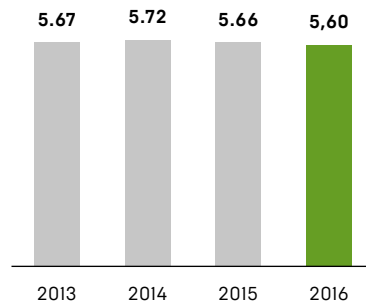
m<sup>3</sup>/t



## ENERGY EFFICIENCY

### REDUCTION OF ENERGY INTENSITY (NLMK LIPETSK)

GCal/t



**63%**

increase in annual environmental investments since 2003

**76 million m<sup>3</sup>** of total water consumption

by NLMK Group's Russian operations, the same as in 2015, while steel output increased by 4%

over **200**

optimization initiatives aimed at boosting energy efficiency

# NLMK GROUP'S ENVIRONMENTAL ACTIVITIES



## KEY FACTS AND FIGURES

### Environmental protection is a priority for NLMK Group

Total investment in the Group's environmental activities since 2000 amounts to \$1.4 billion.

### NLMK Group has an active Environmental Policy

The Group's key targets are environmental safety and process efficiency, in line with the best global practices.

### An environmentally responsible approach enables business success

Adherence to high environmental standards allows for efficient production of high-quality products with minimal environmental footprint in regions of operation.

*Reduction of ecological footprint and sustainable use of natural resources are NLMK's key environmental priorities*



*"We adopt new technologies and solutions in an effort to reduce our environmental footprint. Major investment in hundreds of environmental projects and initiatives over the past five years, totalling close to RUB 26 billion, has delivered a significant boost to the Company's environmental performance. The Company has ramped up its steel output by almost 50% during this period, while specific emissions have been reduced by 25%."*

**GALINA KHRISTOFOROVA,**  
NLMK Group Director  
for the Environment

**N**LMK spent a total of 54 billion rubles (\$1.4 billion) on environmental initiatives since 2000. The scale of this investment has transformed NLMK into a leader in environmental performance; for example, NLMK Group outachieved the BAT level of water consumption as early as 2010. NLMK Lipetsk reduced specific air emissions more than two-fold over the same period and introduced a closed water-loop system to minimize water pollution.

NLMK Group assumes the responsibility to ensure and maintain a favourable living environment in the Company's home regions by devising environmental protection programmes, meticulously following adopted plans and project implementations.

NLMK Group views environmental initiatives as a priority area of corporate risk management, aimed at eliminating the risk of environmental issues placing limitations upon the Company's operations or their further development.



*NLMK Group's Environmental Policy is a statement defining the Group's long-term process safety and environmental priorities across its geographies.*

**NLMK GROUP'S ENVIRONMENTAL POLICY GOALS:**

- Ensure environmental efficiency of production processes;
- Compliance with the best global practices concerning effects on the environment and resource management;
- Hold leadership position in sector for environmental performance.

**IN ORDER TO REACH ITS OBJECTIVE NLMK IS GUIDED BY THE FOLLOWING PRINCIPLES:**

- Environmentally responsible approach to plant and equipment operation, upgrades, renovation and construction;
- Compliance with Russian and international environmental regulations and requirements;
- Mitigation of environmental risks;
- Openness and accessibility of information about NLMK Group companies' environmental initiatives and impact.

A high-priority systematic approach to environmental protection enables efficient production of high-quality products with minimal environmental impact on the Company's home regions.

**NLMK Group's Environmental Programme**

**ca. 19 billion rubles**  
(\$350 MILLION)

**STAGE I "GREEN" INVESTMENTS**

NLMK Group's Environmental Programme was developed to reflect the critical long-term strategic importance of an ongoing reduction of the Company's environmental footprint.

**Stage I (2014-2016):**

Major capex projects implemented, systematic efforts taken to optimize environmental risk management processes.

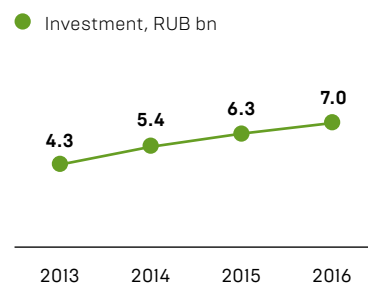
Upon completion, Stage I delivered a 5% reduction in air emissions, and 11% reduction in water consumption vs. 2013.

**Stage II (early 2017):**

Overarching goal:

- Minimize environmental footprint, and
- Achieve the industry's best-in-class environmental performance.

**NLMK GROUP'S INVESTMENTS IN ENVIRONMENTAL INITIATIVES**



**NLMK Group's 'green' investments**

NLMK Group implements a range of capex projects aimed at achieving the objectives of the Environmental Programme.

**INVESTMENT IN ENVIRONMENTAL INITIATIVES IN 2016 WAS UP 12% YEAR-ON-YEAR**

**to reach 7 billion rubles**  
(\$104 MILLION)

## NLMK'S ENVIRONMENTAL KPIs IN 2016

CORPORATE RESPONSIBILITY: KEY ASPECTS	2016 TARGETS	2016 PERFORMANCE	2016 TARGETS ACHIEVED	2017 TARGETS
Management of potential risks to reduce or minimize environmental impact	NLMK Group's Environmental Programme	11 projects were completed as part of environmental risk management	Target achieved	Implementation of NLMK Group's Environmental Programme Stage II organizational and capex projects
Minimization of environmental impact of NLMK Group's operations	Reduction of specific emissions by 0.1 kg/t steel vs. the 2015 level	Reduction by 0.1 kg/t steel vs. the 2015 level	Target achieved	Reduction of specific emissions by 0.1 kg/t steel vs. the 2016 level
	Reduction of water consumption by 0.1 m <sup>3</sup> /t steel vs. the 2015 level	Reduction by 0.1 m <sup>3</sup> /t steel vs. the 2015 level	Target achieved	Reduction of water consumption by 0.05 m <sup>3</sup> /t steel vs. the 2016 level
	Increase NLMK Group's overall recycling rate by 15% of the 2011 levels	Increase NLMK Group's overall recycling rate by 20% of the 2011 levels	Target overachieved by 5 p.p. (rel.)	Increase NLMK Group's overall recycling rate by 15% (total)
Compliance with the best practices in technical upgrade and operation	Air protection: change-over to the filter material with improved residual dust content characteristics up to 10 mg/m <sup>3</sup> for bag filters	The filter material with improved residual dust content up to 10 mg/m <sup>3</sup> was replaced in bag filters according to the approved schedule	Target achieved	Scheduled replacement of filter material with an improved residual dust content of up to 10 mg/m <sup>3</sup> for bag filters
Improvement of management methods to comply with modern international standards	Certification of compliance of NLMK Group's Environmental Management System with the ISO 14001: 2015 international standard across all sites	Certification of compliance of NLMK Group's Environmental Management System with the ISO 14001: 2015 international standard at NLMK Kaluga and Altai-Koks	Target achieved	Certification of compliance of NLMK Group's Environmental Management System with the ISO 14001: 2015 international standard at NLMK Lipetsk, Stoilensky and Altai-Koks

### Reduction in air pollution

NLMK Group has achieved an ongoing reduction in its air emissions. In 2016 the Group's emission rate was down to 20.8 kg per tonne of steel, 5% below the base level for Strategy 2017 and two times lower than the emission rate in 2000.

This was possible thanks to a mix of management initiatives and capex projects: upgrades of production units, installation of dust and gas-cleaning units, installation and upgrade of filter equipment, introduction of immobilization and waste recovery technologies.

NLMK Lipetsk (84%) and Altai-Koks (12%) accounted for the biggest part of the Group's emissions, while

the other NLMK Group's facilities accounted for the remaining 2% of the total air emissions.

NLMK Group's total air emissions in 2016 increased by 3% to 331,000 tonnes, while the Group's steel production increased by 4%. The increase in total emissions was mainly due to an increase in the output of the Group's mining operations, a higher run rate of the dry coke quenching plant at Altai-Koks and



growth in output of the Long Products Division.

The leading pollutant is carbon monoxide, which accounts for 75% of NLMK Group's total air emissions. The Class 4 hazardous substance is formed in fuel combustion and other production processes. Suspended substances (8%), nitrogen oxides (7%), and sulphur oxides (9%) account for around 24% of total emissions.

**ONE TARGET OF THE ENVIRONMENTAL PROGRAMME IS TO REDUCE SPECIFIC EMISSIONS OF NLMK GROUP'S OPERATIONS FROM THE CURRENT 20.8 KG PER TONNE OF STEEL TO 19.4 KG PER TONNE OF STEEL, WHILE THE BEST GLOBALLY AVAILABLE TECHNOLOGIES ALLOW FOR AS LOW AS 18.9 KG PER TONNE OF STEEL.**

These pollutants are emitted from tall chimneys, which provides for ideal dispersion conditions and a minimal impact on carbon monoxide concentration at ground level.

NLMK Group will continue taking steps to reduce its air emissions.

### Sustainable management of water resources

NLMK Group is among the industry leaders when it comes to efficient water consumption and minimal discharges in its home regions, thanks to the advanced environmental technologies the Company employs.

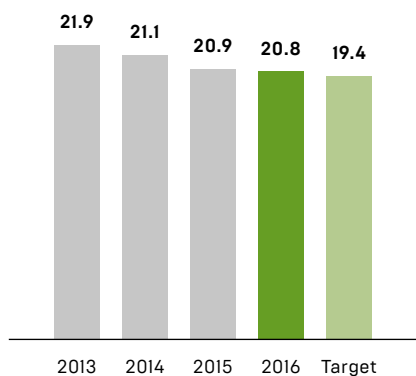
Specific water consumption (per tonne of steel) has been consistently

### LIST OF MAJOR 2016 ENVIRONMENTAL CAPEX PROJECTS

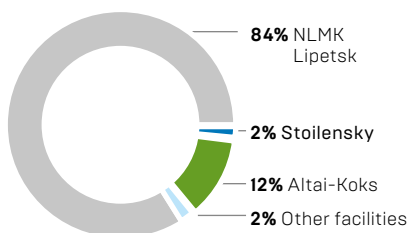
SITE	FACILITY	PROJECT	EFFICIENCY
NLMK Lipetsk	Refractory Shop	Reconstruction of de-dusting systems of the bulk materials discharging and feeding duct and bag filters replacement	Reduction of dust emissions by 150 tpa
NLMK Lipetsk	Refractory Shop	Upgrade of dust collectors for rotary furnaces	Reduction of dust emissions by 250 tpa
NLMK Lipetsk	Refractory Shop	Construction of a central gas cleaning system downstream of shaft furnaces	Reduction of dust emissions by 80 tpa
NLMK Lipetsk	Sinter operations	Overhauling of lime feeding duct and wagon dumper dedusting units	Reduction of dust emissions by 250 tpa
NLMK Lipetsk	Blast furnace operations	Construction of a modular dedusting system	Reduction of dust emissions by 109 tpa
NLMK Lipetsk		Reduction of noise pollution level at the border of the sanitary protection zone	Noise standards: daytime up to 55dB, night-time up to 45dB
NLMK Lipetsk		Development and implementation of Environmental Control information system	Environmental impact monitoring
NLMK Ural	Revda site	Initiatives for establishment of a sanitary protection zone	Noise standards: daytime up to 55dB, night-time up to 45dB
NLMK Ural	Nizhniye Sergi site	Initiatives for establishment of a sanitary protection zone	Noise standards: daytime up to 55dB, night-time up to 45dB
NLMK Ural	Nizhniye Sergi site	Storm water run-off treatment plants	Elimination of storm water discharge
VIZ-Steel		Reclamation of Lesnoy landfill	4.1 ha of lands reclaimed
Stoilensky		Resettlement of residents during open pit development	No further residents within sanitary protection zone

### NLMK GROUP'S SPECIFIC AIR EMISSIONS

kg/t of steel

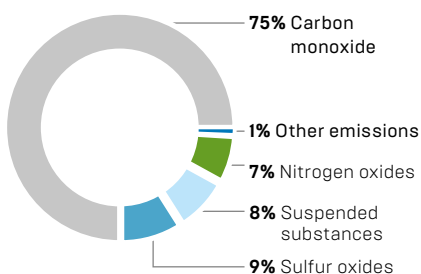


### NLMK GROUP'S EMISSIONS BY SITE



### NLMK GROUP'S EMISSIONS BY TYPE

%



reduced and in 2016 reached 4.8 m<sup>3</sup>/t, which is below the BAT level of 7.0 m<sup>3</sup>/t.

Stoilensky accounts for the majority of water consumption (57%), as it actively uses water resources in the production process. Since the completion of a project aimed at upgrading the technical water supply system to a closed loop, NLMK Lipetsk contributes 29% and Altai-Koks contributes 7% to the Group's

total water consumption, the rest is attributed to the other companies of the Group.

NLMK Group's total water consumption in 2016 was 76 million m<sup>3</sup>, which is 0.2% lower than a year earlier. Meanwhile, the Group's steel production increased by 4% year-on-year. Closed loop water supply replenishment from external sources amounted to 7% of total water consumption in 2016.



CASE STUDY

TOTAL DUST EMISSIONS OF THE BLAST FURNACE REDUCED BY MORE THAN **20** TIMES

### NLMK INCREASED GAS CLEANING RATE OF BLAST FURNACE NO. 4 TO 99.7%

NLMK Lipetsk launched a modern modular aspiration unit with a capacity of 600,000 m<sup>3</sup> per hour for the Blast furnace No. 4 foundry (2.1 million tonnes of pig iron per year) in 2016. The new unit, which replaced obsolete equipment, enabled a more than 20 times reduction in the total dust emissions of the blast furnace and increased the gas-cleaning rate to 99.7%.

"We are introducing new technologies and solutions in an effort to reduce our environmental footprint. For example, we previously used water irrigation technology for dusty gas cleaning in the Blast Furnace No. 4 foundry yard; now we use high-efficiency bag filters, which significantly increase the cleaning rate. We also employ unique technical solutions designed for use in construction, to enable automatic control of the aspiration system, depending on the mode of furnace operations," commented Galina Khristoforova, NLMK Group's Director for the Environment.



NLMK Group minimizes the discharge of pollutants into water bodies in its home regions through the use of zero-discharge water systems at the Group's main production sites. This system virtually ceases the discharge of pollutants into water bodies entirely. Utility fluids from industrial sites are cleaned either at the sites' own treatment facilities or transferred to local water treatment facilities.

One of the targets of NLMK Group's Environmental Programme is to achieve zero wastewater at all production sites.

**Efficient waste management**

*NLMK Group takes care in its use of resources and strives to enhance the recycling rate.*

In 2016, NLMK Group's brought waste production down by 15% year-on-year to 4.2 million tonnes, of which 84%

is attributable to NLMK Lipetsk, and 14% to NLMK Russia Long facilities (NLMK Ural, NLMK Metalware, and NLMK Kaluga).

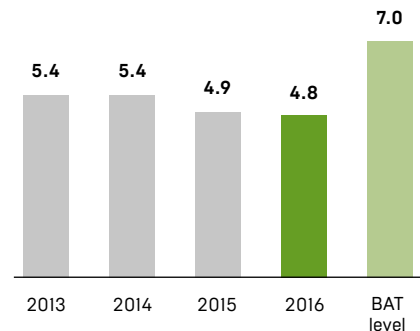
The use of modern waste treatment technologies and recycling initiatives enable efficient use of waste: the recycling rate at the NLMK Lipetsk is 97%, while it exceeds 70% at the Group's other Russian steelmaking sites. The overall recycling rate across NLMK Group's Russian operations in 2016 was 94%.

The total volume of waste generation in NLMK Group, including Stoilensky's minimal hazard stripping waste and beneficiation tailings, was reduced by 5% year-on-year to 59.6 million tonnes in 2016. The total recycling rate in 2016 was 15%, including the mining waste.

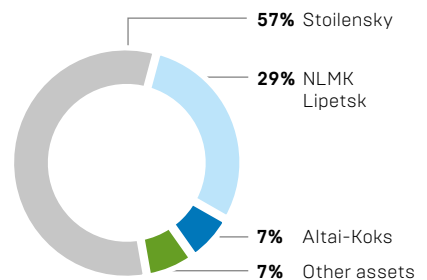
NLMK continues to invest in waste treatment and recycling technologies. One of the goals of NLMK Group's Environmental Programme is to completely eliminate old waste dump sites (specifically, the slag dump at

**NLMK GROUP'S SPECIFIC WATER CONSUMPTION**

m<sup>3</sup>/t

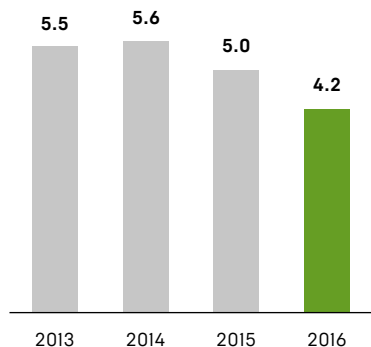


**NLMK GROUP'S SPECIFIC WATER CONSUMPTION BY SITE**



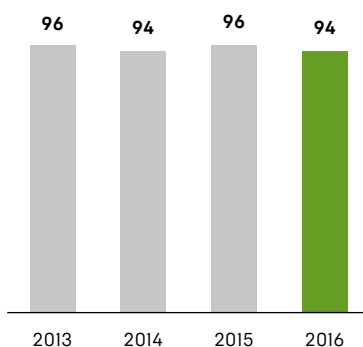
**NLMK GROUP'S WASTE PRODUCTION**

m t

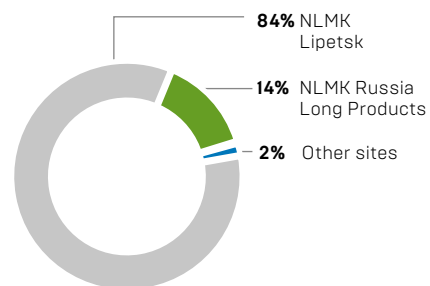


**NLMK GROUP'S RECYCLING**

%



**WASTE PRODUCTION BREAKDOWN**



the NLMK Lipetsk, accumulated over the 80 years of its operation, and the 40-year-old sludge dump site at NLMK Ural).

**Environmental Management Systems development**

*The use of best environmental practices from around the world unlocks the Company's potential which is ultimately one of the factors that drives NLMK's leadership in the industry.*

NLMK Group is on target to certify its Environmental Management Systems since 2002, when the Environmental Management System of NLMK Lipetsk was first awarded its ISO 14001:2004 certification. The NLMK Lipetsk has since passed several recertification audits. In 2016, BSI (British

**CASE STUDY**

**CONSTRUCTION OF FACILITY TO PRODUCE BRIQUETTES FROM IRON-CONTAINING WASTE**

NLMK Group's projects for construction of a facility with an annual capacity of 700,000 tonnes of metallurgical briquettes from iron-containing waste is under way at the NLMK Lipetsk. The briquettes will be manufactured using a hard extrusion method from a mix of iron ore concentrate and iron-containing waste formed in the process of wet blast furnace gas cleaning. The production of briquettes is an environmentally friendly technology that does not generate any dust or gas emissions. The launch of the plant will enable more than 350,000 tonnes of blast furnace waste to be recycled each year.

Iron-containing briquettes are a raw material for the smelting of hot metal. In addition to recycling iron-containing briquettes will substitute more expensive resources and reduce operating costs.

Standards Institution, UK) audited NLMK Lipetsk for the compliance of its environmental management system with international standards.

International environmental safety standards and their Russian counterparts (environmental management systems) are also embedded in the operations of other NLMK Group's key sites.

In 2016, NLMK Kaluga and Altai-Koks received BSI certificates of environmental management system registration, NLMK Ural also passed a certification audit.

Stoilensky, VIZ-Steel, NLMK Metalware were audited for compliance in addition to the NLMK Lipetsk in 2016.



## Our success and public appraisal of environmental activities

*The high priority with which NLMK Group treats environmental safety and the Company's ongoing efforts to introduce environmental technologies are key factors in improving the environment in the regions where NLMK Group's companies operate.*

According to Roshydromet's Integrated Air Pollution Index (IAPI), the city of Lipetsk, home to NLMK Group's key production site, has been recognised as the least polluted region capital in Russia's Central Black Earth economic area, and the most environmentally friendly Russian steelmaking city. The IAPI in Lipetsk has decreased by more than 7 times since 2000, from extremely high to low, largely thanks to NLMK's environmental activities.

At year-end 2016, NLMK Group joined the ranks of leaders of the Russian Union of Industrialists and Entrepreneurs (RUIE) indices for "Accountability and Transparency" and "Vector of Sustainable Development".

In 2016, NLMK Lipetsk won the "100 Best Companies in Russia. Ecology and Environmental Management" competition, its Managing Director was awarded the "Environmentalism of the Year 2016" badge of honour, and the facility was also awarded in the categories "Golden Branch of the Planet" and "For Achievements in Air Protection". In addition the Department of Industrial Ecology won the "Best Environmental Service" category.

VIZ-Steel was named among the winners of the "100 Best Companies in Russia. Ecology and Environmental Management" competition for its project aimed at developing technical specifications for magnesium-containing sludge during wastewater treatment.

### CASE STUDY





TODAY THE WILDLIFE  
PARK IS HOME  
TO MORE THAN

**50** SPECIES  
OF BIRDS

## SWAN LAKE PARK: A NATURAL INDICATOR OF THE CLEAN ENVIRONMENT AT NLMK LIPETSK

Created by NLMK employees in 1978, Swan Lake Park is a unique conservation site for the protection and breeding of rare and endangered birds. Swan Lake Park covers an area of more than 5 ha and is located in the centre of the plant's site. Located in an industrial area, it is the only park of its kind in Russia and the CIS.

Today the wildlife park is home to over 50 species of birds (more than 400 birds in total). The lake in the park, which is replenished by purified process water from the Lipetsk facility, is home to fish which are the natural source of food for water birds.

In winter, between 15 October and 15 April, the water in the lake is heated by a mixture of compressed air and hot steam which is passed along the lake bottom in order to create a comfortable habitat for the water birds.

The thriving Swan Lake Park is a clear indicator of the safe and clean environment at the NLMK Lipetsk.



# ENERGY EFFICIENCY

The goal of reducing energy costs is achieved both through optimization measures, and by increasing the share of in-house power generation.





## KEY FACTS AND FIGURES

### Systematic improvement of energy efficiency a key priority area for the Group

The main objective is to ensure a reliable supply of energy resources and reduce costs.

### An increase in the share of captive power generation

The share of power generated in-house at NLMK Lipetsk in 2017 will grow to 59% of total energy consumption, with by-product fuel gases generating an 81% share of captive power in 2016.

### Lower energy consumption the result of optimization measures

A reduction in the Group's energy consumption in 2016 was the result of technical upgrades and continuous optimization of production processes, with the share of purchased electricity consumption down by 1% and natural gas consumption down by 5%.

**INCREASED CAPTIVE  
POWER GENERATION  
AND LOWER ENERGY  
CONSUMPTION BOOST  
EFFICIENCY AND  
MINIMIZE THE COMPANY'S  
ENVIRONMENTAL  
FOOTPRINT.**

**S**ustainable energy use and systematic efforts to enhance energy efficiency are among the priorities for NLMK Group companies.

NLMK Group's main energy procurement goals are to ensure stable supply of energy resources and cost reduction (energy costs account for about 11% of the production cost) through enhancing energy efficiency.

NLMK Group operates an Energy Policy, which defines the Company's mission, objectives and principles of sustainable energy use.

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#### POLICY GOALS:

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- Achieve optimal level of energy intensity;
- Leadership in application of advanced energy efficient technologies, including introduction and continuous improvement of Energy Management Systems.

## Development of in-house power generation

The development of captive generating capacities is an important element of securing the company's power supply and energy efficiency.

### CASE STUDY

#### INTRODUCTION OF GREEN ENERGY FACILITIES

In 2016, NLMK Group successfully completed guarantee tests of the Blast Furnace No.6 top pressure recovery turbine (TRT). The launch of the new unit brings the project for the introduction of green energy facilities at the NLMK Lipetsk to completion. As a result, more than 50% of NLMK Lipetsk's blast furnace capacity now utilizes global best practice energy-efficiency technologies.

TRT is used to generate electrical power through the efficient use of blast furnace gas overpressure. Blast furnace gas generated during iron smelting in NLMK Lipetsk blast furnaces is routed to a Thermal Power Plant and Recovery and Cogeneration Plant to produce electrical power.

Sergey Chebotarev, NLMK's Vice President for Energy said:

"We have completed an extremely important project aimed at developing our green energy facilities. The TRT does not burn fuel to produce electric power, instead it makes use of the pressure of blast furnace gas which is waste energy. This means that in addition to reduction of our energy costs, we also reduce the negative impact on the environment".

#### NLMK's in-house power generation:

- Ensures business continuity;
- Reduces energy costs by 25%;
- Reduces environmental footprint.

Power generating capacities: The total installed in-house generation capacity is 522 MW. Electricity is produced by the Cogeneration Plant, Recovery Cogeneration Plant and two top-pressure recovery turbines.

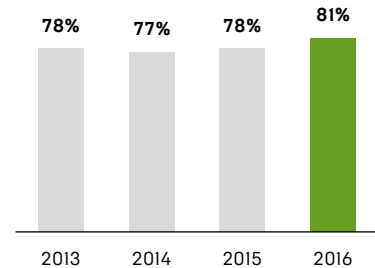
Generation sources: More than 80% of electricity at NLMK Lipetsk is generated from the recovery of by-product gases from coke and chemical and blast furnace operations.

The main fuels for NLMK's Cogeneration Plant and Recovery Cogeneration Plant are blast-furnace and coke-oven gases; top-pressure recovery turbines are used to generate electrical power through the efficient use of blast furnace gas overpressure. There is a 200 MW power plant at Altai-Koks that operates on coke oven gas and completely covers the Company's electricity needs.

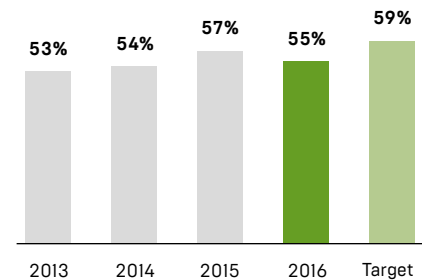
#### In-house generation development capex projects (2014-2016):

- 2014: capital improvement of 50 MW capacity turbine generator unit No. 4 at the Cogeneration Plant; 2015: launch of the Blast Furnace No. 7 top-pressure recovery turbine;
- 2016: capital improvement of the Blast Furnace No. 6 top-pressure recovery turbine with 20 MW capacity generators.
- A range of optimization measures was implemented in 2015-2016

#### CAPTIVE POWER GENERATION FROM BY-PRODUCT FUEL GASES



#### IN-HOUSE POWER GENERATION IN TOTAL ENERGY CONSUMPTION



at NLMK's Cogeneration Plant and Recovery Cogeneration Plant, including measures aimed at reducing the repair time of generators, selecting efficient turbine loading regimes, and optimizing the water cycle operation of turbine generator units.

- 2017: capital improvement of 60 MW capacity turbine generator unit No.5 at the Cogeneration Plant. As a result, in-house generation will increase to 59% in the Company's total power consumption.
- Further developments: There are several projects under consideration aimed at increasing captive electricity generation through effective use of secondary energy resources.

CASE STUDY

### A COMPLEX OF POWER FACILITIES FOR PELLETIZER

A complex of power facilities was commissioned to cover Stoilensky Pelletizing Plant's need for electricity, including:

- Two main step-down substations, two distribution substations, 15 transformer substations and more than 1,600 km of underground power cabling;
- A 3 km long natural gas pipeline, 39 gas distribution devices;
- Technical water supply pumping station, more than 7 km of water supply networks;
- Internal gas supply, water supply, and heat supply pipelines with a total length exceeding 140 km.

The decrease in the share of in-house power generation in 2016 was that the result of turbine generator unit No. 5 at NLMK's Cogeneration Plant being taken offline for an overhaul, while the total energy consumption at NLMK Lipetsk increased. This was partially offset by an increase in the efficiency of the remaining turbine generator units and a scale-up of TRT energy output.

The share of captive power generation through utilization of by-product fuel gases in 2016 was 81%.

### Energy consumption and optimization activities

#### Electric power:

In 2016, the total electricity consumption across NLMK Group's production facilities amounted to 11.8 billion kWh (+6% yoy), of which 57% was consumed at NLMK Lipetsk. Facilities using electric arc furnaces for steel production (22% of production) accounted for 20% of electricity consumed. The increase in consumption was caused by an increase in the output of raw materials and steel, as well as by the commissioning of new operations, including Stoilensky's Pelletizing Plant.

#### Natural gas:

The total natural gas consumption across NLMK Group's production facilities amounted to 2.9 billion m<sup>3</sup> (-3% yoy), of which 83% was consumed at NLMK Lipetsk, where natural gas is widely used in blast-furnace operations, in reheating furnaces and heat treatment units and, in part, for electricity generation.

#### 2016 optimization activities

More than 200 optimization measures aimed at improving energy efficiency.

Total gains: About 700 million rubles (\$11 million), which enabled a 70 million kWh (1% of total consumption) reduction in the consumption of purchased electricity and 142 million m<sup>3</sup> (5% of total consumption) of natural gas across the Group's facilities.

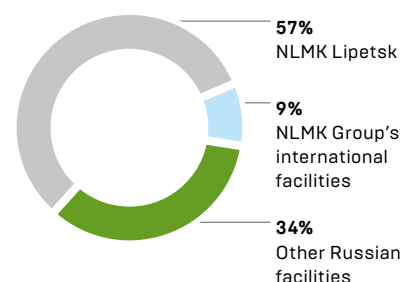
CASE STUDY

### GENERATION OF HYDROGEN FROM NATURAL GAS

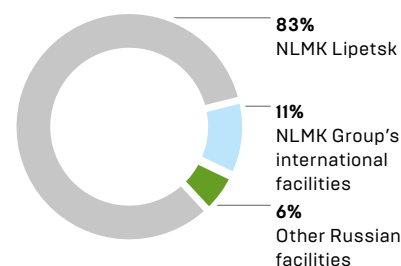
In 2016, NLMK Group began commercial operation of a hydrogen unit that generates hydrogen from natural gas through vapour reforming at VIZ-Steel in Yekaterinburg, where hi-tech transformer (grain-oriented) steel is produced.

This project will provide a three-fold reduction in the cost of hydrogen production. The new technology, which replaces expensive electrolysis, requires 30 times less energy to generate hydrogen bringing annual energy consumption down by 75 million kWh.

#### NLMK GROUP'S POWER CONSUMPTION IN 2016



#### NLMK GROUP'S NATURAL GAS CONSUMPTION IN 2016





The 2016 optimization measures were aimed at increasing the efficiency of by-product gas utilization, improving the production and distribution of air separation products, enhancing in-house power generation, optimizing the operating modes of gas consuming units, upgrading lighting equipment, automating energy consumption management, etc.

**Examples of optimization projects and figures achieved:**

- In 2016, efficiency improvement efforts aimed at enhancing by-product gas utilization enabled the use of more than 1 billion m<sup>3</sup> of BF gas, and a 120 million m<sup>3</sup> reduction in the volume of purchased natural gas;
- Thanks to the reduced repair downtime and optimized operation modes of turbine generator units, an additional 34 million kWh of electricity was generated;
- Lighting upgrades are still underway at the Group's Russian and foreign production sites. In 2010-2016, electricity consumption for lighting needs across the Group's companies was reduced by 22 MW, and a structural net gain of around 500 million rubles a year (\$8 million).

**Increased energy efficiency**

Ongoing improvement of energy efficiency is possible through equipment upgrade and optimization efforts.

In 2016, the specific energy intensity of NLMK Lipetsk was reduced by 1% to 5.6 Gcal/t while the best available technology (BAT) level for integrated production is 5.1 Gcal/t.

Other facilities followed suite, for example, the energy intensity at NLMK Kaluga was down by 2% year-on-year to 0.54 Gcal/t.

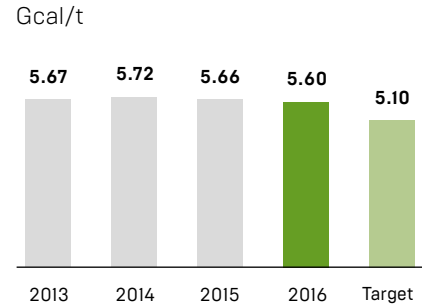
**2017 objectives:**

- Increase in the efficiency of fuel gas utilization in power generation;
- Optimization of energy transportation network load and configuration across all companies;
- Optimization of industrial gas equipment operation;
- Industrial lighting systems upgrade with the installation of energy-saving bulbs;
- Re-launch of turbine generator unit No.5 at NLMK's Cogeneration Plant after major overhaul, etc.

**Public appraisal**

Significant efforts to ensure sustainable use of energy are highly valued by society. In 2016, 76 employees of NLMK Group's energy services were awarded state and industry awards (the title of Honoured Energy Worker, Ministerial Citations).

**SPECIFIC ENERGY INTENSITY AT NLMK LIPETSK**



**CASE STUDY**

**LIGHTING UPGRADES**

NLMK Group embarked on a large-scale upgrade of industrial lighting in collaboration with Philips in 2011. Energy saving methods such as replacing incandescent light bulbs with energy saving ones (both for indoor and outdoor lighting) and installing photocell switches and remote lighting control systems have had a significant impact: a 58% reduction in electricity consumed by lighting at NLMK Lipetsk resulted in 260 million rubles (\$4 million) in annual savings. During the pilot project for replacing ceiling lights alone, 33,000 highly efficient state-of-the-art energy saving lights with high luminous efficacy were installed. As a result, consumption of electricity was reduced by more than 100 million kWh per year.

The lighting upgrade project has since been rolled out across other NLMK Group's sites including VIZ-Steel and Stoilensky. VIZ-Steel's and Stoilensky's projects alone will result in 60 million rubles (\$1 million) in expected annual savings.

