



NOVOLIPETSK STEEL

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 30 JUNE 2019
AND FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2019
(UNAUDITED)**

CONTENTS

Report on review of interim condensed consolidated financial statements	3
Interim condensed consolidated statement of financial position	5
Interim condensed consolidated statement of profit or loss	6
Interim condensed consolidated statement of comprehensive income	7
Interim condensed consolidated statement of changes in equity	8
Interim condensed consolidated statement of cash flows	9
Notes to the interim condensed consolidated financial statements	10



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 of 30 June 2019 and the related interim condensed consolidated statements of profit or loss and of comprehensive income for the three- and the six-month periods then ended, and of changes in equity and of cash flows for the six-month period then ended, and the related 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".

25 July 2019

Moscow, Russian Federation

Signed on the original: A. S. Ivanov

A.S. Ivanov, certified auditor (licence no. № 01-000531), AO PricewaterhouseCoopers Audit

Audited entity: Novolipetsk Steel

State registration certificate No. 5-G, issued by the Administration of Levoberezhny district of the city of Lipetsk on 28 January 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 9 July 2002 under registration No. 1024800823123

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

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

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

	Note	As at 30 June 2019	As at 31 December 2018
Assets			
Current assets			
Cash and cash equivalents	3	1,142	1,179
Short-term financial investments	4	371	19
Trade and other accounts receivable	5	1,446	1,326
Inventories	6	1,751	1,816
Other current assets		6	10
		4,716	4,350
Non-current assets			
Long-term financial investments	4	146	85
Investments in joint ventures	4	113	159
Property, plant and equipment	7	5,483	4,807
Goodwill	8	244	224
Other intangible assets	8	174	156
Deferred income tax assets		146	152
Other non-current assets		12	11
		6,318	5,594
Total assets		11,034	9,944
Liabilities and equity			
Current liabilities			
Trade and other accounts payable	9	1,229	1,122
Dividends payable		614	525
Short-term borrowings	10	544	398
Current income tax liability		52	28
		2,439	2,073
Non-current liabilities			
Long-term borrowings	10	2,257	1,677
Deferred income tax liability		387	346
Other long-term liabilities		1	14
		2,645	2,037
Total liabilities		5,084	4,110
Equity attributable to Novolipetsk Steel shareholders			
Common stock		221	221
Additional paid-in capital		9	10
Accumulated other comprehensive loss		(6,244)	(6,782)
Retained earnings		11,949	12,370
		5,935	5,819
Non-controlling interests		15	15
Total equity		5,950	5,834
Total liabilities and equity		11,034	9,944

The interim condensed consolidated financial statements as set out on pages 5 to 24 were approved by the Group's management and authorised for issue on 25 July 2019.

Novolipetsk Steel
Interim condensed consolidated statement of profit or loss (unaudited)
(millions of US dollars, unless otherwise stated)

	Note	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Revenue	12, 15	5,666	5,906	2,797	3,112
Cost of sales		(3,886)	(3,833)	(1,898)	(2,018)
Gross profit		1,780	2,073	899	1,094
General and administrative expenses		(170)	(180)	(88)	(94)
Selling expenses		(428)	(423)	(202)	(212)
Net impairment losses on financial assets		(2)	(3)	(1)	(2)
Other operating income/(expenses), net		5	(3)	3	(2)
Taxes, other than income tax		(33)	(44)	(18)	(21)
Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		1,152	1,420	593	763
Loss on disposals of property, plant and equipment		(1)	(2)	(1)	(4)
Impairment of non-current assets		(5)	(2)	-	(2)
Share of results of joint ventures		(45)	(62)	(49)	(41)
Finance income		8	14	4	4
Finance costs		(35)	(39)	(19)	(20)
Foreign currency exchange (loss)/gain, net	13	(40)	29	21	20
Other (expenses)/income, net		(17)	(10)	3	-
Profit before income tax		1,017	1,348	552	720
Income tax expense	14	(220)	(262)	(137)	(138)
Profit for the period		797	1,086	415	582
Profit attributable to:					
Novolipetsk Steel shareholders		796	1,083	414	581
Non-controlling interests		1	3	1	1
Earnings per share – basic and diluted:					
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	11	0.1328	0.1807	0.0691	0.0969

