NLMK DANSTEEL A/S

FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS

AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2018

WITH INDEPENDENT AUDITOR'S REPORT THEREON

The Financial Statement has been presented to and adopted
by the Company's Annual General Meeting
on 16/4 2019

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Chairman of the Meeting

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Alexei Fomenko

CVR NO. 10092922

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Statement by Board of Directors and Board of Executives

The Board of Directors and Board of Executives have today presented the annual report for 2018 of NLMK DanSteel A/S.

The annual report is presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and further requirements of the Danish Financial Statements Act.

We consider the accounting policies appropriate and the annual report to give a true and fair view of the Company's financial position, financial performance and cash flow.

The management’s review includes in our opinion a fair presentation of the matters dealt with in the review.

The annual report is submitted for adoption by the General Meeting.

Frederiksværk, 5 April 2019

Board of Executives:

Igor Sarkits

Board of Directors:

Barend Jacobus De Vos Chairman	Peter Georg Selbach	Igor Sarkits
Mariia Starostina	Gunnar Fonseca Larsen*	Brian Bjerre*

* Appointed by the employees

Management's review

Principal activities

The principal activities comprise production of and trade in steel plates, including plates that have been finished by blasting and priming and fitted plates.

The plates are made from slabs (raw steel), where the majority is produced by PAO Novolipetsk Steel (NLMK) in Russia.

The plates are primarily sold in Northern Europe.

Development in the financial year and results for the year

The result from primary operations in the financial year was DKK (-185) mln., which is significantly below the expectation presented in the Annual Report for 2017. The main reason is a continued increase in the slabs price in 2018 from the high level in 2017. This remained in place for the entire 2018 except from a slight decrease in 4th quarter, while the sales price level only followed this increase in the 2nd half of 2018. This caused a further reduction in the average contribution margin on the orders taken through the year. The low demand has continued in 2019 and caused the capacity utilisation within the European plate mills in general to remain on a level around 65 %.

The company has in 2018 continued its focus on product and process development based on the approval and certification from the classification societies for a number of new steel qualities achieved in previous years.

The company has in 2018 experienced no breakdowns in the reheating furnace due to the beams refectory stones, compared to the 6 breakdowns in the previous year. This is a result of the several measures, which have been taken since the summer of 2017 to reduce the risk of breakdowns. This, together with an implementation of full 4-shift operation in the rolling line, has been the main driver for exceeding the budgeted production tonnage.

The fact that the slabs price in 2018 has increased faster than the plate price has caused the profitability of the plate mills in general to remain at an unsatisfying low level. The company has through a continued focus on and effort to mitigate the sources of rejection of plates achieved a further improvement of the rejection rate from 2,4% in 2017 to 2,3% in 2018. The effort to reduce the cost of alloying in the slabs, which is enabled by the stronger rolling stand, has also been continued. But it has not been enough to outweigh the effect of the increasing slabs price and delayed increase in the plate price in order to enable a satisfying gross margin.

NLMK DanSteel has continued to mitigate this through a strong focus on orders with short lead time and high complexity. In spite of the fact that the low demand in the market has maintained the short general delivery time from the plate mills compared to previous years, the company has in 2018 maintained a competitive advantage from the ability to offer short delivery times. The high share of orders with short delivery time has furthermore helped to reduce the price risk in a volatile market. This focus has made it possible to maintain a price level above the market price, but it has not been enough to secure profitability in 2018. This highly competitive market with low spread between slabs and plates have been seen to continue into first half of 2019 even though there are signs of an improvement in the plate price level.

In 2018 NLMK DanSteel has maintained a product mix with a high share of higher steel grades, such as boiler & PV and a strong footprint in thicker gages. Likewise, the share of thin plates, which is mainly used by Ship Yards, has been maintained at a high level and the outlook for this segment is still positive. These products are generally characterised by a high price level, but also a higher cost of production.

In 2018 the company has maintained its strong focus on the Onshore wind segment and is slowly moving into the Offshore wind foundation segment, where the demand is for thick and heavy plates, which fits well into the product mix. The sales volume for Onshore wind segment was stable in 2018 and is expected to be maintained at the same level in 2019. For Offshore wind, the company expects to increase the volumes in the years to come after finalisation of the ongoing development projects.

In 2018 there has been an increased focus in the business area for construction steel such as bridge building. This is mainly due to major developments and new infrastructure investments in Europe, including the European Union's TEN-T development plan for the European member states. It is the company's expectation that activity in this segment will remain at a high level. With newly developed steel qualities and approvals, it is the company´s expectation that 2019 will show a further increase in turnover within this segment.

The Oil and Gas sector remains volatile, but the companies sales into the segment is on a low but stable level. The current investment programme at NLMK DanSteel will provide the company with the opportunity to supply higher steel grades into the Oil & Gas segment.

In 2018 the company has maintained its high focus on the end-user segment as well as those of the wholesale segment, who delivers to major single end-users. This gives more project-oriented orders with higher demand for tests and non-standard plate sizes. Furthermore the focus in 2017 has been on offering add-on services such as Just In Time-deliveries, Fast Track-production, and offering of shaped plates via the In-House Steel Service Center. This has increased the importance of planning alongside the entire supply chain, but has also implied that price is no longer the only important parameter in the competition, where service and logistics is becoming equally important. This focus will be continued in 2019.

The aggregate primary operating result is considered to be very unsatisfactory.

Investments have in accordance with the strategy for NLMK DanSteel been increased in 2018. The focus has been on increasing efficiency in the production line, implementation of measures to avoid accidents as well as aligning the production equipment to the current product mix. The main investment activities for 2018 has been installation of ACC (Accelerated Controlled Cooling) equipment in the rolling line, extension of roller tables and cooling beds and replacement of the cold plate leveller. The total investments in 2018 amount to DKK 188.454 thousand.

On 21 December 2018 NLMK International BV has converted debt of DKK 746.000 thousand to share capital. The common stock was increased with 7,460 shares with a par value of 1,000 Danish kroners each.

It has been decided not to pay dividend for 2018.

Events after the end of the financial year

No significant events have occurred after the end of the financial year.

Special risks

Price risks

The slab price is in 2019 expected to decrease slightly compared to the level of 2018, but is though expected to stay on a high level. Furthermore it is expected that the slabs price will continue to fluctuate due to a number of different factors, which makes it difficult to foresee the development in medium and long term. On top since the slabs price on the world market is determined in US Dollar, fluctuations in the USD-rate will affect the slabs price. Import of plates from especially Ukraine, South Korea and India is expected to continue in 2019 , affecting the entire European market in spite of the significant excess capacity at the European steel works. The import of plates to EC decreased in 2018 with 7%, mainly due to, that the EC commission in the fall 2016 levied an anti-dumping charge on plates produced in China, which has reduced the import of plates from China significantly. The excess capacity will cause the tough competition on price from 2018 to continue unchanged into 2019. NLMK DanSteel has in the last years aimed at reducing the threat from the price competition by establishing a strong position in the Offshore windmill and Offshore market as well as non-standard plates within the end-user segment. These are niches with relatively few competitors and a strong focus on quality and delivery performance.

Foreign exchange risks

The majority of the company’s foreign exchange transactions are in EUR, which significantly reduces its exchange risks.

Interest risks

NLMK DanSteel has taken out loans, where the interest is based on EURIBOR, for financing of the new rolling stand as well as working capital. This has significantly increased the company’s sensitivity towards increases in the market rate of interest.

Environmental, energy and safety situation

NLMK DanSteel A/S was under the name DanSteel A/S approved to start production in Denmark in 2002 according to the environmental permit for Det Danske Stålvalseværk A/S. NLMK DanSteel fulfils all requirements of the updated environmental approval from Frederiksborg Amt, dated 21 November 2006, including subsequent additions and changes from Miljøstyrelsen regarding the production and necessary analyses. An application for a renewed permit was submitted in 2016, and is expected to be in effect in the late summer 2019.

The main focus from the authorities in 2018 has been on control of discharge of cooling water, emissions from furnaces, noise control and discharges from oil separators to the municipal sewer system.

For some years, the main concern regarding emissions from furnaces has been the emission concentration of nitrogenoxides. In 2018 a long wanted replacement of the burners in the Brobu normalisation furnace was completed. The old worn-out burners were replaced with “low-NOx burners”.

Measurements of exhaust emissions from furnaces are carried out every second year according to the measurement program approved by Miljøstyrelsen. Control measurements are performed if emissions show exceedances of the required concentration limits. No measurements were required in 2018, but upon replacement of burners in the Brobu-furnace, and meticulous calibration of the slabs furnaces, NLMK DanSteel A/S nevertheless had all emissions measured voluntarily. The company is very satisfied to ascertain that all measurements and OML-calculations documents, that the company meets the requirements of the environmental permit regarding the emission concentration’s contribution to the company’s surroundings.

In 2013 NLMK DanSteel received certifications of the Environmental Management System under DS/EN ISO 14001:2004 and Occupational Health and Safety under DS/OHSAS 18001:2008. The company had previously been certified within Quality Management under DS/EN ISO 9001:2008 and Energy Management under DS/EN 50001:2011. During 2017 the management systems for environment and for quality were upgraded to the 2015-versions of the standards, and the DNV-audit 2018 confirmed that NLMK DanSteel A/S is still in compliance with the ISO-requirements. These certifications assure a high degree of attention to compliance of legislation and continuous improvement of the production conditions. Finally in 2018 NLMK DanSteel were certified under the new Occupational Health and Safety Standard ISO 45001:2018. This has increased the demand for inclusion of the employees in the safety work, evaluation of risks and possibilities as well as for the management and strategy of the company.