# KEY HIGHLIGHTS\*

	2012	2013	2014	2015	2016
Steel output, m t	13.96	14.6	15.23	15.41	<b>15.88</b>
Air emissions, '000 t, incl.:	315.7	319.4	321.5	322.0	<b>330.5</b>
NO <sub>x</sub>	15.6	16.6	17.5	21.0	<b>24.0</b>
SO <sub>2</sub>	24.5	26.0	28.2	27.6	<b>28.9</b>
CO	248.0	250.7	248.5	244.6	<b>249.2</b>
- per unit of product, kg/t	22.6	21.9	21.1	20.9	<b>20.8</b>
Water consumption for production purposes, million m <sup>3</sup>	77.2	79.5	81.8	76.0	<b>75.8</b>
- per unit of product, m <sup>3</sup> /t	5.53	5.45	5.37	4.93	<b>4.77</b>
Pollutants discharge, '000 t	0.3	0.3	0.3	16.5	<b>16.1</b>
- per unit of product, kg/t	0.0	0.0	0.0	1.1	<b>1.0</b>
Waste production, m t	5.43	5.50	5.61	4.97	<b>4.25</b>
Waste disposal, %	93.5	95.9	93.7	95.9	<b>93.6</b>
Additional:					
- stripping waste, m t	39.9	37.5	40.2	40.6	<b>37.8</b>
- beneficiation tailings, m t	16.3	16.3	17.0	17.4	<b>17.6</b>
Total waste production, m t	61.6	59.3	62.8	63	<b>59.6</b>
Waste disposal including mining waste, %	15.1	15.9	15.4	14.0	<b>14.5</b>
Environmental spendings, \$ m	77.0	134.3	141.4	103.6	<b>105.1</b>
incl. capital costs, \$ m	-	38.9	51.0	48.8	<b>50.9</b>
incl. operating costs, \$ m	-	95.5	90.5	54.8	<b>58.2</b>
Total energy consumption, m kWh	82,859	83,576	85,622	86,743	<b>86,700</b>
Specific energy intensity **, Gcal/t	5.74	5.67	5.72	5.66	<b>5.60</b>
Energy consumption, m kWh	9,828	10,024	10,417	10,392	<b>10,667</b>
Fuel consumption – natural gas, million m <sup>3</sup>	2,612	2,713	2,730	2,729	<b>2,616</b>

\* NLMK Russia [95% of NLMK Group's steel production]

\*\* NLMK Lipetsk. Energy intensity calculation factors in coal, coke, heat, gas, electricity and other energy resources

# CORPORATE GOVERNANCE MANAGEMENT COMPOSITION



Helmut Wieser, independent member  
of NLMK Board of Directors

## BOARD OF DIRECTORS

NLMK Board of Directors was elected on 3 June 2016. There are 5 independent directors on the Board.

### MAIN FUNCTIONS OF THE BOARD OF DIRECTORS:

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

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

### RELATED CORPORATE DOCUMENTS:

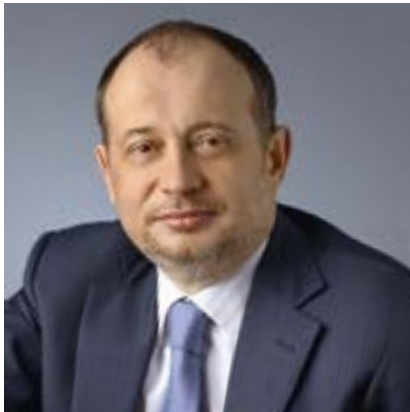
- [Charter](#);
- [Corporate Governance Code](#);
- [Regulations on the Board of Directors](#);
- [Remuneration and compensation to members of the Board of Directors](#).

### MEMBERS OF THE BOARD OF DIRECTORS\*

FULL NAME	POSITION	YEARS ON THE BOARD	INDEPENDENT DIRECTOR	PARTICIPATION IN STRATEGIC PLANNING COMMITTEE	PARTICIPATION IN AUDIT COMMITTEE	PARTICIPATION IN HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICIES COMMITTEE
<b>VLADIMIR LISIN</b>	Chairman of the Board of Directors	20		Chairman		<input checked="" type="checkbox"/>
<b>OLEG BAGRIN</b>	Member of the Board of Directors	12		<input checked="" type="checkbox"/>		
<b>BENEDICT SCIORTINO</b>	Member of the Board of Directors	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chairman	
<b>HELMUT WIESER</b>	Member of the Board of Directors	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
<b>NIKOLAI GAGARIN</b>	Member of the Board of Directors	15			<input checked="" type="checkbox"/>	
<b>KAREN SARKISOV</b>	Member of the Board of Directors	7		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>FRANZ STRUZL</b>	Member of the Board of Directors	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>STANISLAV SHEKSHNIA</b>	Member of the Board of Directors	2	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	Chairman
<b>THOMAS VERASZTO</b>	Member of the Board of Directors	1	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		

\*As of 31 December 2016

**BOARD OF DIRECTORS AS OF 31 DECEMBER 2016**



**VLADIMIR LISIN**

Year of birth: 1956

Board member since 1996, Chairman of the Board since 1998

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

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

In 1990, graduated from the Higher School of Commerce with the All-Russian Foreign Trade Academy decorated with the order of International Friendship. In 1992, graduated from the Academy of National Economy under the Government of the Russian Federation, majored in Economics and Management. Ph.D., Tech.; Ph.D., Ec.; Professor, Winner, USSR Council of Ministers prize for Science and Technology. Honorary Metallurgist of the RF. Knight of the Order of Honour.

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



**OLEG BAGRIN**

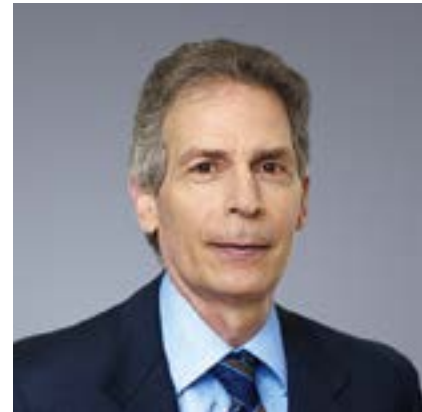
Year of birth: 1974

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

Member of the Strategic Planning Committee

Holds a graduate degree in Operations Research and a post-graduate degree in Economics from State Management University, Moscow, and a degree in Business Administration from the University of Cambridge, UK.

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



**BENEDICT SCIORTINO**

Year of birth: 1950

Board member since 2012 (Independent Director)

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

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

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





### THOMAS VERASZTO

Year of birth: 1962

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Board member since 2016  
(Independent Director)

Member of the Strategic Planning  
Committee

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

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

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



### NIKOLAI GAGARIN

Year of birth: 1950

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Board member since 2001

Member of the Audit Committee

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Graduate of Lomonosov Moscow State University, majored in Law.

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



### KAREN SARKISOV

Year of birth: 1963

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Board member since 2010

Member of the Strategic Planning  
Committee and the Audit  
Committee

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Graduate of Tashkent State University, majored in Oriental Studies.

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

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



**FRANZ STRUZL**

Year of birth: 1942

Board member since 2011  
(Independent Director)

Member of the Strategic Planning Committee and the Audit Committee

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

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

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

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



**STANISLAV SHEKSHNIA**

Year of birth: 1964

Board member since 2015  
(Independent Director)

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

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

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

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

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



**HELMUT WIESER**

Year of birth: 1953

Board member since 2011  
(Independent Director)

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

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

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

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

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

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

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



Sergey Filatov, Managing Director  
of NLMK Lipetsk

## MANAGEMENT BOARD

The NLMK Group Management Board as at 31 December 2016 consisted of 9 members. The Management Board holds regular meetings. Members of the Management Board are in charge of the Group's every-day operations. They also establish liaison protocol with legal entities, shares or stakes of which are directly or indirectly managed by NLMK.

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

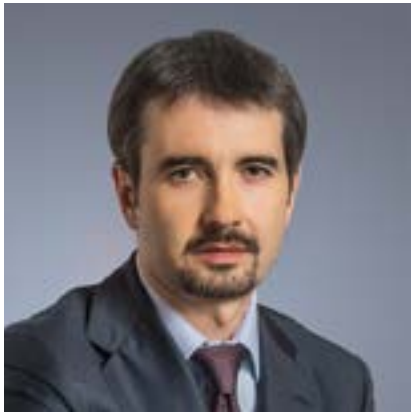
- [Charter](#)
- [Corporate Governance Code](#)
- [Regulations on the Management Board](#)

### COMPOSITION OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2016\*

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

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

**MEMBERS OF THE MANAGEMENT BOARD BACKGROUND**



**OLEG BAGRIN**

Year of birth: 1974

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

Member of the Strategic Planning Committee

Holds a graduate degree in Operations Research and a post-graduate degree in Economics from State Management University, Moscow, and a degree in Business Administration from the University of Cambridge, UK.

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



**BRIJESH KUMAR GARG**

Year of birth: 1964

Vice President, Procurement

Member of the Management Board since 2012

Holds a Bachelor of Engineering degree with a major in Industrial Engineering, has CPIM Certification from American Production and Inventory Control Society (APICS) and is a certified SAP Solution Consultant.

He started his career in 1985 with Tata Steel, India as Industrial Engineer and moved through various positions within the company and worked with other steel plants in New-Zealand Steel (BlueScope Steel, Australia) and ArcelorMittal, Kazakhstan & Ukraine. He has 14 years of experience in supply chain management and business processes re-engineering in steel industry and 13 year of experience in industrial engineering.



**ILYA GUSCHIN**

Year of birth: 1976

Vice President, Sales

Member of the Management Board since 2014

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

From 2009 to 2013, he worked for SIBUR Group, including as head of SIBUR International; the group's export division.

From 2008 to 2009, he served as Financial Director at Skolkovo School of Management, Moscow.

From 2002 to 2007, he held various positions at Microsoft.



### BAREND DE VOS

Year of birth: 1967

Vice President, International Operations

Member of the Management Board since 2016

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

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

Joined Duferco La Louvière in Belgium in 2004 and was appointed a management board member of the NLMK/Duferco JV between 2007 and 2011.

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



### YURI LARIN

Year of birth: 1952

Advisor to the President (Chairman of the Management Board) for development programmes

Member of the Management Board since 2006

Graduate of Voronezh State Technical University. Ph.D., Tech.

NLMK Vice President, Technical Development & Environment, from 2006 to 2007. From 2007 to 2013, Mr. Larin was Vice President, Long-Term Development & Environment; and from 2013 to 2016 he was Vice President, Technology Development & Operational Efficiency.

Prior to that, he was Director of the NLMK Engineering Centre from 1999 to 2006, and from 1996 to 1999, he worked as Deputy Director of NLMK's Central Laboratory in charge of technology.



### SERGEY LIKHAREV

Year of birth: 1964

Vice President, Logistics

Member of the Management Board since 2014

Sergey Likharev holds a Ph.D. in Physics and Mathematics and a Masters of Business Administration from Cornell University, USA.

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

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

From 1990 to 1993, he worked as a researcher at Lomonosov Moscow State University.





**GRIGORY FEDORISHIN**

Year of birth: 1979

Vice President, Finance

Member of the Management Board since 2012

Graduated from Academy of Finance, Moscow. Holds a master degree in Business Administration from INSEAD business school, France & Singapore. A member of an association of Certified Financial Analysts (CFA).

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

From 2009 to 2012, 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.



**SERGEY FILATOV**

Year of birth: 1959

Managing Director

Member of the Management Board since 2013

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

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

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



**STANISLAV TSYRLIN**

Year of birth: 1968

Vice President, HR & Management System

Member of the Management Board since 2005

Graduated from Moscow Institute of Physics and Technology and from Stanford University.

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

# CORPORATE GOVERNANCE

## GENERAL INFORMATION ABOUT NLMK'S CORPORATE GOVERNANCE

As a public company, NLMK is constantly improving its corporate governance practices. In its activity, NLMK adheres to best international practices and high standards of corporate governance. NLMK corporate governance system is designed to ensure the Company's sustainable development as well as an increasing return on equity investments in the longer term. The Company maintains a policy of maximum openness and transparency that allows our shareholders and investors to have all the necessary information on the activities of NLMK provided in a timely manner so that they can make a grounded investment decision regarding the Company's securities.

*In 2016, the Company continued to improve its corporate governance practices as part of the corporate governance reform.*

All corporate documents determining the principles and rules of corporate governance are freely accessible at NLMK Group's corporate website.

## CORPORATE GOVERNANCE SYSTEM

NLMK's corporate governance system is built on best global practices

and is fully compliant with the requirements of the prevailing Russian legislation, principles provided by the Organization for Economic Co-operation and Development and provisions of the Corporate Governance Code approved by the Central Bank of Russia, and fully meets the existing legislation of the countries where the Company operates.

### KEY PRINCIPLES OF OUR CORPORATE GOVERNANCE:

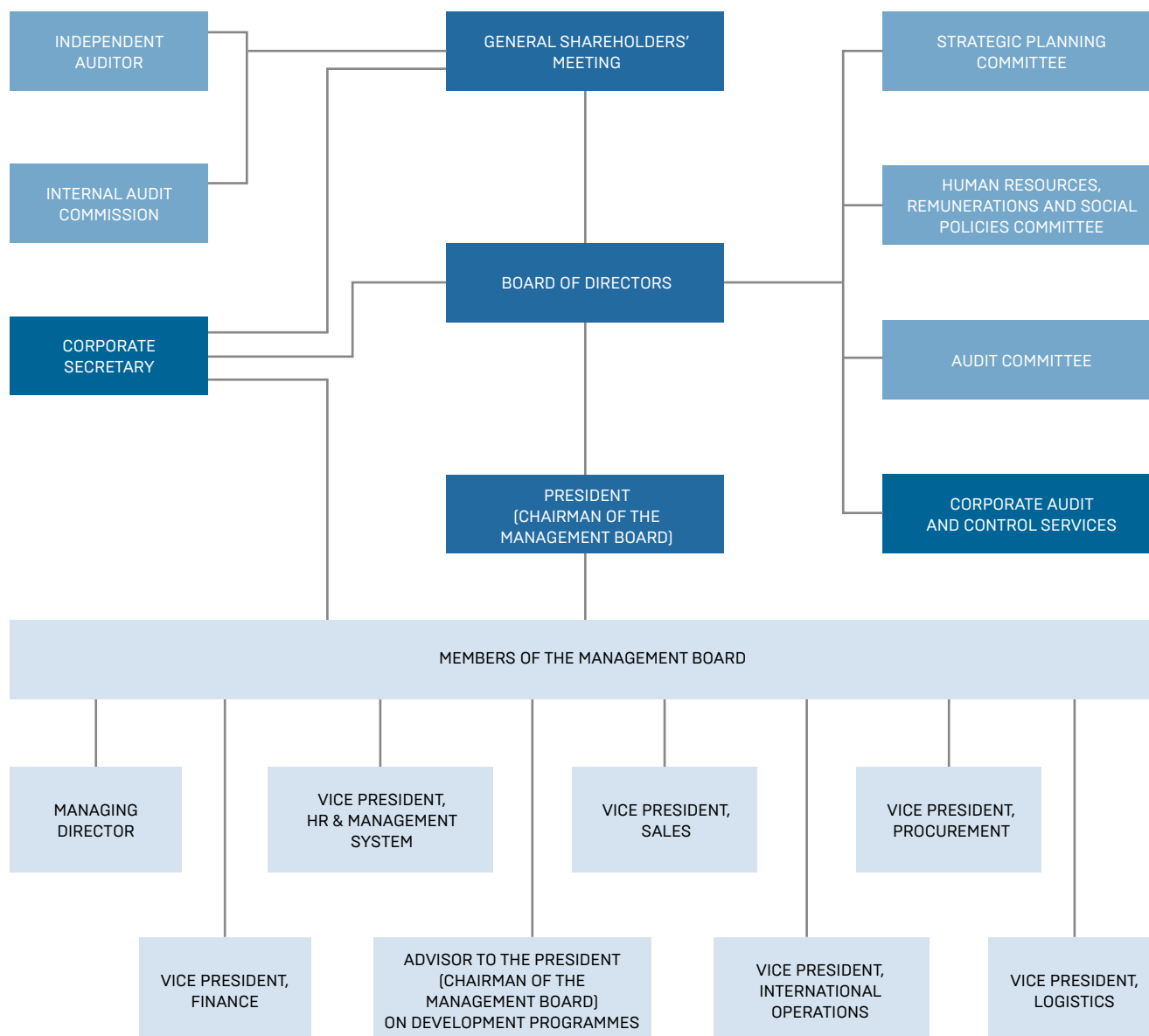
- Ensure equal and fair treatment of all shareholders when they use their right to be involved in management processes, receive dividends from the Company, participate in meetings, vote on issues on the agenda and get up-to-date information on the Company's activities and its governing bodies.
- Ensure equal treatment of all shareholders, including foreigners and minority shareholders.
- Ensure reliable and effective registration of title to shares and guarantee the opportunity to alienate them freely and without encumbrances.
- Ensure compliance with the existing laws, principles of the Corporate Governance Code and international corporate governance standards.
- Strictly observe the rights of third parties, including their creditors and employees, as required by the law, the Charter and other regulatory documents.

- Pursue a common corporate policy in respect of subsidiary companies, affiliates and other legal entities in which NLMK is the founder, a participant or a member.
- Maintain a policy of open and transparent communications, including by disclosing full and up-to-date information about the Company to give shareholders and investors an opportunity to make informed decisions, as well as by providing documents (information) related to the Company upon shareholders' request.
- Promote a policy of complying with business ethics in conducting its operations.

According to acting corporate documents, the governance structure includes:

- **General Meeting of Shareholders**, which is the supreme governing body of the Company that makes decisions on the key business issues.
- **The Board of Directors**, which is responsible for strategic management of NLMK, controls executive bodies, determines the principles of and approaches to organization of the Company's risk management system and internal control, develops NLMK's executive compensation policy, controls corporate governance practices and plays the key role in the Company's significant corporate events.

## NLMK'S CORPORATE GOVERNANCE STRUCTURE\*



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

\* As of 31.12.2016

- **Board of Directors Committees**, established to perform the preliminary review stage for key matters of NLMK Group's business; provide assistance to the Board of Directors in devising and reaching decisions within their areas of expertise, as well as providing preliminary and more detailed examination of matters to be brought before the Board of Directors for consideration.
- The executive bodies of the Company including the **President (Chairman of the Management Board)** and the **Management Board** that manage day-to-day activities of the Company and ensure its efficient operation, while implementing the objectives set by the Board of Directors.
- The **Corporate Secretary**, who ensures interaction with shareholders, coordinates the Company's activities aimed at protection of shareholders' rights and interests and supports the Board of Directors and the Management Board.
- An **independent auditor, the Internal Audit Commission, Audit**

**Committee and Audit Department** oversee financial and economic activities.

## IMPROVING CORPORATE GOVERNANCE PRACTICES IN 2016

*During 2016, the Company continued to enhance its system of corporate governance.*

As part of this process, and taking the changes to the prevailing legislation into consideration, the following changes occurred:

- The Company's Board of Directors adopted Regulations on the Audit Department in April 2016, reflecting the recommendations of the Corporate Governance Code and the Listing Requirements of the Moscow Exchange;
- Thomas Veraszto was elected to the Board of Directors as an Independent director at the Annual General Shareholder Meeting in June 2016. As a result of his election the majority of the Board members are now independent directors, which is indicative of the improved maturity and transparency of corporate governance and ensures even greater effectiveness of the Board;
- NLMK shares were raised to the Moscow Exchange's First Level quotation list in August 2016. A premium listing is regarded as confirmation of the reliability of the Company's securities and helps to increase their investment appeal. This expands the range of potential investors and, accordingly, increases demand and liquidity;
- The Human Resources, Remuneration and Social Policies Committee adopted the induction course programme for newly elected members of NLMK's Board of Directors in November 2016;
- In order to enhance compliance with the obligation undertaken by NLMK Group when it joined the Anti-Corruption Charter of Russian Business, the Company's Board of Directors adopted [NLMK Group's Anti-Corruption Policy](#) and [Corporate Ethics Code](#) in December 2016;
- The Board of Directors adopted [NLMK Group's Information Disclosure Policy](#) in December 2016, in compliance with the requirements set out by the Corporate Governance Code recommended for use by the Bank of Russia;
- The General Shareholder Meeting held in December 2016 adopted revised versions of NLMK [Charter](#), [Regulations on the General Shareholders' Meeting](#), [Regulations on the Board of Directors](#), and [Regulations on the Management Board](#), in full compliance with the prevailing Russian legislation.

## GENERAL SHAREHOLDERS' MEETING

### NLMK's corporate governance in action

The General Meeting of Shareholders is NLMK's supreme governing body responsible for substantive issues related to the Company's activities. NLMK's shareholders are entitled to make decisions at the General Meeting of Shareholders. Such decisions include election to the Company's key governing bodies, approval of annual reports,

profit distribution, amendments and additions to the Company's Charter or approval of a new version of the Company's Charter, approval of internal documents governing the activities of the Company's bodies, etc.

NLMK strives to ensure equal and fair treatment of all shareholders when they use their right to participate in the Company's management processes.

NLMK has [Regulations on the General Shareholders' Meeting](#) that comply with the recommendations of the Corporate Governance Code and determine the key procedures for organizing, calling and holding the General Meeting of Shareholders (some of the procedures for organizing, calling and holding the General Meeting of Shareholders are also regulated by the Charter of NLMK).

The procedure for holding the General Meeting of Shareholders aims to ensure that the rights of shareholders are observed; it is fully compliant with the current legislation and follows global best practices in corporate governance.

The Company provides its shareholders with easily accessible communication channels such as a hotline or email so that they can share their opinions and ask questions concerning the agenda during preparation for the General Meeting of Shareholders.

We inform our shareholders about an upcoming General Meeting by posting a notice on NLMK's website at least 30 days prior to the date of the meeting (unless the Russian legislation requires doing it earlier).

NLMK provides access to meeting materials at least 30 days prior to the date of the General Meeting

of Shareholders and supplies shareholders with additional information and materials, as recommended by the Corporate Governance Code. In addition, the Company publishes travel information, a sample form for a power of attorney that a shareholder can give to his or her representative for participation in the meeting, and information on the procedure for its attestation.

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

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

In the course of preparation for a General Meeting of Shareholders, NLMK Board of Directors approves regulations that determine the procedure for questions on the Company's activities from the shareholders to members of the governing bodies, the person responsible for the Company's accounting, the Company's auditors and candidates for the governing bodies.

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

NLMK corporate governance system and practices provide a level playing field for all shareholders, including foreigners and minority shareholders, and ensure equal treatment for all of them.

NLMK adheres to a policy that prevents unfair redistribution of corporate control, because NLMK

does not have preferred shares and there are no quasi-treasury shares on the balance sheets of its subsidiaries and affiliates.

According to the corporate documents, a meeting of shareholders is deemed valid (has a quorum), if shareholders owing collectively more than 50% of NLMK's voting shares have participated in it.

### Activity in 2016

Three General Meetings of Shareholders (1 annual and 2 extraordinary meetings) were held in 2016, including one meeting in person and two meetings in the form of absentee voting.

GENERAL MEETING OF SHAREHOLDERS BY STATUS	
Annual meeting	1
Extraordinary meeting	2

GENERAL MEETING OF SHAREHOLDERS BY FORMAT	
Meeting in person	1
Absentee voting	2

NLMK's Annual General Shareholders' Meeting for FY2015 was held on 3 June 2016. Shareholders and shareholder representatives holding a total of 91.68% of NLMK's shareholder capital were present, meeting the quorum requirements. During the meeting, the following issues were reviewed and decisions taken:

- Approve NLMK's 2015 Annual Report, annual financial statements, including 2015 profit and loss statement;
- Pay (announce) dividends for FY2015 in the amount of 6.95 rubles per ordinary share. With consideration of the interim dividends paid in the amount of 4.52 rubles per ordinary

share, the amount outstanding for payment is 2.43 rubles per ordinary share;

- Pay (announce) dividends on the basis of Q1 2016 in the amount of 1.13 rubles per ordinary share;
- Elect the members of NLMK's Board of Directors, the members of NLMK's Internal Audit Commission;
- Elect NLMK's President (Chairman of the Management Board);
- Approve NLMK's Auditor.

NLMK's Extraordinary General Meetings of Shareholders were held in the form of absentee voting:

### NLMK'S EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

DATE	PERCENTAGE OF SHAREHOLDERS PARTICIPATING IN THE MEETING
30.09.2016	91.98%
23.12.2016	92.36%

At NLMK's Extraordinary General Meeting of Shareholders the following decisions were made:

At NLMK's Extraordinary General Meeting of Shareholders held on 30 September 2016, a decision was made to pay (announce) dividends on the basis of the Company's H1 2016 results in the amount of 1.08 rubles per ordinary share.

At NLMK's Extraordinary General Meeting of Shareholders held on 23 December 2016, the following decisions were made:

- Pay (announce) dividends on the basis of 9M 2016 in the amount of 3.63 rubles per ordinary share;



- Approve the revised version of the Company's Charter;
  - Approve the revised version of the Company's Regulations on the General Shareholders' Meeting;
  - Approve the revised version of NLMK's Regulations on the Board of Directors;
  - Approve the revised version of NLMK's Regulations on the Management Board.
- The deadline for sending out documents (ballots) for voting and receiving the filled-in documents (ballots) when meetings are held in the form of absentee voting;
  - A possibility for the members of the Board of Directors who are absent at an in-person meeting to send a written opinion on issues included in the agenda of the meeting of the Board of Directors.

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

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

a founder, participant or member, for decision-making concerning the issues that fall within the powers of the Management Board;

- Ensures compliance with corporate governance principles.

The Board of Directors operates in the form of meetings held in accordance with the schedule approved by the Chairman of the Board of Directors. Meetings of the Board of Directors are held on a regular basis at least 6 times a year.

The format of NLMK's Board of Director's meetings is determined based on the importance of the issues on the agenda. The most important issues are resolved at meetings of NLMK's Board of Directors held in person (convening and holding the Annual General Meeting of Shareholders, including recommendations on the distribution of profits and payment of dividends, preliminary approval of the Company's annual reports, financial statements and budget, etc.).

### Chairman of the Board of Directors

The Chairman of the Board of Directors organizes the work of this body and contributes to the most efficient performance of its functions.

The Chairman of the Board of Directors ensures a constructive environment at the meetings and free discussion of issues on the agenda, and supervises execution of resolutions passed by the Board of Directors.

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

## BOARD OF DIRECTORS

### NLMK's corporate governance in action

NLMK's Board of Directors is an efficient and professional governing body able to form independent opinions and make decisions serving the interests of the Company and its shareholders. The Board of Directors is responsible for strategic management of the Company, which determines principles of and approaches to the risk management and internal control system, controls the activity of executive bodies and has other key functions in the Company.

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

[NLMK's Regulations on the Board of Directors govern](#) the procedures of the Board of Directors and, in particular, include the procedure for arranging and holding meetings of the Board of Directors, which allows the members of the Board of Directors to prepare for the meetings properly, and stipulates the following:

- The period of notice of an upcoming meeting given to the members of the Board of Directors;

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

**Independent Board members**

Independent directors are an important element of corporate governance.

Thanks to their extensive experience in governance, independent directors serve to assist in solving such issues as devising the Company’s development strategy, assessing the conformity of the activities of executive bodies with the Company’s chosen strategy and ensuring there

are effective systems of internal control and risk management, providing an objective assessment of the quality of work undertaken by the executive bodies and establishing an effective motivation system, ensuring that the interests of Company’s shareholders are observed and resolving any corporate conflicts with shareholders. Independent directors on the Company’s Board contribute to the formation of a more objective, balanced approach by the Board of Directors to items discussed, improve management efficiency, and have a positive impact on the Company’s image.

The majority of the members of the Company’s Board of Directors are

independent directors who provide an objective independent judgement on corporate matters and balance the interests of the Company and its shareholders.

Independent directors fully meet the independence criteria stipulated by the Corporate Governance Code recommended by the Bank of Russia.

NLMK’s independent directors are people with sufficient professional expertise, experience and independence to form their own attitudes and pass objective and honest judgements, which are not influenced by the Company’s executive bodies, individual groups of shareholders or other stakeholders.



Franz Struzl, independent member of NLMK Board of Directors

## Evaluation of the Board of Directors

An annual evaluation of the Board of Directors and its committees ensures the accountability of the Board of Directors to shareholders, monitors the work of the Board of Directors, evaluates how effectively the members of the Board of Directors perform their duties, follow the principles of corporate governance, and take into account the interests of all stakeholders in corporate governance when making decisions.

The evaluation results in a number of advantages for the Company and its shareholders, in particular:

- The opportunity to make timely adjustments to the plans and the working methods of the Board of Directors and of its members, which establishes the conditions necessary for ensuring the effective operation of the Board;
- Greater shareholder confidence in the Board of Directors;
- An increase in the Company's investment appeal, as the evaluation demonstrates the Company's committed approach to corporate governance;
- The possibility of using the results of the evaluation as grounds when electing a new Board at the Annual Meeting of Shareholders.

The methodology used to evaluate the Board of Directors includes an online survey of the members of the Board of Directors, as approved by NLMK's Human Resources, Remuneration and Social Policies, followed by an interview with the Chairman of the Committee.

The Board of Directors decided to hold the next regular evaluation in February 2018 and another

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

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

\* For more information on changes in the structure of the share capital please refer to 'Information for Shareholders' section.

evaluation involving an independent organization (consultant) in February 2019.

## Induction for newly elected members of NLMK's Board of Directors

An induction programme for newly elected members of NLMK's Board of Directors has been developed and approved, in compliance with the best practices of corporate governance.

As part of the Programme, the members of the Board of Directors, especially those elected for the first time, have the opportunity to acquire working knowledge of the Company's activities, the operating and financial performance of NLMK Group's companies, NLMK's systems of risk management, internal control and corporate governance, and other significant areas of the Company's activities.

In addition, meetings with the President (Chairman of the Management Board), members of the Board of Directors, members of the Management Board and key management personnel are organized as part of the Programme. Newcomers also have an opportunity to get acquainted with the Company's core assets, technology and products.

## Composition of the Board of Directors

The composition of the Company's Board of Directors is balanced in terms of qualification, experience, knowledge and business acumen and has credibility with shareholders. The members of the Board of Directors have impeccable business reputation, knowledge, skills and experience in steelmaking, mining, science, economics, business management, and law.

As at 31 December 2016, the Board of Directors consists of 9 people, including 5 members of the Board of Directors who are independent.

In 2016 the members of the Board of Directors did not participate in equity transactions\*.

\* For more information on changes in the structure of the share capital please refer to 'Information for Shareholders' section.

There was no conflict of interests between NLMK Board of Directors members in 2016.

### Activity of the Board of Directors in 2016

In 2016, there were 9 meetings of the Board of Directors of NLMK, 6 of which were held by absentee ballot.

The following are the main issues that were examined by the Group's Board of Directors in 2016:

- Reviewing proposals on the agenda of the General Shareholders' Meeting and proposals on nomination of candidates to NLMK's governing bodies;
- Convening the Annual General Shareholders' Meeting and approving the date to provide a list of persons entitled to participate in the Annual General Meeting of Shareholders;
- Approving related party transactions;
- Approving the Company's annual financial statements, including the 2015 profit and loss statement, as well as the NLMK's 2015 annual consolidated financial statements based on

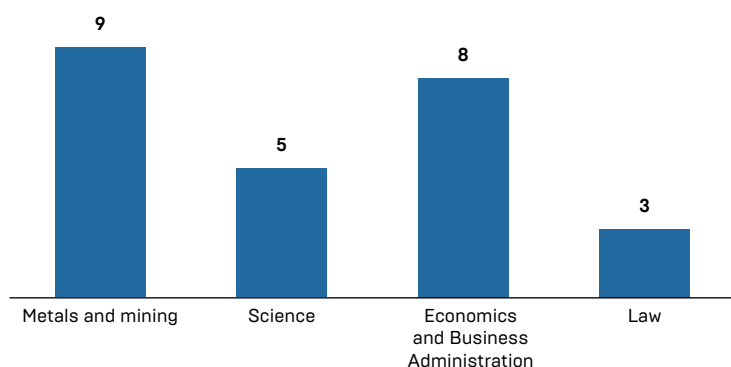
International Financial Reporting Standards (IFRS);

- Providing recommendations to NLMK's Annual General Meeting of Shareholders regarding the distribution of profits (including payment/declaration of dividends based on FY 2015 and Q1 2016 results);
- Evaluating the performance of NLMK's Board of Directors in 2015-2016;
- Reports on the performance of the Committees of NLMK's Board of Directors;
- Approving the Company's draft annual report for 2015;
- Providing recommendations to the Annual General Meeting of Shareholders regarding the payment of remuneration to the members of NLMK's Board of Directors;

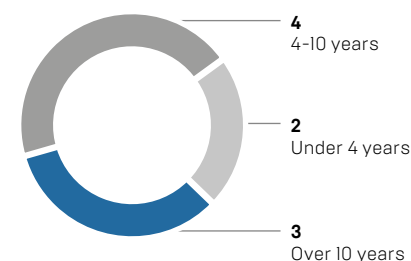
### COMPOSITION OF THE BOARD OF DIRECTORS OF NLMK AS OF 31 DECEMBER 2016

FULL NAME	POSITION	YEARS ON THE BOARD	INDEPENDENT	PARTICIPATION IN STRATEGIC PLANNING COMMITTEE	PARTICIPATION IN AUDIT COMMITTEE	PARTICIPATION IN HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICIES COMMITTEE
<b>VLADIMIR LISIN</b>	Chairman of the Board of Directors	20		Chairman		<input checked="" type="checkbox"/>
<b>OLEG BAGRIN</b>	Member of the Board of Directors	12		<input checked="" type="checkbox"/>		
<b>BENEDICT SCIORTINO</b>	Member of the Board of Directors	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chairman	
<b>HELMUT WIESER</b>	Member of the Board of Directors	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
<b>NIKOLAI GAGARIN</b>	Member of the Board of Directors	15			<input checked="" type="checkbox"/>	
<b>KAREN SARKISOV</b>	Member of the Board of Directors	7		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>FRANZ STRUZL</b>	Member of the Board of Directors	6	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
<b>STANISLAV SHEKSHNIA</b>	Member of the Board of Directors	2	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	Chairman
<b>THOMAS VERASZTO</b>	Member of the Board of Directors	1	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		

**DIRECTORS' EXPERTISE AND PROFESSIONAL BACKGROUND**

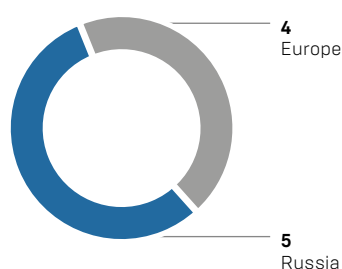


**DIRECTORS' LENGTH OF TENURE\***

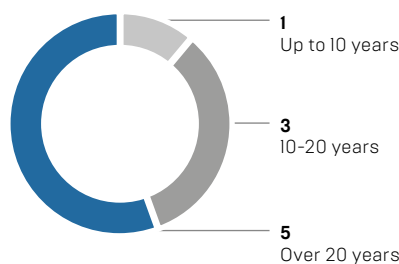


\* as of 31 December 2016

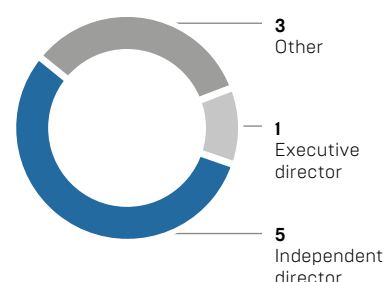
**DIRECTORS' LOCATION**



**DIRECTORS' EXPERTISE IN THE STEEL SECTOR**



**COMPOSITION OF THE BOARD OF DIRECTORS BY DIRECTOR STATUS**



- Providing recommendations to the Annual General Meeting of Shareholders regarding approval of NLMK's Auditor;
- Including nominees in the list of candidates for election to NLMK's Board of Directors at NLMK's Annual General Shareholders' Meeting;
- Approving the agenda, draft documents and measures necessary for preparing for and holding the Annual General Shareholders' Meeting;
- Approving the composition of the NLMK Management Board;

- Approving the Regulation on NLMK's Internal Audit Department;
- NLMK's Audit Director;
- Chairman of NLMK's Board of Directors;
- Forming Committees of NLMK Board of Directors;
- Approving the plan for holding the meetings of NLMK's Board of Directors;
- Convening an Extraordinary General Meeting of Shareholders (EGM), approving the agenda, draft documents and events required to prepare for and organize the EGM;

- Issue and distribution of NLMK's bonds;
- Providing recommendations to the Extraordinary General Meeting of Shareholders regarding payment (declaration) of dividends based on 9M 2016 results in the amount of RUB 3.63 per ordinary share;
- Including an item on internal documents approval in the EGM agenda;
- Approving the consolidated budget of the Group for 2017;
- Approving NLMK's internal documents.



## PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN BoD MEETINGS IN 2016

MEMBER OF THE BOARD OF DIRECTORS	PARTICIPATION IN MEETINGS*
VLADIMIR LISIN	9 [9]
OLEG BAGRIN	9 [9]
BENEDICT SCIORTINO	9 [9]
HELMUT WIESER	9 [9]
NIKOLAI GAGARIN	9 [9]
KARL DOERING	2 <sup>1</sup> [2]
KAREN SARKISOV	9 [9]
FRANZ STRUZL	9 [9]
STANISLAV SHEKSHNIA	9 [9]
THOMAS VERASZTO	7 <sup>2</sup> [7]

\* the Number in brackets denotes the amount of NLMK's Board of Directors meetings during the tenure of this Director

<sup>1</sup> Karl Doering was a member of the Board of Directors until 3 June 2016

<sup>2</sup> Thomas Veraszto was elected to the Board of Directors at the Annual General Meeting of Shareholders held on 3 June 2016

## COMMITTEES OF THE BOARD OF DIRECTORS

Committees of the Board of Directors are accountable to the Board of Directors and are its advisory bodies. Their function is to ensure preliminary examination and study of the most essential matters in the area of expertise of the Board of Directors. The composition of the Committees facilitates a comprehensive examination of the issues at hand, taking into account various opinions.

The members of the Committees have professional qualifications,

knowledge and experience in the Committee's area as well as other specific expertise, ability and time required to serve and fulfil their functions as members of the Committee.

The status, goals, objectives and functions of the committees as well as their composition, establishment and operation are set out in regulations on committees approved by the Company's Board of Directors.

In order to balance approaches to problem-solving in relation to risk management and the protection of shareholders' interests, independent directors were appointed as the chairs of 2 out of 3 of the Board of Directors committees in 2016.

## Strategic Planning Committee

### COMMITTEE'S ACTIVITIES AND POWERS

The Strategic Planning Committee provides support to the Board of Directors in reviewing matters connected to increasing the efficiency of the Company's activity in the long-term, promoting asset growth, profitability and a stronger investment case.

The Strategic Planning Committee is fully accountable to the Board of Directors of NLMK and is an advisory body.

The composition of the Committee changed in 2016.

The composition of the Committee before June 2016:

- Vladimir Lisin (Chairman of the Committee);
- Oleg Bagrin;

- Benedict Sciortino (Independent Director);
- Karl Doering;
- Helmut Wieser (Independent Director);
- Franz Struzl (Independent Director);
- Karen Sarkisov.

The composition of the Committee as of 31 December 2016:

- Vladimir Lisin (Chairman of the Committee);
- Oleg Bagrin;
- Benedict Sciortino (Independent Director);
- Thomas Veraszto (Independent Director);
- Helmut Wieser (Independent Director);
- Franz Struzl (Independent Director);
- Karen Sarkisov.

Secretary of the Committee: Grigory Fedorishin (Vice President, Finance\*).

\* For more information please refer to the "Events after the reporting date" section

### RESULTS OF THE COMMITTEE'S ACTIVITY IN 2016\*

\* For more information on the Committee's activities please refer to "Operational control and risk management" section

In 2016, the Strategic Planning Committee held one meeting.

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

- Status update on NLMK Group's investment programme and key capex projects;
- Status update on NLMK Group's key strategic investment projects.

In 2017, the Committee plans to work actively on NLMK Group's new strategy cycle.

## Audit Committee

### COMMITTEE'S ACTIVITIES AND POWERS

The Audit Committee, chaired by an Independent Director, contributes to effective performance of functions related to supervision of the Company's financial and business activities by the Board of Directors.

The Audit Committee is fully accountable to the Board of Directors of NLMK and is an advisory body.

The areas of expertise and responsibilities of the Committee extend to priority matters in accounting (financial) reporting and consolidated financial reporting, risk management, internal control and corporate governance, internal and external audit, as well as countering malpractice.

The composition of the Committee as of 31 December 2016:

The Committee includes:

- Benedict Sciortino (Chairman of the Committee, Independent Director);
- Karen Sarkisov;
- Nikolai Gagarin;
- Stanislav Shekshnia (Independent Director);
- Franz Struzl (Independent Director).

Secretary of the Committee: Andrey Dozhdikov (Head of Consolidated Financial Statements Department).

### RESULTS OF THE COMMITTEE'S ACTIVITY IN 2016

In 2016, there were 6 meetings of the Audit Committee held in-person, including 4 held by conference call.

### PARTICIPATION OF COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2016

FULL NAME	POSITION	NUMBER OF COMMITTEE MEETINGS ATTENDED IN 2016
VLADIMIR LISIN	Chairman of the Committee	1
OLEG BAGRIN	Member of the Committee	1
BENEDICT SCIORTINO	Member of the Committee	1
THOMAS VERASZTO	Member of the Committee	1
KARL DOERING	Member of the Committee	1
KAREN SARKISOV	Member of the Committee	1
HELMUT WIESER	Member of the Committee	1
FRANZ STRUZL	Member of the Committee	1

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

- Review of the results of the audit of NLMK's 2015 IFRS Consolidated Financial Statements;
- Review of the results of the audit of NLMK's 2015 RAS (Russian Accounting Standards) Financial (Accounting) Statements;
- Review of draft interim abridged IFRS Consolidated Financial Statements for Q1, H1 and 9M 2016;
- Review of potential auditors for NLMK Group's RAS and IFRS-based consolidated financial statements for 2016;
- Review of candidates for performing audits of NLMK RAS and IFRS 2016 consolidated financial statements;
- Review of tender procedures results on choosing an auditor;
- Review of the nominee Audit Director and his KPIs;
- Review of NLMK Group's [Corporate Ethics Code](#) and [Anti-Corruption Policy](#);
- Review of the Risk Management Report for 2015;
- Review of the report on NLMK Internal Audit Department results in 2015 and the audit plan for 2016.

### PARTICIPATION OF COMMITTEE MEMBERS IN COMMITTEE MEETINGS IN 2016

FULL NAME	POSITION	NUMBER OF COMMITTEE MEETINGS ATTENDED IN 2016
BENEDICT SCIORTINO	Chairman of the Committee	6
KAREN SARKISOV	Member of the Committee	6
NIKOLAI GAGARIN	Member of the Committee	6
STANISLAV SHEKSHNIA	Member of the Committee	6
FRANZ STRUZL	Member of the Committee	6

**PARTICIPATION OF COMMITTEE MEMBERS  
IN COMMITTEE MEETINGS IN 2016**

FULL NAME	POSITION	NUMBER OF COMMITTEE MEETINGS ATTENDED IN 2016
STANISLAV SHEKSHNIA	Chairman of the Committee	2
VLADIMIR LISIN	Member of the Committee	2
HELMUT WIESER	Member of the Committee	2

**Human Resources,  
Remuneration and Social  
Policies Committee****COMMITTEE'S ACTIVITIES  
AND POWERS**

The Human Resources, Remuneration and Social Policies Committee was established for preliminary review of issues related to the development of efficient and transparent practices of remuneration, human resource planning (succession planning), areas of expertise and performance of the Board of Directors.

**THE COMPOSITION  
OF THE COMMITTEE\***

The composition of the Committee as of 31 December 2016:

- Stanislav Shekshnia (Chairman of the Committee, Independent Director);
- Vladimir Lisin;
- Helmut Wieser (Independent Director).

Secretary of the Committee: Irina Bevz (Director, Personnel Development and Training).

\* [For further information, please refer to "Events after the reporting date" section.](#)

**RESULTS OF THE COMMITTEE'S  
ACTIVITY IN 2016**

In 2016, the Human Resources, Remuneration and Social Policies

Committee held two meetings in the form of absentee voting.

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

- Recommend NLMK's Board of Directors to include Thomas Veraszto in the voting list of candidates to the Board of Directors at the Annual General Shareholders' Meeting on the Company's 2015 results;
- Approve the opinion on the compliance with independent director status of candidates to NLMK's Board of Directors, proposed for election at the Annual General Shareholders' Meeting on the 2015 results;
- Approve the opinion on the professional qualification of candidates to NLMK's Board of Directors proposed for election at the Annual General Shareholders' Meeting on the 2015 results;
- Recommend NLMK's Board of Directors consider and submit the proposed remuneration for NLMK Board members for approval by the Annual General Shareholders' Meeting;
- Approve the induction programme for newly elected members of NLMK's Board of Directors.

**CORPORATE SECRETARY**

The Company's Corporate Secretary represents a link to the system of corporate governance through his / her role ensuring efficient day-to-day interaction with shareholders, coordination of the Company's activities aimed at the protection of shareholders' rights and interests, and supporting the effective operation of the Board of Directors.

NLMK's Corporate Secretary acts as a guarantor that the Company's officials and governance bodies comply with the procedural requirements ensuring that the legitimate rights and interests of shareholders are observed.

In addition to supporting the activities of the Board of Directors, NLMK's Corporate Secretary also supports the Management Board. The combination of these functions provides for an enhancement in the effectiveness of interaction between the Company's management and its Board of Directors.

The NLMK Corporate Secretary's support for the Company's corporate procedures both as required by law and as laid out in the Corporate Governance Code recommended by the Bank of Russia, provides for the establishment of a dynamic and balanced system of corporate governance, ensuring effective interaction between the Company's shareholders, Board of Directors and Management.

Functionally reporting to the Board of Directors and administratively reporting to NLMK President (Chairman of the Management Board), the Corporate Secretary is appointed and dismissed by NLMK President (Chairman of the Management Board) on the basis of a decision by the Board of Directors.

The Corporate Secretary oversees the Corporate Secretary Office.

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

## MANAGEMENT BOARD

### NLMK's corporate governance in action

The Management Board is in charge of managing the day-to-day operations of the Company, implementing the approved strategy and specific decisions of the Board of Directors.

The main objective of the Management Board is to ensure that the Company is operating efficiently. In order to reach its objective the Management Board is guided by the following principles:

- Efficient and objective decision-making that favours the interests of the Company and its shareholders;
- Fair, timely and efficient execution of the decisions of the General Shareholders' Meeting and the Board of Directors;
- Cooperation with trade unions of the Company's employees with the purpose of taking into account the employees' interests;
- Cooperation with government agencies and local authorities on most important public interest issues.

The key issues that the Management Board is responsible for addressing are as follows:

- Devising and conceptualizing the developmental steps, long-term plans and core areas of activity

(including for legal entities in which NLMK holds shares or interest, directly or indirectly), and submitting them to the Board of Directors for approval;

- Developing modes of interaction between the Company and legal entities in which NLMK holds shares or interest, directly or indirectly, or of which NLMK is a founder, participant or member;
- Approving proposals concerning the agenda of the General Meetings of Shareholders/ participants as well as the list of candidates to the governing bodies, which supervise the activities of legal entities in which NLMK holds shares or interest, directly or indirectly, or of which NLMK is a shareholder, founder or member;
- Approving the Company's representatives for participation in the General Meetings of Shareholders and participants held at subsidiaries, affiliates and other legal entities of which NLMK is a shareholder, founder or member, as well as approving guidelines for voting on agenda items for those representatives;
- Giving recommendations and opinions on issues concerning approval of budgets, key development trends, governance structure, and other critical issues, which are considered by the legal entities in which NLMK holds shares or interest, directly or indirectly, or of which NLMK is a shareholder, founder or member;
- Advising the NLMK Board of Directors on authorizing or subsequently approving major and/or related party transactions submitted for review by the Board of Directors in accordance with its powers;
- Approving transactions involving the Company's assets in cases where the value of the deal or property in question exceeds 10% of the Company's asset book value as of the last reporting date (with the exception of transactions in the ordinary course of business);

### COMPOSITION OF THE MANAGEMENT BOARD AS OF 31 DECEMBER 2016\*

The NLMK Group Management Board as of 31 December 2016 consisted of 9 members

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

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



Grigory Fedorishin, CFO,  
member of NLMK Management Board

- Deciding on Company participation or termination of participation in other organizations in cases where the value of the acquired (disposed) property is less than 2% of the Company's asset book value;
- Setting up and dissolving Company's branches and representative offices, as well as approving, revising and amending regulations on branches and representative offices.

The make-up and structure of members of the Management Board is approved by the Board of Directors with consideration of the opinion of the President (Chairman of the Management Board). The composition of the Management Board is approved by the Board of Directors based on recommendations from the President (Chairman of the Management Board).

#### SHARES OWNED BY MEMBERS OF THE MANAGEMENT BOARD\*

FULL NAME:	POSITION	SHARE OF THE AUTHORIZED CAPITAL STOCK OF NLMK
<b>OLEG BAGRIN</b>	Member of the Board of Directors President (Chairman of the Management Board)	Not an NLMK shareholder
<b>BRIJESH KUMAR GARG</b>	Vice President, Procurement	Not an NLMK shareholder
<b>ILYA GUSCHIN</b>	Vice President, Sales	Not an NLMK shareholder
<b>BAREND DE VOS</b>	Vice President, International Operations	Not an NLMK shareholder
<b>YURI LARIN</b>	Advisor to the President (Chairman of the Management Board) on Development Programmes	0.00083%
<b>SERGEY LIKHAREV</b>	Vice President, Logistics	Not an NLMK shareholder
<b>GRIGORY FEDORISHIN</b>	Vice President, Finance	Not an NLMK shareholder
<b>SERGEY FILATOV</b>	Managing Director	Not an NLMK shareholder
<b>STANISLAV TSYRLIN</b>	Vice President, HR & Management System	Not an NLMK shareholder

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



## President (Chairman of the Management Board)

President (Chairman of the Management Board) manages the day-to-day activities of the Company, arranges for the execution of the decisions made by the General Shareholders' Meeting and the Board of Directors.

The rights and obligations of the President (Chairman of the Management Board) are determined by the prevailing legislation of the Russian Federation as well as the contract between the President (Chairman of the Management Board) and the Company.

According to the corporate documents, President (Chairman of the Management Board) cannot simultaneously be the Chairman of the Board of Directors of the Company.

The President (Chairman of the Management Board) is elected

### PARTICIPATION OF MEMBERS OF THE MANAGEMENT BOARD IN BOARD MEETINGS IN 2016

MEMBER OF THE MANAGEMENT BOARD	PARTICIPATION IN MEETINGS
OLEG BAGRIN	39
BRIJESH KUMAR GARG	38
ILYA GUSCHIN	39
BAREND DE VOS	29 <sup>1</sup>
YURI LARIN	39
SERGEY LIKHAREV	39
GRIGORY FEDORISHIN	39
SERGEY FILATOV	38
STANISLAV TSYRLIN	38
ALEXANDER SAPRYKIN	9 <sup>2</sup>

<sup>1</sup> Barend de Vos was appointed member of the Management Board at a Board of Directors' meeting held on 22 April 2016.

<sup>2</sup> Alexander Saprykin was member of the Management Board until 22 April 2016..

by the General Shareholders' Meeting for a period lasting until the next Annual Meeting, unless otherwise stipulated by the General Shareholders' Meeting.

Oleg Bagrin has been the President (Chairman of the Management Board) since 2012 and is also a member of the Board of Directors. He was last re-elected on 3 June 2016.

### Activity of the Management Board in 2016

In 2016, there were 39 meetings of the Management Board, including 17 meetings that were held using absentee ballots. The following issues were considered at these meetings:

- Meeting Group's key performance indicators in occupational health & safety;
- NLMK Group's consolidated budget execution;
- Working capital report;
- Achievement of NLMK Group's KPIs and implementation of its companies' optimization programmes;
- Participation/withdrawing participation of the Group in other companies;
- Approval of draft decisions on matters within the competence of the General Shareholders' Meetings of companies in which the Group is the sole participant/shareholder;
- Execution of the development programmes of NLMK's divisions (functional areas);
- Optimization programmes of the divisions;

- Recommendations to the Company's Board of Directors (with regard to approval of related party transactions, dividend payments and NLMK's draft annual report for 2015);
- Recommendations to the governing bodies of subsidiaries and affiliates;
- Approval of transactions;
- Efficiency of sales portfolio management;
- MRO inventory turnover for NLMK Group companies;
- Efficiency of key MRO category portfolio management;
- Risk management system;
- Approval of the Management Board's meeting schedule for 2016 and 2017.

There was no conflict of interests between NLMK Management Board members in 2016.

### EVENTS AFTER THE REPORTING DATE

At a meeting held on 3 March 2017, NLMK Group's Board of Directors approved a new composition of the Management Board, with the following 8 members:

- Oleg Bagrin;
- Grigory Fedorishin;
- Tatyana Averchenkova;
- Ilya Guschin;
- Barend de Vos;
- Sergey Likharev;
- Sergey Filatov;
- Stanislav Tsyrlin.

Due to the changes in the composition of the Management Board, the corporate governance structure was also updated.

In order to strengthen the corporate governance structure of the Company, on 13 March 2017, Grigory Fedorishin, who previously held the position of Vice President for Finance, was appointed Senior Vice President, Deputy Chairman of the Management Board. This position is being introduced at NLMK Group for the first time. Grigory Fedorishin will oversee the elaboration and execution of the new strategic phase.

At a meeting of Human Resources, Remuneration and Social Policies Committee held on

3 March 2017, Valery Loskutov, NLMK’s Corporate Secretary, was approved as the secretary of the Committee.

### REPORT ON REMUNERATION TO GOVERNING BODIES

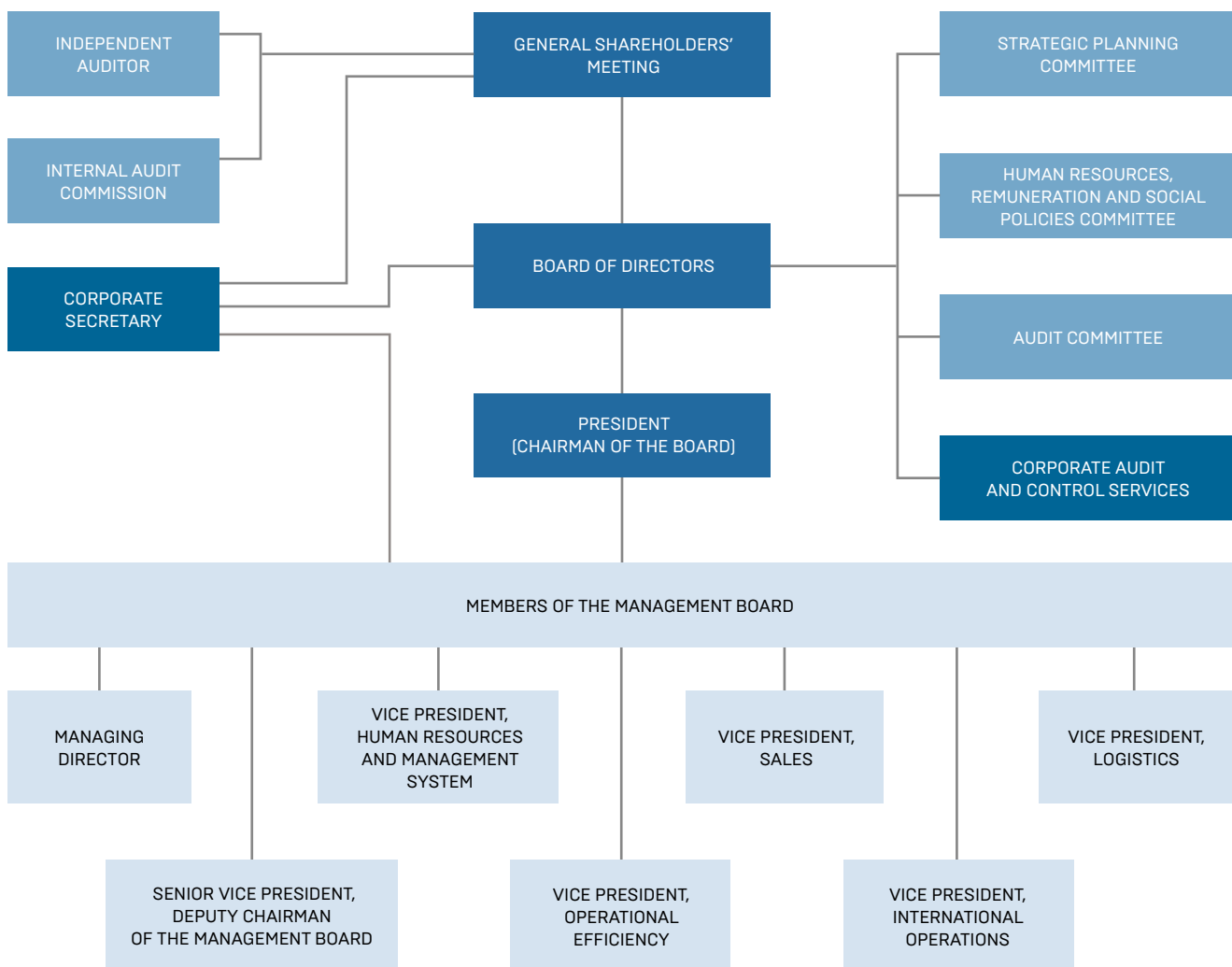
The levels of remuneration are sufficient to attract, motivate and retain competent and properly qualified executives. Remuneration is paid to members of NLMK’s governing bodies in accordance with the approved corporate documents

that contain transparent criteria for determining the amount of remuneration, and govern all types of payments and benefits.

### Remuneration and compensation of members of the Board of Directors

The remuneration system for members of the Board of Directors serves to align their financial interests with the long-term financial interests of shareholders.

## NLMK’S CORPORATE GOVERNANCE STRUCTURE



The levels of remuneration and compensation paid to members of NLMK's Board of Directors are determined on the basis of Regulations on Remuneration of Members of the Board of Directors.

Remuneration is paid to the members of the Board of Directors for reasonable and faithful exercise of their rights and their duties in the interests of NLMK. Remuneration to members of the Board of Directors consists of base remuneration and a bonus.

The amount of base remuneration is determined on the basis of a resolution by the General Meeting of Shareholders. The Annual General Meeting of Shareholders based on the results of 2015 approved the decision to pay remuneration to members of NLMK Board of Directors (the amount of recommended remuneration based on 2015 results totalled \$2.192 million).

A member of the Board of Directors may receive a bonus that shall not exceed two base remunerations. The amount of the bonus is determined on the basis of the member's contribution to the work of the Board of Directors and its Committees and recommendations given by the Human Resources, Remuneration and Social Policies Committee.

Remuneration is paid following a decision by NLMK's General Meeting of Shareholders.

[Regulations on Remuneration of Members of the Board of Directors](#) of NLMK set the rules for reimbursing Board members' work-related expenses. The following expenses are considered to be reimbursable:

- Transportation costs of the members of the Board of Directors incurred while travelling to meetings

#### REMUNERATION PAID TO BOARD MEMBERS IN 2015–2016, '000 RUBLES

	2016	2015*
Payments to Board members, incl.:	132,305	148,809
Remuneration	130,534	146,314
Salary	-	-
Bonuses	-	-
Commission	-	-
Benefits	-	-
Refunded expenses	1,771	2,495
Other types of remuneration	-	-

\* Any variance from the data published in the 2015 annual report is related to the reporting of payments at the prevailing exchange rates on the respective dates

of NLMK Board of Directors (Committees of the Board of Directors) and/or General Meetings of Shareholders;

- Costs for accommodation incurred while attending meetings of NLMK Board of Directors (Committees of the Board of Directors) and/or General Meetings of Shareholders;
- Representation expenses;
- Costs associated with obtaining the professional advice of experts on issues under consideration at the meetings of the Board of Directors (Committees of the Board of Directors) and for translating documents/materials for meetings of the Board of Directors (Committees of the Board of Directors) to be studied by members of the Board of Directors, into a foreign language spoken by a member of the Board of Directors;
- Other expenses related to performance of their duties by the members of the Board of Directors (Committees of the Board of Directors).

The maximum amount of expenses reimbursed by NLMK incurred by a Board member during a settlement period shall not exceed

30% of the base remuneration. The compensation shall be paid if the member of the Board of Directors participated in more than a half of meetings held by the Board of Directors.

Since the Company does not have any stock option programmes, members of the Board of Directors are not provided with an opportunity to participate in them, and their right to sell their NLMK shares is not linked to performance.

#### Remuneration and compensation of members of the Management Board

The system of motivation for the Company's Management Board aims to ensure member's material interest in achieving strategic goals and increasing the economic effectiveness of management.

In accordance with the [Regulations on the Management Board](#), members of the Board shall receive remuneration and compensation for expenses that relate to the execution of their duties as members of the Board throughout their period of service. The rights, obligations and responsibilities of the parties,

**REMUNERATION PAID TO MANAGEMENT BOARD  
MEMBERS IN 2015–2016, '000 RUBLES**

	2016	2015*
Payments to Management Board members, incl.:	657,946	625,979
Salary	166,429	198,191
Bonuses	484,794	425,332
Commission	-	-
Benefits	-	-
Refunded expenses	6,723	2,440
Other types of remuneration	-	16

\* Any variance from the data published in the 2015 annual report is related to the reporting of payments at the prevailing exchange rates on the respective dates

and the social guarantees for members of the Management Board are determined by NLMK's internal documents and the contracts concluded between the Company and the members of the Management Board.

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

Short-term motivation is based on the existing system of key performance indicators (KPIs). The amount paid to the members of the Board in bonuses depends on their KPIs. The KPIs used to determine rewards for top management are related to NLMK's financial and operating performance and are intrinsically linked to the creation of shareholder value.

The Company has introduced a long-term motivation programme

for members of the executive bodies and other key management personnel of the Company.

The following principles outline the mechanism for determining the amount of compensation that is awarded to NLMK top management:

- Honest and efficient performance of their duties by members of the Management Board;
- Rational use of the rights that are granted to them;
- The size of the bonus awarded to members of the Management Board is dependent on their achievement of key performance indicators (KPIs) and on the Company's overall results during the reporting period, as well as on the KPIs of delivering on Strategy 2017 objectives;
- Monitoring of involvement of Management Board members in the activities of the Group's executive bodies.

# OPERATIONAL CONTROL AND RISK MANAGEMENT

## SUPERVISION OVER THE FINANCIAL AND BUSINESS ACTIVITIES

### Independent Auditor

AO PricewaterhouseCoopers Audit (PwC) has been the auditor of the Group since 2003. Last year the Group carried out a tender procedure with all Big 4 firms where the current auditor became the winner. The Committee was satisfied with the quality of services provided and recommended the re-appointment of PwC as the Group's auditor.

PwC has several systems to ensure the independence of its auditors, for example, it regularly rotates the key staff in its audit working group (as least once every seven years).

NLMK Group engages PwC and other PricewaterhouseCoopers companies (hereafter PwC) to provide consulting (non-audit) services. The management of NLMK has conducted the necessary procedures, and is sure that these services do not affect the independence of the auditor and are not related to financial reporting. The share of consulting (non-audit) services provided by PwC for NLMK Group companies in 2016 did not exceed 10% of the total amount of services performed.

NLMK's Board of Directors has determined the value of remuneration for the provision of audit services (audit) of the interim and annual IFRS consolidated financial statements of NLMK for 2016, as well as for the

audit of the 2016 RAS statements, in the amount of 1,000,000 US dollars or 32 million rubles (VAT excluded).

### Audit Committee

The Audit Committee, chaired by an Independent Director, contributes to effective performance of functions related to supervision of the Company's financial and business activities by the Board of Directors.

The areas of expertise and responsibilities of the Committee extend to priority matters in accounting (financial) reporting and consolidated financial reporting, risk management, internal control and corporate governance, internal and external audit, as well as countering malpractice.

## KEY ACTIVITIES IN 2016

### Financial reporting

NLMK Audit Committee reviews on a quarterly basis the Group's IFRS consolidated financial statements and NLMK annual stand-alone statutory financials. The Committee reviews the significant financial reporting judgements, accounting policies and notes to these financial statements. Along with the quarterly IFRS financials, the Committee reviews and discusses with senior management and external auditors financial press releases and where necessary seeks explanations on key changes in the Group's operating and financial performance.

### Internal control and risk management

NLMK Audit Committee is responsible for reviewing the effectiveness of the Group's internal control and risk management systems. In fulfilling its oversight responsibilities, the Committee reviews reports prepared by risk management department, internal audit and the external auditor and holds regular meetings with the Audit Director, Vice President of Risk Management, and the external auditor's team.

Among other documents, in 2016, the Committee has reviewed and suggested for approval:

- Risk map of the Group;
- [Corporate Ethics Code](#);
- [Anti-Corruption Policy](#).

Based on the review of the actions taken by the Group's management, the Audit Committee obtained comfort over the effectiveness of the Group's internal control and risk management systems.

### Internal audit

NLMK Audit Committee is responsible for monitoring the operation and effectiveness of the internal audit function. This procedure is conducted by means of consideration, discussion with the Audit Director and approval of annual internal audit plan. Progress reports on the plan implementation, key findings and issued recommendations were provided to the Committee during



the year to ensure that matters raised were communicated to the person responsible and handled effectively.

To ensure independence, the Audit Director reports directly to the Board of Directors, has the right to raise any matter he/she believes is important, has an obligation to report to the Committee on findings of audits undertaken above a certain threshold and meets with the external auditors whenever required.

The Committee has reviewed the Quality Assurance and Improvement Programme for 2017 developed by the Internal Audit Department and agreed measures on improving internal audit activities. The Committee also reviewed internal audit progress against its KPIs for 2016 and was satisfied with it being largely in line with global best practices.

#### External audit

AO PricewaterhouseCoopers Audit (PwC) has been the auditor of the Group since 2003. The Committee was satisfied with the quality of services provided and recommended the re-appointment of PwC as the Group's auditor.

From time to time, Group companies engage PwC to provide non-audit services. The management of NLMK is sure that these services do not affect the independence of the auditor and are not related to financial reporting. The share of non-audit services provided by PwC in 2016 was at an acceptable level. PwC regularly rotates the key staff in its audit working group (as least once every seven years) to ensure compliance with independence requirements.

In order to ensure the efficiency of the external audit process, PwC presented an annual audit plan with its top-down, risk-based audit approach and

critical success factors for review by members of the Audit Committee.

PwC reports to the Committee quarterly, and the Committee members review and discuss with external auditors key audit matters. In particular, the Committee paid specific attention to the following significant items:

- impairment considerations for fixed assets and goodwill;
- legal cases;
- controlled foreign companies;
- the new audit report;
- evaluation of the quality of implementation of new reporting system.

As a result of these reviews, the Committee considered the external audit process to be operating effectively.

### Internal Audit Commission

#### CORPORATE GOVERNANCE IN ACTION

The Internal Audit Commission is a full-time internal control authority exercising continuous supervision over the financial and business activities of the Company. The Internal Audit Commission operates under the Charter and the Internal Audit Commission Regulations. It audits NLMK's financial and business activities in order to confirm the accuracy of information contained in reports and other financial documents.

The Internal Audit Commission is elected by the General Meeting of Shareholders for a term until the next Annual General Meeting of Shareholders.

The Internal Audit Commission was elected on 3 June 2016 at the Annual General Meeting of Shareholders. As of 31 December 2016, the Internal Audit Commission had the following composition:

- Violetta Voronova;
- Tatyana Gorbunova;
- Yulia Kunikhina;
- Mikhail Makeev;
- Oksana Putilina.

#### ACTIVITY OF THE INTERNAL AUDIT COMMISSION IN 2016

The Internal Audit Commission in the said composition held one meeting to discuss its operation in 2016, elect its chairman and approve the timeline for auditing the Group's financial and business activities in 2016.

On the basis of the audit of the Company's financial and business activities in 2015, the Internal Audit Commission as it was composed until 3 June 2016, submitted a Statement on the reliability of data contained in the reports and other financial documents for the Company's Annual Report.

#### REMUNERATION

Remuneration to members of the Internal Audit Commission is paid in accordance with the Regulations on NLMK Group's Internal Audit Commissions. According to the Regulations, the main criterion for determining the remuneration is participation in audits of the Company's financial and business operations. The remuneration paid to members of the Internal Audit Commission shall be equal to the amount of base remuneration, which is determined by the Regulations.

