



NOVOLIPETSK STEEL

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 30 SEPTEMBER 2021
AND FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2021
(UNAUDITED)**

Novolipetsk Steel
Interim condensed consolidated financial statements
as at 30 September 2021 and for the three and the nine months ended 30 September 2021
(unaudited)

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Board of Directors of Novolipetsk Steel:

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Novolipetsk Steel and its subsidiaries (together – the “Group”) as at 30 September 2021 and the related interim condensed consolidated statements of profit or loss, comprehensive income for the three-month and nine-month periods then ended, interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

21 October 2021
Moscow, Russian Federation

Signed on the original: A. B. Fomin

A.B. Fomin, certified auditor (licence no. № 01-000059), AO PricewaterhouseCoopers Audit

Audited entity: Novolipetsk Steel

Record made in the Unified State Register of Legal Entities on 9 July 2002 under State Registration Number 1024800823123

Taxpayer Identification Number 4823006703

2, Metallurgov sq., Lipetsk, 398040, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations –12006020338



Novolipetsk Steel
Interim condensed consolidated statement of financial position (unaudited)
(millions of US dollars)

	Note	As at 30 September 2021	As at 31 December 2020
Assets			
Current assets			
Cash and cash equivalents	3	542	842
Short-term financial investments	4	237	191
Trade and other accounts receivable	5	1,947	1,148
Inventories	6	2,166	1,373
Other current assets		22	16
		<u>4,914</u>	<u>3,570</u>
Non-current assets			
Long-term financial investments	4	168	7
Investments in joint ventures	4	10	131
Property, plant and equipment	7	6,104	5,659
Goodwill	8	215	212
Other intangible assets	8	134	159
Deferred income tax assets		290	119
Other non-current assets		9	5
		<u>6,930</u>	<u>6,292</u>
Total assets		<u>11,844</u>	<u>9,862</u>
Liabilities and equity			
Current liabilities			
Trade and other accounts payable	9	1,492	1,065
Dividends payable		11	109
Short-term borrowings	10	1,423	1,054
Current income tax liability		159	51
Other short-term liabilities		-	3
		<u>3,085</u>	<u>2,282</u>
Non-current liabilities			
Long-term borrowings	10	1,985	2,432
Deferred income tax liability		380	359
Other long-term liabilities		42	48
		<u>2,407</u>	<u>2,839</u>
Total liabilities		<u>5,492</u>	<u>5,121</u>
Equity attributable to Novolipetsk Steel shareholders			
Common stock		221	221
Additional paid-in capital		8	8
Accumulated other comprehensive loss		(6,976)	(7,140)
Retained earnings		13,074	11,641
		<u>6,327</u>	<u>4,730</u>
Non-controlling interests		<u>25</u>	<u>11</u>
Total equity		<u>6,352</u>	<u>4,741</u>
Total liabilities and equity		<u>11,844</u>	<u>9,862</u>

The interim condensed consolidated financial statements as set out on pages 5 to 25 were approved by the Group's management and authorised for issue on 21 October 2021.



Novolipetsk Steel

Interim condensed consolidated statement of profit or loss (unaudited)

(millions of US dollars, unless otherwise stated)

	Note	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Revenue	12, 15	11,566	6,860	4,560	2,229
Cost of sales		(5,443)	(4,595)	(2,008)	(1,477)
Gross profit		6,123	2,265	2,552	752
General and administrative expenses		(323)	(252)	(110)	(84)
Selling expenses		(633)	(647)	(231)	(208)
Net impairment gains/(losses) on financial assets		3	(8)	4	(3)
Other operating (expenses)/income, net		(3)	3	(5)	(6)
Taxes, other than income tax, and contributions	18	(120)	(48)	(78)	(14)
Operating profit before share of results of joint ventures and impairment of investments in joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		5,047	1,313	2,132	437
Loss on disposals of property, plant and equipment		(7)	(4)	(3)	(2)
Impairment of non-current assets	8	(35)	(3)	(32)	(2)
Share of results of joint ventures and impairment of investments in joint ventures		(136)	(186)	(4)	(10)
Finance income		5	7	2	2
Finance costs		(96)	(70)	(18)	(29)
Foreign currency exchange (loss)/gain, net	13, 16	(68)	(29)	(21)	38
Hedging result	16	(4)	(11)	(1)	(7)
Expenses on operations with financial instruments		-	(31)	-	-
Other expenses, net		(29)	(53)	(10)	(13)
Profit before income tax		4,677	933	2,045	414
Income tax expense	14	(907)	(255)	(417)	(102)
Profit for the period		3,770	678	1,628	312
Profit attributable to:					
Novolipetsk Steel shareholders		3,756	678	1,622	312
Non-controlling interests		14	-	6	-
Earnings per share – basic and diluted:					
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	11	0.6267	0.1131	0.2706	0.0521

