



NOVOLIPETSK STEEL

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 30 JUNE 2021
AND FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 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 June 2021 and the related interim condensed consolidated statements of profit or loss, comprehensive income for the three-month and six-month periods then ended, interim condensed consolidated statements of changes in equity and cash flows for the six-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".

22 July 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 June 2021	As at 31 December 2020
Assets			
Current assets			
Cash and cash equivalents	3	748	842
Short-term financial investments	4	235	191
Trade and other accounts receivable	5	1,733	1,148
Inventories	6	1,911	1,373
Other current assets		11	16
		4,638	3,570
Non-current assets			
Long-term financial investments	4	6	7
Investments in joint ventures	4	15	131
Property, plant and equipment	7	6,008	5,659
Goodwill	8	216	212
Other intangible assets	8	164	159
Deferred income tax assets		261	119
Other non-current assets		6	5
		6,676	6,292
Total assets		11,314	9,862
Liabilities and equity			
Current liabilities			
Trade and other accounts payable	9	1,423	1,065
Dividends payable		648	109
Short-term borrowings	10	831	1,054
Current income tax liability		158	51
Other short-term liabilities		-	3
		3,060	2,282
Non-current liabilities			
Long-term borrowings	10	2,002	2,432
Deferred income tax liability		370	359
Other long-term liabilities		46	48
		2,418	2,839
Total liabilities		5,478	5,121
Equity attributable to Novolipetsk Steel shareholders			
Common stock		221	221
Additional paid-in capital		8	8
Accumulated other comprehensive loss		(6,967)	(7,140)
Retained earnings		12,555	11,641
		5,817	4,730
Non-controlling interests		19	11
Total equity		5,836	4,741
Total liabilities and equity		11,314	9,862

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 22 July 2021.

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 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Revenue	12, 15	7,006	4,631	4,139	2,174
Cost of sales		(3,435)	(3,118)	(1,889)	(1,415)
Gross profit		3,571	1,513	2,250	759
General and administrative expenses		(213)	(168)	(116)	(82)
Selling expenses		(402)	(439)	(216)	(227)
Net impairment losses on financial assets		(1)	(5)	(1)	(2)
Other operating income, net		2	9	3	6
Taxes, other than income tax		(42)	(34)	(21)	(17)
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		2,915	876	1,899	437
Loss on disposals of property, plant and equipment		(4)	(2)	(2)	(2)
Impairment of non-current assets		(3)	(1)	(2)	-
Share of results of joint ventures and impairment of investments in joint ventures		(132)	(176)	(98)	(146)
Finance income		3	5	2	2
Finance costs		(78)	(41)	(56)	(20)
Foreign currency exchange loss, net	13, 16	(47)	(67)	(63)	(70)
Hedging result	16	(3)	(4)	(2)	(2)
Expenses on operations with financial instruments		-	(31)	-	(31)
Other expenses, net		(19)	(40)	(15)	(16)
Profit before income tax		2,632	519	1,663	152
Income tax expense	14	(490)	(153)	(299)	(75)
Profit for the period		2,142	366	1,364	77
Profit attributable to:					
Novolipetsk Steel shareholders		2,134	366	1,359	77
Non-controlling interests		8	-	5	-
Earnings per share – basic and diluted:					
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	11	0.3561	0.0611	0.2268	0.0128