In consequence of customer requirements, NLMK DanSteel A/S in 2018 acquired an Environmental Product Declaration on the basis of EN 15804 and ISO 14025.

Attention to the cooling water discharge from NLMK DanSteel was increased during the revision of the waste water permit dated 25. November 2015. The permit comprises very low discharge limits for the cooling water, which since November 2012 is emitted from an advanced water treatment plant. Only a few minor exceedances of the permitted discharge concentrations were detected in the monthly measurements during 2018. However, due to an incident during the changing of filter material in the WTP, emitted volumes for some parameters were close to the total permitted discharge for the year in total.

During autumn 2018, the municipal environmental authority inspected the facility’s sewer system, looking for an unknown source of a contamination of the municipal sewage. It was concluded that the contamination did not stem from NLMK DanSteel A/S, but the authority determined a legal need for issuing a new waste water permit for emissions to the municipal sewer system. Application for the new permit was submitted in November 2018.

The company aims at the highest possible recycling of all waste products including rolling sludge, filter dust, mill scales, refractories, waste oil and other industrial waste as well as paper, cardboard, metal scrap, plastics etc. The aggregated recycling percentage for all materials is 99% of which the mill scale comprises the major part. It is still a goal to reduce especially the volume of mixed combustible waste and transfer this waste to recycling. A challenge in this respect is the many external contractors not familiar with the local directives for waste sorting. A work was initiated to produce better signage on containers.

No measurements of noise have been conducted during 2018. Due to the increase in construction activities however, several complaints from neighbours regarding these activities were received during 2018. NLMK DanSteel is in a continuous dialogue with the neighbours to identify the individual noise sources and reduce any noise nuisances.

The IT-system for management of chemical substances and materials implemented in 2015 is constantly being updated. The system facilitates overview of the company's chemicals, preparing site-usage instructions and identifying substances, which should be replaced with more environmentally and health friendly ones. About 13 out of 50 health hazardous products were removed from the production.

A systematic effort on energy savings and efficiencies lies behind the continuous reduction in the relative consumption achieved. During the last 6 years the consumption of gas and electricity per produced ton of plate has been reduced with 18,9%, which mainly is achieved through a reduction in consumption of natural gas per ton This reduced the company's CO2-emission per produced ton of plate with 4,6% in 2016, 3,0% in 2017 and further 5,6% in 2018. The new agreement for electricity-intensive companies on reduction of the PSO-tax were put into force on 10 September 2015. The agreement entitles NLMK DanSteel to a partial compensation of the PSO-tax on electricity on condition that the company fulfils its obligations within energy improvements. Therefore a supplemental certification according to supplementary requirements from Energistyrelsen beyond the energy management standard DS/EN ISO 50001:2011 were carried out with the aim to fulfill the agreement on energy efficiency, which were signed in August 2016. The agreement expired on 10 September 2018, but NLMK DanSteel has signed a letter of intent to enter into a new agreement, which is under preparation and will ensure the right to a continued compensation of the PSO-tax. The new agreement requires in spite of the achieved reductions in the energy consumption further reductions of the energy consumption per ton produced. The company intends to achieve this through a continued optimisation of the production, increased capacity utilisation and improved management of the production processes.

In 2018, 4 injuries with absence of more than one day were recorded which is the same as in 2017. The calculated frequency of accidents, which has been changed to include subcontractors has decreased from 7,13 in 2017 to 5,56 in 2018. In spite that the number of accidents are the same, the total amount of absence hours due to accidents has increased from 202 in 2017 to 637 in 2018. The increase in the number of absence hours due to accidents is of course dissatisfying, but it relates to one injury causing 481 hours of absence. Except from this the absence hours per injury is at the level of 2017 and indicates that the nature of the accidents has become less severe and that the effort to reduce the risk of injuries give positive results. This is a tendency, which the company expects to maintain together with an increased effort to reduce the number of accidents as well. Working environment and safety are key areas for all departments at NLMK DanSteel.

The mandatory courses according to the working environment- and the high voltage legislation were held in 2018. Furthermore in 2018 the specific focus on fire fighting, prevention of accidents and health improvement has been continued. Finally, the company has in 2018 offered courses in Danish for dyslexics as well as courses in Danish for employees, which doesn't have Danish as their native language.

In 2018 NLMK DanSteel has due to the high level of building- and construction activities under the investment programme held a number of safety courses for external craftmen and subcontractors. On top of this a significant effort on occupational health and safety coordination has been put into maintaining a high level of security and safety during the construction activities.

The Company has in 2018 initiated a health programme, where it has been chosen to offer all employees a health check, which measures the current health of the employee and provides guidance on how this can be improved. This is given on top of the mandatory health checks for employees working on night shift. The company has as part of its health plan also started a cooperation with the local municipality and DGI (Association Danish sport clubs) on a wide range of different initiatives aimed at improving the health and well-being among the employees. This is aimed to complement the current activities, like the company running team and company agreements with the local fitness centres, which offer the employees discount on the membership fees.

The company has continued its health insurance for all employees, which is secured access to examination and treatment in private clinics for a broad range of sicknesses. Likewise the agreement with Falck Healthcare, which gives the employees access to treatment by chiropractor, physiotherapist, masseur and zone therapist has been maintained. In 2018 the employees received 1,731 treatments under this agreement, which is an increase of 26% compared to 2017. It is the company's opinion that both these agreements contribute to decrease the absence due to illness, which in 2018 were 4,2% to the benefit the company as well as the employees.

Financing of the environmental-, energy- and working environment projects is included in the budget for 2018. The full engagement in and support from the management of the company as well NLMK Group to the company's effort ensures a continued systematic effort in all areas and the achievement of the set targets.

Future prospects

In 2019, a negative result on primary operations in the level of DKK 80 to 100m is expected. The main reason for this is the continued significant overcapacity at the plate mills in general and the derived low price level. This is intensified by a continued high import of plates to the European market. The Company's effort to mitigate this market situation can be divided in 3 factors. First NLMK DanSteel will through its reputation as a high quality producer continue its focus on the segments, where special dimensions and/or higher demands for quality and delivery performance from customers justify a higher price to be obtained for the delivered tonnage. Secondly the company will in 2019 continue the development of processes and optimisation of production costs, which is enabled by the stronger and wider rolling stand, new ACC system and the new downstream for "thick" plates. Furthermore a saving on the slabs extras will be gained by substitution of expensive alloying element (Vanadium) by other cheaper elements. These 3 factors shall contribute to an improved profitability of the delivered tonnage. For the third, NLMK DanSteel expects in spite of the overcapacity in the market to be able to maintain its high utilisation rate and as for the previous years as well in 2019 to be able to increase the production and the sold tonnage, which will improve profitability through a reduction of the fixed production costs per tonne.

Furthermore the company will through the strategic investment program for 2018 – 2022 continue to strengthen its position in market niches, which are not affected by the import and with only few European competitors. One of the main equipment in this programme is an ACC equipment, which will be put into operation during 1st half of 2019. This will expand the thickness range, where NLMK Dansteel can supply Thermo-Mechanically rolled plates as well as increase the productivity per hour for these qualities. These qualities are required in the Offshore windmill segment in order to supply the full range of dimensions and qualities demanded by the windmill tower manufacturers.

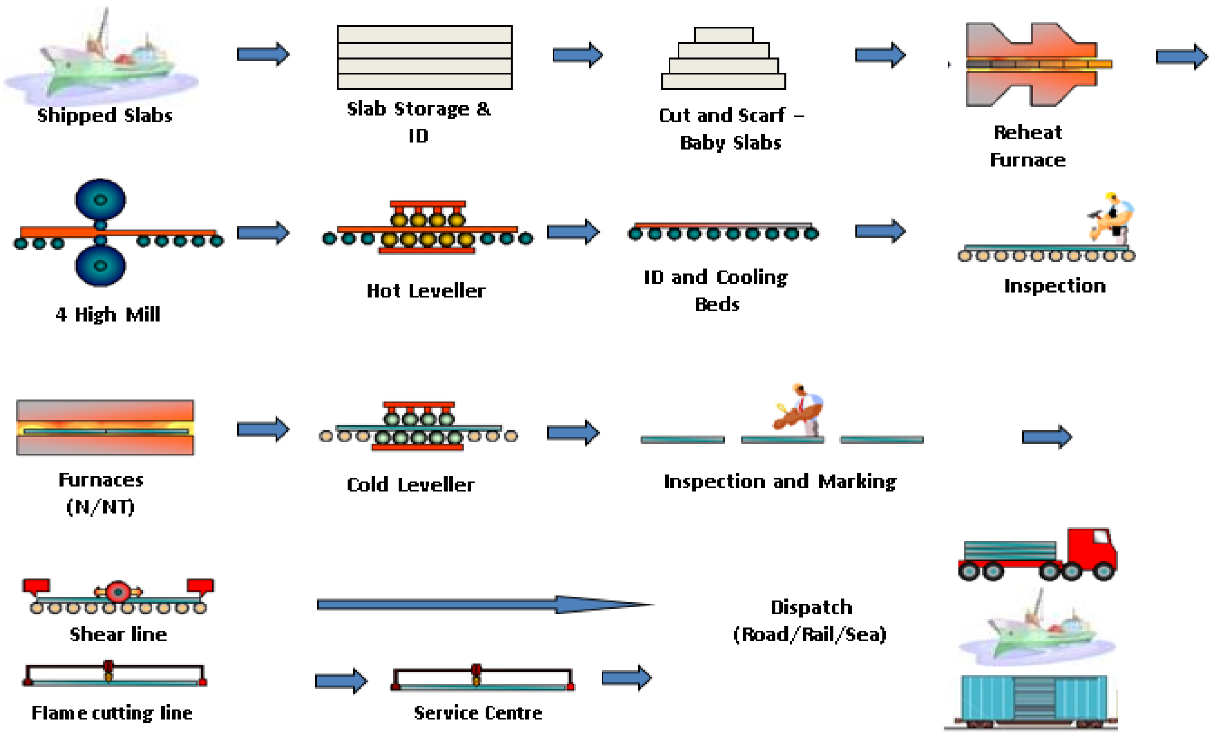
Report on Corporate Social Responsibility

NLMK DanSteel business model

NLMK DanSteel is 100% order producing plate mill, which produces steel plates in thicknesses from 5-200 mm in widths and lengths up to 4 and 32 meters respectively. The majority of the slabs (raw steel) used for the production aree produced by PAO Novolipetsk Steel (NLMK) in Russia, which is the ultimate parent company in the NLMK Group. The slabs are shipped from NLMK to DanSteel via rail to Kaliningrad, where it is reloaded to ships, which are unloaded directly in NLMK DanSteels own harbour.