**Novolipetsk Steel****Interim condensed consolidated statement of comprehensive income (unaudited)***(millions of US dollars)*

		For the nine months ended	For the nine months ended	For the three months ended	For the three months ended
	Note	30 September 2021	30 September 2020	30 September 2021	30 September 2020
Profit for the period		3,770	678	1,628	312
Other comprehensive income/(loss):					
Items that may be reclassified subsequently to profit or loss:					
Hedge reserve of cash flows	16	87	(306)	14	(176)
Income tax related to hedge reserve of cash flows	16	(17)	61	(3)	35
Cumulative translation adjustment		95	(1,156)	(20)	(582)
Total comprehensive income /(loss) for the period		3,935	(723)	1,619	(411)
attributable to:					
Novolipetsk Steel shareholders		3,920	(720)	1,613	(410)
Non-controlling interests		15	(3)	6	(1)



Novolipetsk Steel
Interim condensed consolidated statement of changes in equity (unaudited)
(millions of US dollars)

	NLMK shareholders				Non-controlling interest	Total equity
	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings		
Balance at 1 January 2020	221	9	(6,140)	11,840	17	5,947
Profit for the period	-	-	-	678	-	678
Hedge reserve of cash flows net of related income tax	-	-	(245)	-	-	(245)
Cumulative translation adjustment	-	-	(1,153)	-	(3)	(1,156)
Total comprehensive (loss)/income	-	-	(1,398)	678	(3)	(723)
Dividends to shareholders	-	-	-	(907)	(4)	(911)
Balance at 30 September 2020	221	9	(7,538)	11,611	10	4,313
Balance at 1 January 2021	221	8	(7,140)	11,641	11	4,741
Profit for the period	-	-	-	3,756	14	3,770
Hedge reserve of cash flows net of related income tax	-	-	70	-	-	70
Cumulative translation adjustment	-	-	94	-	1	95
Total comprehensive income	-	-	164	3,756	15	3,935
Dividends to shareholders	-	-	-	(2,323)	(1)	(2,324)
Balance at 30 September 2021	221	8	(6,976)	13,074	25	6,352



Novolipetsk Steel
Interim condensed consolidated statement of cash flows (unaudited)
(millions of US dollars)

	For the nine months ended	For the nine months ended
Note	30 September 2021	30 September 2020
Cash flows from operating activities		
Profit for the period	3,770	678
Adjustments to reconcile profit for the period to net cash provided by operating activities:		
Depreciation and amortisation	458	442
Loss on disposals of property, plant and equipment	7	4
Finance income	(5)	(7)
Finance costs	96	70
Share of results of joint ventures and impairment of investments in joint ventures	136	186
Income tax expense	14 907	255
Impairment of non-current assets	35	3
Foreign currency exchange loss, net	13, 16 68	29
Hedging result	16 4	11
Expenses on operations with financial instruments	-	31
Change in impairment allowance for inventories and credit loss allowance for accounts receivable	(6)	3
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other accounts receivable	(817)	28
(Increase)/decrease in inventories	(772)	198
Increase in other operating assets	(10)	(4)
Increase in trade and other accounts payable	429	18
Cash provided by operating activities	4,300	1,945
Income tax paid	(974)	(188)
Net cash provided by operating activities	3,326	1,757
Cash flows from investing activities		
Purchases and construction of property, plant and equipment and intangible assets	(863)	(851)
Proceeds from sale of property, plant and equipment	2	5
Loans given	(276)	(51)
Proceeds from repayment of loans given	41	85
Placement of bank deposits	(297)	(686)
Withdrawal of bank deposits	318	347
Interest received	4	7
Contribution to share capital of joint venture	4 (18)	(131)
Net cash used in investing activities	(1,089)	(1,275)
Cash flows from financing activities		
Proceeds from borrowings	1,732	1,599
Repayment of borrowings	(1,721)	(1,118)
Payments on leases	(15)	(15)
Interest paid	(37)	(39)
Payments from settlement of derivative financial instruments	-	(8)
Commissions paid	(43)	-
Dividends paid to Novolipetsk Steel shareholders	(2,438)	(845)
Dividends paid to non-controlling interests	-	(4)
Net cash used in financing activities	(2,522)	(430)
Net (decrease)/increase in cash and cash equivalents	(285)	52
Effect of exchange rate changes on cash and cash equivalents	(15)	(10)
Cash and cash equivalents at the beginning of the year	3 842	713
Cash and cash equivalents at the end of the period	3 542	755



Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

1 Background

Novolipetsk Steel (the “Parent Company” or “NLMK”) and its subsidiaries (together – the “Group”) is one of the world’s leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Group is a vertically integrated steel company and the largest steel producer in Russia. The Group also operates in the mining segment.