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

	Note	For the six months ended 30 June 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Profit for the period		2,142	366	1,364	77
Other comprehensive income/(loss):					
Items that may be reclassified subsequently to profit or loss:					
Hedge reserve of cash flows	16	73	(130)	86	137
Income tax related to hedge reserve of cash flows	16	(14)	26	(17)	(27)
Cumulative translation adjustment		115	(574)	244	520
Total comprehensive income /(loss) for the period		2,316	(312)	1,677	707
attributable to:					
Novolipetsk Steel shareholders		2,307	(310)	1,671	706
Non-controlling interests		9	(2)	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	-	-	-	366	-	366
Hedge reserve of cash flows net of related income tax	-	-	(104)	-	-	(104)
Cumulative translation adjustment	-	-	(572)	-	(2)	(574)
Total comprehensive (loss)/income	-	-	(676)	366	(2)	(312)
Dividends to shareholders	-	-	-	(538)	(4)	(542)
Balance at 30 June 2020	221	9	(6,816)	11,668	11	5,093
Balance at 1 January 2021	221	8	(7,140)	11,641	11	4,741
Profit for the period	-	-	-	2,134	8	2,142
Hedge reserve of cash flows net of related income tax	-	-	59	-	-	59
Cumulative translation adjustment	-	-	114	-	1	115
Total comprehensive income	-	-	173	2,134	9	2,316
Dividends to shareholders	-	-	-	(1,220)	(1)	(1,221)
Balance at 30 June 2021	221	8	(6,967)	12,555	19	5,836

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

	Note	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Cash flows from operating activities			
Profit for the period		2,142	366
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation and amortisation		303	300
Loss on disposals of property, plant and equipment		4	2
Finance income		(3)	(5)
Finance costs		78	41
Share of results of joint ventures and impairment of investments in joint ventures		132	176
Income tax expense	14	490	153
Impairment of non-current assets		3	1
Foreign currency exchange loss, net	13, 16	47	67
Hedging result	16	3	4
Expenses on operations with financial instruments		-	31
Change in impairment allowance for inventories and credit loss allowance for accounts receivable		(3)	4
Changes in operating assets and liabilities			
(Increase)/decrease in trade and other accounts receivable		(594)	65
(Increase)/decrease in inventories		(510)	149
Decrease in other operating assets		6	3
Increase/(decrease) in trade and other accounts payable		379	(75)
Cash provided by operating activities		2,477	1,282
Income tax paid		(539)	(116)
Net cash provided by operating activities		1,938	1,166
Cash flows from investing activities			
Purchases and construction of property, plant and equipment and intangible assets		(591)	(507)
Proceeds from sale of property, plant and equipment		2	1
Loans given		(113)	-
Proceeds from repayment of loans given		41	85
Placement of bank deposits		(219)	(405)
Withdrawal of bank deposits		245	159
Interest received		2	6
Contribution to share capital of joint venture	4	(18)	(131)
Net cash used in investing activities		(651)	(792)
Cash flows from financing activities			
Proceeds from borrowings		886	1,307
Repayment of borrowings		(1,476)	(635)
Payments on leases		(10)	(9)
Interest paid		(33)	(30)
Commissions paid		(42)	-
Dividends paid to Novolipetsk Steel shareholders		(692)	(579)
Net cash (used in)/provided by financing activities		(1,367)	54
Net (decrease)/increase in cash and cash equivalents		(80)	428
Effect of exchange rate changes on cash and cash equivalents		(14)	(20)
Cash and cash equivalents at the beginning of the year	3	842	713
Cash and cash equivalents at the end of the period	3	748	1,121

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.

	2021	2020
Russian ruble to US dollar		
For the 1 st quarter	74.3414	66.3818
For the 2 nd quarter	74.2155	72.3611
As at 30 June	72.3723	69.9513
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
As at 30 June	86.2026	78.6812
As at 31 December		90.6824

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

	As at 30 June 2021	As at 31 December 2020
Cash	447	441
Deposits	272	384
Other cash equivalents	29	17
	748	842

4 Investments

	As at 30 June 2021	As at 31 December 2020
Short-term financial investments		
Bank deposits	122	149
Loans to related parties (Note 17(c))	112	41
Other short-term financial investments	1	1
	235	191
Long-term financial investments		
Loans to related parties (Note 17(c))	5	6
Bank deposits	1	1
	6	7
	241	198

The carrying amounts of financial investments approximate their fair values.

Investments in joint ventures

	As at 30 June 2021 Ownership	As at 31 December 2020 Ownership	As at 30 June 2021	As at 31 December 2020
NLMK Belgium Holdings S.A. ("NBH")	49.0%	49.0%	5	121
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			15	131

The amount of the Group's investment in NBH includes share of unrealised profit in inventory that amounted to \$174 and \$60 as at 30 June 2021 and 31 December 2020, respectively.