The plates, which are used for a wide range of applications in a number of different industries, whereof shipbuilding and Windmills are the largest, are marketed by a combined sales force, which consists of independent agents, Sales companies in the NLMK Group and DanSteels own Sales department.

The production process, which is illustrated in the figure below can shortly be described as follows:



The slabs, which can weight up to 60 tonnes are divided into babyslabs by flame cutting in order to match the dimensions of the requested motherplate. The babyslabs are heated in the reheating furnaces, which are heated by natural gas, to temperatures around 1.200°C and rolled to the motherplate in the Rolling stand applying a pressure of up to 8.000 tonnes. After rolling the plate is levelled in a Hot Plate Leveller, marked for identification and distributed to the Cooling bed before inspection and further operations. After this some plates are sent for Normalisation in the Normalisation furnaces, where the plates is reheated to certain temperatures in in defined time intervals in order to obtain the requested properties of the steel. The normalized plates are then cold levelled, if necessary, and sent to inspection and marking before cutting.

The plates that are to be delived in square formats are cutted by either mechanical shears or by flame cutting depending on thickness and strength of the steel. Other plates are sent to internal or external service centres for figure cutting, bevelling etc before shipment to the enduser. From all plates there are cutted samples, which are tested in the internal laboratory/Quality department in order to have certificates issued. Some plates are also treated in the companys Shotblasting and Priming facility in order to deliver shotblasted or primed to the customer.

The majority of the plates are shipped to the customers by ship but the company is also using both trucks and rail for delivery.

Risks in relation to CSR

Due to the activities of the company, NLMK DanSteel is exposed to a number of risks, which includes general risks as well as risks that are inherent in the steel industry. The Management considers efficient risk management an integrated part of the company's activities and works continuously to minimize risks and uncertainties. This includes a regular assessment of the risks in order to determine, whether these have changed or if the risk control measures in place are sufficient and relevant. The assessment of the risks is based on a combination of likelihood and impact of the issues. The assessment of the risks contributes to the base for deciding, whether policies for managing of the risks are required.

Based on the above criteria the following has been assessed as the main risks within CSR:

- High energy consumption with derived negative effect on the climate.
- High risk of serious working accidents due to production process with heavy and hot products and powerful equipment.

Implemented policies, actions and the results achieved results are presented throughout this report.

Use of non-financial KPI's in management reporting

The company has included the following non-financial KPI's in its monthly management reporting:

- KWh/ ton of steel produced
- NM3 natural gas/ton steel for the reheating furnaces
- Yield (tonnes of raw steel per ton plate produced)
- Occupational accidents (Lost time due to injuries and Frequency rate of accidents)

These KPI's are necessary for evaluating as well the operational efficiency as well as the fulfillment of the targets within the different policies.

Due diligence procedures regarding CSR

The company has not defined procedures in relation to CSR to be used in connection with acquisitions and take overs of other companies. The reason for this is that NLMK DanSteel is not supposed to acquire or take over other companies and in case it should be considered relevant to perform such a transactions, it will be managed by the central corporate finance department in NLMK Group.

Policies for social and labour issues

The purpose of the Personel policy is to create a motivating and result oriented working environment in the company.

Additional training and education are offered and carried out in order to enable the employees to perform the current and future tasks. It is the responsibility of the management, that the employees has the necessary qualifications to perform their tasks effectively and with attention to quality and safety.

The employees shall on a continuous basis have their superiors evaluation of their working efforts and the possibility to debate this. The managers shall therefore as a minimum perform a yearly appraisal and development interview, where the working conditions are discussed and the plan for the employees future development is evaluated and confirmed. Management positions in the company shall as far as possible be offered to current employees to the extent, they are considered to be able to fulfill these.

The company promotes the freedom of associations and the right for collective bargaining: The Company does not limit the freedom of its employees for establishing associations to promote their interests. 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.

Health and safety policy

The main risk to be mitigated by the Health and safety policy is the high risk of serious working accidents due to production process with heavy and hot products and powerful equipment.

The main contents of the policy are:

- Promote high standards of health and safety for all employees and involve and consult employees in improving the health and safety system.
- Integrate health and safety in business decisions and processes where appropriate.
- Minimise unsafe actions by encouraging a safety culture and safety conscious behavior.
- Motivate and train employees to participate and take responsibility for a safe and healthy working environment at all levels. This includes encouraging employees to report on accidents, hazards, risks and opportunities.

Special effort on avoiding accidents has in 2018 included safety courses for subcontractors for the very high level of construction works in connection with the investments carried out at the same time. This required a lot of coordination and cooperation between the subcontractors and internal maintenance personnel.

The effect of this increased effort is, that it with great satisfaction can be concluded that no accidents with absence were recorded in connection with the work on the investment projects.

Policies for anti-corruption and bribery

Based on the business model for NLMK DanSteel and the risk assessment of the business environment, which the company operates in, it is deemed not to be necessary to issue a local policy for anti-corruption and bribery as NLMK DanSteel complies with the anti-corruption policy for the NLMK Group. The main content of this policy is:

> "NLMK Group strives to foster an honest and open relationship with its staff, partners, regulating bodies and with society as a whole. In the course of our activities, the company and its employees are guided by principles, which encourage fair competition and counter corruption. These values, which are set out in the documents published on this page, bring the NLMK team together and support the sustainable development of the Group"
>
> "NLMK adheres to best corporate governance practices and deems any form of corruption to be unacceptable, including bribery, collusion, corrupt payments, abuse of position, facilitation payments, etc. Direct and indirect involvement of NLMK Group employees in corrupt activities is prohibited without exception."
>
> "NLMK Group is guided by high ethical standards and principles of business transparency. Respect for active legislation, professionalism and honesty are essential for all NLMK Group employees."

Based on the low risk of anticorruption and bribery in the business model together with the content and intentions of this policy, which is communicated by all managers it has not been considered necessary to set up specific system and procedures to enforce this policy besides, what is already included in the group policy.

Policies for environment, climate and human rights

Environment and climate

The main risk to be mitigated through the energy and climate policy is the high energy consumption with the derived negative effect on the climate.

NLMK Group aims to make products that meet the requirements of its consumers whilst constantly improving its processes, ensuring safe working conditions, reducing its environmental impact, rationally using resources, and adhering to generally recognized social responsibility practices. NLMK Group believes that a safe environment and rational use of natural resources are key to sustainable economic and social development in the long term. The Company assumes the responsibility of maintaining a favorable environment for the communities in the regions where it operates by improving the efficiency of resource use and utilizing environmentally friendly and safe production technologies.

The main content of NLMK DanSteels Energy policy is:

- NLMK DanSteel A/S will put targets to its energy consumption and will therefore make sure that sufficient information and the needed ressources is available to develop and organize its production in such way, as to enhance the efficiency of energy consumption and to restrict the CO2 emission.

- NLMK DanSteel A/S will currently observe and evaluate energy consumption on the main production equipment and will strive to optimize the processes, and thereupon based on action plans, ensure that all potential energy savings are achieved in a specifically prioritized order.

- Furthermore, in order to secure an overall economic efficiency and optimal energy consumption, NLMK DanSteel A/S will include energy consumption as a consideration criterion under project engineering as well as purchase of energy consuming equipment.

Special efforts on saving of energy and reduction of emissions has in 2018 comprised the following. As part of the general replacement of old gas burners in the furnaces with new "Low-NOx" burners, the burners the Brobu normalization furnace were replaced during the year. This has reduced the NOx-emission from the burners from 463 to 63 mg/m3, which of course has had a significant effect on the total emissions of the plant. Besides this the company has continued the constant calibration of furnaces as well as optimizing the electricity consumption through adjustment of the pumps and hydraulic stations and start/stop functions in connection with production stops.

This has contributed with the following reductions in energy consumption and emissions per ton of plates produced:

		2016	2017	2018
Production	Tonnes	479.501	483.065	529.146
Electricity	KWh/T	108,7	111,1	108,8
Natural gas	M3/T	69,8	67,8	64,0
CO2-emmision	KG/T	165	160	151
NOx-emission / ton	KG/T	0,261	0,176	0,143

Human rights

Based on the business model for NLMK DanSteel and the risk assessment of the business environment, which the company operates in, it is deemed not to be necessary to issue a local policy for human rights as NLMK DanSteel complies with the human rights policy for the NLMK Group. The main content of this policy is:

- NLMK Group does not tolerate any form or manifestation of human rights violations in its operations, 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 practice.