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

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Profit for the period	797	1,086	415	582
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment	539	(576)	132	(605)
Total comprehensive income/(loss) for the period	1,336	510	547	(23)
attributable to:				
Novolipetsk Steel shareholders	1,334	508	546	(23)
Non-controlling interests	2	2	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 2018	221	10	(5,631)	12,029	17	6,646
Profit for the period	-	-	-	1,083	3	1,086
Cumulative translation adjustment	-	-	(575)	-	(1)	(576)
Total comprehensive (loss)/income	-	-	(575)	1,083	2	510
Acquisition of non-controlling interest	-	-	-	(1)	(3)	(4)
Dividends to shareholders	-	-	-	(882)	(1)	(883)
Balance at 30 June 2018	221	10	(6,206)	12,229	15	6,269
Balance at 1 January 2019	221	10	(6,782)	12,370	15	5,834
Profit for the period	-	-	-	796	1	797
Cumulative translation adjustment	-	-	538	-	1	539
Total comprehensive income	-	-	538	796	2	1,336
Disposal of assets to an entity under common control	-	(1)	-	-	-	(1)
Acquisition of non-controlling interest	-	-	-	-	(2)	(2)
Dividends to shareholders	-	-	-	(1,217)	-	(1,217)
Balance at 30 June 2019	221	9	(6,244)	11,949	15	5,950

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

	Note	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Cash flows from operating activities			
Profit for the period		797	1,086
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation and amortisation		278	307
Loss on disposals of property, plant and equipment		1	2
Finance income		(8)	(14)
Finance costs		35	39
Share of results of joint ventures		45	62
Income tax expense	14	220	262
Impairment of non-current assets		5	2
Foreign currency exchange loss/(gain), net	13	40	(29)
Change in impairment allowance for inventories and credit loss allowance of accounts receivable		3	-
Changes in operating assets and liabilities			
Increase in trade and other accounts receivable		(82)	(350)
Decrease/(increase) in inventories		174	(92)
Decrease/(increase) in other operating assets		4	(1)
Increase in trade and other accounts payable		15	145
Cash provided by operating activities		1,527	1,419
Income tax paid		(182)	(270)
Net cash provided by operating activities		1,345	1,149
Cash flows from investing activities			
Purchases and construction of property, plant and equipment and intangible assets		(405)	(247)
Proceeds from sale of property, plant and equipment		1	1
Purchases of investments and loans given, net		(62)	-
Placement of bank deposits		(644)	(292)
Withdrawal of bank deposits		282	1,180
Interest received		19	16
Acquisition of non-controlling interest		(1)	(3)
Net cash (used in)/provided by investing activities		(810)	655
Cash flows from financing activities			
Proceeds from borrowings		853	342
Repayment of borrowings		(213)	(502)
Payments on leases		(7)	-
Interest paid		(23)	(31)
Dividends paid to Novolipetsk Steel shareholders		(1,162)	(928)
Dividends to non-controlling interests		-	(1)
Net cash used in financing activities		(552)	(1,120)
Net (decrease)/increase in cash and cash equivalents		(17)	684
Effect of exchange rate changes on cash and cash equivalents		(20)	(23)
Cash and cash equivalents at the beginning of the year	3	1,179	301
Cash and cash equivalents at the end of the period	3	1,142	962

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 2018, 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.