The total remuneration paid to members of the Internal Audit Commission for audits of

## REMUNERATION PAID TO INTERNAL AUDIT COMMISSION MEMBERS IN 2015–2016

	2016 '000 rubles	2015* '000 rubles
Payments to Commission members, incl.	13,477	7,367
Salary	7,918	3,670
Bonuses	5,559	3,353
Remuneration for participation in the Commission's activities	–	220
Refunded expenses	–	–
Other types of remuneration	–	124

\* Any variance from the data published in the 2015 annual report is related to the reporting of payments at the prevailing exchange rates on the respective dates

NLMK's operations in 2015 was 220,000 rubles (\$4,000).

## Internal Audit Department

### CORPORATE GOVERNANCE IN ACTION

Internal auditing is performed in order to provide members of the Board of Directors (Audit Committee), the President (Chairman of the Management Board) with independent and objective guarantees and consultation aimed at improving NLMK Group performance, through a systematic and consistent approach to assessing and increasing the efficiency of risk management, control and corporate governance processes. Internal auditing activity in NLMK Group is performed by the Internal Audit Department.

### The key functions of the Internal Audit Department are as follows:

- Assess efficiency of the internal control system;
- Assess efficiency of the risk management system;
- Assess efficiency of corporate governance;
- Consulting.
- Audit activities to assess the management of critical risks and business process risks;
- Internal control assessment activities, including quality assurance of control procedures aimed at minimizing business process risks;
- Consulting services provided to business units of NLMK Lipetsk and other NLMK Group's companies on specific issues relating to financial and business activities; auditors participated in meetings held by commissions and work groups and shared their opinions on the relevant subject matter;

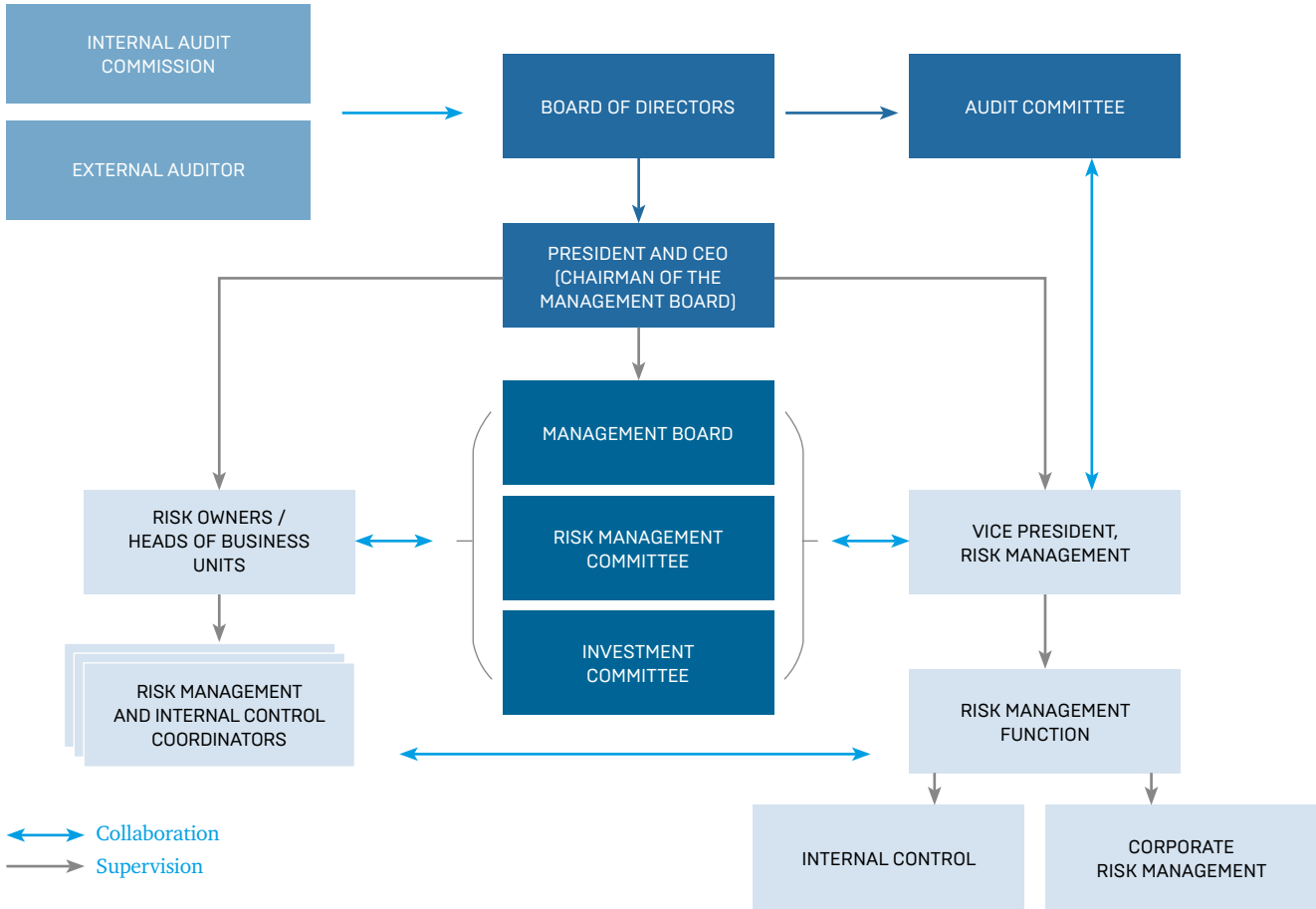
- Monitoring of the implementation of recommendations for assessing the quality (design) of NLMK's corporate governance practices. The results of the monitoring demonstrate the high quality of NLMK's corporate governance system: the Company follows a significant part of recommendations set out in the Corporate Governance Code (for detailed information please refer to the Corporate Governance Code Compliance Report in the 'Reporting and appendices' section of the Annual report (Appendix 4)).

## RISK MANAGEMENT

NLMK's risk management and internal control systems are aimed at ensuring the implementation of the Company's strategy. They are integrated into business- and decision-making processes. The main objective for the development of risk management is to monitor the sustainability of the Group's performance relating to the bolstering of its market position, development of production capacities, integration of new facilities and enhancement of its operational efficiency. For this purpose the 'Risk Management' functional area, together with the Company's dedicated departments, carry out activities in the following areas:

- Identification, evaluation, response and monitoring of the Group's most critical risks that require the attention of management on a regular basis in the 'risk-radar' format;
- Systematic elaboration and strengthening of mechanisms for control over deviation at the level of the Group's business processes, to ensure the efficient use of resources, the safety of Group facilities,

**NLMK RISK MANAGEMENT SYSTEM**



the reliability of reporting and compliance with legislation;

- Promotion of anti-corruption and anti-fraud principles, regular evaluation and development of the Group’s anti-corruption procedures;
- Support and training for the Group’s divisions in the field of risk management and internal control, as well as direct participation in the implementation of new control mechanisms, and expert participation in critical areas of business processes.

NLMK’s risk management system is based on the principle of shared

responsibility. The active work of executive and governing bodies ensures the close interaction of all participants in the risk management process:

- The Audit Committee of the Board of Directors monitors the reliability and effectiveness of the risk management system;
- The Management Board determines the strategy and approves measures for managing critical and material risks;
- Risk management boards (Management Board, Risk Management Committee, Investment Committee) perform operational risk management:

approve approaches to risk assessment and measures to manage and mitigate risks;

- The functional area of Risk Management is responsible for developing procedural, methodological and normative documents describing the general risk management concept; and assessing the level of risks, regularly monitoring and controlling them;
- In the course of their activities, risk and internal control coordinators perform ongoing identification of risks and threats, ensuring that risk management is integrated into all business processes of the Group;



Site visit to NLMK Lipetsk by independent members of NLMK Board of Directors



- Risk owners ensure the implementation of approved risk management measures.

The procedure for risk management is a continuous, cyclical process that ensures the effectiveness and responsiveness of management to identified threats.

### The Company's risk-reporting system

The main element in risk reporting is Risk-Radar, which consolidates the Group's risk assessment. The report is reviewed annually by the Audit Committee of the Board of Directors, and on a quarterly basis by the Risk Management Committee. In 2016, the processes of managing critical and material risks were regulated, and a programme of measures to manage and reduce the Group's risk level was implemented. The most significant results were achieved in the field of management

of production, environmental, price and credit risks.

### Key risks

**Production risks** include business continuity risks and equipment productivity reduction risks, and low quality product risks. Key mitigation measures: maintenance and repair programmes, a system for controlling incoming raw materials and supplies, operational efficiency programme.

The impact of business continuity risk declined in 2016, due to the implementation of measures aimed at improving the efficiency and sustainability of the production process.

**Commercial risks** include price risks on raw material markets, credit risk, risks of inefficient inventory management. Key mitigation measures: continuous monitoring of price spreads, development of a purchasing strategy by category of material, credit

security, accounts receivable insurance, limits on certain types of credit, and concentration risk management.

The main **financial risk** is currency risk. NLMK monitors an open currency position and maintains a set of tools to balance it on an ongoing basis.

The impact of currency risk in 2016 was elevated by the increased volatility of exchange rates. The Company carried out a set of measures to balance the foreign exchange position, to offset the influence of external factors.

**Operational risks** are managed through a variety of tools, such as implementation of the latest environmental technologies as part of a comprehensive environmental investment programme, the Company's committed efforts to enhance operational and labour safety, and promotion of the [Company's Anti-Corruption Policy](#) and [Code of Ethics](#) principles.

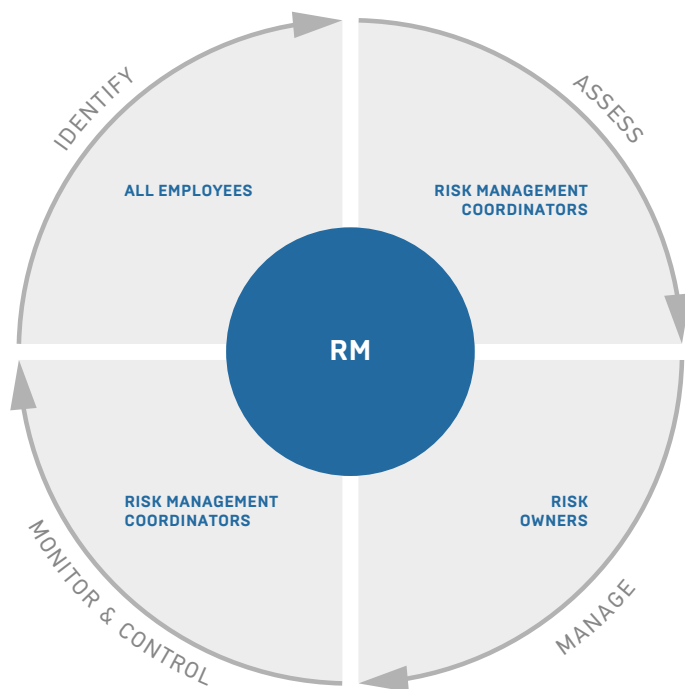
As a result of the implementation of NLMK Group's Environmental Programme, the impact of key operational risk was reduced in 2016.

**Investment risks** are mitigated through the application of project management principles, assessment of risks related to each project, root cause analysis for key risks and the development of preventive measures.

### Internal control

The risk management functional area, together with dedicated managers and experts, systematically examined a number of critical internal control procedures in 2016, in order to determine their reliability. This was done for four important end-to-end processes: Procurement, Investment, Sales, and Maintenance. The involvement of a wide range of participants in these processes from

## RISK MANAGEMENT PROCEDURE

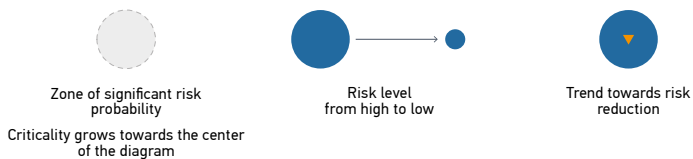




the majority of the Company’s functional areas made it possible to identify areas that required additional attention and to carry out measures to improve the reliability of process control. A plan was developed for rolling out the devised approach to other process areas and subsidiaries in 2017-2020.

### Anti-corruption compliance

NLMK Group is guided by high ethical standards and principles of business transparency. The Board of Directors approved important documents in 2016 that establish the Group’s anti-corruption and anti-fraud system: NLMK’s Code of Corporate Ethics and Anti-Corruption Policy. These documents set out the basic principles on which the Group seeks to build relationships with employees, counterparts, competitors, regulators and the community; the responsibility each NLMK employee has to comply with these principles, as well as mechanisms aimed at preventing corrupt practices. To date, the Company employs 11 tools to prevent and minimize fraud risks.



# INFORMATION FOR SHAREHOLDERS

## ORDINARY SHARES

The Group's share capital is divided into 5,993,227,240 shares with a nominal value of RUB 1 each. NLMK's shares are traded on the Moscow 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 (NLMK's share as of 20.03.17: 1.12%);
- MICEX index (NLMK's share as of 20.03.17: 1.12%);
- Moscow Stock Exchange Metals & Mining (NLMK's share as of 20.03.17: 12.91%);
- FTSE Russia IOB index.

### Global Depository Shares (GDS)

The ratio of Global Depository Shares to ordinary shares is 1:10. The volume of Global Depository Shares issued by NLMK and traded on the London Stock Exchange amounted to 9.78% of share capital as of 31 December 2016.

### Market capitalization

In 2016, average market capitalization of the Company

## NLMK TICKER CODES

LSE (London) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
Bloomberg Ticker Code	NLMK LI for GDS traded on the LSE NLMK RX for shares traded on the MICEX platform of the Moscow Exchange
Reuters Ticker Code	NLMKq.L for GDS traded on the LSE NLMK.MM for shares traded on the MICEX platform of the Moscow Stock Exchange

on the London Stock Exchange was US\$8.0 billion (+8% year-on-year). At the end of 2016, NLMK share price was US\$1.85, or US\$18.60 per GDS, consistent with capitalization of US\$11.15 billion (+119% year-on-year).

### Share price

#### NLMK GLOBAL DEPOSITORY SHARES ON LONDON STOCK EXCHANGE

PRICE OF GDS (US\$)	2016	2015
Maximum	19.20	14.80
Minimum	6.92	8.11
Mean	13.29	12.36
End of year	18.60	8.51

#### ORDINARY NLMK SHARES ON MOSCOW STOCK EXCHANGE

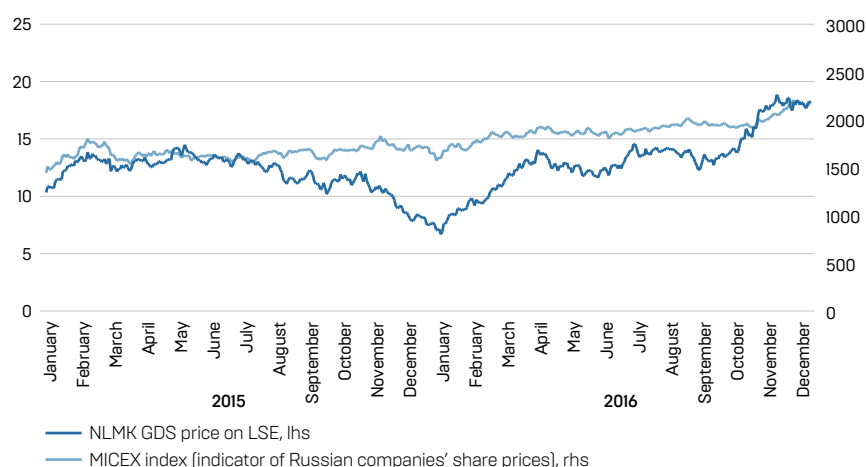
SHARE PRICE (RUB)	2016	2015
Maximum	123.06	92.00
Minimum	57.20	58.29
Mean	88.18	75.37
End of year	114.98	62.6

## DIVIDENDS

### Dividend Policy

According to the current [Dividend Policy](#), dividends are to be paid with the payout in the range of:

### NLMK GDS PRICE ON LONDON STOCK EXCHANGE (LSE) (\$/GDS)



- If Net Debt to EBITDA is 1.0 or less: 50% of net income and 50% of free cash flow calculated based on US GAAP/ IFRS consolidated financial statements;
- If Net Debt/EBITDA exceeds 1.0x: 30% of net profit and 30% of free cash flow calculated on US GAAP/ IFRS consolidated financial statements.

Dividends are paid annually. If conditions for financial stability are maintained, NLMK will strive to pay interim dividends on a quarterly basis.

The amount to be paid as a dividend for a specific period is approved by the Company's shareholders in line with recommendations by the Board of Directors.

### Dividends on GDS

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

The Board of Directors recommends that the Annual General Meeting of NLMK Shareholders pay (announce the payment of) 2016 dividends for ordinary shares in the amount of 9.22 rubles in cash per one ordinary share, including using retained earnings from previous years.

### Corporate documents

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

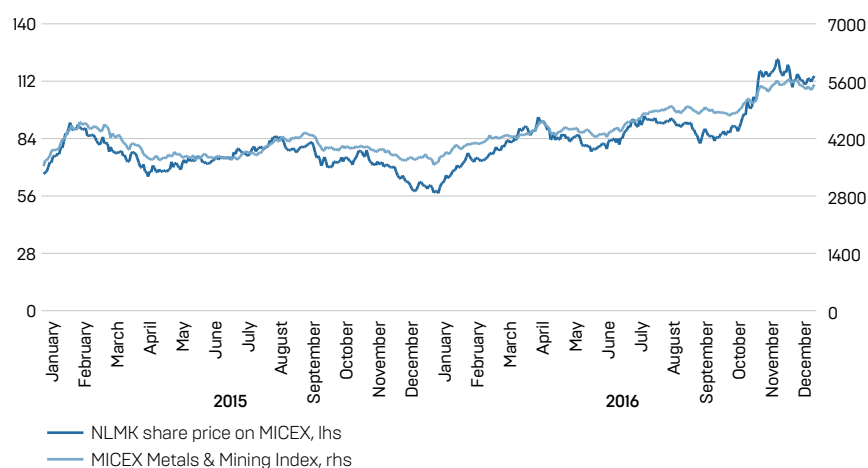
### Financial reporting and disclosure

The Group posts announcements of financial results on the London Stock Exchange website via the information disclosure systems approved by FCA and then publishes them on the Group website in the form of press releases and distributes them to the media. The Company publishes its financial results on a quarterly basis. The annual report is published in electronic form on the Group website, [www.nlmk.com](http://www.nlmk.com), on the day of its official publication. The Company announces its publication in a special press release. A hard copy of the annual report is available on request in the office of the Register of Shareholders and NLMK's Investor Relations office.

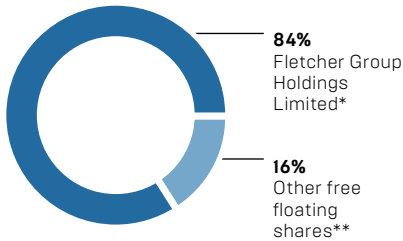
### Structure of share capital

In December 2016, Fletcher Group Holdings Limited whose beneficiary, in accordance with the definition of this concept under Russian legislation, is Mr. Vladimir Lisin (NLMK's Chairman of the Board of Directors), sold 90 million shares of NLMK, accounting for approximately 1.5% of its share capital. As a result of the transaction,

### NLMK SHARE PRICE ON MOSCOW STOCK EXCHANGE (RUB/SHARE)



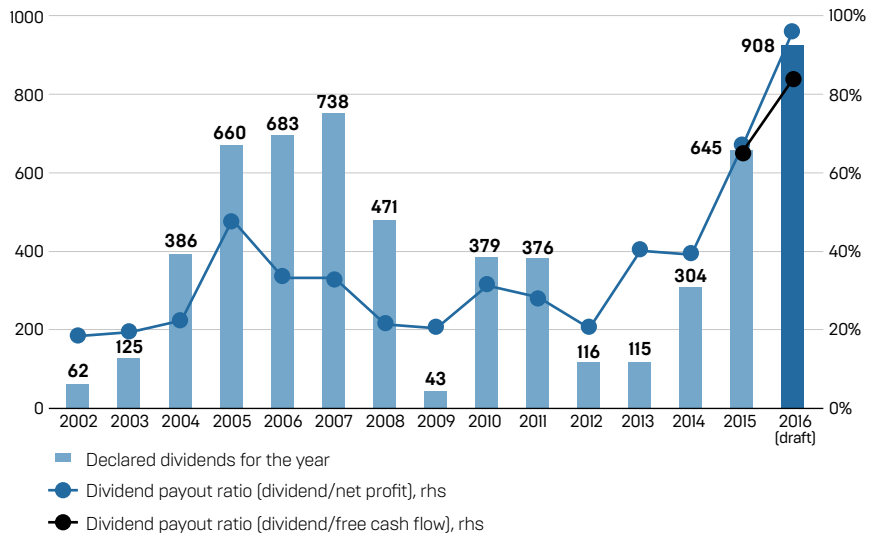
**STRUCTURE OF SHARE CAPITAL AS OF 31 DECEMBER 2016**



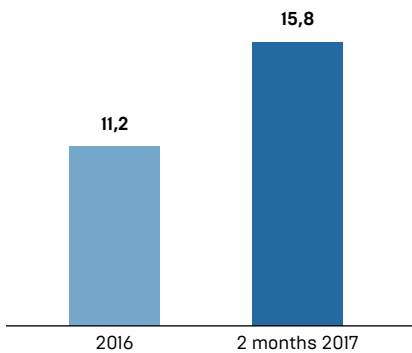
\* The Company's beneficiary is Vladimir Lisin, according to the definition of 'beneficiary' in the Russian legislation

\*\* Including global depository shares traded on the London Stock Exchange and shares traded on Moscow Exchange

**DIVIDEND HISTORY, US\$ M**



**AVERAGE DAILY TURNOVER OF NLMK SHARES, \$ M\***



\* Including the shares traded on the Moscow Stock Exchange and global depository shares, traded on the London Stock Exchange

the share of NLMK's free float increased to 16%. For more detailed information, please refer to the Company website.

The increase in the proportion of free-floating shares has led to improved liquidity. The average daily turnover of NLMK shares, including shares traded on the Moscow Stock Exchange, and global depository shares traded on the London Stock Exchange, increased from \$11.2 million in 2016 to \$15.8 million in the first 2 months of 2017.

**FINANCIAL CALENDAR FOR 2017**

DATE	EVENT
<b>18 JANUARY</b>	Q4 and 12M 2016 Trading Update
<b>3 MARCH</b>	Meeting of the Board of Directors (BoD). Q4 2016 Dividend Recommendation by the Board
<b>6 MARCH</b>	FY2016 Financial Results (IFRS). Conference call
<b>6 MARCH</b>	Capital Markets Day
<b>14 APRIL</b>	Q1 2017 Trading Update
<b>27 APRIL</b>	Q1 2017 Financial Results (IFRS). Conference Call
<b>28 APRIL</b>	Meeting of the Board of Directors (BoD). Q1 2017 Dividend Recommendation by the Board
<b>2 JUNE</b>	Annual General Meeting of Shareholders (Q4 2016 and Q1 2017 Dividend Declaration)
<b>14 JULY</b>	Q2 2017 Trading Update
<b>24 JULY – 28 JULY</b>	H1 2017 Financial Results (IFRS). Conference Call
<b>24 JULY – 28 JULY</b>	Meeting of the Board of Directors (BoD). Q2 2017 Dividend Recommendation by the Board
<b>25 – 29 SEPTEMBER</b>	Extraordinary General Meeting of Shareholders (Q2 2017 Dividend Declaration)
<b>16 OCTOBER</b>	Q3 2017 Trading Update
<b>23 – 27 OCTOBER</b>	Meeting of the Board of Directors (BoD). Q3 2017 Dividends Recommendation by the Board
<b>30 OCTOBER – 3 NOVEMBER</b>	9M 2017 Financial Results (IFRS). Conference Call
<b>18 – 22 DECEMBER</b>	Extraordinary General Meeting of Shareholders (Q3 2017 Dividend Declaration)

**CONTACTS  
FOR SHAREHOLDERS****Registrar**

The register of holders of NLMK securities is maintained by the Regional Independent Registrar Agency (RIR Agency).

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# Financial statements and appendix

## RESPONSIBILITY STATEMENT

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

Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with IFRS, as of December 31, 2016 and also for the year ended on that data, within balance sheets, profit and loss statements, cash flow statements, equity statements and the statements on the total income of shareholders and notes to the consolidated financial statements.

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

The completeness and correctness of the information submitted in the NLMK Group Annual Report for 2016, 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 2016 and main changes regarding the previous periods as well as give a comprehensive representation on the development of NLMK and its subsidiaries and dependent companies.

President (Chairman of the Management Board)



O. Bagrin

**Information about Annual Report 2016 approval procedure**

№	Stage	Document
1	Preliminary approve NLMK's 2016 Annual Report by the Board of Directors.	MoM № 247 dd. 28.04.2017
2	Approval of NLMK's 2016 Annual Report by the General Shareholders' meeting.	MoM № 46 dd. 02.06.2017

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

No.	Requirement	Reference to an item of Regulations	Status	Comments
1	Availability of data on the status of a joint-stock company in the industry	70.3.	In compliance	The information is presented in About NLMK booklet, NLMK Profile section
2	Availability of data on the priority lines of a joint-stock company's operations	70.3.	In compliance	The information is presented in About NLMK booklet, Strategy section, Analysis of NLMK's operations in 2016
3	The report of the Board of Directors on the results of a joint-stock company's development split by priority lines of its operations	70.3.	In compliance	The information is presented in About NLMK booklet, Strategy in Action section
4	Information on the quantities of each of the energy resources used in the reporting year in natural and monetary terms	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
5	Data on the development prospects	70.3.	In compliance	The information is presented in About NLMK booklet, Strategy section
6	Report on the payment of declared (accrued) dividends	70.3.	In compliance	The information is presented in Corporate Governance booklet, For Shareholders section
7	Description of key risk factors	70.3.	In compliance	The information is presented in Corporate Governance booklet, Operational Control and Risk Management section
8	List of transactions recognized to be major transactions in accordance with Federal Law "On Joint Stock Companies"	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
9	List of transactions recognized to be interested-party transactions in line with Federal Law "On Joint Stock Companies"	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
10	Composition of the Company's Board of Directors, changes in the composition of the Board of Directors, data on the members of the Board of Directors, transactions of the members of the Board of Directors on acquisition or disposal of the Company's shares	70.3.	In compliance	The information is presented in Corporate Governance booklet, Management Composition section, Report on the Board of Directors' Activity

No.	Requirement	Reference to an item of Regulations	Status	Comments
11	Data on the person being (functioning as) a sole executive body of the Company and members of a collegial executive body, transactions concluded by a person being (functioning as) a sole executive body of the Company and (or) members of a collegial executive body on the acquisition or disposal of shares of a joint-stock company	70.3.	In compliance	The information is presented in Corporate Governance booklet, Management Composition section, Report on the Management Board's Activity in 2016
12	Fundamental principles of a joint-stock company's policy on remuneration and (or) reimbursement of expenses	70.3.	In compliance	The information is presented in Corporate Governance booklet, Report on Remuneration to Governing Bodies
13	Data (report) on the observance of principles and recommendations of the Corporate Governance Code	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
14	Data on approval of the annual report by the General Shareholders' Meeting or the Board of Directors of a joint-stock company	70.3.	In compliance	The information is presented in the Appendix to the Annual Report
15	Corporate Governance Code: Statement of the Board of Directors (Supervisory Board) of a joint-stock company on the observance of corporate governance principles documented in the Corporate Governance Code, and if such principles are not observed fully or in part by the joint-stock company - specifying those principles and a summary of violation;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
16	Corporate Governance Code: A summary of the most significant aspects of the corporate governance model and practice in a joint-stock company;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
17	Corporate Governance Code: Description of the methodology used by the joint-stock company in its assessment of observance of corporate governance principles documented in the Corporate Governance Code;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report



No.	Requirement	Reference to an item of Regulations	Status	Comments
18	Corporate Governance Code: Description of root causes, factors and (or) specific circumstances of a full or partial non-observance by a joint-stock company of corporate governance principles documented in the Corporate Governance Code;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
19	Corporate Governance Code: Description of corporate governance mechanisms and instruments used by a joint-stock company instead (in substitution) of those recommended by the Corporate Governance Code;	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
20	Corporate Governance Code: Planned (proposed) actions and activities of a joint-stock company aimed at the improvement of a corporate governance model and practice specifying the deadlines for such actions and activities.	70.4.	In compliance	The information is presented in the Appendix to the Annual Report
21	A section on the status of net assets, if after the end of the second reporting year or each subsequent reporting year the value of a joint-stock company's net assets is less than its authorized capital	70.5.	Not applicable	-

**NLMK subsidiaries and affiliates as of 31.12.2016.**

No	Company name	Activity	Novolipetsk in Charter Capital (%)
1	VIZ-Steel, Limited Liability Company	Production and marketing of electrical steel.	100
2	Vtorchermet NLMK, Limited Liability Company	Collection, processing and sales of ferrous and non-ferrous scrap	100
3	Zhernovsky-1 Mining and Processing Complex, Limited Liability Company	Entire range of works related to coal mining and processing	100
4	Usinsky-3 Mining and Processing Complex, Limited Liability Company	Entire range of works related to coal mining and processing	100
5	Hotel Metallurg, Limited Liability Company	Hotel services	100
6	SHANS Lipetsk Insurance Company, Limited Liability Company	Insurance	100
7	NLMK Information Technologies, Limited Liability Company	IT, computing and telecom services.	100
8	NLMK Kaluga, Limited Liability Company	Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel	100
9	NLMK-Metiz, Limited Liability Company	Production of pig iron, ferrous alloys, steel, hot and cold-rolled flat steel	100
10	NLMK-Svyaz, Limited Liability Company	Telecom services	100
11	NLMK-Sort (NLMK Long Products), Limited Liability Company	Managing company, trading and procurement activities	100
12	NLMK-Uchetniy Tsent (Accounting Centre), Limited Liability Company	Book-keeping and tax accounting services for NLMK Group businesses	100
13	NLMK Overseas Holdings, Limited Liability Company	Develops the growth strategy for NLMK Group companies, supports relations between the Group's Russian and international businesses	100
14	Novolipetskaya Metallobaza, Limited Liability Company	Manufacturing of plastic and steel products	100
15	Novolipetsky Pechatny Dom (Printing House), Limited Liability Company	Printing services	100
16	Novolipetsky Metallurg Resort, a subsidiary of Novolipetsk	Rest and recreation services, health and rehabilitation facility.	100
17	NLMK Construction and Assembly Trust, Limited Liability Company	Contracting of industrial, housing, utilities, cultural services and road construction works. Construction of health facilities, household natural gas supply lines.	100
18	NLMK Trade House, Limited Liability Company	Consolidated purchases of raw materials and inputs, sale of NLMK Group by-products	100
19	Uralvtorchermet, Closely-held Joint-Stock Company	Consulting services re commercial activities, management, investing in securities, leasing of assets.	100

20	Ussuriyskaya Metallobaza, Limited Liability Company	Acquisition, processing, storage and domestic sale of ferrous and non-ferrous metals.	100
21	Altai-Koks, Open Joint-Stock Company	Production and marketing of coke and by-products, generation and marketing of heat and electric power	100
22	Dolomit, Open Joint-Stock Company	Mining and processing of dolomite	100
23	Stoilensky Mining and Processing Plant, Open Joint-Stock Company	Mining and processing of iron ore and other minerals	100
24	Studenovskaya Joint Stock Mining Company, Open Joint-Stock Company	Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roadwork	100
25	Nizhneserginsky Metizno Metallurgicheskiy Zavod (NSMMZ), Open Joint-Stock Company»	Production of long steel stock, hot-rolled and forged flat steel	92,59
26	Lipetsky Giprometz, Limited Liability Company	Design and survey operations	57,57
27	Maxi-Group, Open Joint-Stock Company	Consulting services, corporate financial management	50,00005
28	Neptune, Limited Liability Company	Wellness services	25

## Usage of energy resources of NLMK (Novolipetsk) in 2015-2016 rr.

	Item	2016	2015	Change, %
Electro energy	mln kWth	3,075	2,966	4%
	mln of RUB with VAT	9,579	9,271	3%
Natural gas	mln m3.	2,429	2,590	-6%
	mln of RUB with VAT	12,179	13,740	-11%
Heating energy	GCal	147,256	138,824	6%
	mln of RUB with VAT	233	203	15%
Gas oil	'000 liters	24,394	24,246	1%
	mln of RUB with VAT	679	685	-1%
Benzine	t	650	684	-5%
	mln of RUB with VAT	28	27	1%
Heating oil	t	7,304	4,006	82%
	mln of RUB with VAT	37	20	82%
Coking coal	'000 t	4,049	3,962	2%
	mln of RUB with VAT	29,741	24,523	21%

**List of transactions performed by NLMK in 2016,  
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 2016, 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 2016,  
recognized as interested-party transactions in line with the Federal Law "On Joint Stock Companies".**

As stipulated by the Federal Law "On Joint Stock Companies, transactions (in particular, a loan, credit, charge, surety), in which a member of NLMK's Board of Directors, President (Chairman of the Management Board), interim or acting President (Chairman of the Management Board), management organisation or a manager, member of the Management Board or the Company's shareholder is interested and owns jointly with its affiliated persons 20 or more per cent of NLMK's voting shares and is entitled to issue directions binding thereon, shall be approved by the Board of Directors or the General Shareholders' Meeting prior to their effectuation.

The decision to approve an interested party transaction is made by a majority of votes of the Board of Directors' independent members who are not interested in the transaction.

The decision to approve an interested party transaction is made by the General Shareholders' Meeting by a majority vote of all shareholders, owners of voting shares, who are not interested in the transaction, if the transaction value is 2 or more per cent of the book value of the Company's assets.