The Group’s main operations are in the Russian Federation, the European Union and the USA and are subject to the legislative requirements of the subsidiaries’ state and regional authorities. The Parent Company’s registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

2 Basis of preparation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The functional currency of all of the Group’s Russian entities is considered to be the Russian ruble (“RUR”). The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars (“USD”) as presentation currency of these interim condensed consolidated financial statements. For users’ convenience all amounts in the financial statements are rounded to the nearest million, if not stated otherwise.

The Central Bank of the Russian Federation’s Russian ruble to the main foreign currencies closing rates of exchange as at the reporting dates and the period weighted average exchange rates for corresponding reporting periods are indicated below.

	<u>2021</u>	<u>2020</u>
Russian ruble to US dollar		
For the 1 st quarter	74.3414	66.3818
For the 2 nd quarter	74.2155	72.3611
For the 3 rd quarter	73.4746	73.5598
As at 30 September	72.7608	79.6845
As at 31 December		73.8757
Russian ruble to Euro		
For the 1 st quarter	89.7047	73.2348
For the 2 nd quarter	89.3912	79.6485
For the 3 rd quarter	86.6591	85.9671
As at 30 September	84.8755	93.0237
As at 31 December		<u>90.6824</u>

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)

3 Cash and cash equivalents

	As at 30 September 2021	As at 31 December 2020
Cash	335	441
Deposits	179	384
Other cash equivalents	28	17
	542	842

4 Investments

	As at 30 September 2021	As at 31 December 2020
Short-term financial investments		
Bank deposits	127	149
Loans to related parties (Note 17(c))	110	41
Other short-term financial investments	-	1
	237	191
Long-term financial investments		
Loans to related parties (Note 17(c))	167	6
Bank deposits	1	1
	168	7
	405	198

The carrying amounts of financial investments approximate their fair values.

Investments in joint ventures

	As at 30 September 2021 Ownership	As at 31 December 2020 Ownership	As at 30 September 2021	As at 31 December 2020
NLMK Belgium Holdings S.A. ("NBH")	49.0%	49.0%	-	121
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			10	131

The amount of the Group's investment in NBH includes share of unrealised profit in inventory that amounted to \$175 and \$60 as at 30 September 2021 and 31 December 2020, respectively.

Management has analysed the performance of NBH in the nine months ended 30 September 2021 and believes that no changes are necessary to the estimate of the recoverable amount of the investment made in the consolidated financial statements as at 31 December 2020.

In October 2019, the Group and SOGEPa have agreed to jointly support NBH bank financing via shareholder guarantees on a parity basis and to invest in the charter capital of NBH for the execution of the Group's Strategy 2022 investment projects EUR 35 million, EUR 50 million and EUR 15 million in 2019, 2020 and 2021, respectively, each.



Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

5 Trade and other accounts receivable

	<u>As at 30 September 2021</u>	<u>As at 31 December 2020</u>
Financial assets		
Trade accounts receivable	1,407	834
Credit loss allowance for trade accounts receivable	(13)	(14)
Other accounts receivable	45	147
Credit loss allowance for other accounts receivable	(20)	(22)
	<u>1,419</u>	<u>945</u>
Non-financial assets		
Advances given to suppliers	148	79
Allowance for impairment of advances given to suppliers	(8)	(9)
VAT and other taxes receivable	240	132
Prepaid export custom duties	145	-
Accounts receivable from employees	3	1
	<u>528</u>	<u>203</u>
	<u>1,947</u>	<u>1,148</u>

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

As at 30 September 2021 and 31 December 2020, accounts receivable with a carrying value of \$441 and \$119, respectively, served as collateral for certain borrowings and committed unutilised credit facilities (Note 10).