	2019	2018
Russian ruble to US dollar		
For the 1 st quarter	66.1271	56.8803
For the 2 nd quarter	64.5584	61.7998
As at 30 June	63.0756	62.7565
As at 31 December		69.4706
Russian ruble to Euro		
For the 1 st quarter	75.1715	69.8727
For the 2 nd quarter	72.5210	73.7505
As at 30 June	71.8179	72.9921
As at 31 December		79.4605

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
3 Cash and cash equivalents

	As at 30 June 2019	As at 31 December 2018
Cash	611	526
Bank deposits	511	627
Other cash equivalents	20	26
	<u>1,142</u>	<u>1,179</u>

4 Investments

	As at 30 June 2019	As at 31 December 2018
Short-term financial investments		
Bank deposits	368	5
Loans to related parties (Note 16(c))	2	14
Other short-term financial investments	1	-
	<u>371</u>	<u>19</u>
Long-term financial investments		
Loans to related parties (Note 16(c))	146	85
	<u>146</u>	<u>85</u>
	<u>517</u>	<u>104</u>

The carrying amounts of financial investments approximate their fair values.

Investments in joint ventures

	As at 30 June 2019 Ownership	As at 31 December 2018 Ownership	As at 30 June 2019	As at 31 December 2018
NLMK Belgium Holdings S.A. ("NBH")	49.0%	49.0%	103	149
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			<u>113</u>	<u>159</u>

Management has analysed the performance of NBH in the six months ended 30 June 2019 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 2018.

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
5 Trade and other accounts receivable

	As at 30 June 2019	As at 31 December 2018
Financial assets		
Trade accounts receivable	1,252	1,099
Credit loss allowance of trade accounts receivable	(21)	(21)
Other accounts receivable	30	30
Credit loss allowance of other accounts receivable	(20)	(17)
	<u>1,241</u>	<u>1,091</u>
Non-financial assets		
Advances given to suppliers	73	76
Allowance for impairment of advances given to suppliers	(4)	(3)
VAT and other taxes receivable	134	161
Accounts receivable from employees	2	1
	<u>205</u>	<u>235</u>
	<u>1,446</u>	<u>1,326</u>

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

As at 30 June 2019 and 31 December 2018, accounts receivable with a carrying value of \$193 and \$173, respectively, served as collateral for certain borrowings (Note 10).

6 Inventories

	As at 30 June 2019	As at 31 December 2018
Raw materials	973	859
Work in process	399	504
Finished goods	432	501
	<u>1,804</u>	<u>1,864</u>
Impairment allowance	(53)	(48)
	<u>1,751</u>	<u>1,816</u>

As at 30 June 2019 and 31 December 2018, inventories with a carrying value of \$548 and \$472, respectively, served as collateral for certain borrowings (Note 10).

Product type “Slabs” represented by semi-finished products of own production or purchased from third parties, which the Group plans to process further or sell to third parties without processing. Depending on the origin and usage plans, this type of product is distributed between “Raw materials”, “Work in process” and “Finished goods” categories. As of 30 June 2019 and 31 December 2018, the distribution was \$271 and \$97 for “Raw materials” category, \$156 and \$249 for “Work in progress” category and \$33 and \$65 for “Finished goods” category, respectively.

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

7 Property, plant and equipment

	As at 30 June 2019	As at 31 December 2018
Land	144	119
Buildings	2,032	1,774
Land and buildings improvements	2,192	1,956
Machinery and equipment	6,293	5,701
Vehicles	325	266
Construction in progress	1,319	1,050
	12,305	10,866
Accumulated depreciation and impairment	(6,822)	(6,059)
	5,483	4,807

The amount of borrowing costs capitalized was \$24 and \$16 for the six months ended 30 June 2019 and 2018, respectively. The capitalisation rate was 2.7% and 3.2% for the six months ended 30 June 2019 and 2018, respectively.

The amount of borrowing costs capitalized was \$13 and \$9 for the three months ended 30 June 2019 and 2018, respectively. The capitalisation rate was 1.5% and 1.7% for the three months ended 30 June 2019 and 2018, respectively.

Management estimates the outstanding commitments in connection with equipment supply and construction works amounted to \$1,228 and \$714 as at 30 June 2019 and 31 December 2018, respectively.

Management has analysed the performance of key cash generating units in the six months ended 30 June 2019 and believes that no changes to the estimates made as at 31 December 2018 regarding impairment of fixed assets and goodwill are required.