- 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.

Based on the low risk of violating human rights in the business model together with the content and intentions of this policy, which is communicated by all managers, it has not been considered necessary to set up specific system and procedures to enforce this policy besides, what is already included in the group policy.

Goals and politics for the less represented gender

The company is working on increasing the number of female Managers and has therefore set-up specific goals for the share of the less represented gender within the Board of Directors and prepared a politic for how to secure the right gender composition in the management in general.

Goals

The company have equal gender distribution among the shareholder elected board members
Politics

In order to achieve the abovementioned goal of more female Managers the company has prepared an Equality policy concerning all management levels in the company as an addendum to the personal policy. Based on this initiative to promote the equality at management levels and to develop and promote female managers has been taken. In connection with employing and recruitment for management positions it is the goal, that there shall be both male and female candidates in spite the fact that the company operates in an industry traditionally dominated by men. The principle applies to both internal and external job postings.

In 2018 one management position has been filled. The field of candidates invited for interview for the position consisted of 2 men and 2 women.

Key figures and ratios
(amounts in mln DKK)

	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
Income statement					
Net revenue	2,824	2,372	1,887	1,933	1,908
Gross profit / (loss)	**75**	**173**	**151**	**69**	**(2)**
Loss on primary activities	(199)	(70)	(69)	(100)	(143)
Operating loss	**(185)**	**(61)**	**(62)**	**(100)**	**(142)**
Financial income and expenses, net	(17)	(30)	(29)	(21)	(15)
Loss for the year before tax	**(202)**	**(91)**	**(91)**	**(121)**	**(157)**
Loss for the year	**(226)**	**(216)**	**(72)**	**(100)**	**(129)**
EBITDA (Earnings before interest, tax, depreciation and amortisation)	(103)	16	11	(23)	(63)
EBIT (Earnings before interest and tax)	(185)	(61)	(62)	(100)	(142)
EBT (Earnings before tax)	(202)	(91)	(91)	(121)	(157)
Balance sheet					
Investments in tangible fixed assets	188	94	51	15	11
Balance sheet total	2,427	2,200	2,133	2,032	2,247
Equity	945	425	195	267	368
Key figures as %					
Gross margin (gross profit as % of revenue)	2.7	7.3	8.0	3.5	(0.1)
Profit margin (operating profit as % of net revenue)	(6.6)	(2.6)	(3.3)	(5.2)	(7.4)
Rate of return (operating profit as % of aver. balance sheet total)	(8.0)	(2.8)	(3.0)	(4.7)	(6.2)
Rate of turnover stock of raw materials (Slabs consumption compared to aver. stock of raw materials)	5.9	5.6	4.5	4.5	4.0
Rate of turnover stock of finished goods (Revenue compared to aver. stock of finished goods)	8.5	8.7	9.6	9.6	8.4
Rate of turnover receivables from sales (Revenue compared to aver. trade receivables)	8.3	6.8	6.0	6.5	5.8
Equity ratio (solvency ratio) (equity as % of assets, end of year)	38.94	19.3	9.1	13.2	16.4
Return on equity (profit after tax as % of average equity)	(33.0)	(70.0)	(31.2)	(31.6)	(29.9)
Average number of employees	411	384	368	351	353
Net revenue per employee in DKK '000	6,872	6,177	5,142	5,508	5,406

Figures for years 2018, 2017 and 2016 are in accordance with IFRS, while 2014 and 2015 figures are in accordance with the Danish Financial Statements Act.

Independent Auditor's Report

To the Shareholders of NLMK Dansteel A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Financial Statements of NLMK Dansteel A/S for the financial year 1 January - 31 December 2018, which comprise statement of profit and loss, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Frederiksværk, 5 April 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Jacob F Christiansen State Authorised Public Accountant mne18628	Carsten Blicher State Authorised Public Accountant mne16560

(thousands of DKK)

	Note	As at 31 December 2018	As at 31 December 2017
Assets			
Current assets			
Cash and cash equivalents	3	84,678	81,151
Short term financial investments	5, 21	182	-
Trade and other accounts receivable	6	375,285	385,198
Inventories	7	723,034	656,698
Other current assets		1,419	1,052
		1,184,598	**1,124,099**
Non-current assets			
Long-term financial investments	5, 21	32,050	-
Investments in subsidiaries accounted for using the equity method of accounting	4	9,435	3,412
Property, plant and equipment	8	1,200,529	1,048,966
Deferred income tax assets	15	-	23,062
		1,242,014	**1,075,440**
Total assets		**2,426,612**	**2,199,539**
Liabilities and equity			
Current liabilities			
Trade and other accounts payable	9	633,387	856,540
Short-term borrowings	10	101,160	95,864
		734,547	**952,404**
Non-current liabilities			
Long-term borrowings	10	747,096	822,520
		747,096	**822,520**
Total liabilities		**1,481,643**	**1,774,924**
Equity attributable to NLMK shareholders	11		
Common stock		88,155	80,695
Additional paid-in capital		1,180,476	441,936
Retained losses		(323,662)	(98,016)
Total equity		**944,969**	**424,615**
Total liabilities and equity		**2,426,612**	**2,199,539**

The financial statements as set out on pages 17 to 50 were approved on 5 April 2019.

(thousands of DKK, unless otherwise stated)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue	12	2,824,426	2,372,071
Cost of sales		(2,748,960)	(2,199,072)
Gross profit		**75,466**	**172,999**
General and administrative expenses		(76,728)	(76,088)
Selling expenses		(193,979)	(161,086)
Net impairment losses on Financial assets		(2,543)	(3,336)
Other operating income		13,602	6,040
Taxes, other than income tax	14	(1,292)	(2,734)
Gain on disposals of property, plant and equipment		-	3,545
Operating loss		**(185,474)**	**(60,660)**
Share in net result of subsidiary accounted for using the equity method	4	6,024	3,412
Finance income		135	73
Finance costs	16	(18,844)	(23,979)
Foreign currency exchange (loss), net	17	(4,153)	(10,028)
Other expenses, net		(3)	-
Loss before income tax		**(202,316)**	**(91,182)**
Income tax (expense)	15	(23,330)	(125,636)
Loss for the year		**(225,646)**	**(216,818)**

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Loss for the year		(225,646)	(216,818)
Other comprehensive income / (loss):		-	-
Items that may be reclassified subsequently to profit or loss:		-	-
Total comprehensive loss		**(225,646)**	**(216,818)**

(thousands of DKK)

	Note	Common stock	Additional paid-in capital	Net revaluation under the equity method	Retained earnings / (losses)	Total equity
Balance at 31 December 2016		**76,231**	**-**	**-**	**118,802**	**195,033**
Loss for the year		-	-	3,188	(220,006)	(216,818)
Total comprehensive loss		**-**	**-**	**3,188**	**(220,006)**	**(216,818)**
Additional paid-in capital	11	4,464	441,936	-	-	446,400
Balance at 31 December 2017		**80,695**	**441,936**	**3,188**	**(101,204)**	**424,615**
Loss for the year		-	-	6,024	(231,670)	(225,646)
Total comprehensive loss		**-**	**-**	**6,024**	(231,670)	(225,646)
Additional paid-in capital	11	7,460	738,540	-	-	746,000
Balance at 31 December 2018		**88,155**	**1,180,476**	**9,212**	**(332,874)**	**944,969**

(thousands of DKK)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flows from operating activities			
Loss for the year		**(225,646)**	**(216,818)**
Adjustments to reconcile loss for the year to net cash provided by operating activities:			
Depreciation and amortisation	8	81,671	76,304
Gain on disposals of property, plant and equipment		-	(3,545)
Finance income		(135)	(73)
Finance costs	16	18,844	23,979
Share in net gains of subsidiaries accounted for using the equity method	4	(6,024)	(3,412)
Income tax expense	15	23,330	125,636
Unrealised losses on foreign currency exchange		4,153	7,771
Change in impairment allowance for inventories and credit allowance for accounts receivable		(3,370)	9,794
Other expenses		3	-
Changes in operating assets and liabilities			
Decrease / (increase) in trade and other accounts receivable		7,370	(15,176)
(Increase) in inventories		(105,203)	(164,534)
Decrease / (Increase) in other current assets		(367)	6,818
Increase / (decrease) in trade and other accounts payable		(250,328)	253,188
Net cash (used in) / provided by operations		(455,702)	99,932
Income tax paid		(246)	-
Net cash (used in) / provided by operating activities		**(455,948)**	**99,932**
Cash flows from investing activities			
Purchases and construction of property, plant and equipment		(162,803)	(48,289)
Proceeds from sale of property, plant and equipment		-	3,605
Loans given		(32,016)	-
- Interest received		12	7
Net cash used in investing activities		**(194,807)**	**(44,678)**
Cash flows from financing activities			
Proceeds from borrowings		769,785	256,632
Repayment of borrowings		(102,433)	(247,298)
Interest paid		(13,769)	(27,159)
Net cash Provided by / (used in) financing activities		**653,583**	**(17,825)**
Net increase in cash and cash equivalents		**2,828**	**37,429**
Effect of exchange rate changes on cash and cash equivalents		699	(133)
Cash and cash equivalents at the beginning of the year	3	81,151	43,856
Cash and cash equivalents at the end of the year	3	**84,678**	**81,151**

Supplemental disclosures of cash flow information:

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
Non-cash investing activities:			
Conversion of debt to equity	10	746,000	446,400

(thousands of DKK)

1 Background

NLMK DanSteel A/S (the "Company") is a producer of steel plates, including plates that have been shotblasted and primed as well as fitted plates. The Company is a Danish limited liability company in accordance with the Company Act of Denmark. The Company was established on 1 October 2002 on basis of the former Danish Steel Works Ltd., which was founded in 1940. Since the establishment the company has expanded and developed its business areas continuously.