6 Inventories

	<u>As at 30 September 2021</u>	<u>As at 31 December 2020</u>
Raw materials	1,014	771
Work in process	613	298
Finished goods	583	350
	2,210	1,419
Impairment allowance	(44)	(46)
	<u>2,166</u>	<u>1,373</u>

Product type "Slabs" is represented by semi-finished products of own production or purchased from third parties, which the Group plans to process further or sell to third parties without processing. Depending on the origin and usage plans, this type of product is distributed between "Raw materials", "Slabs for processing" and "Finished goods" categories as follows:

	<u>As at 30 September 2021</u>	<u>As at 31 December 2020</u>
Raw materials	79	82
Slabs for processing	262	108
Finished goods	41	42
		12

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
6 Inventories (continued)

As at 30 September 2021 and 31 December 2020, inventories with a carrying value of \$545 and \$287, respectively, served as collateral for certain borrowings and committed unutilised credit facilities (Note 10).

7 Property, plant and equipment

	As at 30 September 2021	As at 31 December 2020
Land	129	128
Buildings	1,908	1,826
Land and buildings improvements	2,401	2,168
Machinery and equipment	6,902	6,487
Vehicles	379	351
Construction in progress	1,421	1,285
	<u>13,140</u>	<u>12,245</u>
Accumulated depreciation and impairment	<u>(7,036)</u>	<u>(6,586)</u>
	<u>6,104</u>	<u>5,659</u>

The amount of borrowing costs capitalized was \$22 and \$25 for the nine months ended 30 September 2021 and 2020, respectively. The capitalisation rate was 2.1% and 2.5% for the nine months ended 30 September 2021 and 2020, respectively.

The amount of borrowing costs capitalized was \$6 and \$8 for the three months ended 30 September 2021 and 2020, respectively. The capitalisation rate was 0.6% and 0.9% for the three months ended 30 September 2021 and 2020, respectively.

Management estimates the outstanding commitments in connection with equipment supply and construction works amounted to \$829 and \$881 as at 30 September 2021 and 31 December 2020, respectively.

Management has analysed the financial performance of key cash generating units in the nine months ended 30 September 2021 and believes that no changes to the estimates made as at 31 December 2020 regarding impairment of fixed assets and goodwill are required. As at 30 June 2020 impairment assessment of some of the Group's cash generating units was performed and impairment testing showed that recoverable amount of investment (value in use) in NLMK Belgium Holdings S.A. before impairment recognised was below its carrying amount by \$120.

8 Intangible assets

	As at 30 September 2021	As at 31 December 2020
Goodwill	230	226
Mineral rights	236	263
Industrial intellectual property	121	100
	<u>587</u>	<u>589</u>
Accumulated amortization and impairment	<u>(238)</u>	<u>(218)</u>
	<u>349</u>	<u>371</u>

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
8 Intangible assets (continued)

Due to the high uncertainty regarding the development of coal licenses at the Zhernovsky coal deposit, an impairment charge of \$30 was recognized for the exploration asset.

9 Trade and other accounts payable

	As at 30 September 2021	As at 31 December 2020
Financial liabilities		
Trade accounts payable	596	429
Accounts payable for purchases of property, plant and equipment	141	159
Other accounts payable	39	27
	<u>776</u>	<u>615</u>
Non-financial liabilities		
Accounts payable and accrued liabilities to employees	209	144
Advances received	234	175
Taxes payable other than income tax	273	131
	<u>716</u>	<u>450</u>
	<u>1,492</u>	<u>1,065</u>

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

10 Borrowings

Rates*	Currency	Maturity*	As at 30 September 2021	As at 31 December 2020
Bonds				
1.45%	EUR	2026	586	-
From 4.00% to 4.70%	USD	2023-2026	1,243	1,709
Loans				
From EURIBOR+0.45% to EURIBOR+1.30%	EUR	2021-2024	1,111	1,065
0.95%	EUR	2022	233	245
0.94%	EUR	2022	117	123
LIBOR +1.50%	USD	2021	41	258
Leases				
		2021-2089	77	86
			<u>3,408</u>	<u>3,486</u>
Less: short-term loans and current maturities of long-term loans, bonds and leases			<u>(1,423)</u>	<u>(1,054)</u>
Long-term borrowings			<u>1,985</u>	<u>2,432</u>

* Rates and maturity as of 30 September 2021

Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

10 Borrowings (continued)

The carrying amounts and fair value of long-term bonds are as follows:

	As at 30 September 2021		As at 31 December 2020	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Bonds	1,829	1,936	1,709	1,864

The fair value of short-term borrowings equals their carrying amount. The fair values of long-term borrowings approximate their carrying amount. The fair value of bonds is based on market price and is within level 1 of the fair value hierarchy. The carrying amounts of loans and leases approximate their fair values.