In 2016, NLMK's General Shareholders' Meeting did not approve any 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>Transaction (supplementary agreement to the agency contract) between NLMK (the Principal) and NLMK International B.V. (the Agent).</p> <p>Transaction cap was set at EUR 3,020,800 (three million twenty thousand eight hundred) (VAT inclusive).</p> <p>Transaction validity period: from the date of signing until the Parties have discharged their obligations in full (transaction conditions apply to legal relationships existing between the parties from 01.01.2014).</p>	<p>The Board of Directors (MoM #237 dd. 04.03.2016)</p>	<p>O. Bagrin, President (Chairman of the Management Board), Member of the Board of Directors, NLMK; and K. Sarkisov, Member of the Board of Directors, NLMK</p>
2.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of steel-casting refractories.</p> <p>Transaction cap was set at EUR 20,000 (twenty thousand) on DAP Lipetsk delivery terms.</p> <p>Transaction validity period: from the date of signing until the Parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 237 dd. 04.03.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
3.	<p>Granting of a loan with a debt limit by NLMK (the Lender) to NLMK Long Products (the Borrower).</p> <p>Transaction cap was set at RUB 25,000,000 (twenty-five million).</p> <p>Transaction validity period: from the date of signing until 31.12.2016.</p>	<p>The Board of Directors (MoM № 237 dd. 04.03.2016)</p>	<p>G. Fedorishin, Member of the Management Board, NLMK</p>
4.	<p>Granting of a loan with a debt limit by NLMK (the Borrower) to NLMK Long Products (the Lender).</p> <p>Transaction cap was set at RUB 25,000,000 (twenty-five million).</p> <p>Transaction validity period: from the date of signing until 31.12.2016</p>	<p>The Board of Directors (MoM № 237 dd. 04.03.2016)</p>	<p>G. Fedorishin, Member of the Management Board, NLMK</p>

5.	<p>Transaction between NLMK (the Principal) and Advocate Bureau “Reznik, Gagarin &amp; Partners” (the Partners) for the provision of legal support.</p> <p>The remuneration for legal support shall be RUB 60,105,350 (sixty million one hundred and five thousand three hundred fifty) (VAT free).</p> <p>Transaction validity period: from the date of signing until the Parties have discharged their contractual obligations in full.</p>	<p>The Board of Directors (MoM № 237 dd. 04.03.2016)</p>	<p>N. Gagarin, Member of the Board of Directors, NLMK</p>
6.	<p>Transaction between NLMK (the Donator) and the All-Russian Public Organization Russian Union of Industrialists and Entrepreneurs (the Recipient) for a voluntary special-purpose contribution.</p> <p>Transaction amount was set at RUB 5,300,000 (five million three hundred thousand).</p> <p>Transaction validity period: from the date of signing until the Parties have discharged their contractual obligations in full.</p>	<p>The Board of Directors (MoM № 237 dd. 04.03.2016)</p>	<p>V. Lisin, Chairman of the Board of Directors, NLMK</p>
7.	<p>Transaction between NLMK (the Client) and TMTP (Port and Forwarder) for transshipment, transportation and forwarding services to facilitate the international transportation of export cargo (slabs, hot-rolled steel coils, cold-rolled steel coils).</p> <p>Transaction cap was set at RUB 1,546,000,000 (one billion five hundred and forty-six million), net of VAT (charged at 0% VAT rate as per the RF Tax Code).</p> <p>Transaction validity period: from 01.01.2016 to 31.12.2016.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>V. Lisin, Chairman of the Board of Directors, NLMK</p>
8.	<p>Transaction between NLMK (the Contractor) and NLMK Long Products (the Customer) for provision of services on the arrangement, control and execution of financial operations.</p> <p>Transaction cap was set at RUB 240,000 (two hundred and forty thousand).</p> <p>Transaction validity period: from 01.01.2016 to 31.12.2017.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>G. Fedorishin, Member of the Management Board, NLMK</p>

9.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of refractory materials, consisting of a trial set of working lining for BOF-3 at BOF Shop No.2 with a guaranteed service life of 6,000 heats.</p> <p>Transaction cap was set at EUR 1,000,000 (one million) on DAP Lipetsk delivery terms.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
10.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of refractory materials consisting of a trial set of working lining for BOF-2 at BOF Shop No.2 with a guaranteed service life of 6,000 heats,.</p> <p>Transaction cap was set at EUR 1,100,000 (one million one hundred thousand) on DAP Lipetsk delivery terms.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
11.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of spare parts for gunning machines at the tundishes of BOF Shop No.2.</p> <p>Transaction cap was set at EUR 5,855 (five thousand eight hundred and fifty-five) on DAP Lipetsk delivery terms.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
12.	<p>Transaction between NLMK and NLMK Long Products for providing an access to Techexpert inquiry and directory system to NLMK Long Products for one workplace, and payment of access fee to NLMK.</p> <p>Transaction cap was set at RUB 30,869 (thirty thousand eight hundred and sixty-nine).</p> <p>Transaction validity period: from 01.01.2016 to 31.12.2016.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>G. Fedorishin, Member of the Management Board, NLMK</p>

13.	<p>Transaction between NLMK (the Buyer) and Duferco SA (the Seller) for the supply of refractory materials consisting of a trial set of working lining for an RH degasser at BOF Shop No.2 with a guaranteed service life of 1,280 heats.</p> <p>Transaction cap was set at USD 1,100,000 (one million one hundred thousand) on DAP Lipetsk delivery terms, VAT inclusive.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 240 dd. 08.07.2016)</p>	<p>B. Sciortino, Member of the Board of Directors, NLMK</p>
14.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of tapholes and taphole blocks.</p> <p>Transaction cap was set at EUR 200,000 (two hundred thousand) on DAP Lipetsk delivery terms.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 242 dd. 28.10.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
15.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of a trial set of steel-casting refractories.</p> <p>Transaction cap was set at EUR 11,000 (eleven thousand) on DAP Lipetsk delivery terms.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 242 dd. 28.10.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
16.	<p>Transaction (sublease contract) between NLMK (Sublessor) and Libra Capital (Sublessee).</p> <p>Transaction cap was set at RUB 18,763,025 (eighteen million seven hundred and sixty-three thousand twenty-five), VAT inclusive, and EUR 1,312,155 (one million three hundred and twelve thousand one hundred and fifty-five), VAT inclusive.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations.</p>	<p>The Board of Directors (MoM № 242 dd. 28.10.2016)</p>	<p>O. Bagrin, President (Chairman of the Management Board), NLMK</p>

17.	<p>Transaction (sublease contract) between NLMK (Sublessor) and Rumelco (Sublessee). Transaction cap was set at RUB 1,705,730 (one million seven hundred and five thousand seven hundred and thirty), VAT inclusive, and EUR 119,286 (one hundred and nineteen thousand two hundred and eighty-six), VAT inclusive.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations.</p>	<p>The Board of Directors (MoM № 242 dd. 28.10.2016)</p>	<p>V. Lisin, Chairman of the Board of Directors, NLMK</p>
18.	<p>Transaction between NLMK (the Buyer) and Duferco SA (the Seller) for the supply of refractory materials consisting of trial sets of working lining for BOF Shop No. 2 steel ladles with guaranteed service life of 90 heats.</p> <p>Transaction cap was set at USD 180,000 (one hundred eighty thousand) on DAP Lipetsk delivery terms, net of VAT.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 245 dd. 23.12.2016)</p>	<p>B. Sciortino, Member of the Board of Directors, NLMK</p>
19.	<p>Transaction between NLMK (the Buyer) and Duferco SA (the Seller) for the supply of refractory materials consisting of a starting mix).</p> <p>Transaction cap was set at EUR 3,000 (three thousand) on DAP Lipetsk delivery terms, net of VAT.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 245 dd. 23.12.2016)</p>	<p>B. Sciortino, Member of the Board of Directors, NLMK</p>
20.	<p>Transaction between NLMK (the Buyer) and Duferco SA (the Seller) for the supply of refractory materials consisting of shrouds.</p> <p>Transaction cap was set at USD 4,000 (four thousand) on DAP Lipetsk delivery terms, net of VAT.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 245 dd. 23.12.2016)</p>	<p>B. Sciortino, Member of the Board of Directors, NLMK</p>



21.	<p>Transaction between NLMK (the Buyer) and RHI AG (the Seller) for the supply of purging plugs and lining blocks.</p> <p>Transaction cap was set at EUR 100,000 (one hundred thousand) on DAP Lipetsk delivery terms, net of VAT.</p> <p>Transaction validity period: from the date of signing until the parties have discharged their contractual obligations and settled mutual accounts.</p>	<p>The Board of Directors (MoM № 245 dd. 23.12.2016)</p>	<p>F. Struzl, Member of the Board of Directors, NLMK</p>
22.	<p>Transaction (supplementary agreement to the Loan Agreement) between NLMK Long Products (the Lender) and NLMK (the Borrower) /<i>extension of the loan maturity date to 31.12.2017 with the interest rate change to 7.5 % per annum/.</i></p>	<p>The Board of Directors (MoM № 245 dd. 23.12.2016)</p>	<p>G. Fedorishin, Member of the Management Board, NLMK</p>
23.	<p>Transaction (supplementary agreement to the Loan Agreement) between NLMK (the Lender) and NLMK Long Products (the Borrower) /<i>extension of the loan maturity date to 31.12.2017 with the interest rate change to 7.5 % per annum/.</i></p>	<p>The Board of Directors (MoM № 245 dd. 23.12.2016)</p>	<p>G. Fedorishin, Member of the Management Board, NLMK</p>

**R E P O R T**  
**on compliance with the Corporate Governance Code principles and recommendations**

This report on compliance with the Corporate Governance Code principles and recommendations was considered by NLMK's Board of Directors at a meeting on 28 of April, 2017 (MoM № 247)

The Board of Directors confirms that the data presented in this report contains complete and reliable information about the Company's compliance with the Corporate Governance Code principles and recommendations in 2016.

A detailed description of the key aspects of corporate governance model and practices is presented in the "Corporate Governance" section of the Annual Report.

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

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

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

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
1.1	The Company shall provide equal and fair treatment to all shareholders exercising their right to participate in the Company governance.			
1.1.1	The Company ensures the most favourable conditions for shareholders to participate in the AGM as well as conditions to elaborate a well-grounded stand with regard to the AGM agenda items, to coordinate their actions as well as a possibility to express their opinions in relation to the items under consideration.	<p>1. The Company's internal document approved by the AGM and regulating the AGM procedures is publicly available.</p> <p>2. The Company provides an accessible way of communication: a 'hot line', e-mail or a web-based message board, which allow shareholders to express their opinion and ask about the agenda in preparation to the Annual General Shareholders Meeting. The Company ensured the compliance with the above mentioned criteria shortly before the convocation of every General Meeting within the reporting period.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
1.1.2	The procedure of AGM holding and submission of materials for the AGM shall enable shareholders to get properly prepared for participation therein.	<p>1. A notice of the General Shareholders' Meeting is published on the Company's Internet website at least 30 days prior to the date of the meeting.</p> <p>2. The notice of the AGM specifies the venue of the meeting and the documents needed to get access to the venue.</p> <p>3. Shareholders have an access to the information who proposed the agenda items and who nominated the candidates for election to the BoD and Audit commission of the Company.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

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

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
1.1.5	Every shareholder had an opportunity for unhindered exercise of their voting right in the simplest and the most convenient manner.	1. The Company's internal document (internal policy) contains provisions according to which every participant of the General Shareholders' Meeting can request a copy of the ballot filled in by them certified by the Counting commission before the end of the respective meeting.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.1.6	The rules of AGM procedure established by the Company provide for an equal possibility for all persons present at the meeting to express their opinions and ask relative questions.	1. When General Shareholders' Meetings were held in the reporting period in the form of a meeting (the joint presence of shareholders), sufficient time was given for reports on the agenda items and time to discuss those items.  2. Candidates to management and supervision bodies of the Company were available to answer questions from shareholders in those meetings where their nominations were put to vote.  3. While taking decisions related to preparation and holding of General Shareholders' Meetings the Board of Directors studied the issue of using telecommunications to provide shareholders with a remote access to participate in General Shareholders' Meetings in the reporting period.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	1. Compliance ensured 2. Compliance ensured 3. Partial compliance A revised version of the Regulations on the General Shareholders' Meeting was adopted in December 2016. In 2017 the Company intends to ensure a full compliance with the said recommendation of the Code.



N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
1.2	The shareholders are provided an equal and fair opportunity to participate in the Company's profit by receiving dividends.			
1.2.1	The Company developed and implemented a transparent and understandable mechanism for determining the amount of dividends and their payment.	1. The Dividend policy was developed by the Company, approved by the BoD and disclosed.  2. If the Company's Dividend Policy uses the Company's financial statements to determine the amount dividends to be distributed, the respective provisions of the Dividend Policy take into account the Company's consolidated financial statements.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
1.2.2	The Company does not make decisions to pay dividends, if such a decision, though not violating legal restrictions formally, is economically groundless and can lead to false representations on the Company's business.	1. The Company's dividend policy contains clear indications of financial/economic circumstances under which dividends should not be paid.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
1.2.3	The Company does not allow for impairment of dividend rights of its shareholders.	1. In the reporting period, the Company did not take any actions resulting in impairment of dividend rights of its shareholders.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.2.4	The Company seeks to exclude the use by shareholders of other methods of obtaining profit (income) at the Company's expense, except for dividends and liquidation value.	1. In order to exclude the use by shareholders of other making methods of obtaining profit (income) at the Company's expense, except for dividends and liquidation value, the Company's internal documents establish control mechanisms ensuring timely determination and approval procedure for transactions with affiliated (related) persons with material shareholders (persons entitled to dispose of the votes attributed to the issuer's voting shares) in cases when such transactions are not legally recognized as interested-party transactions	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
1.3	Corporate governance system and practice ensure parity for all shareholders owning shares of the same category (type), including minority shareholders and foreign shareholders, and their equal treatment by the Company.			
1.3.1	The Company established conditions for fair treatment of each shareholder by management and supervisory bodies of the Company including conditions ensuring inadmissibility of abuse of minor shareholders by major shareholders.	1. During the reporting period the procedures for managing potential conflict of interest between major shareholders have been effective; the Board of Directors have paid due attention to conflicts between the shareholders.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
1.3.2	The Company does not take any actions, which result in or may result in artificial redistribution of corporate governance.	1. There are no quasi-treasury shares or they did not participate in voting within the reporting period.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
1.4	Shareholders are provided with reliable and efficient procedure for registration of their shareholder rights and a possibility to dispose of their shares in a free and unhindered manner.			
1.4	Shareholders are provided with reliable and efficient procedure for registration of their shareholder rights and a possibility to dispose of their shares in a free and unhindered manner.	Quality and reliability of the Registrar's activities in maintaining the Register of shares comply with the Company's and its shareholders' requirements.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.1	The Board of Directors performs strategic management of the Company, identifies the basic principles and approaches to the Company's risk management and internal control systems, supervises the activity of executive bodies of the Company, and also performs other key functions.			
2.1.1	The Board of Directors is responsible for decision-making in relation to appointment and dismissal from office of executive bodies including those caused by undue performance of their duties. The Board of Directors ensures that the Company's executive bodies act in compliance with the approved development strategy and core businesses of the Company.	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	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.1.2	The Board of Directors sets the key guidelines for the Company's long-term activities, evaluates and approves key business indicators and main business objectives of the Company, evaluates and approves strategy and business plans related to the core activities of the Company.	1. Within the reporting period the Board of Directors reviewed the following issues: status and update of the Company's strategy; approval of the Company's business plan (budget); consideration of criteria and indicators (including intermediate ones) of the Company's strategy and business plans execution.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.1.3	The Board of Directors defines the principles and approaches of the Company's risk management and internal control system.	1. The Board of Directors defined the principles and approaches of the Company's risk management and internal control systems.  2. The Board of Directors evaluated the Company's risk management and internal control systems within the reporting period	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.1.4	The Board of Directors defines the Company's policy on remuneration and (or) reimbursement of expenses (compensations) to members of the Board of Directors, executive bodies and other key managers of the Company.	<p>1. The Company elaborated and introduced the policy (policies) approved by the Board of Directors on remuneration and reimbursement of expenses (compensations) to members of the Board of Directors, executive bodies and other key managers of the Company.</p> <p>2. During the reporting period, the Board of Directors reviewed the issues related to the above mentioned policy (policies).</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
2.1.5	The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts between the Company's bodies, shareholders and employees.	<p>1. The Board of Directors plays a key role in prevention, identification and settlement of internal conflicts.</p> <p>2. The Company established a system designed to identify transactions related to a conflict of interests and a set of measures aimed at the settlement of such conflicts</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.1.6	The Board of Directors plays a key role in ensuring the Company's transparency, timely and complete disclosure of the information, easy access of shareholders to the Company's documents.	<p>1. The Board of Directors approved the Regulations on Information Policy.</p> <p>2. The Company appointed persons responsible for ensuring compliance with the Information Policy.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
2.1.7	The Board of Directors exercises control over the corporate governance practices in the Company and plays a key role in the Company's significant corporate events.	1. During the reporting period the Board of Directors reviewed the corporate governance practices of the Company.	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.2	The Board of Directors is accountable to the Company's shareholders.			
2.2.1	Information on activities of the Board of Directors is disclosed and provided to shareholders.	<p>1. The Annual report of the Company for the reporting period covers information on attendance of the Board of Directors' and committees' meetings by individual directors.</p> <p>2. Annual report contains information on the key results of evaluation of the Board of Directors' activities performed during the reporting period.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
2.2.2	Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. The Company employs a transparent procedure giving shareholders a possibility to ask questions and share their opinion to the Chairman of the Board of Directors.	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

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

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.3.3	The composition of the Board of Directors is well balanced, including In terms of qualifications, experience, knowledge and business qualities of its members; it enjoys the trust of shareholders.	1. As part of the procedures for the Board of Directors' evaluation held during the reporting period, the Board of Directors reviewed its own needs in the field of professional qualification, experience and business skills.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.3.4	The quantitative composition of the Board of Directors enables to arrange the activities of the Board of Directors in the most efficient manner, including the formation of the Board's committees; it also provides significant minority shareholders an opportunity to elect a candidate for whom they vote.	1. 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	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.4	The Board of Directors has a sufficient number of independent directors.			
2.4.1	<p>An independent director is a person who has sufficient competence, experience and independence to form their own position, is able to make objective and fair judgments that are independent of the influence of the Company's executive bodies, certain groups of shareholders or other interested parties. It should be borne in mind, however, that in ordinary circumstances a candidate (elected member of the Board of Directors), who is associated with the Company, its significant shareholder, significant counterparty or a competitor, or is associated with the State, can not be regarded as an independent candidate.</p>	<p>1. During the reporting period, all independent Board members met all the independence criteria set out in recommendations 102-107 of the Code, or were recognized as independent by the decision of the Board of Directors.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.4.2	<p>The candidates to members of the Board of Directors are evaluated for compliance with the independence criteria; independent directors are also regularly evaluated for compliance with the independence criteria. During this evaluation, the content should prevail over the form.</p>	<p>1. In the reporting period, the Board of Directors (or the Board’s Nominating Committee ) formed an opinion of each candidate’s independence and submitted an appropriate conclusion to shareholders.</p> <p>2. During the reporting period, the Board of Directors (or the Board’s Nominating Committee) at least one time evaluated the independence of the current Board members; they are indicated in the annual report as independent directors.</p> <p>3. The Company has procedures in place which define the necessary actions for a Board member to take in case they lose the independent status, including the obligation to inform the Board of this fact in due time.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
2.4.3	<p>At least one third of the elected members of the Board are independent directors.</p>	<p>1. At least one third of members of the Board are independent directors.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.4.4	Independent directors play a key role in preventing internal conflicts in the Company and in the Company's execution of material corporate actions.	1. Independent directors (with no conflict of interest) give a preliminary evaluation of material corporate actions related to a possible conflict of interest, this evaluation is submitted to the Board of Directors.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.5	The Chairman of the Board of Directors promotes the most efficient implementation of the functions assigned to the Board of Directors.			
2.5.1	An independent director is elected Chairman of the Board of Directors, or a Senior Independent Director is chosen from among the elected Independent Directors, who coordinates the activities of independent directors and carries out interaction with the Chairman of the Board of Directors.	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 Independent Directors, who make up the majority of the members of the Company's Board, play a key role in the Board's activities; each of them fully enjoys an opportunity to have face-to-face communication with the Chairman of the Board of Directors; each of them is contactable by the Company's shareholders.  2. Compliance ensured

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.5.2	Chairman of the Board instates constructive atmosphere at meetings, ensures open discussions on the agenda items and monitors the implementation of resolutions passed by the Board of Directors.	1. The efficiency of Chairman of the Board's performance was evaluated during the evaluation of the Board's performance in the reporting period.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.5.3	Chairman of the Board takes reasonable measures to ensure timely submittal of information required by the Board members for taking decisions on the agenda items.	1. The obligation of Chairman of the Board to take measures to ensure timely submittal of materials to the Board members, which are required for taking decisions on the agenda items, is set out in the Company's internal documents.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.6	Members of the Board act reasonably and in good faith in the interests of the Company and its shareholders, based on sufficient information, with due diligence and care.			
2.6.1	Members of the Board take decisions taking into account all available information, with no conflict of interest, on the condition of equal treatment of the Company's shareholders, within the normal business risk.	<p>1. The Company's internal documents state that a Board member must duly notify the Board of Directors if a conflict of interest arises pertaining to any agenda item of the Board meeting or a Board committee meeting, before the start of discussions on the respective agenda item.</p> <p>2. Internal documents of the Company state that a Board member must refrain from voting on any item they have a conflict of interest.</p> <p>3. There is a procedure in place in the Company, which entitles the Board of Directors to receive professional consultations on items within their area of expertise at the Company's expense.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. Compliance ensured</p> <p>2. Partial compliance. Internal documents of the Company state that the vote of the Board member on the item where they have an interest shall not be counted at the calculation of votes.</p> <p>2. Compliance ensured</p>
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.	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.6.3	The Board members have enough time to perform their duties.	<p>1. Individual presence at the meetings of the Board and committee meeting, as well as the time dedicated to preparations for such meetings, were taken into consideration during the Board evaluation in the reporting period.</p> <p>2. According to the Company's internal documents, members of the Board must notify the Board of Directors of their intention to enter management bodies of other organizations (except the controlled and affiliated companies) and of the fact of such an appointment.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
2.6.4	All members of the Board have equal access to the documents and information of the Company. Newly elected members of the Board promptly receive sufficient information on the Company and the Board of Directors' activities.	<p>1. All members of the Board have equal access to the documents and information of the Company. Newly elected members of the Board promptly receive sufficient information on the Company and the Board of Directors' activities.</p> <p>2. The Company has a formal induction procedure for newly elected members of the Board</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	



N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.7	Meetings of the Board of Directors, preparation for them and attendance by the Board members ensure efficient performance of the Board of Directors.			
2.7.1	Meetings of the Board of Directors are conducted on an ad hoc basis, taking into account the scope of activities and tasks which the Company is facing at a certain period of time.	1. The Board of Directors had at least six meetings during the reporting year.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
2.7.2	Internal documents of the Company set the procedure for preparation and holding of the Board meetings allowing the Board members the opportunity to be properly prepared.	1. The Company has an approved internal document in place which sets the procedure for preparations and holding of the Board meetings and, among others, states that the notice of the meeting should be made, as a rule, at least 5 days in advance.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.7.3	The form of holding the Board meeting is determined by the degree of importance of the agenda items. The most important issues are resolved at meetings held in presence.	1. 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 type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	The form of the Company’s Board meeting is determined by the degree of importance of the agenda items. The most important issues, in the judgement of the Board of Directors, are considered at Board meetings held in presence.
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	Resolutions on the most important issues are passed at the Board meetings by qualified majority, at 75% of votes, or by a simple majority of votes of all the elected members of the Board of Directors.  The Company in the course of its activities is guided by the Federal Law “On joint-stock companies”.

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.8	The Board of Directors sets up committees for pre-review of the most important issues of the Company's activity.			
2.8.1	The Audit Committee consisting of independent directors is set up for the pre-view of issues related to the control over the Company's financial and economic activities.	<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 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>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<ol style="list-style-type: none"> <li>1. Partial compliance When composing the Audit Committee in 2016, the Board of Directors was guided, first of all, by the professional background, special knowledge and skills of the Board members that would allow them to provide added value to the activities of the Committee. A key role in the work of the Audit Committee is assigned to independent directors, who constitute the majority of the members of the Committee. The Chairman of the Committee is an Independent Director.</li> <li>2. Compliance ensured</li> <li>3. Compliance ensured</li> <li>4. Compliance ensured</li> </ol>

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.8.2	For the pre-review of issues related to the development of an efficient and transparent remuneration practice, a Remuneration Committee has been set up which consists of independent directors and is chaired by an independent director who is not the Board Chairman.	<p>1. The Board of Directors has set up a Remuneration Committee that consists of independent directors only.</p> <p>2. The Chairman of the Remuneration Committee is an independent director who is not Chairman of the Board.</p> <p>3. The Company's internal documents define the tasks of the Remuneration Committee, including, among others, the tasks listed in recommendation 180 of the Code.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. Partial compliance</p> <p>The Human Resources, Remuneration and Social policies Committee combines the functions of remuneration committee and nomination committee (appointments, staffing).</p> <p>When composing the Committee in 2016, the Board of Directors was guided, first of all, by the professional background, special knowledge and skills of the members of the Board of Directors that would allow them to provide added value to the activities of the Committee.</p> <p>A key role in the work of the Audit Committee is assigned to independent directors, who constitute the majority of the members of the Committee.</p> <p>The Chairman of the Committee is an Independent Director.</p> <p>3. Compliance ensured</p> <p>4. Compliance ensured</p>

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.8.3	For the pre-review of issues related to human resources planning (succession planning), occupational structure and efficient performance of the Board of Directors, a Nomination (appointments, staffing) Committee has been set up which mostly consists of independent directors	1. The Board of Directors has set up a Nomination Committee (alternatively, another committee performs its tasks listed in recommendation 186 of the Code) which mostly consists of independent directors.	<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).	1. During the reporting period, the Board of Directors has considered the compliance of its committees' composition with the goals of the Board and objectives of the Company's. Additional committees have either been formed or deemed unnecessary.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.8.5	The committees are composed in such a way as to enable comprehensive examination of issues under consideration based on various opinions.	1. Committees of the Board are chaired by independent directors  2. The Company's internal documents (policies) contain provisions stating that non-members of the Audit Committee, Nomination Committee and Remuneration Committee may only attend their meetings when invited by the respective committee's chair.	<input type="checkbox"/> Compliance ensured  <input checked="" type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	1. Partial compliance Pursuant to the recommendations of the Corporate Governance Code, the Audit Committee and the HR, Remuneration and Social Policies Committee of the Company are chaired by independent directors. Besides these Committees, the Board of Directors has established a Strategic Planning Committee chaired by the Chairman of the Board, which the Company believes to ensure maximum efficiency of this Committee.  2. Compliance ensured
2.8.6	Committee chairmen regularly inform the Board of Directors and its Chairman of their respective Committees' performance.	1. Within the reporting period the committee chairmen regularly reported on the performance of the committees to the Board of Directors	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	



N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.9	The Board of Directors ensures that the performance of the Board, its committees and members is evaluated.			
2.9.1	<p>The evaluation of the Board of Directors is designed to determine the efficiency of the Board's, its committees' and members' performance, correspondence of their performance to the development needs of the Company, step up the Board's activities and identify the areas for potential improvement.</p>	<p>1. Self-evaluation or external evaluation of the Board's performance was held within the reporting period; it included evaluation of the committees' performance, individual members of the Board and the Board of Directors as a whole.</p> <p>2. The results of self-evaluation or external evaluation of the Board of Directors were reviewed at the Board of Directors' meeting held in-person.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
2.9.2	Performance evaluation of the Board of Directors, its committees and Board members is carried out on a regular basis at least once a year. Independent performance evaluation of the Board of Directors is carried out at least once every three years by an independent auditor (consultant).	1. 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	Internal performance evaluation of the Board of Directors, its committees and Board members was carried out for the first time in 2016. The Company considers the possibility of independent performance evaluation of the Board of Directors to be held by an independent auditor with sufficient expertise at least once every three years. Independent evaluation performed by an independent auditor (consultant) is scheduled for the third reporting period since the start of the evaluation process, i.e. for Q1 2018 based on the Board's performance in 2017.
3.1	The Corporate Secretary of the company ensures efficient day-to-day interaction with shareholders, coordinates the Company's activities aimed at the protection of shareholders' rights and interests, and supports efficient operation of the Board of Directors.			
3.1.1	The Corporate Secretary has sufficient knowledge, experience and qualification to perform imposed obligations, impeccable reputation and credibility with shareholders.	1. The Company has adopted and disclosed an internal document: Regulations on the Corporate Secretary. 2. The CV of a Corporate Secretary with the same level of detail as for a Board member and the Company's executive management is available at the Company's website and in the Annual Report.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
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.	The Board of Directors approves the appointment, dismissal from office and additional remuneration of the Corporate Secretary.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
4.1	Level of remuneration paid by the Company is sufficient to attract, motivate and retain the persons with required expertise and qualification. Remuneration to the Board members, executive bodies and other key managers of the company shall be paid according to the remuneration policy adopted in the Company.			
4.1.1	Level of remuneration paid by the Company to the Board members, executive bodies and other key managers is enough to motivate them for efficient performance; it enables the Company to attract and retain competent and qualified professionals. At the same time the Company avoids to pay a higher than necessary remuneration as well as to have an unreasonably large gap between remuneration of the executives and the Company's employees.	1. The Company has adopted an internal document (internal documents) – a policy (policies) on remuneration of the Board members, members of executive bodies and other key managers, which expressly establishes approaches to remuneration paid to these persons.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
4.1.2	<p>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.</p>	<p>1. Within the reporting period the Remunerations Committee has reviewed the remuneration policy (policies) and practices and, if it was required, gave correspondent recommendations to the Board of Directors.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
4.1.3	<p>The Company's remuneration policy contains transparent mechanisms for determining the remuneration of the Board members, members of executive bodies and other key managers of the Company, and regulates all types of payments, benefits and privileges granted to the these persons.</p>	<p>1. The Company's remuneration policy (policies) contains (contain) transparent mechanisms for determining the remuneration of the Board members, members of executive bodies and other key managers of the Company; and regulates (regulate) all types of payments, benefits and privileges granted to the these persons.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
4.1.4	The Company establishes the policy of reimbursement of expenses (compensation), specifying the list of reimbursable expenses and the level of service to which Board members, executive bodies and other key managers of the company are entitled. This policy can be a part of the Company's remuneration policy.	1. Remuneration policy (policies) or other internal documents of the Company establish the rules of reimbursement of the Board members' expenses, members of executive bodies and other key managers of the Company.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
4.2	System of remuneration of the members of the Board of Directors aligns the financial interests of directors with long-term financial interests of shareholders.			
4.2.1	The Company pays fixed annual remuneration to the Board members. The Company does not pay remuneration for participation in individual meetings of the Board of Directors or Committees of the Board. The Company does not use any forms of short-term incentive and additional material incentives for the members of the Board of Directors.	1. 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	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
4.2.2	Long-term ownership of the Company's shares is most conducive to bringing the financial interests of the Board members closer together with the long-term interests of shareholders. At the same time, the Company does not stipulate the rights to sell shares by achieving certain performance indicators, and the members of the Board of Directors do not participate in option programmes.	1. If the Company's internal document (documents) – policy (policies) on remuneration providers 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. Additional payments or compensations in case of early termination of the Board members' appointment in connection with the transfer of control over the Company or other circumstances are not foreseen in the Company.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	



N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
4.3	The Company's Remuneration system regarding members of executive bodies and other key managers provides for a correspondence between the amount of remuneration and the Company's performance and personal contribution to achieving this performance.			
4.3.1	Remuneration of members of executive bodies and other key managers of the Company is determined in such a way as to ensure a reasonable and justified correspondence between the fixed part of remuneration and the variable part of remuneration depending on the Company's performance and personal (individual) contribution of the employee to the final result.	<p>1. Within the reporting period annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of the members of executive bodies and other key managers of the Company.</p> <p>2. During the last evaluation of the Company's remuneration system regarding members of executive bodies and other key managers, the Board of Directors (Remuneration Committee) has made sure that efficient ratio of the fixed part and the variable part of remuneration is applied in the Company.</p> <p>3. The Company provides for a procedure that ensures that the Company's bonuses that have been illegally received by the members of executive bodies and other key managers of the Company are returned to the Company.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. Compliance ensured</p> <p>2. Compliance ensured</p> <p>3. Non-compliance The Company does not provide for a procedure ensuring the return of bonus payments illegally received by members of the executive bodies and other key executives, since the Company has established a clear mechanism for paying bonuses to members of the executive bodies and other key managers of the Company.</p>

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
4.3.2	<p>The Company has implemented a long-term incentive programme for the members of executive bodies and other key managers of the Company using the Company's shares (options or other derivative financial instruments based on the Company's shares ).</p>	<p>The Company has implemented a long-term incentive programme for the members of executive bodies and other key managers of the Company using the Company's shares (financial instruments based on the Company's shares).</p> <p>2. The long-term incentive programme for the members of executive bodies and other key managers of the Company provides for the right to sell the shares and other financial instruments not earlier than three years from the moment of their granting. In this case the right to sell them depends on the achievement of certain performance indicators of the Company</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>1. The Company has adopted a long-term incentive programme for the members of executive bodies and other key managers of the Company, which does not provide for the use of the Company's shares (financial instruments based on the Company's shares).</p>
4.3.3	<p>The amount of compensation (golden parachute) paid by the Company to the members of executive bodies or other key managers in case of their early termination initiated by the Company and with no fraudulent actions on their part, does not exceed the two-fold amount of the fixed part of the annual remuneration.</p>	<p>1. The amount of compensation (golden parachute) paid by the Company to the members of executive bodies or other key managers in case of their early termination initiated by the Company and with no fraudulent actions on their part, did not exceed the two-fold amount of the fixed part of the annual remuneration in the reporting period.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
5.1	There is an efficiently functioning system of risk management and internal control established in the Company, aimed at providing reasonable assurance that the Company will achieve its set targets.			
5.1.1	The Board of Directors defines the principles and approaches to the Company's risk management and internal control system.	1. The Company's internal documents/correspondent policy approved by the Board of Directors explicitly defines the functions of the Company's various management bodies and subdivisions in the system of risk management and internal control.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
5.1.2	The Company's executive bodies ensure the establishment and maintenance of a functioning and efficient risk management and internal control system in the Company.	1. The Company's executive bodies ensured the distribution of functions and authority regarding risk management and internal control between the managers (heads) of subdivisions and departments reporting to them.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
5.1.3	Risk management and internal control system in the Company provides for objective, fair and clear understanding of the Company's current condition and prospects, integrity and transparency of the Company's statements, reasonability and acceptability of risks assumed by it.	<p>1. Anti-corruption policy has been approved in the Company.</p> <p>2. There is a procedure in place in the Company aimed at informing the Board of Directors or the Board's Audit Committee on the facts of violation of legislation, the Company's internal procedures, and ethics code.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	
5.1.4	The Company's Board of Directors takes the necessary measures to ensure that the risk management and internal control system of the Company functions efficiently and corresponds to the principles and approaches determined by the Board of Directors.	1. During the reporting period the Board of Directors or the Board's Audit Committee has evaluated the efficiency of Company's risk management and internal control system. Outcomes of this evaluation are included into the Company's annual report.	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
5.2	For a systematic independent evaluation of reliability and efficiency of the risk management and internal control system and corporate governance practices the Company arranges internal audits.			
5.2.1	A separate structural subdivision has been set up in the Company for internal audit or an independent external auditor has been engaged. Functional and administrative jurisdictions of the Internal Audit Division are separated. The Internal Audit Division is functionally reports to the Board of Directors.	1. A separate structural subdivision has been set up in the Company for internal audit which functionally reports to the Audit Committee and the Company's Board of Directors; or an independent auditor has been engaged under the same accountability principle.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
5.2.2	The Internal Audit Division evaluates the efficiency of the internal control, risk management and also corporate governance systems. The Company is guided by generally accepted internal audit standards.	1. During the reporting period the internal audit evaluated the efficiency of the internal control and risk management systems.  2. The Company is guided by generally accepted approach to internal control and risk management.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
6.1	The Company and its activity are transparent for its shareholders, investors and other stakeholders.			
6.1.1	The information policy has been developed and implemented in the Company, which ensures efficient information interaction of the Company, shareholders, investors and other stakeholders.	1. The Company's Board of Directors has approved the Company's Information Policy developed with regard to recommendations of the Code.  2. The Board of Directors (or one of its Committees) has reviewed the issues related to information policy observance at least one time within the reporting period.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
6.1.2	The Company discloses information on the system and practice of corporate governance including detailed information on observance of the principles and recommendations of the Code.	1. The Company discloses information on the corporate governance system in the Company and on the general principles of corporate governance used in the Company including on the Company's web-site in the Internet.  2. The Company discloses information on the executive bodies and the Board of Directors, independence of the Board members and their membership in the Committees of the Board of Directors (in accordance with the definition of the Code).  3. . If there is a person controlling the company the company publishes a memorandum of the controlling person regarding the plans of this person concerning corporate governance in the company.	<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 NLMK does not have information on availability of a memorandum which contains plans in regard to the company of the person controlling it.