The plates are made from slabs (raw steel), where the majority is produced by PAO Novolipetsk Steel ("NLMK") in Russian Federation. The plates are primarily sold in Northern Europe. The Company's registered office is located at Havnevej 33, 3300 Frederiksværk, Denmark.

NLMK DanSteel A/S is incorporated in the consolidated financial statements of the parent company PAO Novolipetsk Steel, Russian Federation, and the Company's exclusive shareholder with 100% ownership interest is NLMK International B.V. (Strawinskylaan 1331, 1077 XX Amsterdam, The Netherlands). The consolidated financial statements are available on the homepage of the group at www.nlmk.com.

2 Basis of financial statements preparation

(a) Basis of preparation

For all periods up to and including the year ended 31 December 2016, the Company prepared its financial statements in accordance with the Danish Financial Statements Act. Financial statements of year 2017 were the first prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these financial statements are set out in Note 23.

The accounting policies have been consistently applied to all the periods presented in these financial statements. The financial year of the Company runs from 1 January until 31 December.

(b) Functional and reporting currency

The financial statements are presented in Danish kroners ("DKK"), which is the presentation currency of the Company, while the functional currency is EURO ("EUR").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3 Cash and cash equivalents

	As at 31 December 2018	As at 31 December 2017
Cash		
Danish kroners	3,937	5,389
Euros	79,175	70,893
Great Britain Pounds	608	3,146
US dollars	958	1,722
Other currencies	-	2
	84,678	**81,151**

(thousands of DKK)

4 Investments in subsidiary accounted for using the equity method of accounting

The company owns 100% share in its subsidiary NLMK Plate Baltic SIA, Latvia. The cost of investment amounted to DKK 224 thousand. Net result of NLMK Plate Baltic for the year ended 31 December 2018 and 2017 amounted to a profit of DKK 6,024 thousand and a profit of DKK 6,479 thousand, respectively. The Company accounted for its investment in subsidiary using the equity method as allowed by IAS 27 *Separate Financial Statements*.

5 Financial investments

	As at 31 December 2018	As at 31 December 2017
Short-term financial investments		
Interests due from Tubes de Haren et Nimy S.A. (subsidiary of NBH) (Note 21)	182	-
Long-term financial investments		
Loan due from Tubes de Haren et Nimy S.A. (subsidiary of NBH) (Note 21)	32,050	-
	32,232	**-**

6 Trade and other accounts receivable

	As at 31 December 2018	As at 31 December 2017
Financial assets		
Trade accounts receivable	373,920	385,044
Credit loss allowance of trade accounts receivable	(2,543)	-
Other accounts receivable	53	-
Credit loss allowance of other accounts receivable	-	-
	371,430	**385,044**
Non-financial assets		
Advances given to suppliers	-	43
Allowance of advances given to suppliers	-	-
VAT and other taxes receivable	3,733	79
Accounts receivable from employees	122	32
Other accounts receivable		-
	3,855	154
	375,285	**385,198**

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

As at 31 December 2018 and 2017 accounts receivable of DKK 373,920 thousand and DKK 385,044 thousand, respectively, served as collateral for certain borrowings (Note 10).

(thousands of DKK)

6 Trade and other accounts receivable (continued)

Movements in the Company's credit loss allowance of trade and other accounts receivables are as follows:

	2018	2017
As at 1 January	**-**	**(15,446)**
Credit loss allowance recognised	(2,543)	(3,336)
Accounts receivable written off	-	15,715
Credit loss allowance reversed	-	3,067
Translation adjustment	-	-
As at 31 December	**(2,543)**	**-**

The allocation of trade accounts receivable, net of credit loss allowance, by geographical area is follows:

	As at 31 December 2018	As at 31 December 2017
Denmark	104,022	87,871
Other European Union countries	228,070	241,640
Other European countries	5,432	16,105
Other regions	33,853	39,428
	371,376	**385,044**

7 Inventories

	As at 31 December 2018	As at 31 December 2017
Raw materials	388,135	342,643
Work in process	332,862	286,178
Finished goods	5,162	36,916
	726,159	665,737
Valuation to net realizable value	(3,125)	(9,038)
	723,034	**656,698**

Raw materials include spare parts and rolls of a value of DKK 76,633 thousand (31 December 2017: DKK 113,358 thousand). The decrease in spare parts and rolls included in inventories is mainly due to a reclassification to property, plant and equipment of an amount of DKK 44,780 thousand, which relates to spare parts and rolls that meet the definition of property, plant and equipment (note 8).

As at 31 December 2018 and 2017 inventories of DKK 618,144 thousand and DKK 518,814 thousand, respectively, served as collateral for certain borrowings (Note 10).

Share of raw materials and acquired semi-finished goods in cost of sales for the years ended 31 December 2018 and 2017 amounted to DKK 2,320,427 thousand and DKK 1,917,854 thousand, respectively. Share of fuel and energy resources expenses in cost of sales for the years ended 31 December 2018 and 2017 amounted to DKK 100,125 thousand and DKK 85,103 thousand, respectively.

(thousands of DKK)

8 Property, plant and equipment

	Land	Buildings	Machinery and equipment	Vehicles	Construction in progress	Rolls	Total
Cost at 1 January 2017	4,780	201,120	1,294,348	19,788	30,814	-	1,550,851
Accumulated depreciation and impairment	-	(45,936)	(454,202)	(19,788)	-	-	(519,926)
Net book value at 1 January 2017	**4,780**	**155,184**	**840,147**	**-**	**30,814**	**-**	**1,030,925**
Additions	-	-	-	-	94,521	-	94,521
Disposals	-	-	(177)	-	-	-	(177)
Impairment	-	-	-	-	-	-	-
Transfers	-	961	28,851	-	(29,812)	-	-
Depreciation charge	-	(6,313)	(69,991)	-	-	-	(76,304)
Cost at 31 December 2017	4,780	202,081	1,321,670	513	95,524	-	1,624,567
Accumulated depreciation and impairment		(52,248)	(522,840)	(513)	-	-	(575,601)
Net book value at 31 December 2017	**4,780**	**149,833**	**798,830**	**-**	**95,524**	**-**	**1,048,966**
Additions	-	-	-	-	188,454	-	188,454
Disposals	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Transfers	-	3,715	23,170	-	(28,978)	2,092	-
Transfers from inventory	-	-	-	-	17,485	27,296	44,780
Depreciation charge	-	(6,453)	(69,768)	-	-	(5,449)	(81,671)
Cost at 31 December 2018	4,780	205,797	1,344,840	513	272,484	44,803	1,873,216
Accumulated depreciation and impairment	-	(58,702)	(592,609)	(513)	-	(20,864)	(672,687)
Net book value at 31 December 2018	**4,780**	**147,095**	**752,232**	**-**	**272,484**	**23,939**	**1,200,529**

Public land assessment as at 1 October 2016 has in August 2017 DKK 84,648 thousand. There has not been performed any assessment in 2018.
The depreciation charge is included within the cost of sales line of the statement of the profit or loss.

Transfer from inventory for the year ended 31 December 2018 include an amount of DKK 44,780 thousand, which relates to reclassification of spare parts and rolls that meet the definition of property, plant and equipment from inventories to fixed assets (note 7).

(thousands of DKK)

8 Property, plant and equipment (continued)

The Company's management made an analysis of impairment indicators of the Company's assets as at 31 December 2018. High volatility on the market of finished and raw materials triggered impairment assessment of the Company's assets, which required determination of their recoverable amounts using the income approach based on primarily Level 3 inputs as at 31 December 2018. Testing for impairment in the comparative period was also caused by a high volatility on the steel market and was conducted as of 31 December 2017.

For the purpose of impairment test, the Company's management used a forecast of cash flows for five years and normalised cash flows for a post-forecast period.

Sales price is estimated using an average annual growth rate, over the 5-year (31 December 2017: 6-year; 31 October 2016: 7-year) forecast period based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is estimated using an average annual growth rate over the same forecast period based on past performance and management's expectations of market development. Discount rate reflects specific risks relating to the relevant segments and the countries in which they operate. Sensitivity in the tables below was determined as a percentage of changes of each corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their balance values. Impairment tests of 2018 and 2017 did not identify any impairment.

The table below shows major assumptions and their sensitivity used in the impairment model of 2018:

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK DanSteel A/S	Property, plant and equipment	5	7,8%	Plate	674	0,7%	3,6%

** Weighted average prices giving the product mix, averaged for the period from 2019 to 2023*

The table below shows major assumptions and their sensitivity used in the impairment model of 2017:

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average sale price*, $ per tonne (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK DanSteel A/S	Property, plant and equipment	6	8%	Plate	692	1,8%	11,3%

** Weighted average prices giving the product mix, averaged for the period from 2018 to 2023*

(thousands of DKK)

9 Trade and other accounts payable

	As at 31 December 2018	As at 31 December 2017
Financial liabilities		
Trade accounts payable	540,223	766,950
Other accounts payable	41,117	12,597
	581,340	779,547
Non-financial liabilities		
Advances received	9,039	15,638
Taxes payable other than income tax	313	21,256
Accounts payable and accrued liabilities to employees	42,695	40,099
	52,047	76,993
	633,387	**856,540**

Due to the short-term nature of trade and other accounts payable, their carrying amount is considered to be the same as their fair values.