In June 2021 the Group has placed bonds in the amount of EUR 500 million. The funds received from the placement of the bonds were partially used for repayment of previously issued bonds nominated in US dollars with maturity in 2023 and 2024.

Bonds, loans and bonds' coupons as at 30 September 2021 were designated as hedging instruments with carrying amount and fair value of \$1,942 and \$2,002, respectively (Note 16). Carrying amount and fair value of hedging instrument as at 31 December 2020 were \$1,287 and \$1,386, respectively.

Collateral for borrowings and committed unutilised credit facilities

As at 30 September 2021 and 31 December 2020, the total amount of the Group companies' collateral for borrowings and committed unutilised credit facilities was \$986 and \$406, respectively (Notes 5 and 6).

11 Earnings per share

	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Profit for the period attributable to NLMK shareholders (millions of US dollars)	3,756	678	1,622	312
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240	5,993,227,240
Basic and diluted earnings per share (US dollars)	0.6267	0.1131	0.2706	0.0521

The Parent Company does not have potentially dilutive financial instruments outstanding.

Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

12 Revenue

(a) Revenue by type

	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Revenue from sale of goods				
Flat products	6,571	3,591	2,647	1,151
Pig iron, slabs and billets	2,854	1,997	1,080	611
Long products and metalware	1,382	722	518	287
Coke and other chemical products	201	136	87	53
Scrap	79	40	32	12
Iron ore and sintering ore	74	53	30	11
Other products	133	101	44	37
Total revenue from sale of goods	11,294	6,640	4,438	2,162
Revenue from transportation services	272	220	122	67
	11,566	6,860	4,560	2,229

(b) Revenue by geographical area

The allocation of total revenue by geographical area is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area is as follows:

	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Russia	4,772	2,828	1,697	1,022
North America	2,344	1,084	1,133	300
European Union	2,058	1,115	834	252
Middle East, including Turkey	1,148	737	398	246
Central and South America	613	115	218	22
CIS	283	185	125	52
Asia and Oceania	236	677	105	315
Other regions	112	119	50	20
	11,566	6,860	4,560	2,229

The Group does not have customers with a share of more than 10% of the total revenue.

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
13 Foreign exchange differences

	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Foreign exchange (loss)/gain on cash and cash equivalents	(31)	101	(8)	96
Foreign exchange (loss)/gain on financial investments	(59)	94	(13)	89
Foreign exchange gain/(loss) on debt financing	58	(196)	20	(135)
Foreign exchange loss on other assets and liabilities	(36)	(28)	(20)	(12)
	(68)	(29)	(21)	38

Starting from February 3, 2020 the Group adopted hedge accounting of cash flows in accordance with IFRS 9 "Financial instruments" (Note 16).

14 Income tax

Income tax expense is recognised based on management's estimate of the effective annual income tax rate expected for the full financial year. The expected effective annual income tax rates used for the three and the nine months ended 30 September 2021 and 2020 are 19% and 23%, respectively. The lower tax rate expected for 2021 was the result of increase in share of profits of foreign subsidiaries for which the Group plan to utilise tax losses carried forward.

15 Segment information

The Group has six reportable business segments: Mining, Russian flat products, Russian long products, NLMK USA, NLMK DanSteel and Plates Distribution Network, and Investments in NBH. These segments are combinations of entities, have separate management teams and offer different products and services. The above six segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and governance.

The Group management determines pricing for intersegmental sales, as if the sales were to third parties. The revenue from external parties is measured in the same way as in the consolidated statement of profit or loss. The Group management evaluates performance of the segments based on segment revenues, gross profit, operating profit before share of results of joint ventures, impairment of non-current assets and gain on disposals of property, plant and equipment, profit for the period and amount of total assets and total liabilities.

Elimination of intersegmental operations and balances represents elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within "Profit for the period" line together with other intercompany elimination adjustments, including elimination of NBH's liabilities to the Group companies (Note 17). NBH deconsolidation adjustments include elimination of NBH's sales and recognition of the Group's sales to NBH, elimination of unrealised profits (Note 17), elimination of NBH's assets and liabilities and recognition of the investment in joint venture, recognition of impairment and share of NBH's loss, and other consolidation adjustments.