As at 30 June 2019, the Group reclassified beneficial contracts with a carrying value of \$9 from category "Other intangible assets" into category "Land" within property, plant and equipment. The reclassification was made for the users' convenience following adoption of IFRS 16 in relation to all lease contracts with a term of more than 12 months (Note 18) and did not result in changes of estimated useful life and depreciation charges. Comparative amounts as at 31 December 2018 were also corrected.

8 Intangible assets

	As at 30 June 2019	As at 31 December 2018
Goodwill	258	238
Mineral rights	327	296
Industrial intellectual property	70	57
	655	591
Accumulated amortization and impairment	(237)	(211)
	418	380

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
9 Trade and other accounts payable

	As at 30 June 2019	As at 31 December 2018
Financial liabilities		
Trade accounts payable	665	584
Other accounts payable	188	147
	<u>853</u>	<u>731</u>
Non-financial liabilities		
Accounts payable and accrued liabilities	146	177
Advances received	101	120
Taxes payable other than income tax	129	94
	<u>376</u>	<u>391</u>
	<u>1,229</u>	<u>1,122</u>

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

10 Borrowings

<u>Rates</u>	<u>Currency</u>	<u>Maturity</u>	As at 30 June 2019	As at 31 December 2018
Bonds				
From 4.00% to 4.95%	USD	2019-2026	1,857	1,354
Loans				
From EURIBOR+0.90% to EURIBOR+1.60%	EUR	2019-2022	828	562
LIBOR+1.50%	USD	2021	34	159
Leases				
From 2.80% to 10.45%		2020-2089	82	-
			<u>2,801</u>	<u>2,075</u>
Less: short-term loans and current maturities of long-term loans, bonds and leases			<u>(544)</u>	<u>(398)</u>
Long-term borrowings			<u>2,257</u>	<u>1,677</u>

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

	As at 30 June 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,700	1,731	1,200	1,150

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.

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

As at 30 June 2019 and 31 December 2018, the total amount of the Group companies' collateral was \$741 and \$645, respectively (Notes 5 and 6).

11 Earnings per share

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Profit for the period attributable to NLMK shareholders (millions of US dollars)	796	1,083	414	581
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)	0.1328	0.1807	0.0691	0.0969

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

12 Revenue
(a) Revenue by type

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Revenue from sale of goods				
Flat products	3,088	3,181	1,513	1,762
Pig iron, slabs and billets	1,517	1,717	726	877
Long products and metalware	611	569	328	267
Coke and other chemical products	154	162	80	73
Scrap	43	46	22	22
Iron ore and sintering ore	10	-	10	-
Other products	91	88	50	30
Total revenue from sale of goods	5,514	5,763	2,729	3,031
Revenue from transportation services	152	143	68	81
	5,666	5,906	2,797	3,112

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
12 Revenue (continued)
(b) Revenue by geographical area

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

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Russia	2,093	1,993	1,158	1,024
European Union	1,164	1,256	625	662
North America	1,113	1,237	552	696
Middle East, including Turkey	602	736	230	413
CIS	216	191	110	79
Asia and Oceania	161	82	55	46
Central and South America	151	293	24	172
Other regions	166	118	43	20
	5,666	5,906	2,797	3,112

Except for NBH Group (Note 16), the Group does not have customers with a share of more than 10% of the total revenue.

13 Foreign exchange differences

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Foreign exchange (loss)/gain on cash and cash equivalents	(91)	18	(20)	18
Foreign exchange (loss)/gain on financial investments	(118)	125	(14)	122
Foreign exchange gain/(loss) on debt financing	173	(105)	51	(101)
Foreign exchange (loss)/gain on other assets and liabilities	(4)	(9)	4	(19)
	(40)	29	21	20

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 six months ended 30 June 2019 and 2018 are 20.5% and 19.1%, respectively. The higher tax rate expected for 2019 was the result of decrease 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 16). NBH deconsolidation adjustments include elimination of NBH's sales, recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 16), 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.