10 Borrowings

Lender	Rates	Currency	Maturity	As at 31 December 2018	As at 31 December 2017
NLMK Overseas	1,9%	EUR	2020	156,147	218,772
Deutsche Bank	1,2%	EUR	2020	523,935	448,345
Societe Generale	0,633%	EUR	2020	168,174	251,267
				848,256	918,384
Less: short-term loans and current maturities				(101,160)	(95,864)
Long-term borrowings				**747,096**	**822,520**

Long-term liabilities concern debt to banks in connection with the acquisition of the new rolling stand, working capital facility with Deutsche Bank and debt to LLC NLMK Overseas Holding. The rolling stand was put into operation in 2012.

The fair value of short-term borrowings equals their carrying amount. The fair values of long-term borrowings approximate their carrying amount.

The long-term borrowings mature as follows:

	As at 31 December 2018	As at 31 December 2017
1-2 year	747,096	375,862
2-5 years	-	446,658
over 5 years	-	-
	747,096	**822,520**

(thousands of DKK)

10 Borrowings (continued)

Collateral

As at 31 December 2018 and 2017, the total amount of collateral was DKK 992,064 thousand and DKK 903,858 thousand, respectively (Notes 6, 7).

Net debt reconciliation

	Short-term borrowings	Long-term borrowings	Cash and cash equivalents	Short-term bank deposits	Net debt
Balance at 1 January 2017	**(98,966)**	**(1,259,344)**	**43,856**	**-**	**(1,314,455)**
Cash flows	27,159	(9,334)	37,429	-	55,254
Converted to Equity	-	446,400	-	-	446,400
Interest accrued	(23,924)	-	-	-	(23,924)
Foreign exchange difference	(132)	(242)	(133)	-	(508)
Balance at 31 December 2017	**(95,864)**	**(822,520)**	**81,151**	**-**	**(837,233)**
Cash flows	13,769	(667,352)	2,828	-	(650,755)
Converted to Equity	-	746,000	-	-	746,000
Interest accrued	(18,766)	-	-	-	(18,766)
Foreign exchange difference	(299)	(3,223)	699	-	(2,824)
Balance at 31 December 2018	**(101,160)**	**(747,096)**	**84,678**	**-**	**(763,577)**

11 Shareholders’ equity

(a) Share capital

As at 31 December 2018 and 2017, the Company’s share capital consisted of 88,155 and 80,695 issued common shares respectively, with a par value of 1,000 DKK each. The increase of the common share capital was carried out by conversion of debt with DKK 746,000 thousand in 2018 and DKK 446,400 thousand in 2017 as a non-cash transaction.

(b) Dividends

The Board of Directors did not recommend the payment of a dividend in years 2018 and 2017.

(c) Capital management

The Company’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 optimisation of its structure. To achieve these objectives the Company may revise investing program, borrow new or repay existing loans.

When managing capital the Company 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, should be positive.
- The approval process for Capex projects includes evaluation of IRR based on the budgeted cost of the project and the discounted free cash flow generated by the Capex project.

There were no changes in the Company’s approach to capital management during the reporting period.

(thousands of DKK)

12 Revenue

(a) Revenue by product

	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue from sale of goods		
Plates	2,591,861	1,898,737
Scrap	176,638	143,368
Other products	3,747	288,133
Total revenue from sale of goods	**2,772,246**	**2,330,238**
Revenue from transportation services	52,180	41,833
Total revenue	**2,824,426**	**2,372,071**

(b) Revenue by geographical area

The allocation of total revenue by geographical area is based on the location of end customers, who purchased the Company's products. The Company's total revenue from external customers by geographical area for the years ended 31 December 2018 and 2017 is as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Denmark	476,366	377,569
Germany	712,175	587,052
Sweden	290,357	308,966
Poland	388,080	226,522
United Kingdom	140,057	188,670
Other European Union countries	620,157	454,032
Other European countries	68,746	102,285
Other regions	128,488	126,975
	2,824,426	**2,372,071**

The Company has in 2018 had one customer with a share of more than 10% from revenue. The revenue from this customer amounted in 2018 to DKK 457,532 thousand against DKK 327,951 thousand in 2017, which corresponds to 16% and 14% from the revenue respectively.

13 Labour costs

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cost of sales	174,414	167,226
General and administrative expenses	38,067	28,524
Selling expenses	11,662	8,532
	224,143	**204,282**

Remuneration to the key management personnel consists of payments to the members of the Board of Executives and Board of Directors. It is recorded within general and administrative expenses and includes annual compensation and performance bonus contingent on the Company's results for the reporting year. Remuneration to key management personnel amounted to DKK 2,784 thousand and DKK 2,784 thousand for 2018 and 2017 respectively.

Number of employees was 411 in 2018 and 384 in 2017.

(thousands of DKK)

14 Taxes, other than income tax

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cost of sales	(45)	(1,169)
General and administrative expenses	(1,245)	(1,341)
Selling expenses	(2)	(225)
	(1,292)	**(2,734)**

15 Income tax

Income tax charge comprises the following:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Current income tax expense	(268)	-
Deferred income tax (expense)	(23,062)	(125,636)
Total income tax (expense)	**(23,330)**	**(125,636)**

The corporate income tax rate applicable to the Company is 22% for years 2018 and 2017.

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Loss before income tax	(202,316)	(91,182)
Income tax at applicable tax rate 22%	44,509	20,060
Change in income tax:		
- tax effect of non-deductible expenses	1,207	1,986
- unrecognised tax loss carry forward for current year	(29,197)	(8,459)
- increase of deferred tax asset	-	-
- write-off of previously recognised deferred tax assets	(23,062)	(125,636)
- other	(16,787)	(13,587)
Total income tax (expense)	**(23,330)**	**(125,636)**

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

	As at 31 December 2018	As at 31 December 2017
Deferred tax assets		
Net operating loss and credit carry-forwards	-	23,062
	-	**23,062**
Deferred tax liabilities	-	-
Total deferred tax asset, net	**-**	**23,062**

(thousands of DKK)

15 Income tax (continued)

The movements in deferred income tax assets and liabilities are presented below:

	2018	2017
As at 1 January	**23,062**	**148,698**
Charged / (Credited)to profit or loss	-	(125,636)
Write-off	(23,062)	-
As at 31 December	**-**	**23,062**

Deferred tax assets are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.
As at 31 December 2018 and 2017 the Company analysed its tax positions for uncertainties affecting recognition and measurement thereof.

The amount of net operating losses that can be utilised each year is limited under the Company's tax jurisdiction. The Company regularly evaluates assumptions underlying its assessment of the realisability of its deferred tax assets and makes adjustments to the extent necessary. In assessing probability that future taxable profit against which the Company can utilise the potential benefit of the tax loss carry-forwards will be available, management decided to write off the deferred tax asset in year 2018.

The table below summarises 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 2018	As at 31 December 2017
From 1 to 5 years	-	-
From 5 to 10 years	-	-
More than 10 years	-	-
No expiration	789,073	551,534
	789,073	**551,534**

16 Finance costs

	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest expense on borrowings	18,766	23,924
Other finance costs	78	55
Total finance costs	**18,844**	**23,979**

17 Foreign exchange differences

	For the year ended 31 December 2018	For the year ended 31 December 2017
Foreign exchange loss on cash and cash equivalents	(675)	(303)
Foreign exchange gain on investment in Tubes de Haren et Nimy S.A. (subsidiary of NBH) (Note 21)	34	-
Foreign exchange loss on debt financing	(4,727)	(2,830)
Foreign exchange gain / (loss) on other assets and liabilities	1,215	(6,895)
	(4,153)	**(10,028)**

(thousands of DKK)

18 Audit fees

Fees to the auditors appointed by the shareholders on the general meeting can be specified as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Statutory audit	580	495
Opinion tasks with assurance	36	90
Tax consultancy	155	51
Other services	118	176
	889	**812**

19 Operating leases

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

	As at 31 December 2018	As at 31 December 2017
Within 1 year	11,139	9,086
From 1 to 5 years	40,490	31,201
After 5 years	9,853	11,181
Total commitments for minimum lease payments	**61,482**	**51,468**

In 2018 and 2017 total leasing expenses relating to operating leases were equal to DKK 9,399 thousand and DKK 11,239 thousand, respectively.

Operating leases mainly concern internal transport equipment.

20 Risks and uncertainties

(a) Operating environment of the Company

The major financial risks inherent to the Company’s operations are market risk and credit risk. The objectives of the financial risk management function are to monitor the risks and assure that the Company’s procedures as far as possible mitigate these risks.

The management board is responsible for the Company's system of internal controls and for reviewing its effectiveness. However, such a system has been designed to manage rather than eliminate risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Company's risk management and internal control system is designed to determine risks in relation to the achievement of business objectives and appropriate risk responses.

The management board has a risk management and internal control system, which has been designed to ensure that significant risks are identified and are monitored and to ensure compliance with relevant laws and regulations.

The Company's perceivable risks are financial risks, including foreign currency risk, liquidity and cash flow risk.

(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.

(thousands of DKK)

20 Risks and uncertainties (continued)

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 Company's long-term borrowings with variable interest rates.

The Company has taken out loans, where the interest is based on EURIBOR, for financing of the new rolling stand as well as working capital. Even though the EURIBOR is considered to have a low risk of fluctuations, this has significantly increased the Company's sensitivity towards increases in the market rate of interest.