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15 Segment information (continued)

Information on segments' profit or loss for the nine months ended 30 September 2021 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	90	6,293	1,639	2,141	470	1,188	-	(255)	11,566
Intersegment revenue	1,899	2,004	462	-	-	36	(4,365)	(36)	-
Gross profit	1,677	3,881	511	656	40	104	(521)	(225)	6,123
Operating profit/(loss)*	1,604	3,029	373	604	(13)	(26)	(429)	(95)	5,047
Profit/(loss) for the period	1,246	2,360	305	505	(23)	(33)	(364)	(226)	3,770
Segment assets	3,092	8,427	1,119	1,391	507	1,696	(2,883)	(1,505)	11,844
Segment liabilities	(324)	(6,351)	(349)	(285)	(347)	(1,511)	2,773	902	(5,492)
Depreciation and amortization	(99)	(290)	(32)	(28)	(9)	(42)	-	42	(458)

* Operating profit/(loss) before share of results of joint ventures and impairment of investments in joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.

Information on segments' profit or loss for the nine months ended 30 September 2020 and their assets and liabilities as at 31 December 2020 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	72	4,185	848	838	304	953	-	(340)	6,860
Intersegment revenue	906	827	246	-	1	36	(1,980)	(36)	-
Gross profit/(loss)	712	1,404	132	(29)	34	23	23	(34)	2,265
Operating profit/(loss)*	644	689	27	(74)	(9)	(108)	47	97	1,313
Profit/(loss) for the period	508	986	12	(75)	(16)	(114)	(540)	(83)	678
Segment assets	1,738	6,957	940	749	428	1,366	(1,153)	(1,163)	9,862
Segment liabilities	(264)	(4,942)	(398)	(150)	(315)	(1,174)	1,291	831	(5,121)
Depreciation and amortization	(81)	(275)	(34)	(43)	(9)	(43)	-	43	(442)

* Operating profit/(loss) before share of results of joint ventures and impairment of investments in joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.

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15 Segment information (continued)

Information on segments' profit or loss for the three months ended 30 September 2021 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	38	2,422	601	1,039	169	434	-	(143)	4,560
Intersegment revenue	745	569	175	-	-	13	(1,489)	(13)	-
Gross profit	683	1,373	202	367	25	44	(94)	(48)	2,552
Operating profit*	656	1,050	147	347	10	1	(74)	(5)	2,132
Profit/(loss) for the period	517	833	121	272	2	(2)	(107)	(8)	1,628
Depreciation and amortization	(30)	(104)	(11)	(7)	(3)	(14)	-	14	(155)

* Operating profit/(loss) before share of results of joint ventures and impairment of investments in joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.

Information on segments' profit or loss for the three months ended 30 September 2020 is as follows:

	Mining	Russian flat products	Russian long products	NLMK USA	NLMK DanSteel and Plates Distribution Network	Investments in NBH	Inter-segmental operations and balances	NBH deconsolidation adjustments	Total
Revenue from external customers	38	1,425	337	223	79	286	-	(159)	2,229
Intersegment revenue	292	175	115	-	1	13	(583)	(13)	-
Gross profit/(loss)	248	457	62	(16)	5	(6)	(18)	20	752
Operating profit/(loss)*	224	218	26	(26)	(6)	(47)	(13)	61	437
Profit/(loss) for the period	170	441	24	(26)	(11)	(50)	(290)	54	312
Depreciation and amortization	(26)	(88)	(11)	(14)	(3)	(15)	-	15	(142)

* Operating profit/(loss) before share of results of joint ventures and impairment of investments in joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment.

16 Management of foreign currency risk related to changes in cash flows of future receipts in foreign currency

The Group is exposed to foreign currency risk related to the revenue expected to be received nominated in foreign currencies, mainly in US dollars and Euro. To hedge the foreign currency risk exposure on revenue expected to be received in foreign currency the Group attracts borrowings in the same foreign currency.

On February 3, 2020 the Group designated the portion of US dollars nominated borrowings as hedging instrument of the expected highly probable US dollars nominated revenue in accordance with IFRS 9 "Financial instruments". A portion of future monthly revenues expected to be received in US dollars over the period from February 2020 through May 2026 was designated as a hedged item. The Group's bonds and bonds' coupons nominated in US dollars were designated as hedging instrument (Note 10).

In June 2021 the Group performed advanced repayment of the portion of US dollars nominated bonds and discontinued the revaluation of hedging instrument regarding repaid liabilities. Accumulated effects from the remeasurement of hedging instruments in the amount of \$66 was recorded in the hedge reserve of cash flows in other comprehensive loss. The effect will be reclassified to profit as the hedged revenue is recognised.

On January 1, 2021 the Group designated the portion of Euro nominated long-term borrowings as hedging instruments of the expected highly probable Euro nominated revenue in accordance with IFRS 9 "Financial instruments". A portion of future monthly revenues expected to be received in Euro over the period from February 2022 through July 2022 was designated as a hedged item, the Group's long-term loans nominated in Euro were designated as hedging instrument.