N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
6.2	The Company timely discloses complete, relevant and reliable information on its activities to enable shareholders and investors to make informed decisions.			
6.2.1	The Company timely discloses complete, relevant and reliable information on its activities enabling its shareholders and investors to make informed decisions.	<p>1. The Information Policy of the Company defines the approaches and criteria for determining information that can significantly impact the Company's valuation and the value of its securities; it also defines procedures ensuring timely disclosure of such information.</p> <p>2. If the securities of the Company circulate on foreign regulated markets the disclosure of significant information in the Russian Federation and in these markets is done simultaneously and similarly during the reporting year.</p> <p>3. If foreign shareholders own a significant quantity of the Company's shares the information was disclosed not only in Russian but also in one of the most common foreign languages.</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
6.2.2	The Company avoids a box-ticking approach while disclosing information; it discloses significant information on its activities even if such disclosure is not required by law.	<p>1. During the reporting year, the Company disclosed its annual and semi-annual IFRS financial statements. The annual report of the Company for the reporting year includes annual IFRS financial statements and an auditor's opinion.</p> <p>2. The Company discloses information on the structure of the Company's equity in full in line with Recommendation 290 of the Code in its annual statement and on the Company's Internet website.</p>	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
6.2.3	The annual report as one of the most important tools of interaction with shareholders and other stakeholders contains information, which enables evaluation of the Company's performance over a year.	1. The Company's Annual Report contains information on the key aspects of the Company's operations and its financial performance.  2. The Company's Annual Report contains information on environmental and social aspects of the Company's activities.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	
6.3	The Company presents information and documents requested by shareholders in line with the principle of equal and easy access.			
6.3.1	Information and documents requested by shareholders are disclosed in line with the principle of equal and easy access.	1. The Company's Information Policy determines an easy procedure of giving access to information for shareholders including the information on legal entities controlled by the Company on shareholder's request.	<input checked="" type="checkbox"/> Compliance ensured  <input type="checkbox"/> Partial compliance  <input type="checkbox"/> Non-compliance	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
6.3.2	<p>When providing information to shareholders the Company ensures a reasonable balance between the interests of certain shareholders and the interests of the Company itself, which is interested in preserving important confidential information confidentiality which may have significant influence on competitiveness of the Company.</p>	<p>1. In the reporting year the Company didn't refuse to satisfy the shareholders' requests to provide information or such refusals were justified.</p> <p>2. In cases defined by the Information Policy of the Company shareholders are warned about the confidential nature of the information and undertake to keep it confidential.</p>	<p><input checked="" type="checkbox"/> Compliance ensured</p> <p><input type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
7.1	Actions that significantly affect or can significantly affect the structure of the share capital and the financial status of the Company and, accordingly, the shareholders' standing (i.e. material corporate events) are carried out on fair terms ensuring observance of the rights and interests of shareholders and other interested parties.			
7.1.1	<p>The material corporate events include restructuring of the Company; acquisition of 30 and over percent of the Company's voting shares (takeover); material transactions effected by the Company; increase or reduction of the Company's authorized capital; listing and delisting of the Company's shares; other actions which may cause a significant change of the shareholders' rights or violation of their interests. The Company's Charter lists (specifies the criteria of) transactions and other actions that are recognized as material corporate events and attributed to the area of expertise of the Company's Board of Directors.</p>	<p>1. The Company's Charter lists transactions and other actions that are recognized as material corporate events and the criteria to determine them. Decision-making regarding material corporate events lies in the area of expertise of the Company's Board of Directors. In cases when the decision on performing such corporate actions is statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to the shareholders.</p> <p>2. The Company's Charter lists the following actions among others as material corporate events: restructuring of the Company; acquisition of 30 and over percent of the Company's voting shares (takeover); increase or reduction of the Company's authorized capital; listing and delisting of the Company's shares.</p>	<p><input type="checkbox"/> Compliance ensured</p> <p><input checked="" type="checkbox"/> Partial compliance</p> <p><input type="checkbox"/> Non-compliance</p>	<p>The actions acknowledged by the Corporate Governance Code as material corporate events lie in the area of expertise of the Company's Board of Directors. In cases when such corporate actions are statutorily attributed to the General Shareholders' Meeting, the Board of Directors provides respective recommendations to the shareholders. The Company evaluates the advisability of including the term "material corporate events" in internal documents.</p>

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
7.1.2	The Board of Directors plays a key role in making decisions or recommendations regarding the material corporate events; the Board of Directors relies on the opinion of the Company's Independent Directors.	1. The Company has a procedure ensuring that the independent directors declare their opinion on material corporate events before they are approved.	<input checked="" type="checkbox"/> Compliance ensured <input type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	
7.1.3	In case of material corporate events that affect the rights and legitimate interests of shareholders, equal conditions are provided to all the Company's shareholders; if the procedures set out in the legislation and designed to protect the shareholders' rights are not sufficient, additional measures are taken to protect the rights and legitimate interests of the Company's shareholders. In this case, the Company is guided not only by compliance with formal statutory requirements but also by principles of the corporate governance outlined in the Code.	1. The Company's Charter, taking into account the specifics of the Company's activities, establishes the minimal criteria for the attribution of the Company's transactions to material corporate events, which are lower than those statutorily required.  2. During the reporting period all the material corporate actions underwent an approval procedure prior to their implementation.	<input type="checkbox"/> Compliance ensured <input checked="" type="checkbox"/> Partial compliance <input type="checkbox"/> Non-compliance	1. Partial compliance The Company's Charter does not set lower minimum criteria for the attribution of the Company's transactions to material corporate events. The Company uses the statutory criteria for determining the materiality of transactions.  2. Compliance ensured

N	Corporate governance principles	Criteria for evaluating the compliance with the corporate governance principles	Compliance status with the corporate governance principles	Explanations of non-compliance with the criteria of the corporate governance principles
7.2				
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 engages an independent appraiser in cases set out in the legislation of the Russian Federation.  2. Compliance ensured  3. Partial compliance  Prior to concluding each interested-party transaction the Company evaluates all the possible circumstances including the ones which might lead to the presence of interest not provided for by the Russian legislation.



## **FINANCIAL STATEMENTS**

### Part 1 – CONSOLIDATED FINANCIAL STATEMENTS (IFRS)



**NOVOLIPETSK STEEL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

**AS AT AND FOR THE YEAR ENDED  
31 DECEMBER 2016**

**(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**



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## *Independent auditor's report*

To the Shareholders and the Board of Directors of Novolipetsk Steel:

### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Novolipetsk Steel (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, 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**

Group's consolidated financial statements comprise:

- Consolidated statements of:
  - financial position as at 31 December 2016;
  - profit or loss for the year ended 31 December 2016;
  - comprehensive income for the year ended 31 December 2016;
  - changes in equity for the year ended 31 December 2016;
  - cash flows for the year ended 31 December 2016; and
- the notes to the Consolidated financial statements, which include significant accounting policies.

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### *Basis for opinion*

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

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

### **Independence**

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

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## Our audit approach

### Overview

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- Overall Group materiality: 71 million US Dollar (USD), which represents 0.93% of Group revenue.
  - We conducted audit work at 13 components (entities or business activities, which prepare financial information that should be included in the group consolidated financial statements) in 6 countries.
  - The group engagement team visited the Group companies in the Russian Federation, United States of America, Belgium and Cyprus.
  - Our audit scope addressed 93% of the Group's consolidated revenues and 86% of the Group's consolidated total assets
- 
- Key Audit Matter 1 - Management assessment of the carrying value of goodwill and property, plant and equipment
  - Key Audit Matter 2 – Accounting for the investment in NLMK Belgium Holdings (hereinafter – NBH)
  - Key Audit Matter 3 – Determination of the carrying value of the investment in NBH
- 

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made significant judgements; for example, in respect of accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

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

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



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<b>Overall Group materiality</b>	USD 71 million (2015: USD 78 million)
<b>How we determined it</b>	0.93% of Group revenue
<b>Rationale for the materiality benchmark applied</b>	We chose Group 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, during which volatility in profits may be observed. We chose 0.93% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

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We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We communicated to the Audit Committee that we would provide information on misstatements identified during our audit above USD 3.5 million as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons. We also report to the Audit Committee on disclosure matters and adjusted misstatements that we identified when assessing the overall presentation of the consolidated financial statements.

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### **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.

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
<p><i>1. Management assessment of the carrying value of goodwill and property, plant and equipment</i></p> <p><i>Refer to Notes 8 and 9 of the Consolidated Financial statements for 2016.</i></p> <p>In connection with the optimization of the timing of preparation of the consolidated financial statements, the Group's management analysed impairment indicators of the Group's property, plant and equipment and goodwill related to several Cash Generating Units (CGUs) as at 31 October 2016. For goodwill an annual impairment review is required irrespective of whether there is any indication of impairment, therefore CGUs to which significant goodwill was allocated were also tested for impairment as at 31 October 2016. The Group's management did not reveal any signs that required an update of the results of the testing performed as at 31 December 2016.</p>	<p>We obtained, understood and evaluated management's impairment models. We used PwC valuation experts to assist in evaluation of the methodology, mathematical accuracy and assumptions used in the models.</p> <p>We challenged management primarily on their Key assumptions applied upon which the outcome of the impairment test is most sensitive.</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 review model to historic performance of the company and approved estimates;</li></ul>

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Key audit matter	How our audit addressed the Key audit matter
<p>High volatility on the market of finished products and raw materials (coal and ore) triggered assessment of the assets of the Group detailed in Note 8 to the consolidated financial statements for impairment or potential reversal of previously recognised impairment.</p> <p>The recoverable amount of PPE and goodwill for each CGU was calculated by management using discounted cash flow models.</p> <p>IFRS requires management to assess the recoverable amount of CGU as the higher of its value in use and its fair value less costs of disposal.</p> <p>Management assessed value in use for each CGU and concluded that it is higher than fair value less cost to sell. Group management concluded that the assumptions of an average market participant for a similar company would generally be the same or, in some cases, even more conservative, thereby resulting in a lower value of recoverable amount if fair value less cost to sell is assessed. Therefore the recoverable amount was determined as value in use.</p> <p>Within the impairment models management used judgements on certain key assumptions (hereinafter – the Key assumptions) including, for example, discount rates, long-term growth rates, prices and sales volumes forecasts.</p> <p>We focused on this area because of the judgemental factors involved in the assessment of impairment, and the significant carrying value of the assets in scope of the test.</p>	<ul style="list-style-type: none"> <li>• benchmarking of the Key assumptions including price forecasts, discount rates and inflation against our own internal data;</li> <li>• performing sensitivity analysis over the Key assumptions in the model in order to assess the potential impact of a range of possible outcomes. For a number of CGUs, we determined that the calculation was sensitive to the price forecasts, sales volumes forecasts, discount rate and other factors. We calculated the degree to which the long-term steel price and sales volumes would need to reduce further before an impairment arises on these assets and considered the likelihood of this arising in isolation from other changes in assumptions;</li> <li>• analysis of the companies’ performance in November and December 2016, as well as assessment of other internal and external factors, which did not reveal any signs that required an update of the results of the impairment testing as at 31 December 2016;</li> <li>• assessment of completeness and accuracy of the disclosures.</li> </ul> <p>None of the items noted above resulted in material adjustments to the carrying value of goodwill and property, plant and equipment, recorded by management.</p>
<p><b>2. Accounting for the investment in NBH</b></p> <p><i>Refer to Note 4 and Note 26 (g) of the Consolidated Financial Statements for 2016.</i></p> <p>NBH is a joint investment between the Group and Societe Wallonne de Gestion et de Participations S.A. (further – SOGEPA). It is accounted for using the equity method and at</p>	<p>Our audit work in respect of auditing management judgements (existence of control / joint control / significant influence) over classification of investment in NBH and accounting method (subsidiary / joint venture/ associate) included:</p> <ul style="list-style-type: none"> <li>- inquiries of management of different levels both in Russia and Europe;</li> <li>- review of the shareholder’s agreement and charter documents;</li> </ul>



Key audit matter	How our audit addressed the Key audit matter
<p>31 December 2016 the carrying value was USD 171.4 million.</p> <p>We focused on this area because management made judgements over the assessment of control and the classification of the investment in NBH as accounted for under the equity method of accounting. We have considered whether there are facts and circumstances which trigger reassessment of the accounting treatment as required by IFRS.</p> <p>For details of management judgement applied refer to Note 4 and 26(g).</p>	<p>- review of management accounts and minutes of meetings of NBH Board of directors and Shareholders meetings to corroborate joint decision making.</p> <p>As a result, we confirmed existence of joint control and accuracy of the accounting treatment of the investment in NBH as of 31 December 2016.</p> <p>None of the items noted above resulted in a change to the way in which NBH is accounted for, the accounting relating to the shareholders' agreement, or the accounting for the additional contribution made during 2016.</p>
<hr/>	
<p><b>3. Determination of the carrying value of the investment in NBH</b></p> <p><i>Refer to Note 4 of the Consolidated Financial Statements for 2016.</i></p> <p>In June 2016 the Group contributed an additional Euro 123 million into the charter capital of NBH. This contribution was made to increase the net assets of NBH to the minimum level prescribed by Belgium law and was in the form of conversion of previously issued loans to NBH.</p> <p>Management considered that SOGEPA's share in this contribution should not be expensed immediately, but tested for recoverability as of the date of this additional contribution using a discounted cash flow model.</p> <p>We focused on this area as the amount of contribution made during 2016 and potential impairment of investment in NBH are significant for the consolidated financial statements taken as a whole.</p>	<p>Our audit procedures included:</p> <ol style="list-style-type: none"><li>1) obtaining evidence over SOGEPA's participation in NBH activities, including review of management accounts and minutes of meetings of NBH Board of directors and Shareholders meetings to confirm joint decision making.</li><li>2) test of management's impairment assessment of investment in NBH. Specific work was performed over the impairment models, including:<ul style="list-style-type: none"><li>• comparing the assumptions used within the impairment models to approved estimated figures for three CGUs within NBH;</li><li>• performing sensitivity analysis over key assumptions (for example, discount rates (weighted average cost of capital), prices and sales volumes forecasts, price spreads);</li><li>• involvement of PwC valuation specialists to assess the appropriateness of management's impairment models.</li></ul></li></ol> <p>For more details in respect of work performed over key significant assumptions refer to Key audit matter 1 above.</p>



Key audit matter	How our audit addressed the Key audit matter
	None of the items noted above resulted in material adjustments to the carrying value of the investment in NBH recorded by management.

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### **How we tailored our group audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates across the Russian Federation, Western Europe, the United States of America (“USA”) and Asia. In establishing an overall approach to the Group audit we used component audit teams located at major locations of the Group’s operations.

The Group’s major industrial operations are located in the Russian Federation, the USA and Western Europe. Based on our continuing assessment we focused our Group audit scope on 10 components located in these 3 regions, plus the Group’s 2 marketing operations (Novex Trading (Swiss) S.A. and Novexco (Cyprus) Ltd.).

Audits of the parent company and the 6 major components located in the Russian Federation were performed by the Group engagement team. The audits of the overseas components were conducted by PwC network firms in USA, Belgium and Cyprus in accordance with detailed instructions issued by us. These instructions included our risk analysis, materiality and global audit approach to centralised processes and systems. The Group audit team is in regular contact with the component auditors and visits a number of the component teams to review work performed. In addition, in the current year senior members of the group team visited USA, Belgium, Cyprus and several locations in Russia (Lipetsk, Starij Oskol, Kaluga, Zarinsk and Ekaterinburg). Our selection is based on the relevant significance of the entities within the Group or specific risks identified.

By performing the procedures above at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

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### ***Other information***

Management is responsible for the other information. The other information comprises the NLMK Annual Report 2016 and Issuer’s report for the first quarter 2017, which include the consolidated financial statements and our auditor’s report thereon. The NLMK Annual report 2016 is 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 when it becomes available and, in doing so, consider whether the



other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

2 March 2017

Moscow, Russian Federation

*AO PricewaterhouseCoopers Audit*

Richard Pollard, for AO PricewaterhouseCoopers Audit



A.M. Utkin, certified auditor (licence no. 01-000167), AO PricewaterhouseCoopers Audit

Audited entity: Novolipetsk Steel

State registration certificate № 5, 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 № 1024800823323

2, Metallurgov sq., Lipetsk, 398040, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organisations



	Note	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	3	609.7	343.0	549.2
Short-term financial investments	5	969.7	1,242.6	621.3
Trade and other accounts receivable	6	955.4	920.9	1,122.5
Inventories	7	1,549.3	1,205.3	1,562.8
Other current assets		18.6	8.8	5.3
		<b>4,102.7</b>	<b>3,720.6</b>	<b>3,861.1</b>
<b>Non-current assets</b>				
Long-term financial investments	5	164.2	219.8	141.3
Investments in associates and other companies accounted for using the equity method of accounting	4	181.0	117.7	106.2
Property, plant and equipment	8	5,328.1	4,452.3	5,613.6
Goodwill	9	253.1	214.6	285.4
Other intangible assets	9	126.0	112.3	193.9
Deferred income tax assets	17	61.5	68.2	124.9
Other non-current assets		22.3	13.9	23.0
		<b>6,136.2</b>	<b>5,198.8</b>	<b>6,488.3</b>
<b>Total assets</b>		<b>10,238.9</b>	<b>8,919.4</b>	<b>10,349.4</b>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade and other accounts payable	10	1,248.8	726.4	775.9
Short-term borrowings	11	467.6	559.8	804.3
Current income tax liability		12.4	27.7	47.5
		<b>1,728.8</b>	<b>1,313.9</b>	<b>1,627.7</b>
<b>Non-current liabilities</b>				
Long-term borrowings	11	1,801.1	2,116.3	1,964.2
Deferred income tax liability	17	385.7	339.3	407.4
Other long-term liabilities		12.5	12.2	93.4
		<b>2,199.3</b>	<b>2,467.8</b>	<b>2,465.0</b>
<b>Total liabilities</b>		<b>3,928.1</b>	<b>3,781.7</b>	<b>4,092.7</b>
<b>Equity attributable to NLMK shareholders</b>				
Common stock	12(a)	221.2	221.2	221.2
Additional paid-in capital	23(f)	9.9	9.9	-
Accumulated other comprehensive loss		(5,977.5)	(6,988.4)	(5,491.9)
Retained earnings		12,039.3	11,883.4	11,512.7
		<b>6,292.9</b>	<b>5,126.1</b>	<b>6,242.0</b>
<b>Non-controlling interests</b>		<b>17.9</b>	<b>11.6</b>	<b>14.7</b>
<b>Total equity</b>		<b>6,310.8</b>	<b>5,137.7</b>	<b>6,256.7</b>
<b>Total liabilities and equity</b>		<b>10,238.9</b>	<b>8,919.4</b>	<b>10,349.4</b>

The consolidated financial statements as set out on pages 11 to 69 were approved on 2 March 2017.



	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Revenue	14	7,636.4	8,008.3	10,395.7
Cost of sales		(5,073.6)	(5,495.7)	(7,389.0)
<b>Gross profit</b>		<b>2,562.8</b>	<b>2,512.6</b>	<b>3,006.7</b>
General and administrative expenses		(316.0)	(261.1)	(364.3)
Selling expenses		(704.7)	(801.6)	(923.1)
Other operating income		16.4	14.1	6.1
Taxes, other than income tax	16	(70.0)	(75.7)	(137.5)
<b>Operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets</b>		<b>1,488.5</b>	<b>1,388.3</b>	<b>1,587.9</b>
Loss on disposals of property, plant and equipment		(3.2)	(7.6)	(11.9)
Impairment losses and write-off of assets	4, 7, 8	(13.8)	(85.5)	(657.2)
Share in net losses of associates and other companies accounted for using the equity method	4	(61.0)	(103.0)	(193.1)
(Losses) / gains on investments, net	4, 24(b)	(4.5)	80.3	37.4
Finance income	18	39.1	51.9	36.5
Finance costs	18	(105.3)	(95.3)	(136.8)
Foreign currency exchange (loss) / gain, net	19	(129.1)	109.5	488.2
Other expenses, net		(38.5)	(17.5)	(15.0)
<b>Profit before income tax</b>		<b>1,172.2</b>	<b>1,321.1</b>	<b>1,136.0</b>
Income tax expense	17	(233.4)	(352.9)	(362.4)
<b>Profit for the year</b>		<b>938.8</b>	<b>968.2</b>	<b>773.6</b>
Profit attributable to:				
<b>NLMK shareholders</b>		<b>935.1</b>	<b>967.4</b>	<b>772.5</b>
<b>Non-controlling interests</b>		<b>3.7</b>	<b>0.8</b>	<b>1.1</b>
<b>Earnings per share – basic and diluted:</b>				
Earnings attributable to NLMK shareholders per share (US dollars)	13	0.1560	0.1614	0.1289
Weighted-average shares outstanding: basic and diluted (in thousands)	12(a)	5,993,227	5,993,227	5,993,227



	<u>Note</u>	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Profit for the year		938.8	968.2	773.6
Other comprehensive income / (loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	2(b)	1,013.5	(1,500.3)	(4,666.5)
<b>Total comprehensive income / (loss) attributable to</b>		<b>1,952.3</b>	<b>(532.1)</b>	<b>(3,892.9)</b>
NLMK shareholders		1,946.0	(529.1)	(3,879.5)
Non-controlling interests		6.3	(3.0)	(13.4)



		NLMK shareholders					
		Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	Total equity
Note							
	<b>Balance at 31 December 2013</b>	<b>221.2</b>	-	<b>(839.9)</b>	<b>10,989.1</b>	<b>28.1</b>	<b>10,398.5</b>
	Profit for the year	-	-	-	772.5	1.1	773.6
	Cumulative translation adjustment	-	-	(4,652.0)	-	(14.5)	(4,666.5)
	<b>Total comprehensive loss</b>						<b>(3,892.9)</b>
	Dividends to shareholders	-	-	-	(248.9)	-	(248.9)
	<b>Balance at 31 December 2014</b>	<b>221.2</b>	-	<b>(5,491.9)</b>	<b>11,512.7</b>	<b>14.7</b>	<b>6,256.7</b>
	Profit for the year	-	-	-	967.4	0.8	968.2
	Cumulative translation adjustment	-	-	(1,496.5)	-	(3.8)	(1,500.3)
	<b>Total comprehensive loss</b>						<b>(532.1)</b>
	Disposal of assets to an entity under common control	-	9.9	-	-	(0.1)	9.8
	Dividends to shareholders	-	-	-	(596.7)	-	(596.7)
	<b>Balance at 31 December 2015</b>	<b>221.2</b>	<b>9.9</b>	<b>(6,988.4)</b>	<b>11,883.4</b>	<b>11.6</b>	<b>5,137.7</b>
	Profit for the year	-	-	-	935.1	3.7	938.8
	Cumulative translation adjustment	-	-	1,010.9	-	2.6	1,013.5
	<b>Total comprehensive income</b>						<b>1,952.3</b>
	Dividends to shareholders	-	-	-	(779.2)	-	(779.2)
	<b>Balance at 31 December 2016</b>	<b>221.2</b>	<b>9.9</b>	<b>(5,977.5)</b>	<b>12,039.3</b>	<b>17.9</b>	<b>6,310.8</b>

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
<b>Cash flows from operating activities</b>				
<b>Profit for the year</b>		<b>938.8</b>	<b>968.2</b>	<b>773.6</b>
<b>Adjustments to reconcile profit for the year to net cash provided by operating activities:</b>				
Depreciation and amortization		452.3	560.0	793.5
Loss on disposals of property, plant and equipment		3.2	7.6	11.9
Losses / (gains) on investments		4.5	(80.3)	(37.4)
Finance income		(39.1)	(51.9)	(36.5)
Finance costs		105.3	95.3	136.8
Share in net losses of associates and other companies accounted for using the equity method	4	61.0	103.0	193.1
Deferred income tax (benefit) / expense	17	(3.7)	51.8	(15.9)
Impairment losses		13.8	85.5	657.2
Unrealized (gains) / losses on foreign currency exchange		125.6	(173.4)	(574.0)
Other adjustments		(1.5)	(8.4)	31.5
<b>Changes in operating assets and liabilities</b>				
Decrease / (increase) in trade and other accounts receivable		31.8	98.2	(49.9)
(Increase) / decrease in inventories		(193.3)	82.8	(97.6)
Increase in other current assets		(9.0)	(5.5)	(1.8)
Increase / (decrease) in trade and other accounts payable		225.2	(75.5)	(28.9)
(Decrease) / increase in current income tax liability		(20.3)	(6.3)	50.1
<b>Net cash provided by operating activities</b>		<b>1,694.6</b>	<b>1,651.1</b>	<b>1,805.7</b>
<b>Cash flows from investing activities</b>				
Purchases and construction of property, plant and equipment		(558.6)	(594.7)	(562.6)
Proceeds from sale of property, plant and equipment		9.0	10.8	15.0
Purchases of investments and loans given, net		(79.3)	(198.8)	(231.6)
Withdrawal / (placement) of bank deposits, net		272.0	(641.0)	(197.1)
Interest received		36.2	43.6	30.7
Contribution to share capital of the company accounted for using the equity method	4	-	(22.0)	-
VAT on imported equipment		-	(23.8)	-
Disposal of assets to an entity under common control	23(f)	-	9.8	-
Cash received in course of bankruptcy proceedings	24(b)	11.4	16.8	-
<b>Net cash used in investing activities</b>		<b>(309.3)</b>	<b>(1,399.3)</b>	<b>(945.6)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		802.9	675.6	110.2
Repayment of borrowings and capital lease payments		(1,255.6)	(578.8)	(910.7)
Interest paid		(83.6)	(79.4)	(120.6)
Dividends to shareholders		(582.5)	(395.2)	(225.9)
<b>Net cash used in financing activities</b>		<b>(1,118.8)</b>	<b>(377.8)</b>	<b>(1,147.0)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>266.5</b>	<b>(126.0)</b>	<b>(286.9)</b>
Effect of exchange rate changes on cash and cash equivalents		0.2	(80.2)	(133.9)
Cash and cash equivalents at the beginning of the year	3	343.0	549.2	970.0
<b>Cash and cash equivalents at the end of the year</b>	3	<b>609.7</b>	<b>343.0</b>	<b>549.2</b>



	Note	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
<b>Supplemental disclosures of cash flow information</b>				
<b>Cash paid during the year for:</b>				
Income tax paid		(252.4)	(320.9)	(352.4)
Placements of bank deposits		(988.6)	(1,594.7)	(1,997.8)
Withdrawals of bank deposits		1 260.6	953.7	1,800.7
<b>Non cash investing activities:</b>				
Conversion of debt to equity	4	139.4	109.5	270.4

## 1 Background

Novolipetsk Steel (the “Parent Company”) 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 Russian Federation 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 privatized in the form of an open joint stock company on 28 January 1993. On 12 August 1998 the Parent Company’s name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation and on 29 December 2015 the name 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 subsidiaries’ state and regional authorities. The Parent Company’s registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

As at 31 December 2016 the Parent Company’s major shareholder with 84.035% ownership interest is Fletcher Group Holdings Ltd. which is beneficially owned by Mr. Vladimir Lisin.

The major companies of the Group are:

	Activity	Country of incorporation	Share at 31 December 2016	Share at 31 December 2015	Share at 31 December 2014
<b>Companies under the Group’s control:</b>					
<b>Russian flat products</b>					
	LLC VIZ-Stahl	Production of steel	Russia	100.00%	100.00%
	OJSC Altai-Koks	Production of blast furnace coke	Russia	100.00%	100.00%
	Novex Trading (Swiss) S.A.	Trading	Switzerland	100.00%	100.00%
	Novexco (Cyprus) Ltd.	Trading	Cyprus	100.00%	100.00%
<b>NLMK DanSteel and Plates Distribution Network</b>					
	NLMK DanSteel A/S	Production of steel	Denmark	100.00%	100.00%
<b>NLMK USA</b>					
	NLMK Indiana LLC	Production of steel	USA	100.00%	100.00%
	NLMK Pennsylvania LLC	Production of steel	USA	100.00%	100.00%
<b>Russian long products</b>					
	JSC NLMK-Ural (formerly – OJSC NSMMZ)	Production of steel and long products	Russia	92.59%	92.59%
	LLC NLMK-Metalware	Production of metalware	Russia	100.00%	100.00%
	LLC NLMK-Kaluga	Production of long products	Russia	100.00%	100.00%
	LLC Vtorchermet NLMK	Processing of metal scrap	Russia	100.00%	100.00%
<b>Mining</b>					
	OJSC Stoilensky GOK	Mining and processing of iron-ore raw	Russia	100.00%	100.00%

Among associates and other companies accounted for using the equity method the major is:

	Activity	Country of incorporation	Share at 31 December 2016	Share at 31 December 2015	Share at 31 December 2014
	NLMK Belgium Holdings S.A.	Holding company	Belgium	51.00%	51.00%
					79.50%



## 2 Basis of consolidated financial statements preparation

### (a) Basis of preparation

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

### (b) Functional and reporting currency

Functional currency of all 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 presentation currency of these consolidated financial statements for users' convenience.

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 recognized in other comprehensive income.

Items of consolidated statements of cash flow 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).

Before January 2016 translation of operations for a period was carried out using average exchange rates for each quarter.

When control over a foreign operation is lost, the previously recognized exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

The Central Bank of the Russian Federation's Russian ruble to US dollar closing rates of exchange as of the reporting dates and the period weighted average exchange rates for corresponding reporting periods are indicated below.

	2016	2015	2014
For the 1 <sup>st</sup> quarter	74.6283	62.1919	34.9591
For the 2 <sup>nd</sup> quarter	65.8883	52.6543	34.9999
For the 3 <sup>rd</sup> quarter	64.6245	62.9784	36.1909
For the 4 <sup>th</sup> quarter	63.0685	65.9434	47.4243
As at 31 December	60.6569	72.8827	56.2584

### 3 Cash and cash equivalents

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Cash</b>			
Russian rubles	11.3	20.4	20.3
US dollars	89.0	99.0	150.8
Euros	52.1	41.2	54.3
Other currencies	2.2	1.7	8.0
<b>Deposits</b>			
Russian rubles	49.0	29.6	96.3
US dollars	393.5	140.3	158.0
Euros	10.5	-	53.6
Other currencies	1.2	10.7	7.8
<b>Other cash equivalents</b>	0.9	0.1	0.1
	<b>609.7</b>	<b>343.0</b>	<b>549.2</b>

### 4 Investments in associates and other companies accounted for using the equity method of accounting

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
NLMK Belgium Holdings S.A.	171.4	108.8	97.3
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	9.6	8.9	8.9
	<b>181.0</b>	<b>117.7</b>	<b>106.2</b>

The table below summarizes the movements in the carrying amount of the Group's investments in associates and other companies accounted for using the equity method of accounting.