Novolipetsk Steel

Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

15 Segment information (continued)

Information on segments' profit or loss for the six months ended 30 June 2019 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	20	3,068	753	1,002	269	822	-	(268)	5,666
Intersegment revenue	568	831	130	-	1	22	(1,530)	(22)	-
Gross profit	395	1,189	107	46	32	14	6	(9)	1,780
Operating profit/(loss)*	367	715	20	4	1	(97)	40	102	1,152
Profit/(loss) for the period	257	819	5	4	-	(102)	(248)	62	797
Segment assets	2,175	7,629	1,170	1,029	400	1,562	(1,567)	(1,364)	11,034
Segment liabilities	(309)	(5,069)	(461)	(370)	(279)	(1,492)	1,988	908	(5,084)
Depreciation and amortization	(55)	(164)	(25)	(29)	(5)	(33)	-	33	(278)

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

Information on segments' profit or loss for the six months ended 30 June 2018 and their assets and liabilities as at 31 December 2018 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	10	3,109	777	1,021	270	973	-	(254)	5,906
Intersegment revenue	654	1,357	174	-	-	38	(2,185)	(38)	-
Gross profit	467	1,487	176	123	17	33	(173)	(57)	2,073
Operating profit/(loss)*	436	956	80	87	(15)	(66)	(100)	42	1,420
Profit/(loss) for the period	381	813	86	84	(16)	(75)	(176)	(11)	1,086
Segment assets	2,081	6,822	1,150	1,019	373	1,531	(1,748)	(1,284)	9,944
Segment liabilities	(412)	(4,262)	(450)	(350)	(251)	(1,357)	2,126	846	(4,110)
Depreciation and amortization	(61)	(179)	(33)	(29)	(5)	(38)	-	38	(307)

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

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

Information on segments' profit or loss for the three months ended 30 June 2019 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	16	1,444	379	476	130	437	-	(85)	2,797
Intersegment revenue	304	479	89	-	1	11	(873)	(11)	-
Gross profit	220	595	66	22	18	-	(7)	(15)	899
Operating profit/(loss)*	204	369	24	2	1	(66)	8	51	593
Profit/(loss) for the period	151	580	15	1	1	(69)	(268)	4	415
Depreciation and amortization	(28)	(86)	(12)	(14)	(2)	(17)	-	17	(142)

* Operating profit/(loss) before share of results of 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 June 2018 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	7	1,638	359	590	132	469	-	(83)	3,112
Intersegment revenue	319	659	132	-	-	17	(1,110)	(17)	-
Gross profit	230	782	86	81	9	15	(75)	(34)	1,094
Operating profit/(loss)*	214	523	36	61	(8)	(38)	(44)	19	763
Profit/(loss) for the period	200	429	55	59	(8)	(43)	(93)	(17)	582
Depreciation and amortization	(29)	(89)	(16)	(15)	(3)	(18)	-	18	(152)

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

16 Related party transactions

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

(a) Sales to and purchases from related parties

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the three months ended 30 June 2019	For the three months ended 30 June 2018
Sales				
NBH group companies	554	719	352	386
Purchases				
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	176	183	89	94
NBH group companies	22	38	11	17
Other related parties	7	2	4	1

NBH group companies together are the major customer of the Group. Sales to NBH group are performed by the Russian flat products segment and represent 9.8% and 12.2% of the total sales of the Group for the six months ended 30 June 2019 and 2018, respectively, and 12.6% and 12.4% of the total sales of the Group for the three months ended 30 June 2019 and 2018, respectively.

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

	As at 30 June 2019	As at 31 December 2018
Accounts receivable and advances given		
NBH group companies	436	412
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	20	32
Accounts payable		
NBH group companies	34	31
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	8	6

(c) Financial transactions

As at 30 June 2019 and 31 December 2018, loans issued to NBH group companies amounted to \$148 and \$99, 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 June 2019 and 31 December 2018, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$301 and \$309, 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.