The interest rate risk profile of the Company is follows:

	As at 31 December 2018	As at 31 December 2017
Fixed rate instruments		
Financial assets	488,340	466,196
- cash and cash equivalents (Note 3)	84,678	81,151
- trade and other accounts receivable less credit loss allowance (Note 6)	371,430	385,044
- financial investments (notes 5 and 21)	32,232	-
Financial liabilities	(581,340)	(779,547)
- trade, other accounts payable and dividends payable (Note 9)	(581,340)	(779,547)
- short-term borrowings (Note 10)	-	-
- long-term borrowings (Note 10)	-	-

	As at 31 December 2018	As at 31 December 2017
Variable rate instruments		
Financial liabilities	(848,256)	(918,384)
- short-term borrowings (Note 10)	(101,160)	(95,864)
- long-term borrowings (Note 10)	(747,096)	(822,520)

A change of 100 basis points in interest rates for variable rate instruments would 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 majority of the company's foreign exchange transactions are in EUR, which significantly reduces its exchange risks.

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

(thousands of DKK)

20 Risks and uncertainties (continued)

To minimise foreign currency risks the export program is designed taking into account potential major foreign currencies' exchange fluctuations. In its export contracts the Company controls the balance of currency positions by settling payments in foreign currency with export revenues in the same currency as far as possible. The Company has beside DKK revenue in GBP and USD. The sensitivity of revenue to fluctuations in exchange rates is as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
DKK/EUR rate change 10%	10,459	9,886
GBP/EUR rate change 10%	9,155	18,867
USD/EUR rate change 10%	12,181	12,241

The effect on the equity of a fluctuation in the exchange rate is equal to the figures above.

The net foreign currency position presented below is calculated in respect of major currencies by items of statement of financial position as the difference between assets and liabilities denominated in a currency other than the functional currency of the Company at 31 December 2018.

	DKK	GBP	US dollar
Cash and cash equivalents	3,937	608	958
Trade and other accounts receivable	23,341	21,556	28,426
Long-term financial investments	-	-	-
Trade and other accounts payable	(24,985)	(1,370)	(3,753)
Short-term borrowings	-	-	-
Long-term borrowings	-	-	-
Net foreign currency position	**2,293**	**20,793**	**25,631**

The net foreign currency position presented below is calculated in respect of major currencies by items of statement of financial position as the difference between assets and liabilities denominated in a currency other than the functional currency of the Company at 31 December 2017.

	DKK	GBP	US dollar
Cash and cash equivalents	5,389	3,146	1,722
Trade and other accounts receivable	18,242	24,887	34,844
Long-term financial investments	-	-	-
Trade and other accounts payable	(17,730)	(501)	(1,497)
Short-term borrowings	-	-	-
Long-term borrowings	-	-	-
Net foreign currency position	**5,901**	**27,532**	**35,069**

Sensitivity analysis

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

(thousands of DKK)

20 Risks and uncertainties (continued)

A 10 percent strengthening of the following currencies against the functional currency as at 31 December 2018 and 2017 would have increased equity by the amounts shown below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
DKK	229	590
GBP	2,079	2,753
US dollar	2,563	3,507

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 Company's future performance and the Company's operational results.

The fact that the company only produces to orders of which a high share has short delivery time, has reduced the Company's exposure to price risk in a volatile market. During 2018 the company has though experienced an increase in the tonnes booked but not yet produced, which draws in the opposite direction. Likewise will the acceptance of larger project-orders, which often will have a duration of 3-18 months from time of agreeing on the price to production of the last plate, increase the commodity price risk. In order to mitigate the price risk on such projects, a reference to a steel price index such as Platts or CRU is included in the price formula, whenever possible.

(c) Credit risk

Credit risk is the risk when a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss for the Company.

The Company is exposed to credit risk from its operating activities, primarily for trade receivables.

In order to minimise credit risk, management developed and maintain the Company's credit risk grading to categorise exposures according to their degree of risk of default. The Company's credit risk grading framework comprises six categories (AAA, A, B, C, D, NR). The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Company's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies.

The Company analyses all data collected using statistical models and estimates the remaining lifetime probability of default exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment and interest rates. The Company generates a

(thousands of DKK)

20 Risks and uncertainties (continued)

'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Company then uses these forecasts, which are probability-weighted, to adjust its estimates of probability of default.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Company has reasonable and supportable information that demonstrates otherwise.

The Company has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Company performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Company uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of expected credit loss. The Company employs experts, who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Company applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome. The Company has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The Company holds collateral to mitigate credit risk associated with trade accounts receivable. The main types of collateral are bank coverage and credit insurance.

The Company did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2018. There was no change in Company's collateral policy during the year.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 years.

The measurement of expected credit loss is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis.

The Company's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the statement of financial position is as follows:

	As at 31 December 2018	**As at 31 December 2017**
Cash and cash equivalents (Note 3)	84,678	81,151
Trade and other accounts receivable (Note 6)	371,430	385,044
Financial investments	32,232	-
Total on-balance sheet exposure	**488,340**	**466,195**

Analysis by credit quality, based on international agencies' credit rating of bank balances is as follows:

Bank balances	**As at 31 December 2018**	**As at 31 December 2017**
AAA-BBB	84,678	81,151
BB-B	-	-
Unrated and cash on hand	-	-
	84,678	**81,151**

(thousands of DKK)

20 Risks and uncertainties (continued)

As at 31 December 2018, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross Amount	credit loss allowance	Net of credit loss allowance
Undue, expected to be received on time	277,100	(127)	276,973
Overdue, including:	96,873	(2,416)	94,457
- up to 1 month	67,111	(481)	66,630
- from 1 to 3 months	6,480	(450)	6,030
- from 3 to 12 months	23,123	(1,326)	21,797
- over 12 months	159	(159)	-
Total	**373,973**	**(2,543)**	**371,430**

As at 31 December 2017, ageing of trade and other receivables is as follows:

	Trade and other receivables		
	Gross Amount	credit loss allowance	Net of credit loss allowance
Undue, expected to be received on time	268,034	-	268,034
Overdue, including:	117,010	-	117,010
- up to 1 month	*114,134*	-	*114,134*
- from 1 to 3 months	*1,399*	-	*1,399*
- from 3 to 12 months	*285*	-	*285*
- over 12 months	*1,192*	-	*1,192*
Total	**385,044**	**-**	**385,044**

As at 31 December 2018 and 2017 trade receivables of DKK 94,457 thousand and DKK 117,010 thousand were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

(d) Liquidity risk

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

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

The Company has procedures with the object of minimising its risk by maintaining sufficient cash and other current assets and by having available an adequate amount of committed credit facilities.

(thousands of DKK)

20 Risks and uncertainties (continued)

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

	As at 31 December 2018	As at 31 December 2017
Less than 1 year	101,160	95,864
From 1 to 2 years	747,096	375,862
From 2 to 5 years	-	446,658
Over 5 years	-	-
Total borrowings	**848,256**	**918,384**

As at 31 December 2018 and 2017 the Company 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 minimise risks the Company concludes insurance policies which cover: property damages and business interruptions, freightage, vehicles and commercial trade credits. In respect of legislation requirements, the Company purchases compulsory motor third party liability insurance as well as accident insurance for employees of the Company. The Company also buys civil liability insurance, product liability insurance, voluntary health insurance and travel insurance.

The company provide health insurance for all employees, who is secured access to examination and treatment in private clinics for a broad range of sicknesses. Likewise the agreement with Falck Healthcare, which gives the employees access to treatment by chiropractor, physiotherapist, masseur and zone therapist has been maintained. It is still the company's opinion that both these agreements contribute to decrease the absence due to illness.

21 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 Company carries out operations with related parties on arm's length.

(a) Sales to and purchases from related parties

	For the year ended 31 December 2018	For the year ended 31 December 2017
Sales		
NLMK Plate Baltic (subsidiary)	35,065	26,864
NLMK group companies	96,812	75,125
NBH group companies	8,914	9,529
Purchases		
NLMK Trading S.A. (formerly Novex Trading (Swiss) S.A.)	2,329,836	1,844,983
Other NLMK group companies	5,382	247
NBH group companies	36,734	44,654

NLMK DanSteel A/S has in 2018 and 2017 purchased its slabs from companies in the NLMK Group, hereof the majority by NLMK Trading SA.

(thousands of DKK)

21 Related party transactions (continued)

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

	As at 31 December 2018	As at 31 December 2017
Accounts receivable		
NLMK Plate Baltic (subsidiary)	12,856	9,887
NLMK group companies	23,801	18,446
NBH group companies	1,912	1,978
Accounts payable		
NLMK Trading S.A. (formerly Novex Trading (Swiss) S.A.)	499,838	675,632
Other NLMK group companies	508	227
NBH group companies	8,219	1,740

(c) Financial transactions

	As at 31 December 2018	As at 31 December 2017
Loan due from Tubes de Haren et Nimy S.A. (subsidiary of NBH)	32,050	-
Interests due from Tubes de Haren et Nimy S.A. (subsidiary of NBH)	182	-
Loans due to LLC NLMK Overseas Holding (Note 10)	140,391	208,440
Interest due to LLC NLMK Overseas Holding	15,756	10,331
Interest expense to LLC NLMK Overseas Holding for the year	9,488	13,096

The interest is fixed on market conditions.

(d) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund in 2018 and 2017 amounted to DKK 16,205 thousand and DKK 14,738 thousand, respectively. The Company has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

22 Commitments and contingencies

(a) Litigation

The Company, in the ordinary course of business, is not the subject of, or party to, any pending or threatened legal actions.

(b) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to DKK 107,874 thousand and DKK 214,766 thousand as at 31 December 2018 and 2017, respectively.

(c) Tax contingencies

The Danish transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This legislation provides the possibility for tax authorities to impose additional tax liabilities in respect of controlled transactions, provided, that the transaction price is deemed not to be at arm’s length.