On June 2, 2021 the Group designated the portion of Euro nominated borrowings as hedging instrument of the expected highly probable Euro nominated revenue in accordance with IFRS 9 "Financial instruments". A portion of future monthly revenues expected to be received in Euro over the period from July 2022 through December 2026 was designated as a hedged item. The Group's bonds and bonds' coupons nominated in Euro were designated as hedging instrument (Note 10).

The nominal amounts of the hedged items and the hedging instruments are equal. To the extent that a change in the foreign currency rate impacts on the value of the hedging instruments, the effects are recognized in other comprehensive income or loss and further reclassified to profit or loss in the same period in which the hedged revenue is recognised.

The management strategy of foreign currency risk related to volatility of future cash inflows in foreign currency is to hedge revenue expected to be received in the amount of the net monetary position in US dollars and Euro. The amount of hedged revenue aligns the amount of payments on bonds, bonds' coupons and loans. The Group expects that the hedging relationships are effective since the future cash outflows on bonds and bonds' coupons in US dollars and loans in Euro match the future cash inflows on the hedged portion of revenue in US dollars and Euro.

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16 Management of foreign currency risk related to changes in cash flows of future receipts in foreign currency (continued)

Information on the amounts of currency differences on hedging instruments recognized in other comprehensive loss is as follows:

	Hedge reserve of cash flows	Income tax related to hedge reserve of cash flows	Hedge reserve of cash flows net of related income tax
As at 1 January 2020	<u>-</u>	<u>-</u>	<u>-</u>
Change of hedge reserve of cash flows – recognition of (loss)/income from the remeasurement of hedging instruments	(317)	63	(254)
Change of hedge reserve of cash flows – hedging result	<u>11</u>	<u>(2)</u>	<u>9</u>
As at 30 September 2020	<u>(306)</u>	<u>61</u>	<u>(245)</u>
As at 1 January 2021	<u>(205)</u>	<u>41</u>	<u>(164)</u>
Change of hedge reserve of cash flows – recognition of income/(loss) from the remeasurement of hedging instruments	78	(15)	63
Change of hedge reserve of cash flows – hedging result	<u>9</u>	<u>(2)</u>	<u>7</u>
As at 30 September 2021	<u>(118)</u>	<u>24</u>	<u>(94)</u>

A schedule of the expected reclassification of the accumulated effects from the remeasurement of hedging instruments recognized in other comprehensive loss to profit or loss as of 30 September, 2021 is as follows:

	2021	2022	2023	2024	2025	2026	Total
Reclassifications	(2)	29	(85)	(59)	(23)	22	(118)
Income tax	-	(5)	17	12	5	(5)	24
	<u>(2)</u>	<u>24</u>	<u>(68)</u>	<u>(47)</u>	<u>(18)</u>	<u>17</u>	<u>(94)</u>

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17 Related party transactions

Parties are considered to be related if they are under common control, or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group carries out operations with related parties on an arm's length basis.

(a) Sales to and purchases from related parties

	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Sales				
NBH group companies	933	613	291	127
Purchases				
Companies of Freight One group and other transport companies under the common control of beneficial owner	350	276	154	89
NBH group companies	36	36	13	13
Other related parties	27	23	11	11

NBH group companies together are the major customer of the Group. Sales to NBH group companies are performed by the Russian flat products segment and represent 8.1% and 8.9% of the total sales of the Group for the nine months ended 30 September 2021 and 2020, respectively, and 6.4% and 5.7% of the total sales of the Group for the three months ended 30 September 2021 and 2020, respectively.

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

	As at 30 September 2021	As at 31 December 2020
Accounts receivable and advances given		
NBH group companies	331	298
Companies of Freight One group and other transport companies under the common control of beneficial owner	12	32
Accounts payable		
NBH group companies	17	22
Companies of Freight One group and other transport companies under the common control of beneficial owner	18	11

(c) Financial transactions

As at 30 September 2021 and 31 December 2020, loans issued to NBH group companies amounted to \$277 and \$47, respectively. When issuing loans to the foreign companies of the Group and joint ventures, interest rate is determined using information on similar external deals subject to company's internal credit rating.

(d) Financial guarantees issued

As at 30 September 2021 and 31 December 2020, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$320 and \$283, respectively, which is the maximum potential amount of future payments, payable on demand of the guarantee. No amount has been accrued in these interim condensed consolidated financial statements for the Group's obligation under these guarantees as the Group assesses the probability of cash outflows related to these guarantees, as low.