16 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 30 June 2019	As at 31 December 2018
Less than 1 year	57	57
Over 2 years	244	252
	301	309

17 Commitments and contingencies

(a) Anti-dumping investigations

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

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The Group management believes that any liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the consolidated financial statements.

(c) Environmental matters

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

(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.

17 Commitments and contingencies (continued)**(e) Tax contingencies and provisioning**

Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review by tax authorities of transactions without a clear business purpose or with tax-incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when the decision about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Tax liabilities arising from transactions between companies within the Group are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the basis that these companies are not subject to Russian income tax, because they do not have a permanent establishment in Russia. This interpretation of the relevant legislation may be challenged. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income may be subject to a 20% tax rate.

Tax, customs and currency legislation in Russia and other countries where the Group operates does not provide definitive guidance in certain areas. Management currently estimates that the positions and interpretations that it has taken can probably be sustained. But there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

(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 June 2019 and 31 December 2018.

18 Significant accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those of the consolidated financial statements for the year ended 31 December 2018 except for the adoption of amended Standards that are mandatory for financial annual periods beginning on 1 January 2019 and the estimation of income tax expenses using the effective tax rate method (Note 14).

IFRS 16 "Leases"

The Group leases land, buildings, land and buildings improvements and equipment. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The Group assesses the lease term as the non-cancellable period of the lease plus periods covered by lessee's options either to extend or to terminate if the lessee is reasonably certain to exercise the extension option or not exercise the termination option. Lease contracts are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

In accordance with the transition provisions in IFRS 16, the Group has elected the modified retrospective method without restatement of comparatives with the effect of transition to be recognised as at 1 January 2019.

In accordance with the core principles of the standard, the Group has amended the accounting policy for the recognition, measurement, presentation and disclosure of leases.

Starting 1 January 2019, the Group has implemented a single lessee accounting model using the practical expedient permitted by the standard for treating operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. In respect of leases previously classified as operating leases the lease liability is measured as remaining lease payments comprised of fixed payments discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The lease liability is initially recognised at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. The right-of-use asset is initially recognised at the commencement day and measured at cost, consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date.

The right-of-use asset is subsequently measured at cost, less accumulated depreciation and any accumulated impairment losses.

The lease liability is subsequently measured using the effective interest rate method. It remeasures the carrying amount to reflect any re-assessment, lease modification, or revised in-substance fixed lease payments. A re-assessment of the lease liability takes place if the cash flows change based on the original terms and conditions of the lease. A lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. Any remeasurement of the lease liability based on situations described above results in a corresponding adjustment to the right-of-use asset. Any change that is triggered by a clause that is already part of the original lease contract, including changes due to a market rent review clause or the exercise of an extension option, is a re-assessment and not a modification. The effective date of the modification is the date on which the parties agree to the modification of the lease.

18 Significant accounting policies (continued)

The Group calculates depreciation of the right-of-use asset on a straight-line basis over the shorter of the lease term and the useful life of the right-of-use asset. Depreciation of right-of-use assets is presented separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income.

As at 1 January 2019, the Group recognised lease liabilities in the amount of \$79 in relation to leases which classified as operating leases as of 31 December 2018 under the principles of IAS 17 Leases. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 is 5.94%.

A reconciliation of future minimum operating lease payments to recognized lease liabilities is as follows:

Total future minimum lease payments for operating leases as at 31 December 2018	293
Future lease payments change on renegotiated lease contracts from 1 January 2019	(50)
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	9
Future lease payments for leases with a term of less than 12 months	(2)
Effect of discounting to present value	(171)
Total lease liabilities recognized as at 1 January 2019	79

A breakdown of leases recognised as a right-of-use asset is as follows:

	As at 1 January 2019
Land	22
Buildings	42
Land and buildings improvements	2
Machinery and equipment	13
Total leases recognized as a right-of-use asset	79

19 Subsequent events

On 25 July 2019, the Board of Directors of the Parent Company recommended dividends for the second quarter of 2019 of 3.68 Russian rubles per share in the total amount of \$350 at the exchange rate as at 25 July 2019.