22 Commitments and contingencies (continued)

(d) Major terms of loan agreements

The Company is in compliance with all debt covenants as at each reporting date. The covenants establishes limits for NLMK DanSteel rights with relation to establishing negative pledges, disposal of assets, mergers and acquisitions, change of shareholders as well as rules relating to insolvency proceedings, creditor processes and litigations etc. for NLMK DanSteel.

23 Significant accounting policies

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

(a) Basis of consolidation

As permitted under IFRS 10 *Consolidated Financial Statements*, no consolidation of the Company and its subsidiary has been performed, since the financial statements of the Company and its subsidiary are incorporated in the consolidated financial statements of the ultimate holding company, PAO Novolipetsk Steel, Lipetsk, Russian Federation.

(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 is payable to the tax authorities in the month following the month of invoicing to customers. VAT is excluded from revenue.

Input VAT on goods and services purchased (received) is generally recoverable against output VAT in the month following the month of receipt of the VAT invoice.

Where Credit loss allowance has been made for receivables, a credit loss allowance is recorded for the net amount of the debt, excluding VAT.

(d) Inventories

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Inventories include raw materials designated for use in the production process, finished goods and work in progress. Spare parts, consumables and other auxiliary materials are already included in raw materials.

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.

23 Significant accounting policies (continued)

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

Measurement at recognition

Property, plant and equipment are initially stated at historical cost.

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 Company'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 Company 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 the Company'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 Company.

Subsequent measurement

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

Subsequent expenditures

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

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

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

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

Property, plant and equipment line of the 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.

23 Significant accounting policies (continued)

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 Company (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 *Borrowing Costs* are classified in 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 financial statement of profit or loss in the “Finance costs” line.

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 Company 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	25 years
Machinery and equipment	5 – 30 years
Vehicles	5 years

The residual value of an asset is the estimated amount that the Company 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 (g) “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.

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. All leases of the Company are currently classified as operating leases.

23 Significant accounting policies (continued)

(g) Impairment of non-current assets

At each reporting date, the Company determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year if their carrying amount impairment indicators are identified.

Recoverable value measurement

If any such impairment indicators exist, then the asset's recoverable amount is estimated. In the event of impairment, the value of the asset is written down to its recoverable value, which represents the higher of: the fair value less costs to sell or the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset or payable on the transfer of a liability at the evaluation date, in an arm's length transaction between knowledgeable, willing parties, less any direct costs related to the sale or transfer.

Value in use is the present value of estimated future cash flows from expected continuous use of an asset and its disposal at the end of its useful life.

In assessing value-in-use, the anticipated future cash proceeds are discounted to their current value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows, cash-generating units. 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 financial 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 financial statement of profit or loss.

(h) Pension and post-retirement benefits other than pensions

The Company maintains defined contribution plans in accordance with which contributions are made on a monthly basis to a non-government pension 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 Company has no long-term commitments to provide funding, guarantees, or other support to the Fund.

The Company complies with the pension and social insurance legislation of Denmark. Contributions to the 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.

23 Significant accounting policies (continued)

(i) Provisions for liabilities and charges

Provisions for liabilities and charges are accrued when the Company:

- 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; and
- an 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 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 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 statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(j) Income taxes

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

Current tax

Current tax liabilities are measured in the amount expected to be paid to 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 statement of financial position and their tax base.

Deferred tax is not recognised if temporary differences:

- arise at the goodwill initial recognition;
- arise at the initial recognition (except for business combination) of assets and liabilities that do not impact taxable or accounting profits;
- are associated with investments in subsidiaries where the Company 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 are 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 and the Company intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

(k) Dividends payable

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the financial statements have been authorised for issue are disclosed in the subsequent events note.

(l) Revenue recognition

Revenue from sales of goods and provision of services

Revenue is recognised at a transaction price that represents an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those goods

Revenues from sales of goods and services is recognised when a performance obligation is satisfied, i.e. when control over the goods or services underlying the particular performance obligation is transferred to the customer. If the Company agrees to transport goods to a specified location (typically under contracts based on certain Incoterms), revenue is split into two performance obligations – sale of goods and rendering of transportation services. Revenue from sale of goods is recognised at a point of time, when control over the goods is transferred to the customer, normally when the goods are shipped and the risks, rewards and legal title are passed. Revenue from rendering of transportation services is recognised over time as the transportation service is provided to the customer. This is determined based on the actual days of transportation relative to the average expected days of transportation. The transaction price is allocated to the rendering of transportation services on an average transportation price per ton basis. Costs related to the rendering of transportation services are included in selling expenses.

Revenue is recorded net of discounts, provisions, value added tax and export duties and refunds.

No element of financing is deemed present as the sales are made with an average credit term of 60 days, which is consistent with market practice.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income on investments is recognised when the Company becomes entitled to receive the payment.

(m) Financial instruments

Financial assets

The Company's financial assets include cash and cash equivalents, trade and other accounts receivable and short-term financial instruments.

Financial assets have the following categories:

- those to be measured subsequently at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income or through profit or loss.

Debt instruments have the following categories based on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest:

- debt instruments the payments on which represent solely payments of principal and interest and that are intended to collect payments are classified as those to be measured subsequently at amortised cost;
- debt instruments the payments on which represent solely payments of principal and interest and that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets are classified as those to be measured subsequently at fair value through other comprehensive income; and
- other financial assets are measured subsequently at fair value through profit or loss.

The Company does not have equity financial instruments.

To assess the expected credit loss on financial assets measured subsequently at amortised cost the Company uses the expected credit losses model in accordance with a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. The Company assesses expected credit losses using lifetime expected credit losses for cash and cash equivalents, trade and other accounts receivable and short-term financial investments since their terms are less than 12 months.

Initial recognition of financial assets

Financial investments measured subsequently at fair value are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Company commits to buy or sell a financial asset.

De-recognition

The Company de-recognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company 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 Company neither transfers nor retains substantially all risks and rewards of ownership of the asset, but retains control over such transferred asset, the Company continues recognition of its share in this asset and the related obligation in the amount of the anticipated consideration.

Financial liabilities

The Company's financial liabilities include trade and other payables, bank overdrafts, borrowings and financial guarantee agreements.

Financial liabilities are respectively classified as:

- borrowings and loans.

23 Significant accounting policies (continued)

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 financial 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 financial statements of profit or loss.

De-recognition

A financial liability is de-recognised from the financial 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 financial statement of profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the 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.

(n) 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.

24 Critical accounting estimates and judgements

(a) Tax legislation and potential tax gains and losses

The Company'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.

(b) Estimation of remaining useful lives of property, plant and equipment

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

(c) Impairment analysis of property, plant and equipment

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).

24 Critical accounting estimates and judgements (continued)

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets and other non-current assets at least annually.

(d) Accrual credit loss allowance for accounts receivable

The credit loss allowance 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.

(e) Critical judgements in applying the Company's accounting policies

There were no critical judgments in applying the Company's accounting policies during the year.

25 New or revised standards and interpretations

The following new standards and interpretations became effective from 1 January 2018:

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

For the periods starting 1 January 2018, the Company changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. Details of new accounting policy disclosed in Note 23.

The adoption of IFRS 9 did not significantly impact balance sheet classification of financial assets and liabilities in the financial statements of the Company. The amount of expected credit losses as at 1 January 2018 does not materially differ from the amount of recognised provisions and allowances in the financial statements as at 31 December 2017 and therefore there is no quantitative effect of transition as of 1 January 2018.

Financial assets and liabilities previously classified in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* within categories loans and receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 *Financial instruments* are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and borrowings, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

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

In accordance with the transition provisions in IFRS 15 the Company has elected the simplified transition method with the effect of transition to be recognised as at 1 January 2018. The Company applied the practical expedient available for the simplified transition method. Details of new accounting policy disclosed in Note 23.

Apart from providing more extensive disclosures on the Company's revenue transactions (Note 12), including presentation of goods transportation services as a separate performance obligation and disaggregation of revenue by geographical area, the adoption of IFRS 15 did not have a significant impact on the financial position or financial performance of the Company. Therefore comparative information and opening equity as at 1 January 2018 were not restated.

(thousands of DKK)

25 New or revised standards and interpretations (continued)

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

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Company has not early adopted:

IFRS 16 *Leases* (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management estimates that on adoption of IFRS 16 starting 1 January 2019, the Company will recognise lease liabilities in the amount of DKK 55,365 thousand in relation to leases which classified as operating leases as of 31 December 2018 under the principles of IAS 17 *Leases*. The weighted average lessee's incremental borrowing rate to be applied to the lease liabilities on 1 January 2019 expected to be 3,64%. The Company decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. A reconciliation of the operating lease commitments to this liability is as follows:

	As at 31 December 2018
Total future minimum lease payments for non-cancellable operating leases (Note 19)	61,482
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	-
Future lease payments for leases with a term of less than 12 months	-
Effect of discounting to present value	(6,117)
Total lease liabilities on adoption of IFRS 16	**(55,365)**

25 New or revised standards and interpretations (continued)

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

- IFRS 17 *Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). The Standard has not been yet endorsed by the EU.
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The Amendments have not been yet endorsed by the EU.
- Amendment to IFRS 3 *Business Combinations* (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020). The Amendments have not been yet endorsed by the EU.
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The Amendments have not been yet endorsed by the EU.

26 Subsequent events

The Company's management has performed an evaluation of subsequent events and did not find any through the period from 1 January 2019 to 5 April 2019, which is the date when these financial statements are approved by management.