	2016	2015	2014
<b>As at 1 January</b>	<b>117.7</b>	<b>106.2</b>	<b>419.1</b>
Share of net loss of associates and other companies accounted for using the equity method of accounting	(61.0)	(103.0)	(193.1)
Conversion of debt to equity	139.4	109.5	270.4
Contributions to the share capital by the Group	-	22.0	-
Impairment of investments	-	-	(325.2)
Disposal of 28.5% shares in NBH	-	(35.6)	-
Share of unrealized profit in inventory of associates and other companies accounted for using the equity method of accounting	(5.2)	30.3	(28.0)
Translation adjustment	(10.6)	(12.8)	(29.7)
Other adjustments	0.7	1.1	(7.3)
<b>As at 31 December</b>	<b>181.0</b>	<b>117.7</b>	<b>106.2</b>

#### 4 Investments in associates and other companies accounted for using the equity method of accounting (continued)

The Group's interests in its principal associates and other companies accounted for using the equity method of accounting and their summarized financial information were as follows:

Company	Year	Share	Assets	Liabilities	Revenue	Net profit / (loss) for the year
NLMK Belgium Holdings S.A. (Belgium)	2016	51.0%	1,406.4	(1,193.7)	1,221.0	(120.0)
<i>including from / (to) the Group</i>			15.8	(428.5)	44.9	-
	2015	51.0%	1,485.4	(1,281.7)	1,277.6	(191.3)
<i>including from / (to) the Group</i>			18.4	(505.9)	56.6	-
	2014	79.5%	1,857.2	(1,542.9)	1,517.3	(243.4)
<i>including from / (to) the Group</i>			24.7	(510.5)	54.9	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd. (China)	2016	50.0%	22.0	(4.9)	22.4	0.6
	2015	50.0%	18.0	(0.2)	9.9	0.7
	2014	50.0%	18.4	(0.6)	12.3	0.9

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

	2016	2015	2014
<b>Net assets as at 1 January</b>	<b>4.2</b>	<b>28.2</b>	<b>27.3</b>
Net loss for the period	(111.1)	(178.4)	(276.1)
Proportional contributions into share capital	-	43.2	-
Conversion of debt to equity	139.4	109.5	270.4
Other adjustments	1.4	1.9	(8.4)
Translation adjustment	(4.5)	(0.2)	15.0
<b>Net assets as at 31 December</b>	<b>29.4</b>	<b>4.2</b>	<b>28.2</b>
PP&E valuation difference	183.3	199.5	235.4
<b>Adjusted net assets as at 31 December</b>	<b>212.7</b>	<b>203.7</b>	<b>263.6</b>
Share in net assets	108.5	103.9	209.6
Share in excess of fair value of investment in NBH as at the deconsolidation date	103.9	103.9	162.0
Accumulated share of other investor in conversion of debt to equity	177.4	109.1	55.4
Accumulated impairment of investments	(239.8)	(239.8)	(325.2)
Share of unrealized profit	(5.2)	30.3	(28.0)
Cumulative translation adjustment and other adjustments	26.6	1.4	23.5
<b>Investments in NBH</b>	<b>171.4</b>	<b>108.8</b>	<b>97.3</b>

Information about the Group's operations with NBH is disclosed in Note 23.

#### 4 Investments in associates and other companies accounted for using the equity method of accounting (continued)

Summarized financial information for NBH before impairment losses is as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Current assets	736.2	734.1	921.9
Non-current assets	670.2	751.3	935.3
<b>Total assets</b>	<b>1,406.4</b>	<b>1,485.4</b>	<b>1,857.2</b>
Current liabilities	(560.1)	(657.5)	(1,054.3)
Non-current liabilities	(633.6)	(624.2)	(488.6)
<b>Total liabilities</b>	<b>(1,193.7)</b>	<b>(1,281.7)</b>	<b>(1,542.9)</b>
<b>Equity</b>	<b>212.7</b>	<b>203.7</b>	<b>314.3</b>

NBH cash and cash equivalents as at 31 December 2016, 2015 and 2014 amounted to \$52.3, \$59.8 and \$46.1, respectively.

NBH trade and other accounts payable as at 31 December 2016, 2015 and 2014 amounted to \$340.3, \$354.4 and \$463.7, respectively, and are included in current liabilities.

The Group's share in NBH's net loss for the year ended 31 December 2016, 2015 and 2014 amounted to \$(61.2), \$(103.4) and \$(193.5), respectively, and is included in "Share in net losses of associates and other companies accounted for using the equity method" line in the consolidated statement of profit or loss.

In June 2016, the Group converted existing loans to NBH into share capital in the amount of EUR 123 million (\$139.4). These investments are also a part of the agreement signed in March 2015 (see below). These contributions did not change the Group's share in NBH.

In March 2015, the Group and SOGEPA signed an agreement providing for the increase of SOGEPA's stake in NBH from 20.5% to 49% and on further joint management of NBH's businesses. The Group reflected a disposal of its 28.5% stake in NBH (loss on the disposal amounting to \$21.1) and derecognition of the options previously included in other long-term liabilities (gain amounting to \$76.0) in "(Losses) / gains on investments" line of the consolidated statement of profit or loss for the year ended 31 December 2015 in the total amount of \$54.9. In March 2015, in accordance with the agreement the Group and SOGEPA made additional pro-rata contributions to the share capital of NBH (EUR 20.4 million (\$22.0) and EUR 19.6 million (\$21.2), respectively). The Group and SOGEPA also agreed to support NBH in obtaining financing of its working capital.

Earlier, in December 2014, the Group made a conversion of existing loans given into NBH share capital in the amount of EUR 220 million (\$270.4) with a corresponding reflection in the consolidated financial statements for the year ended 31 December 2014. In December 2015, the Group made a conversion of existing loans given into NBH share capital in the amount of EUR 100 million (\$109.5) with a corresponding reflection in the consolidated financial statements for the year ended 31 December 2015. These contributions did not change Group's share in NBH.

Continuous trend of low prices for steel products in Europe and underperformance of NBH holding companies resulted in a necessity of reassessment of impairment testing model for the investments in NBH in 2014, which showed no impairment in 2013. The revised model showed a necessity of further impairment of \$325.2 as at 31 December 2014. For the purpose of impairment testing the Group has estimated cash flows for 9 years for different groups of assets and respective cash flows in the post-forecast period. Prices for steel products were determined on the basis of forecasts of investment banks' analysts. A discount rate of 8% was used. The impairment testing model is sensitive to assumptions used. For example, increase in the discount rate by 1% resulted in additional impairment of \$117.

## 5 Financial investments

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Short-term financial investments</b>			
Loans to related parties (Note 23)	66.1	65.4	68.4
Bank deposits (Note 22(c)), including:	898.2	1,171.7	549.4
- Russian rubles	0.7	14.8	14.8
- US dollars	855.4	1,090.7	425.8
- Euros	42.1	66.2	96.5
- other currencies	-	-	12.3
Other short-term financial investments	5.4	5.5	3.5
	<u>969.7</u>	<u>1,242.6</u>	<u>621.3</u>
<b>Long-term financial investments</b>			
Loans to related parties (Note 23)	163.9	219.7	141.2
Bank deposits and other long-term financial investments	0.3	0.1	0.1
	<u>164.2</u>	<u>219.8</u>	<u>141.3</u>
	<b><u>1,133.9</u></b>	<b><u>1,462.4</u></b>	<b><u>762.6</u></b>

## 6 Trade and other accounts receivable

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Financial assets</b>			
Trade accounts receivable	692.5	613.6	802.0
Allowance for impairment of trade accounts receivable	(24.1)	(16.3)	(28.6)
Other accounts receivable	24.6	40.3	38.7
Allowance for impairment of other accounts receivable	(18.3)	(15.3)	(20.4)
	<u>674.7</u>	<u>622.3</u>	<u>791.7</u>
<b>Non-financial assets</b>			
Advances given to suppliers	53.7	54.0	69.7
Allowance for impairment of advances given to suppliers	(1.7)	(4.2)	(9.6)
VAT and other taxes receivable	226.8	247.3	269.0
Accounts receivable from employees	1.9	1.5	1.7
	<u>280.7</u>	<u>298.6</u>	<u>330.8</u>
	<b><u>955.4</u></b>	<b><u>920.9</u></b>	<b><u>1,122.5</u></b>

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

As at 31 December 2016, 2015 and 2014 accounts receivable of \$121.5, \$74.0 and \$137.6, respectively, served as collateral for certain borrowings (Note 11).

## 6 Trade and other accounts receivable (continued)

Movements in the Group's provision for impairment of trade and other accounts receivables are as follows:

	2016	2015	2014
<b>As at 1 January</b>	<b>(35.8)</b>	<b>(58.6)</b>	<b>(83.7)</b>
Provision for impairment during the year	(12.9)	(22.8)	(35.9)
Receivables written off during the year as uncollectible	1.9	21.1	0.3
Unused amounts reversed	7.7	13.7	21.1
Change in scope of consolidation	-	0.1	4.3
Translation adjustment	(5.0)	10.7	35.3
<b>As at 31 December</b>	<b>(44.1)</b>	<b>(35.8)</b>	<b>(58.6)</b>

The allocation of trade accounts receivable, net of provision for doubtful debt, by geographical area is follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Russia	182.2	130.5	133.6
European Union	278.7	288.6	399.3
North America	98.3	58.7	146.9
Asia and Oceania	50.3	48.8	37.0
Middle East, including Turkey	23.2	42.2	21.0
Other regions	35.7	28.5	35.6
	<b>668.4</b>	<b>597.3</b>	<b>773.4</b>

## 7 Inventories

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Raw materials	705.2	522.0	623.1
Work in process	460.1	400.3	569.7
Finished goods and goods for resale	443.2	340.7	419.5
	1,608.5	1,263.0	1,612.3
Valuation to net realizable value	(59.2)	(57.7)	(49.5)
	<b>1,549.3</b>	<b>1,205.3</b>	<b>1,562.8</b>

As at 31 December 2016, 2015 and 2014 inventories of \$295.9, \$303.5 and \$562.0, respectively, served as collateral for certain borrowings (Note 11).

Share of raw materials and acquired semi-finished goods in cost of sales for the years ended 31 December 2016, 2015 and 2014 amounted to 67.9%, 63.5% and 61.3%, respectively. Share of fuel and energy resources expenses in cost of sales for the years ended 31 December 2016, 2015 and 2014 amounted to 10.9%, 10.9% and 13.0%, respectively.





## 8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Other	Total
Cost at 31 December 2013	215.8	2,755.3	2,267.0	9,835.9	413.8	1,902.1	103.2	17,493.1
Accumulated depreciation and impairment	-	(806.1)	(983.5)	(5,527.1)	(226.8)	-	(57.5)	(7,601.0)
<b>Net book value at 31 December 2013</b>	<b>215.8</b>	<b>1,949.2</b>	<b>1,283.5</b>	<b>4,308.8</b>	<b>187.0</b>	<b>1,902.1</b>	<b>45.7</b>	<b>9,892.1</b>
Additions	-	-	-	0.5	-	605.5	-	606.0
Disposals	(6.0)	(3.0)	(3.2)	(10.8)	(2.6)	(1.5)	(0.8)	(27.9)
Impairment	-	(122.6)	(41.6)	(139.3)	-	(4.3)	-	(307.8)
Transfers	9.2	90.0	154.7	645.5	13.9	(921.8)	8.5	-
Depreciation charge	-	(78.6)	(82.8)	(542.5)	(33.3)	-	(13.6)	(750.8)
Translation adjustment	(88.1)	(773.2)	(554.3)	(1,638.8)	(66.5)	(674.4)	(2.7)	(3,798.0)
Cost at 31 December 2014	130.9	1,713.6	1,420.3	6,401.8	235.5	905.6	78.6	10,886.3
Accumulated depreciation and impairment	-	(651.8)	(664.0)	(3,778.4)	(137.0)	-	(41.5)	(5,272.7)
<b>Net book value at 31 December 2014</b>	<b>130.9</b>	<b>1,061.8</b>	<b>756.3</b>	<b>2,623.4</b>	<b>98.5</b>	<b>905.6</b>	<b>37.1</b>	<b>5,613.6</b>
Additions	-	-	-	-	-	639.8	-	639.8
Disposals	(1.3)	(0.6)	(4.0)	(11.8)	(1.9)	(33.4)	(0.2)	(53.2)
Impairment	-	(13.7)	(7.1)	(26.8)	(11.0)	-	-	(58.6)
Transfers	0.6	30.4	36.2	220.3	10.3	(309.0)	11.2	-
Depreciation charge	-	(40.0)	(45.3)	(393.6)	(18.1)	-	(7.5)	(504.5)
Translation adjustment	(29.2)	(218.3)	(119.3)	(542.0)	(20.5)	(252.7)	(2.8)	(1,184.8)
Cost at 31 December 2015	101.0	1,380.2	1,672.1	4,655.8	185.6	950.3	77.4	9,022.4
Accumulated depreciation and impairment	-	(560.6)	(1,055.3)	(2,786.3)	(128.3)	-	(39.6)	(4,570.1)
<b>Net book value at 31 December 2015</b>	<b>101.0</b>	<b>819.6</b>	<b>616.8</b>	<b>1,869.5</b>	<b>57.3</b>	<b>950.3</b>	<b>37.8</b>	<b>4,452.3</b>



## 8 Property, plant and equipment (continued)

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Other	Total
Additions	-	-	-	-	-	539.7	-	539.7
Disposals	-	(0.8)	(0.9)	(3.5)	(0.3)	(6.4)	(0.4)	(12.3)
Impairment	-	-	-	-	-	-	-	-
Transfers	0.1	159.4	115.6	521.6	15.6	(823.6)	11.3	-
Depreciation charge	-	(33.9)	(45.2)	(348.8)	(13.4)	-	(8.6)	(449.9)
Translation adjustment	19.7	155.1	115.8	292.7	14.8	199.5	0.7	798.3
Cost at 31 December 2016	120.8	1,801.0	2,098.8	5,964.5	234.9	859.5	71.8	11,151.3
Accumulated depreciation and impairment	-	(701.6)	(1,296.7)	(3,633.0)	(160.9)	-	(31.0)	(5,823.2)
<b>Net book value at 31 December 2016</b>	<b>120.8</b>	<b>1 099.4</b>	<b>802.1</b>	<b>2,331.5</b>	<b>74.0</b>	<b>859.5</b>	<b>40.8</b>	<b>5,328.1</b>

The amount of borrowing costs capitalized is \$36.9, \$50.7 and \$59.0 for the years ended 31 December 2016, 2015 and 2014, respectively. The capitalisation rate was 4.1%, 4.4% and 5.1% in 2016, 2015 and 2014, respectively.

## 8 Property, plant and equipment (continued)

The Group's management has decided to analyze impairment indicators of the Group's assets as at 31 October 2016. High volatility on the market of finished products and main raw materials (coal and ore) triggered impairment assessment of some of the Group's assets, at the same time 2-4 quarter of 2016 positive trends on the steel market caused by increases in metal prices, particularly in Russia and the USA, represented triggers for potential reversal of previously recognized impairment loss which required determination of the recoverable amounts of assets using the income approach based on primarily Level 3 inputs. Goodwill was also tested for impairment as of the same date. As of 31 December 2016 the Group's management did not reveal any signs that required an update of the results of the testing. Testing for impairment in the comparative periods was caused by a deterioration in the steel market and was conducted as of 31 December 2015 and 2014.

For the purpose of impairment testing the Group's management has estimated cash flows for 7 years due to long useful-lives of steel making equipment and normalized cash flows for a post-forecast period.

The table below summarizes cash generating units (further – "CGUs") and types of assets, subject to determination of the recoverable amount as of 31 October 2016, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined on the basis of 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 balance values. As of 31 October 2016 testing showed neither impairment, nor reversal of previously recognized impairment loss.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK Pennsylvania LLC	Property, plant and equipment	7	8%	Flat products	705	-2%	-17%
NLMK Indiana LLC	Property, plant and equipment	7	8%	Flat products	582	-1%	-7%
NLMK Indiana LLC	Goodwill	7	8%	Flat products	582	-1%	-6%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	7	12-16%	Metal scrap	237	-0.05%	-0.2%
JSC NLMK-Ural	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	452	-1%	-2%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	429	-0.04%	-0.4%
NLMK DanSteel A/S	Property, plant and equipment	7	8%	Plate	685	-0.3%	-2%

\* Weighted average prices giving the product mix, averaged for the period from November 2016 to 2023

## 8 Property, plant and equipment (continued)

The table below summarizes CGUs and types of assets, subject to impairment test as of 31 December 2015, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined on the basis of 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 balance values. As of 31 December 2015 impairment testing showed that recoverable amount of property, plant and equipment (value in use) of scrap collecting assets in Russian long products segment and JSC NLMK-Ural was below its carrying amount by \$23.9 and \$34.7, respectively. Impairment testing also showed impairment of goodwill in NLMK Indiana LLC by \$14.4.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
OJSC Stoilensky GOK	Property, plant and equipment and intangible assets	7	12-16%	Iron ore	44	-43%	-56%
OJSC Stoilensky GOK	Goodwill	7	12-16%	Iron ore	44	-36%	-47%
NLMK Pennsylvania LLC	Property, plant and equipment	7	8%	Flat products	646	-3%	-22%
NLMK Indiana LLC	Property, plant and equipment	7	8%	Flat products	540	-0.4%	-3%
NLMK Indiana LLC	Goodwill	7	8%	Flat products	540	+0.3%	+2%
OJSC Altai-Koks	Property, plant and equipment	7	12-16%	Coke, chemical products	172	-15%	-40%
OJSC Altai-Koks	Goodwill	7	12-16%	Coke, chemical products	172	-13%	-35%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	7	12-16%	Metal scrap	171	+3%	-
JSC NLMK-Ural	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	344	+1%	+2%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	353	-0.2%	-1%
LLC NLMK-Metalware	Property, plant and equipment	7	12-16%	Metalware	464	-7%	-31%
NLMK DanSteel A/S	Property, plant and equipment	7	8%	Plate	630	-1%	-5%

\* Weighted average prices giving the product mix, averaged for the period from 2016 to 2022

## 8 Property, plant and equipment (continued)

The table below summarizes CGUs and types of assets, subject to impairment test as of 31 December 2014, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined on the basis of 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 balance values. As of 31 December 2014 impairment testing showed that recoverable amount of property, plant and equipment (value in use) of JSC NLMK-Ural, LLC NLMK-Kaluga and NLMK DanSteel A/S was below its carrying amount by \$113.7, \$127.0 and \$67.1, respectively.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, \$ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK	Property, plant and equipment and intangible assets	7	12-16%	Flat products	405	-17%	-17%
OJSC Stoilensky GOK	Property, plant and equipment and intangible assets	7	12-16%	Iron ore	34	-25%	-27%
OJSC Stoilensky GOK	Goodwill	7	12-16%	Iron ore	34	-7%	-8%
NLMK Pennsylvania LLC	Property, plant and equipment	7	9%	Flat products	799	-5%	-62%
NLMK Indiana LLC	Property, plant and equipment	7	9%	Flat products	705	-4%	-35%
OJSC Altai-Koks	Goodwill	7	12-16%	Coke, chemical products	116	-3%	-14%
Scrap collecting assets in Russian long products segment	Property, plant and equipment	7	12-16%	Metal scrap	199	-2%	-43%
JSC NLMK-Ural	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	403	+2%	+7%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	437	+3%	-
NLMK DanSteel A/S	Property, plant and equipment	6	9%	Plate	738	+2%	-

\* Weighted average prices giving the product mix, averaged for the period from 2015 to 2021

## 9 Intangible assets

	Goodwill	Mineral rights	Customer base	Industrial intellectual property	Beneficial lease interest	Total
Cost at 31 December 2013	463.4	617.5	189.1	52.2	8.7	1,330.9
Accumulated amortisation and impairment	-	(359.0)	(102.3)	(31.2)	(0.5)	(493.0)
<b>Net book value at 31 December 2013</b>	<b>463.4</b>	<b>258.5</b>	<b>86.8</b>	<b>21.0</b>	<b>8.2</b>	<b>837.9</b>
Amortisation charge	-	(11.4)	(44.4)	(9.4)	(0.1)	(65.3)
Translation adjustment	(178.0)	(104.4)	(5.1)	(5.8)	-	(293.3)
Cost at 31 December 2014	285.4	359.2	147.6	30.4	8.7	831.3
Accumulated amortisation and impairment	-	(216.5)	(110.3)	(24.6)	(0.6)	(352.0)
<b>Net book value at 31 December 2014</b>	<b>285.4</b>	<b>142.7</b>	<b>37.3</b>	<b>5.8</b>	<b>8.1</b>	<b>479.3</b>
Amortisation charge	-	(7.1)	(36.9)	(5.6)	(0.1)	(49.7)
Impairment	(14.4)	-	-	-	-	(14.4)
Translation adjustment	(56.4)	(31.3)	(0.4)	(0.2)	-	(88.3)
Cost at 31 December 2015	229.0	277.3	-	-	8.7	515.0
Accumulated amortisation and impairment	(14.4)	(173.0)	-	-	(0.7)	(188.1)
<b>Net book value at 31 December 2015</b>	<b>214.6</b>	<b>104.3</b>	<b>-</b>	<b>-</b>	<b>8.0</b>	<b>326.9</b>
Amortisation charge	-	(6.6)	-	-	(0.1)	(6.7)
Impairment	-	-	-	-	-	-
Translation adjustment	38.5	20.4	-	-	-	58.9
Cost at 31 December 2016	267.5	333.2	-	-	8.7	609.4
Accumulated amortisation and impairment	(14.4)	(215.1)	-	-	(0.8)	(230.3)
<b>Net book value at 31 December 2016</b>	<b>253.1</b>	<b>118.1</b>	<b>-</b>	<b>-</b>	<b>7.9</b>	<b>379.1</b>

The intangible assets were acquired in business combinations and met the criteria for separate recognition. They were recorded at fair values at the date of acquisition, based on their appraised values. Useful lives of the Group's intangible assets as at 31 December 2016 are shown below.

	Company	Total useful life, months	Remaining useful life, months
Mineral rights	LLC Zhernovsky GOK	240	104
Mineral rights	LLC Zhernovsky GOK	240	180
Mineral rights	LLC Usinsky GOK	240	169
Mineral rights	OJSC Stoilensky GOK	306	228
Beneficial lease interest	NLMK Indiana LLC	974	876



## 9 Intangible assets (continued)

During 2015 the Group revised useful lives of customer base and industrial intellectual property and completed their amortization in the third quarter of 2015.

In May 2011, the Group acquired a license for exploration and extraction of coal in the Zhernovsky Glubokiy coal field of the Zhernovsky coal deposit expiring in 2031. The carrying value of this license as at 31 December 2016 is \$5.2. In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit expiring in 2025. The carrying value of this license as at 31 December 2016 is \$7.9.

In March 2011, the Group acquired a license for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this license as at 31 December 2016 is \$18.7.

A license for iron ore and non-metallics mining at Stoilensky iron-ore deposit in Belgorod Region expiring in 2035 was acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at 31 December 2016 is \$86.3.

The Group's management believes that these licenses will be extended.

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place.

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

	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Russian flat products	166.8	139.2	179.7
NLMK USA	21.3	21.3	35.7
Russian long products	3.1	2.5	3.3
Mining	61.9	51.6	66.7
	<b>253.1</b>	<b>214.6</b>	<b>285.4</b>

### **Goodwill impairment testing**

The Group tested goodwill for impairment as at 31 October 2016 and 31 December 2015 and 2014. For the purpose of annual impairment testing of goodwill related to cash generating units OJSC Altai-Koks and OJSC Stoilensky GOK as at 31 October 2016 management decided to use the previous detailed calculations of these CGUs' recoverable amounts prepared as at 31 December 2015. The Group's management did not update the previous calculation of the recoverable amount of these CGUs as all criteria provided in IAS 36 para 99 were met. The recoverable amount has been determined as values in use of respective assets. For the purpose of this impairment testing the Group used the same estimates as for testing of other assets, as disclosed in Note 8. Impairment testing showed no impairment of goodwill as at 31 October 2016 and showed impairment of goodwill in NLMK Indiana LLC by \$14.4 as at 31 December 2015.

**10 Trade and other accounts payable**

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Financial liabilities</b>			
Trade accounts payable	521.6	342.3	440.9
Dividends payable	360.5	161.2	0.7
Other accounts payable	16.1	16.0	23.1
	<u>898.2</u>	<u>519.5</u>	<u>464.7</u>
<b>Non-financial liabilities</b>			
Advances received	130.0	62.9	105.4
Taxes payable other than income tax	41.3	39.2	77.3
Accounts payable and accrued liabilities to employees	179.3	104.8	128.5
	<u>350.6</u>	<u>206.9</u>	<u>311.2</u>
	<b><u>1,248.8</u></b>	<b><u>726.4</u></b>	<b><u>775.9</u></b>

**11 Borrowings**

Rates	Currency	Maturity	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Bonds</b>					
8% to 11.5%	RUR	2017	168.0	350.4	543.9
4.45% to 4.95%	USD	2018-2023	1,317.9	1,195.9	1,196.1
<b>Loans</b>					
5% and 10%	RUR	2017-2019	-	-	23.1
LIBOR +1.625% to LIBOR +3% and PRIME +0.625%	USD	2017-2019	332.3	583.4	374.9
EURIBOR +0.9% to EURIBOR +2%	EUR	2017-2022	450.5	546.4	620.9
Short-term and long-term finance lease liability and other borrowings			-	-	9.6
			<b><u>2,268.7</u></b>	<b><u>2,676.1</u></b>	<b><u>2,768.5</u></b>
Less: short-term loans and current maturities of long-term loans			(467.6)	(559.8)	(804.3)
<b>Long-term borrowings</b>			<b><u>1,801.1</u></b>	<b><u>2,116.3</u></b>	<b><u>1,964.2</u></b>

## 11 Borrowings (continued)

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

	As at 31 December 2016		As at 31 December 2015		As at 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,307.3	1,324.6	1,315.5	1,300.8	1,444.9	1,278.6

The fair value of short-term borrowings equals their carrying amount. The fair values of long-term borrowings and finance lease liabilities approximate their carrying amount. The fair values of bonds are based on cash flows discounted using an applicable rate and are within level 2 of the fair value hierarchy.

The payments scheduled for long-term borrowings are as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
1-2 year	585.9	359.6	580.0
2-5 years	500.9	1,719.3	1,347.4
over 5 years	714.3	37.4	36.8
	<b>1,801.1</b>	<b>2,116.3</b>	<b>1,964.2</b>

### Collateral

As at 31 December 2016, 2015 and 2014, the total amount of collateral was \$417.4, \$377.5 and \$699.6, respectively (Notes 6, 7).

## 12 Shareholders' equity

### (a) Shares

As at 31 December 2016, 2015 and 2014, 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 Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2016, 2015 and 2014, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$5,023.7, \$4,360.9 and \$5,409.3, converted into US dollars using exchange rates at 31 December 2016, 2015 and 2014, respectively.

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

- if Net Debt/EBITDA is 1.0x or less: dividends are in range with the boundaries of 50% of net income and 50% of free cash flow calculated based on IFRS consolidated financial statements;
- if Net Debt/EBITDA exceeds 1.0x: dividends are in range with the boundaries of 30% of net profit and 30% of free cash flow calculated based on IFRS consolidated financial statements.

## 12 Shareholders' equity (continued)

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

	2016		2015		2014	
	Dividends per share (Russian rubles)	Total amount (mln. US dollars)	Dividends per share (Russian rubles)	Total amount (mln. US dollars)	Dividends per share (Russian rubles)	Total amount (mln. US dollars)
Period of dividends declaration						
	for the 4 <sup>th</sup> quarter of 2015 and for the 1 <sup>st</sup> quarter of 2016		for 2014 and for the 1 <sup>st</sup> quarter of 2015		for 2013	
- June	3.56	319.7	3.20	348.7	0.67	115.0
	for the 2 <sup>nd</sup> quarter of 2016		for the 2 <sup>nd</sup> quarter of 2015		for the 6 months of 2014	
- September	1.08	102.5	0.93	84.1	0.88	133.9
	for the 3 <sup>rd</sup> quarter of 2016		for the 3 <sup>rd</sup> quarter of 2015			
- December	3.63	357.0	1.95	163.9	-	-
		<b>779.2</b>		<b>596.7</b>		<b>248.9</b>

Dividends payable amounted to \$360.5 at 31 December 2016 (Note 10).

### (c) Capital management

The Group's objectives when managing capital are to safeguard a financial stability and a target return for shareholders, as well as reduction of capital cost and optimization of its structure. To achieve these objectives the Group may revise investing program, borrow new or repay existing loans, offer share of 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 for the last twelve months less tax divided by capital employed, should exceed cost of capital;
- free cash-flow, which is defined as net cash provided by operating activities less net interest paid less capital expenditures less advances given in investing activities, 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 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Profit for the year attributable to NLMK shareholders (millions of US dollars)	935.1	967.4	772.5
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share attributable to NLMK shareholders (US dollars)</b>	<b>0.1560</b>	<b>0.1614</b>	<b>0.1289</b>

Basic net earnings per share is calculated by dividing profit for the year attributable to NLMK shareholders by the weighted average number of common shares outstanding during the reporting period.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended 31 December 2016, 2015 and 2014. The Parent Company does not have potentially dilutive financial instruments outstanding.

**14 Revenue****(a) Revenue by product**

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Pig iron, slabs and billets	1,887.1	2,207.2	2,486.4
Flat products	4,325.2	4,366.4	5,651.1
Long products and metalware	838.1	808.9	1,301.3
Iron-ore and sintering ore	146.7	165.8	311.4
Coke and other chemical products	209.5	228.9	259.8
Scrap	54.8	46.9	74.7
Other products	175.0	184.2	311.0
	<u><b>7,636.4</b></u>	<u><b>8,008.3</b></u>	<u><b>10,395.7</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 for the years ended 31 December 2016, 2015 and 2014 is as follows:

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Russia	3,077.1	3,146.0	4,434.3
North America	1,327.6	1,356.8	2,084.9
European Union	1,373.0	1,603.0	1,819.6
Middle East, including Turkey	628.6	684.1	636.5
Asia and Oceania	316.6	374.4	319.3
Other regions	913.5	844.0	1,101.1
	<u><b>7,636.4</b></u>	<u><b>8,008.3</b></u>	<u><b>10,395.7</b></u>

The Group does not have customers with a share of more than 10% from revenue.

**15 Labour costs**

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 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Cost of sales	(602.0)	(608.2)	(858.6)
General and administrative expenses	(194.4)	(153.8)	(231.4)
Selling expenses	(27.8)	(31.3)	(40.4)
	<u><b>(824.2)</b></u>	<u><b>(793.3)</b></u>	<u><b>(1,130.4)</b></u>

Remuneration to the key management personnel consists of payments to the members of the Management Board and the Board of Directors of the Parent Company. Compensation comprises annual remuneration and a performance bonus contingent on results for the reporting year, in 2016 also include one off payment on long term incentive plan for achievement of the Group's strategic targets in 2014-2016. Liabilities on long term incentive plan are subject to achievement of targeted EBITDA and targeted effect of Strategy 2017.

Total remuneration to the members of the Management Board and the Board of Directors of the Parent Company, who are the key management personnel, including social security costs, amounted to \$30.8, \$11.3 and \$13.6 in 2016, 2015 and 2014, respectively, including \$17.8 on long term incentive plan incurred in 2016 for achievement of the Group's strategic targets in 2014-2016 and payable as of the reporting date.

## 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 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Cost of sales	(63.7)	(65.7)	(122.4)
General and administrative expenses	(2.1)	(4.4)	(7.5)
Selling expenses	(0.3)	(0.4)	(0.6)
Other operating expenses	(3.9)	(5.2)	(7.0)
	<u><b>(70.0)</b></u>	<u><b>(75.7)</b></u>	<u><b>(137.5)</b></u>

## 17 Income tax

Income tax charge comprises the following:

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Current income tax expense	(237.1)	(301.1)	(378.3)
Deferred income tax benefit / (expense)	3.7	(51.8)	15.9
<b>Total income tax expense</b>	<u><b>(233.4)</b></u>	<u><b>(352.9)</b></u>	<u><b>(362.4)</b></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 35%.

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

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Profit before income tax	1,172.2	1,321.1	1,136.0
Income tax at applicable tax rate 20%	(234.4)	(264.2)	(227.2)
Change in income tax:			
- tax effect of non-deductible expenses	(32.6)	(63.3)	(20.5)
- non-taxable translation adjustments	(4.5)	17.0	39.4
- effect of different tax rates	(0.3)	31.7	118.3
- unrecognized tax loss carry forward for current year	(2.3)	(82.4)	(99.6)
- utilization of previously unrecognized tax-losses carry-forward	50.7	-	22.6
- change in option and in NBH ownership (Note 4)	-	18.6	(16.3)
- write-off of previously recognized deferred tax assets	(20.7)	(9.8)	(53.0)
- loss on impairment of investment	-	-	(100.5)
- other	10.7	(0.5)	(25.6)
<b>Total income tax expense</b>	<u><b>(233.4)</b></u>	<u><b>(352.9)</b></u>	<u><b>(362.4)</b></u>



## 17 Income tax (continued)

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

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Deferred tax assets</b>			
Trade and other accounts payable	24.4	74.2	100.8
Trade and other accounts receivable	13.7	3.2	15.8
Inventories	-	-	24.5
Net operating loss and credit carry-forwards	65.0	-	14.6
Other	0.1	15.7	13.9
	<b>103.2</b>	<b>93.1</b>	<b>169.6</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	(408.1)	(341.8)	(429.9)
Other intangible assets	(8.1)	(7.9)	(8.5)
Inventories	(11.2)	(12.9)	-
Other non-current liabilities	-	(1.6)	(13.7)
	<b>(427.4)</b>	<b>(364.2)</b>	<b>(452.1)</b>
<b>Total deferred tax liability, net</b>	<b>(324.2)</b>	<b>(271.1)</b>	<b>(282.5)</b>

The movements in deferred income tax assets and liabilities are presented below:

	2016	2015	2014
<b>As at 1 January</b>	<b>(271.1)</b>	<b>(282.5)</b>	<b>(504.6)</b>
Recognized in consolidated statement of profit or loss	3.7	(51.8)	15.9
Translation adjustment	(56.8)	63.2	206.2
<b>As at 31 December</b>	<b>(324.2)</b>	<b>(271.1)</b>	<b>(282.5)</b>

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group regularly evaluates assumptions underlying its assessment of the realizability of its deferred tax assets and makes adjustments to the extent necessary. In assessing probability that future taxable profit against which the Group can utilize 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.

The table below summarizes not recognized cumulative tax-loss carry forwards, for which no deferred tax assets were recognised, with a breakdown by the expiry dates.

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
From 1 to 5 years	211.4	294.3	310.9
From 5 to 10 years	97.4	376.3	600.4
More than 10 years	828.0	850.9	680.9
No expiration	1,398.4	976.5	1,084.8
	<b>2,535.2</b>	<b>2,498.0</b>	<b>2,677.0</b>

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 utilized.