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17 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 30 September 2021	As at 31 December 2020
Less than 1 year	107	107
From 1 to 2 years	145	127
Over 2 years	<u>68</u>	<u>49</u>
	<u>320</u>	<u>283</u>

18 Taxes, other than income tax, and contributions

Allocation of taxes, other than income tax, and contributions to the functional items of consolidated statement of profit or loss is indicated below.

	For the nine months ended 30 September 2021	For the nine months ended 30 September 2020	For the three months ended 30 September 2021	For the three months ended 30 September 2020
Cost of sales	59	44	20	14
General and administrative expenses	3	3	1	-
Selling expenses (export custom duties)	56	-	56	-
Other operating expenses	<u>2</u>	<u>1</u>	<u>1</u>	<u>-</u>
	<u>120</u>	<u>48</u>	<u>78</u>	<u>14</u>

19 Commitments and contingencies

(a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to compliance reviews by the regulatory authorities in the importers' jurisdictions. The Group's export sales prices were considered by local governments within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements and decisions as a result of anti-dumping investigations has been made in the consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The Group management believes that any liability resulting from these legal actions will not significantly affect its financial position or results of operations. Reliably estimated probable obligations were recognized within provisions in the interim condensed consolidated financial statements of the Group.

19 Commitments and contingencies (continued)**(c) Environmental matters**

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised in financial statements immediately. Potential liabilities, which might arise as a result of future changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing environmental legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore, there are no significant liabilities for environmental damage and remediation.

(d) Social commitments

The Group makes contributions to mandatory and voluntary insurance social programs. The Group's social contributions, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, the Group management expects that the Group will continue to fund certain social programs for the foreseeable future. These costs are recorded in the period they are incurred.

(e) Tax and custom contingencies

The Group management believes that the tax policy of the Group complies with the legislation of the Russian Federation on taxes and related fees.

At the same time, the legislation on taxes and related fees in the Russian Federation is characterised by dynamic development, as well as the possibility of wide discretion by the tax administration on many issues of taxation, which can lead to different interpretations of individual legal norms by taxpayers and regulatory authorities.

Therefore, the risk of expenses cannot be excluded if the tax policy applied by the Group is contested in any part. As a general rule, risk may arise in respect of three calendar years preceding the year in which the decision to conduct the review is made. The amount and probability of risk cannot be estimated with a sufficient degree of reliability, however, they may turn out to be significant from the point of view of the financial situation and/or economic activity of the Group as a whole.

(f) Major terms of loan agreements

Certain of the loan agreements contain covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations procedures or bankruptcy of the borrowers, and also require that the borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross-default provisions, as well as to legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies were in compliance with all debt covenants as at 30 September 2021 and 31 December 2020.

19 Commitments and contingencies (continued)**(g) Assessment of the coronavirus impact on the Group**

At the date of issuing these interim condensed consolidated financial statements the situation with the spread of coronavirus infection (COVID-19) is still evolving. In the nine months of 2021 the Russian economy started to recover from the pandemic as a result of an increase in business activity and due to government support measures. This was also supported by the global economic recovery and high prices on global commodity markets. The Group benefits from a strong financial position, with low leverage and significant liquidity.

The Group management made an analysis of impairment indicators of the Group's assets as well as indicators of potential reversal of an impairment loss recognized in prior periods as at 30 September 2021 and has not identified existence of the impairment indicators for the Group cash generating units. As at 30 September 2021 Group management believes that there are no conditions for updating of impairment tests performed as at 31 December 2020. Management closely monitors the development of the situation and takes necessary measures to mitigate negative effects.

20 Significant accounting policies

The accounting policies and judgements applied in these interim condensed consolidated financial statements are consistent with those of the Group consolidated financial statements for the year ended 31 December 2020, except for new accounting policies and judgements that have been developed and applied for the first time (customs duties).

Starting from 1 August 2021 Resolution of the Russian Federation Government became effective and introduced export customs duties on ferrous metallurgy products for the period from 1 August till 31 December 2021. The Group does not consider export custom duties as part of selling price of goods, these duties are expenses of the Group, therefore they were included in operating expenses in the line "Taxes, other than income tax, and contributions".

21 Subsequent events

On 21 October 2021, the Board of Directors of the Parent Company recommended dividends for the third quarter of 2021 of 13.33 Russian rubles per share in the total amount of \$1,124 at the exchange rate as at 21 October 2021.