## 17 Income tax (continued)

The Group has not recorded a deferred tax liability in respect of temporary differences of \$1,447.5, \$908.2 and \$1,274.5 for the years ended 31 December 2016, 2015 and 2014, respectively, associated with investments in subsidiaries 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 Russian legislation, the Group's major Russian entities, including NLMK, were integrated in one consolidated tax group for the purpose of assessment and payment of corporate income tax in line with the comprehensive financial result of business operations. The Group's entities that do not constitute the consolidated tax group assess their income taxes individually.

As at 31 December 2016, 2015 and 2014 the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that all deductible tax positions stated in the income tax return recognised and valued in accordance with the tax legislation.

## 18 Finance income and costs

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Interest income on bank accounts and bank deposits	29.3	44.5	29.5
Other finance income	<u>9.8</u>	<u>7.4</u>	<u>7.0</u>
<b>Total finance income</b>	<b><u>39.1</u></b>	<b><u>51.9</u></b>	<b><u>36.5</u></b>
Interest expense on borrowings	(103.5)	(118.9)	(178.9)
Capitalized interest	32.5	32.2	61.6
Other finance costs	<u>(34.3)</u>	<u>(8.6)</u>	<u>(19.5)</u>
<b>Total finance costs</b>	<b><u>(105.3)</u></b>	<b><u>(95.3)</u></b>	<b><u>(136.8)</u></b>

Other finance costs in 2016 include commission for an early redemption of a part of Russian ruble denominated bonds and Eurobonds carried out by the Parent Company as a part of its debt portfolio optimization.

## 19 Foreign currency exchange

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
Foreign exchange (loss) / gain on cash and cash equivalents	(84.5)	44.6	251.9
Foreign exchange (loss) / gain on financial investments	(434.3)	542.1	1,249.9
Foreign exchange gain / (loss) on financial instruments	-	1.8	(33.1)
Foreign exchange gain / (loss) on debt financing	393.2	(415.1)	(898.5)
Foreign exchange loss on other assets and liabilities	<u>(3.5)</u>	<u>(63.9)</u>	<u>(82.0)</u>
	<b><u>(129.1)</u></b>	<b><u>109.5</u></b>	<b><u>488.2</u></b>

## 20 Operating leases

Starting 2015 the Group leases office with agreement lease term expiring in December 2025. Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Before 1 year	4.6	3.2	-
From 1 to 5 years	19.7	18.2	-
After 5 years	2.2	7.6	-
<b>Total commitments for minimum lease payments</b>	<b>26.5</b>	<b>29.0</b>	<b>-</b>

In 2016 and 2015 total rental expenses relating to operating leases were equal to \$3.3 and \$1.5, respectively.

## 21 Segment information

Starting from 2016 reporting the Group changed the composition and the presentation of its reportable segments as a result of a change in reports prepared for the management. Information earlier reported within Foreign rolled products segment is now divided into two segments – NLMK USA and NLMK DanSteel and Plates Distribution Network. Comparative financial information has been adjusted to conform to the presentation of current period amounts.

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

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets, and profit for the year.

Intersegmental operations and balances include elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within line "Profit / (loss) for the year" together with other intercompany elimination adjustments, including elimination of NBH liabilities to the Group companies (Note 23). NBH deconsolidation adjustments include full elimination of sales of NBH with further recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 4, 23), recognition of investment in associate (Note 4), recognition of impairment and share of loss arising for NBH and other consolidation adjustments. Equity in net earnings / (losses) of associates are included in the Russian flat products segment.



## 21 Segment information (continued)

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

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in associate entity NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	166.0	4,271.3	1,020.0	1,162.4	324.3	1,176.1	-	(483.7)	7,636.4
Intersegment revenue	431.0	1,315.0	273.4	-	1.3	44.9	(2,020.7)	(44.9)	-
Cost of sales	(218.0)	(3,725.3)	(1,052.0)	(991.3)	(291.9)	(1,163.7)	1,897.3	471.3	(5,073.6)
Gross profit / (loss)	379.0	1,861.0	241.4	171.1	33.7	57.3	(123.4)	(57.3)	2,562.8
Operating profit / (loss)*	275.4	1,048.9	90.9	116.8	(7.2)	(76.8)	(36.3)	76.8	1,488.5
Net finance income / (costs)	12.8	(59.3)	(3.4)	(13.0)	(3.3)	(18.8)	-	18.8	(66.2)
Income tax expense	(48.4)	(203.7)	(4.1)	7.6	0.5	4.8	14.7	(4.8)	(233.4)
Profit / (loss) for the year	190.4	659.4	89.4	110.9	(10.3)	(120.0)	(39.8)	58.8	938.8
Segment assets	1,903.2	7,429.5	1,171.1	741.5	285.0	1,406.4	(1,483.8)	(1,214.0)	10,238.9
Segment liabilities	(312.4)	(3,937.7)	(591.3)	(302.1)	(288.3)	(1,193.7)	1,932.2	765.2	(3,928.1)
Depreciation and amortization	(42.8)	(293.4)	(47.4)	(61.2)	(7.5)	(75.1)	-	75.1	(452.3)
Capital expenditures	(217.5)	(301.1)	(16.2)	(19.1)	(4.7)	(21.4)	-	21.4	(558.6)

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



## 21 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2015 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in associate entity NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	184.2	4,731.7	858.3	1,098.2	343.1	1,221.0	-	(428.2)	8,008.3
Intersegment revenue	405.0	1,344.0	293.0	-	1.2	56.6	(2,043.2)	(56.6)	-
Cost of sales	(225.9)	(4,002.5)	(1,025.1)	(1,192.4)	(320.7)	(1,121.4)	2,063.7	328.6	(5,495.7)
Gross profit / (loss)	363.3	2,073.2	126.2	(94.2)	23.6	156.2	20.5	(156.2)	2,512.6
Operating profit / (loss)*	256.8	1,201.5	(16.1)	(155.3)	(11.1)	(172.2)	112.5	172.2	1,388.3
Net finance income / (costs)	16.1	0.5	(26.2)	(30.0)	(3.8)	(19.5)	-	19.5	(43.4)
Income tax expense	(71.2)	(253.9)	2.0	6.3	1.4	6.5	(37.5)	(6.5)	(352.9)
Profit / (loss) for the year	278.4	1,284.5	(92.5)	(191.6)	(14.4)	(191.3)	(192.8)	87.9	968.2
Segment assets	1,476.6	7,458.6	951.0	743.6	287.6	1,485.4	(2,125.2)	(1,358.2)	8,919.4
Segment liabilities	(326.0)	(3,602.9)	(565.4)	(1,101.2)	(284.0)	(1,281.7)	2,603.8	775.7	(3,781.7)
Depreciation and amortization	(40.6)	(381.7)	(65.4)	(61.9)	(10.4)	(80.2)	-	80.2	(560.0)
Capital expenditures	(281.3)	(265.7)	(24.9)	(19.5)	(3.3)	(38.6)	-	38.6	(594.7)

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



## 21 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2014 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in associate entity NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	345.9	5,688.0	1,444.4	1,632.0	381.7	1,462.4	-	(558.7)	10,395.7
Intersegment revenue	721.8	2,105.9	367.6	-	1.5	54.9	(3,196.8)	(54.9)	-
Cost of sales	(347.5)	(5,584.1)	(1,575.8)	(1,527.1)	(371.4)	(1,375.3)	2,920.6	471.6	(7,389.0)
Gross profit / (loss)	720.2	2,209.8	236.2	104.9	11.8	142.0	(276.2)	(142.0)	3,006.7
Operating profit / (loss)*	576.3	878.0	243.4	38.9	(24.2)	(215.9)	(124.5)	215.9	1,587.9
Net finance income / (costs)	30.4	(12.3)	(83.2)	(31.1)	(4.1)	(21.3)	-	21.3	(100.3)
Income tax expense	(193.6)	(222.1)	(19.0)	7.7	19.5	11.1	45.1	(11.1)	(362.4)
Profit / (loss) for the year	765.5	1,336.5	(96.0)	9.7	(70.0)	(243.4)	(653.4)	(275.3)	773.6
Segment assets	1,948.9	8,792.8	1,364.6	1,118.4	356.8	1,857.2	(3,354.1)	(1,735.2)	10,349.4
Segment liabilities	(480.0)	(4,242.7)	(996.0)	(1,284.5)	(337.3)	(1,542.9)	3,758.3	1,032.4	(4,092.7)
Depreciation and amortization	(63.6)	(540.7)	(106.5)	(69.1)	(13.6)	(101.1)	-	101.1	(793.5)
Capital expenditures	(253.9)	(239.7)	(51.2)	(16.0)	(1.8)	(61.2)	-	61.2	(562.6)

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

Geographically, all significant assets, production and administrative facilities of the Group are located in Russia, USA and Europe.



## 22 Risks and uncertainties

### (a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries and relatively high inflation. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 24(f)).

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The political and economic turmoil witnessed in the region, including continuing international sanctions against certain Russian companies and individuals have had and may continue to have a negative impact on the Russian economy. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict, however, 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 of 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 debt obligations with variable interest rates. To manage this risk the Group analyses interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans.

The interest rate risk profile of the Group is follows:

	<u>As at 31 December 2016</u>	<u>As at 31 December 2015</u>	<u>As at 31 December 2014</u>
<b>Fixed rate instruments</b>			
Financial assets	2,418.3	2,427.7	2,103.5
- cash and cash equivalents (Note 3)	609.7	343.0	549.2
- short-term financial investments (Note 5)	969.7	1,242.6	621.3
- trade and other accounts receivable less allowance (Note 6)	674.7	622.3	791.7
- long-term financial investments (Note 5)	164.2	219.8	141.3
Financial liabilities	(2,384.1)	(2,065.8)	(2,366.9)
- trade, other accounts payable and dividends payable (Note 10)	(898.2)	(519.5)	(464.7)
- short-term borrowings (Note 11)	(178.6)	(230.8)	(302.5)
- long-term borrowings (Note 11)	(1,307.3)	(1,315.5)	(1,599.7)

## 22 Risks and uncertainties (continued)

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Variable rate instruments</b>			
Financial liabilities	(782.8)	(1,129.8)	(866.3)
- short-term borrowings (Note 11)	(289.0)	(329.0)	(501.8)
- long-term borrowings (Note 11)	(493.8)	(800.8)	(364.5)

A change of 100 basis points in interest rates for variable rate instruments would have insignificantly change profit 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 minimize 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. At the same time standard hedging instruments to manage foreign currency risk might be used.

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 assets and liabilities denominated in a currency other than the functional currency of each entity at 31 December 2016.

	US dollar	Euro
Cash and cash equivalents	413.5	50.1
Trade and other accounts receivable	9.8	249.1
Short-term financial investments	860.7	108.2
Long-term financial investments	-	163.9
Trade and other accounts payable	(57.3)	(90.6)
Short-term borrowings	(51.6)	(116.7)
Long-term borrowings	(1,467.3)	(333.8)
<b>Net foreign currency position</b>	<b>(292.2)</b>	<b>30.2</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 assets and liabilities denominated in a currency other than the functional currency of each entity at 31 December 2015.

	US dollar	Euro
Cash and cash equivalents	196.4	39.6
Trade and other accounts receivable	2.9	303.6
Short-term financial investments	1,079.9	129.4
Long-term financial investments	-	222.1
Trade and other accounts payable	(42.3)	(95.2)
Short-term borrowings	(19.8)	(145.6)
Long-term borrowings	(1,578.3)	(400.8)
<b>Net foreign currency position</b>	<b>(361.2)</b>	<b>53.1</b>

## 22 Risks and uncertainties (continued)

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between assets and liabilities denominated in a currency other than the functional currency of each entity at 31 December 2014.

	US dollar	Euro
Cash and cash equivalents	230.4	107.1
Trade and other accounts receivable	7.0	402.1
Short-term financial investments	423.0	164.8
Long-term financial investments	-	141.2
Trade and other accounts payable	(40.7)	(107.2)
Short-term borrowings	(117.7)	(126.9)
Long-term borrowings	(1,178.3)	(494.0)
<b>Net foreign currency position</b>	<b>(676.3)</b>	<b>87.1</b>

### *Sensitivity analysis*

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

A 25 percent strengthening of the following currencies against the functional currency as at 31 December 2016, 2015 and 2014 would have increased / (decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to \$45.3, \$87.6 and \$196.8, respectively, due to foreign exchange gain from intercompany operations (Note 19).

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
US dollar	(73.1)	(90.3)	(169.1)
Euro	7.6	13.3	21.8

A weakening of these currencies against the functional currency would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

### **Commodity price risk**

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group's future performance and the Group's operational results.

The Group minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to negative changes in the situation on one or more sales 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.

## 22 Risks and uncertainties (continued)

### (c) Credit risk

Credit risk is the risk when 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 trade receivables and advances given to suppliers) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions 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. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Cash and cash equivalents (Note 3)	609.7	343.0	549.2
Trade and other accounts receivable (Note 6)	674.7	622.3	791.7
Short-term financial investments (Note 5)	969.7	1,242.6	621.3
Long-term financial investments (Note 5)	164.2	219.8	141.3
<b>Total on-balance sheet exposure</b>	<b>2,418.3</b>	<b>2,427.7</b>	<b>2,103.5</b>
Financial guarantees issued (Note 23(d))	255.1	273.2	611.6
	<b>2,673.4</b>	<b>2,700.9</b>	<b>2,715.1</b>

Analysis by credit quality, based on international agencies' credit rating of bank balances and term deposits as well as short-term and long-term bank deposits is as follows:

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
<b>Bank balances and term deposits</b>			
AAA-BBB	516.7	244.3	504.9
BB-B	91.0	95.6	38.9
Unrated and cash on hand	2.0	3.1	5.4
	<b>609.7</b>	<b>343.0</b>	<b>549.2</b>
<b>Short-term and long-term bank deposits</b>			
AAA-BBB	395.8	756.4	549.2
BB-B	502.6	415.3	0.2
	<b>898.4</b>	<b>1,171.7</b>	<b>549.4</b>

## 22 Risks and uncertainties (continued)

As at 31 December 2016, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue, expected to be received on time	617.5	50.0	234.7
Overdue, including:	75.0	3.7	18.6
- up to 1 month	39.6	1.1	0.2
- from 1 to 3 months	7.6	0.3	0.2
- from 3 to 12 months	7.1	1.2	0.2
- over 12 months	20.7	1.1	18.0
	<u>692.5</u>	<u>53.7</u>	<u>253.3</u>
Allowance	<u>(24.1)</u>	<u>(1.7)</u>	<u>(18.3)</u>
<b>Net of allowance</b>	<b><u>668.4</u></b>	<b><u>52.0</u></b>	<b><u>235.0</u></b>

As at 31 December 2015, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue, expected to be received on time	485.8	43.8	269.9
Overdue, including:	127.8	10.2	19.2
- up to 1 month	84.9	3.0	1.0
- from 1 to 3 months	16.0	0.7	0.6
- from 3 to 12 months	7.8	1.3	9.8
- over 12 months	19.1	5.2	7.8
	<u>613.6</u>	<u>54.0</u>	<u>289.1</u>
Allowance	<u>(16.3)</u>	<u>(4.2)</u>	<u>(15.3)</u>
<b>Net of allowance</b>	<b><u>597.3</u></b>	<b><u>49.8</u></b>	<b><u>273.8</u></b>

## 22 Risks and uncertainties (continued)

As at 31 December 2014, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue, expected to be received on time	669.3	49.3	290.9
Overdue, including:	132.7	20.4	18.5
- up to 1 month	60.1	6.8	0.9
- from 1 to 3 months	31.2	3.6	0.5
- from 3 to 12 months	11.7	5.3	4.9
- over 12 months	29.7	4.7	12.2
	802.0	69.7	309.4
Allowance	(28.6)	(9.6)	(20.4)
<b>Net of allowance</b>	<b>773.4</b>	<b>60.1</b>	<b>289.0</b>

As at 31 December 2016, 2015 and 2014 the Group does not have trade and other accounts receivable which was overdue for longer than one month and not impaired.

### (d) Liquidity risk

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

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

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

	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Less than 1 year	535.5	752.5	877.6
From 1 to 2 years	647.5	473.1	719.7
From 2 to 5 years	609.0	1,799.8	1,442.7
Over 5 years	761.6	37.6	8.7
<b>Total borrowings</b>	<b>2,553.6</b>	<b>3,063.0</b>	<b>3,048.7</b>

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

As at 31 December 2016, 2015 and 2014 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 arm's length.

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

	<u>For the year ended 31 December 2016</u>	<u>For the year ended 31 December 2015</u>	<u>For the year ended 31 December 2014</u>
<b>Sales</b>			
NBH group companies	686.5	731.8	985.7
Other related parties	<u>1.8</u>	<u>4.7</u>	<u>7.7</u>
<b>Purchases</b>			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	329.8	324.9	375.9
Other related parties	<u>51.0</u>	<u>64.4</u>	<u>60.6</u>

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

	<u>As at 31 December 2016</u>	<u>As at 31 December 2015</u>	<u>As at 31 December 2014</u>
<b>Accounts receivable and advances given</b>			
NBH group companies	198.5	220.8	300.9
Other related parties	<u>34.3</u>	<u>27.3</u>	<u>17.5</u>
<b>Accounts payable</b>			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	3.4	5.8	2.3
Other related parties	<u>16.1</u>	<u>18.9</u>	<u>25.2</u>

### (c) Financial transactions

	<u>As at 31 December 2016</u>	<u>As at 31 December 2015</u>	<u>As at 31 December 2014</u>
Loans, issued to NBH group companies (Note 5)	230.0	285.1	209.6
Deposits and current accounts in PJSC Bank ZENIT and PJSC Lipetskombank (companies under the significant influence of the Group's controlling shareholder)	<u>24.8</u>	<u>24.2</u>	<u>36.5</u>

When issuing loans to the foreign companies of the Group and companies accounted for using the equity method, interest rate is determined using information on similar external deals subject to company's internal credit rating.

Interest income from deposits and current accounts in PJSC Bank ZENIT and PJSC Lipetskombank for the years ended 31 December 2016, 2015 and 2014 amounted to \$1.2, \$2.4 and \$3.5, respectively.

### (d) Financial guarantees issued

As at 31 December 2016, 2015 and 2014 guarantees issued by the Group for borrowings of NBH group companies' amounted to \$255.1, \$273.2 and \$611.6, respectively, which is the maximum potential amount of future payments, paid on demand of the guarantee. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses 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 2016	As at 31 December 2015	As at 31 December 2014
Less than 1 year	69.4	82.0	528.9
From 1 to 2 years	5.3	14.3	61.8
Over 2 years	180.4	176.9	20.9
	<u>255.1</u>	<u>273.2</u>	<u>611.6</u>

### (e) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund in 2016, 2015 and 2014 amounted to \$5.9, \$6.5 and \$9.1, respectively. The Group has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

### (f) Common control transfers

In September 2015, the Parent Company completed the sales of its full controlling interest in OJSC North Oil and Gas Company (51.0%) for \$10.1 cash consideration from a company under common control. Disposal of OJSC North Oil and Gas Company resulted in deconsolidation of assets amounting to \$20.4 and liabilities amounting to \$20.1.

The difference between transaction price and value of net assets is recorded in line item "Disposal of assets to an entity under common control" of consolidated statement of changes in equity. Revenue and profit of OJSC North Oil and Gas Company for the nine months ended 30 September 2015 are not material.

This transaction was carried out in line with the Group's management of none-core assets portfolio.

## 24 Commitments and contingencies

### (a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to compliance reviews of importers' regulatory authorities. The Group's export sales were considered 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 as a result of anti-dumping investigations has been made in the accompanying 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's management believes that any ultimate 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 accompanying consolidated financial statements.

Initiated in December 2012 by the non-controlling shareholder of OJSC Maxi-Group court proceeding at ICA Court regarding the loss of assets in connection with a share-purchase agreement ended in January 2014. Arbitrators stated that ICA Court lacks jurisdiction to adjudicate the claim of Maxi-Group's non-controlling shareholder against the Parent Company and terminated examinations.

No further appeal is possible in this claim.

**24 Commitments and contingencies (continued)**

In the third quarter of 2014 the Group received \$104.0, in November 2015 – \$17 and in January 2016 – \$11, in course of bankruptcy proceedings which were the result of execution of the decision taken by Russian court in 2012. These amounts are included in “(Losses) / gains on investments” line in the consolidated statement of profit or loss.

Recently there are still certain court proceedings initiated by the non-controlling shareholder of OJSC Maxi-Group going on in European courts and related to the claim filed to ICA Court in January 2010. In 2014 courts in France and England decided to execute a decision of ICA Court (which was cancelled in Russia) on the territory of these states. In December 2014 the Parent Company claimed the appeal on a decision of French court and in November 2015 – the appeal on a decision of English court. In June 2016 a French court decided to execute a decision of ICA Court on the territory of France. In September 2016 Amsterdam Court of Appeal dismissed the case on execution of a decision of ICA Court on the territory of Netherlands. The Group’s management considers the probability of cash outflow in connection with these court proceedings is low and accordingly, no accruals in relation to these claims were made in these 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 recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing environmental legislation, management believes that the Group has met the Government’s federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage and remediation.

**(d) Capital commitments**

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$473.4, \$564.7 and \$620.8 as at 31 December 2016, 2015 and 2014, respectively.

**(e) Social commitments**

The Group makes contributions to mandatory and voluntary social programs. The Group’s social assets, 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’s management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

**(f) Tax contingencies**

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

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

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

## 24 Commitments and contingencies (continued)

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

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

### (g) Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that 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 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 are in compliance with all debt covenants as at each reporting date.

## 25 Significant accounting policies

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

### (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.

**25 Significant accounting policies (continued)**

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.

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.

***Associates and other companies accounted for using the equity method of accounting***

Associates and other companies accounted for using the equity method of accounting are entities over which the Group has significant influence, but not control or joint control over financial or operating policies.

Investments in associates and other companies accounted for using the equity method of accounting are initially recognised at cost (fair value of the consideration transferred).

The Group also uses the equity method of accounting to account for an agreement under which the parties exercising joint control of the arrangement are entitled to the net assets of the company accounted for using the equity method of accounting. 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.

Dividends received from associates and other companies accounted for using the equity method of accounting reduce the carrying value of the investment in associates and other companies accounted for using the equity method of accounting. The Group's share of profits or losses of associates and other companies accounted for using the equity method of accounting after acquisition is recorded in the consolidated statement of profit or loss for the year as share of financial result of associates and other companies accounted for using the equity method of accounting. 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 associates and other companies accounted for using the equity method of accounting are recognised in profit or loss within the share of financial results of the associates and other companies accounted for using the equity method of accounting, or consolidated statement of changes in equity depending on the substance of the change.

However, when the Group's share of losses in an associate and other companies accounted for using the equity method of accounting equals or exceeds its interest in the associate or company accounted for using the equity method of accounting, 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 associate or other companies accounted for using the equity method of accounting.

**25 Significant accounting policies (continued)**

Unrealised gains on transactions between the Group and its associates and other companies accounted for using the equity method of accounting are eliminated to the extent of the Group's interest in these entities. Unrealised losses arising from transactions between the Group and its associates and other companies accounted for using the equity method of accounting 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 associate or other companies accounted for using the equity method of accounting 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, associates or other companies accounted for using the equity method of accounting***

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 an associate, company accounted for using the equity method of accounting, 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 an associate is reduced but significant influence 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.

**(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.

**25 Significant accounting policies (continued)****(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.

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.

**25 Significant accounting policies (continued)*****Subsequent expenditures***

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

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

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

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

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

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

***Borrowing costs***

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

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

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

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

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

***Mineral rights***

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



## 25 Significant accounting policies (continued)

### Depreciation

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

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

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

Buildings and land and buildings improvements	10 – 50 years
Machinery and equipment	2 – 25 years
Vehicles	5 – 25 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (j) "Impairment of non-current assets".

### (f) Leasing

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

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

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

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

**25 Significant accounting policies (continued)****(g) Goodwill and intangible assets**

Goodwill is the difference between:

- the comprehensive acquisition date fair value of the consideration transferred and non-controlling interest, and, where the entity is acquired in instalments, the acquisition date fair value of the non-controlling interest previously held by the buyer in the acquired entity; and
- the share of net fair value of identifiable assets acquired and liabilities assumed.

The excess of the share of net fair value of identifiable assets bought and obligations assumed by the Group over the consideration transferred and the fair value of non-controlling interest at the acquisition date previously owned by the buyer in the acquired entity, represents income from a profitable acquisition. Income is recognised in the consolidated statement of profit or loss at the acquisition date.

Goodwill on associates and other equity-accounted entities 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.

**25 Significant accounting policies (continued)*****Intangible assets***

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

- its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates;
- directly attributable cost of preparing the asset for its intended use.

If an intangible asset is acquired as a result of a business combination, the cost of the intangible asset equals its fair value at the acquisition date.

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

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.

**(h) Decommissioning obligation**

The Group's obligations related to assets disposal include estimating costs related to restoration of land in accordance with applicable legal requirements and licenses.

Decommissioning costs are carried at the present value of expected expenses to settle obligations that is calculated using estimated cash flows and are recognised as a part of the historical cost of the asset. Capitalised costs are amortised over the asset's useful life.

Cash flows are discounted at the current rate before tax, which reflects risks inherent to the asset decommissioning obligations. The effect of discounting is recognised in the consolidated statement of profit or loss as finance costs.

The estimated future costs related to decommissioning are reviewed annually and adjusted as necessary.

**(i) Impairment of non-current assets**

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year if their carrying amount impairment indicators are identified.

**25 Significant accounting policies (continued)*****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.

***Impairment loss***

The asset's carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets' impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

**(j) Pension and post-retirement benefits other than pensions**

The Parent Company and some other Group companies maintain defined contribution plans in accordance with which contributions are made on a monthly basis to a non-government pension fund (the "Fund"), calculated as a certain fixed percentage of the employees' salaries. These pension contributions are accumulated in the Fund during the employment period and subsequently distributed by the Fund. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

The Group complies with the pension and social insurance legislation of the Russian Federation and the other countries where it operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions constitute defined contribution plans.

Payments under defined contribution plans are expensed as incurred.

**25 Significant accounting policies (continued)****(k) Provisions for liabilities and charges**

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in selling expenses in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

**(l) Call and put options**

Call and put options are carried at their fair value in the consolidated financial statements. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of options are reflected in the consolidated statement of profit or loss.

**(m) Income taxes**

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

***Current tax***

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax***

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

**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 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.

**(n) Dividends payable**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

**(o) Revenue recognition*****Revenue from sales of goods and provision of services***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group, and the specific criteria stipulated by IAS 18, "Revenue" have been met for each type of Group revenues.

Revenue is recorded less of discounts, provisions, value added tax and export duties, and refunds, and after excluding internal Group sales turnover.

**25 Significant accounting policies (continued)**

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenue from services is recognised in the period in which the services were rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be rendered under the relevant agreement.

**Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

**Dividend income**

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

**(p) Segment information**

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, "Operating Segments".

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 associate entity NBH, comprising production of hot rolled, cold rolled coils and galvanized and pre-painted steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment are similar to the principles outlined in significant accounting policies.

**(q) Financial instruments****Financial assets**

The Group's financial assets include cash and short-term deposits, trade and other accounts receivable, loans and other amounts receivable, quoted and non-quoted financial instruments and derivatives.

Financial assets have the following categories:

- loans and receivables;
- held-to-maturity investments.



**25 Significant accounting policies (continued)***Loans and receivables*

Loans and receivables represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, such financial assets are measured at amortised cost using the effective interest method less any impairment losses.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity investments if the Group intends and is able to hold them to maturity. Subsequent to the initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

**Valuation techniques**

Depending on their classification, financial instruments are carried at fair value or amortised cost. Below are the methods and key definitions.

*Fair value* is the price that would be received from selling an asset or paid when transferring a liability in an orderly transaction between market participants as at the valuation date. The best evidence of fair value is the price quoted in an active market.

The fair value of financial instruments traded in active markets at each reporting date is determined based on the market quotes or dealers' quotes (buy quotes for long positions and sell quotes for short positions) without deducting transaction costs.

Valuation techniques, such as discounted cash flow models, or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure the fair value of financial instruments for which external market pricing information is unavailable.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount (calculated using the effective interest method), and for financial assets less any impairment loss.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

**Initial recognition of financial assets**

Financial investments available for sale and financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

**25 Significant accounting policies (continued)*****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.

***Impairment of financial assets***

At each reporting date, the Group assesses whether the objective indicators exist that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets are considered to be impaired only when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that have had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or group of debtors are experiencing significant financial difficulty, cannot service their debt or are demonstrating delinquency in interest or principal payments; or they are likely to undergo bankruptcy procedures or any other financial reorganisation. In addition, such evidence includes observable data testifying to an identifiable decline in estimated future cash flows under a financial instrument, in particular, negative changes in a counterparty's payment status caused by changes in the national or local business environment that impact the counterparty, or a significant impairment of collateral, if any, as a result of deteriorated market conditions.

***Impairment of financial assets carried at amortised cost***

The carrying amount of an asset is reduced by the amount of the allowance for impairment of financial assets. Losses from impairment of financial assets carried at amortised cost are carried through profit or loss as they arise.

Accrual of interest income on the reduced carrying value is continued based on the interest rate applied to discounting the future cash flows for impairment loss assessment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then de-recognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

***Impairment of financial investments available for sale***

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that a financial investment or a group of financial investments is impaired.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

## 25 Significant accounting policies (continued)

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

### **Financial liabilities**

The Group's financial liabilities include trade and other payables, bank overdrafts, borrowings, financial guarantee agreements and derivative financial instruments.

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss.

#### *Borrowings*

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

#### **Initial recognition of financial liabilities**

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

#### **De-recognition**

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

#### **Financial guarantee agreements**

Financial guarantees issued by the Group are irrevocable agreements requiring a payment to compensate losses incurred by the owner of the agreement due to the inability of the debtor to duly pay under the terms of a debt instrument. Financial guarantee agreements are initially recorded at fair value. Consequently the liability is measured at the higher of the best likelihood estimate of costs necessary to settle the liability at the reporting date, and the amount of the liability less accumulated amortisation.

#### **Derivative financial instruments**

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

**25 Significant accounting policies (continued)****Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(r) Related parties**

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions or exercise a joint control over it. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**26 Critical accounting estimates and judgements**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as disclosures. Management also makes certain judgements, in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, and management's estimates can be revised in the future, either negatively or positively, 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 amount of assets and liabilities within the next financial year are reported below.

**(a) Consolidation of subsidiaries**

Management judgement is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements.

**(b) 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, interest 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.

**(c) Estimation of remaining useful lives of property, plant and equipment**

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

**(d) Fair value estimation for acquisitions**

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired, net of liabilities, is recorded as goodwill. A significant amount of judgement is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

## 26 Critical accounting estimates and judgements (continued)

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

### (e) Impairment analysis of property, plant and equipment and goodwill

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

#### **Accounting for provisions**

Accounting for impairment includes provisions against capital construction projects, financial assets and other non-current assets (at least annually).

### (f) Accrual of accounts receivable impairment provision

The impairment provision for accounts receivable is based on the management's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than estimates, the actual results could differ from these estimates.

### (g) Control and the consolidation or accounting using equity method of accounting of entities in the Group's consolidated financial statements

Management judgement is involved in the assessment of control and the consolidation or accounting using equity method of accounting of certain entities in the Group's consolidated financial statements. As at 31 December 2016, 2015 and 2014 the Group owned 51.0%, 51.0% and 79.5% of shares in NBH, respectively, however, management had concluded that in the light of giving certain governance rights to the party owing the residual interest in this company, the Group does not control this company, thus the Group's investment in NBH should be accounted for under the equity method.

## 27 New or revised standards and interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted:

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

**27 New or revised standards and interpretations (continued)**

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
  - Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

**27 New or revised standards and interpretations (continued)**

- IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

**28 Subsequent events**

In February 2017 the Group refinanced the revolving facility agreement of NLMK USA. The total available amount under the facility is \$250 with a maturity of four years. The loan is backed with NLMK USA receivables and inventory and guarantee from the Parent Company.

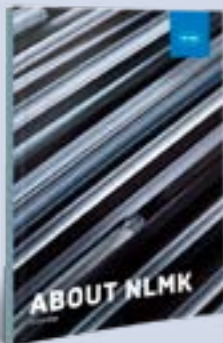
In February 2017 the Group paid out a loan of \$200.0 and received a new 4 year loan of EUR 250.0 million guaranteed by the Parent Company in course of credit portfolio optimization.

The Group's management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from 1 January 2017 to 2 March 2017, which is the date when these consolidated financial statements are approved by management.



## ABOUT NLMK

2016



This brochure gives an overview of the structure, business model, strategy and performance of the Group over the past decade.

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*“Our success has been recognized by the expert community, with S&P Global Platts announcing NLMK as winner of the Industry Leadership Awards — Steel in 2016.”*

**Oleg Bagrin,**  
President and CEO  
of NLMK Group

## ENVIRONMENT

2016



In this brochure we talk about how advanced technologies, efficient processes and environmentally friendly approaches ensure our leadership as an ‘environmentally-oriented’ company.

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*“We adopt new technologies and solutions in an effort to reduce our environmental footprint.”*

**Galina Khristoforova,**  
NLMK Group’s Director  
for the Environment

## OUR TEAM

2016



Detailed information on NLMK Group’s team, talent development, occupational safety policy and financial contribution to the development of local communities, and much more.

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

**Oleg Bagrin,**  
President and CEO  
of NLMK Group

## GOVERNANCE

2016



This brochure aims to showcase NLMK Group’s corporate governance practices, how the process of continuous improvement of corporate governance is arranged, and how we ensured our leadership in investor relations.

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*“In everything we do, we try to be very attentive to best practices. At the same time, we know – we remember – that corporate governance is the area where continuous evolution is a more effective way of progressing, compared to revolutionary transformation. So we’re very attentive to what is going on outside of the company and we’re applying best practices step by step.”*

**Stanislav Shekshnia,**  
Independent Director,  
Chairman of the Human  
Resources, Remuneration  
and Social Policies Committee

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