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

	As at 30 June 2021	As at 31 December 2020
Financial assets		
Trade accounts receivable	1,509	834
Credit loss allowance for trade accounts receivable	(13)	(14)
Other accounts receivable	45	147
Credit loss allowance for other accounts receivable	(22)	(22)
	<u>1,519</u>	<u>945</u>
Non-financial assets		
Advances given to suppliers	98	79
Allowance for impairment of advances given to suppliers	(9)	(9)
VAT and other taxes receivable	123	132
Accounts receivable from employees	<u>2</u>	<u>1</u>
	<u>214</u>	<u>203</u>
	<u>1,733</u>	<u>1,148</u>

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

As at 30 June 2021 and 31 December 2020, accounts receivable with a carrying value of \$277 and \$119, respectively, served as collateral for certain borrowings and committed unutilised credit facilities (Notes 10 and 18(g)).

6 Inventories

	As at 30 June 2021	As at 31 December 2020
Raw materials	936	771
Work in process	565	298
Finished goods	<u>453</u>	<u>350</u>
	1,954	1,419
Impairment allowance	<u>(43)</u>	<u>(46)</u>
	<u>1,911</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:

	As at 30 June 2021	As at 31 December 2020
Raw materials	139	82
Slabs for processing	297	108
Finished goods	66	42
		12

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

As at 30 June 2021 and 31 December 2020, inventories with a carrying value of \$534 and \$287, respectively, served as collateral for certain borrowings and committed unutilised credit facilities (Notes 10 and 18(g)).

7 Property, plant and equipment

	As at 30 June 2021	As at 31 December 2020
Land	130	128
Buildings	1,926	1,826
Land and buildings improvements	2,281	2,168
Machinery and equipment	6,964	6,487
Vehicles	376	351
Construction in progress	1,285	1,285
	12,962	12,245
Accumulated depreciation and impairment	(6,954)	(6,586)
	6,008	5,659

The amount of borrowing costs capitalized was \$16 and \$17 for the six months ended 30 June 2021 and 2020, respectively. The capitalisation rate was 1.5% and 1.6% for the six months ended 30 June 2021 and 2020, respectively.

The amount of borrowing costs capitalized was \$8 and \$7 for the three months ended 30 June 2021 and 2020, respectively. The capitalisation rate was 0.7% and 0.7% for the three months ended 30 June 2021 and 2020, respectively.

Management estimates the outstanding commitments in connection with equipment supply and construction works amounted to \$892 and \$881 as at 30 June 2021 and 31 December 2020, respectively.

Management has analysed the financial performance of key cash generating units in the six months ended 30 June 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 June 2021	As at 31 December 2020
Goodwill	230	226
Mineral rights	268	263
Industrial intellectual property	114	100
	612	589
Accumulated amortization and impairment	(232)	(218)
	380	371

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 2021	As at 31 December 2020
Financial liabilities		
Trade accounts payable	601	429
Accounts payable for purchases of property, plant and equipment	119	159
Other accounts payable	30	27
	<u>750</u>	<u>615</u>
Non-financial liabilities		
Accounts payable and accrued liabilities to employees	185	144
Advances received	227	175
Taxes payable other than income tax	261	131
	<u>673</u>	<u>450</u>
	<u>1,423</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 June 2021	As at 31 December 2020
Bonds				
1.45%	EUR	2026	596	-
From 4.00% to 4.70%	USD	2023-2026	1,236	1,709
Loans				
From EURIBOR+0.9% to EURIBOR+1.30%	EUR	2021-2024	499	1,065
0.95%	EUR	2022	238	245
0.94%	EUR	2022	119	123
LIBOR +1.50%	USD	2021	66	258
Leases		2021-2089	79	86
			<u>2,833</u>	<u>3,486</u>
Less: short-term loans and current maturities of long-term loans, bonds and leases			<u>(831)</u>	<u>(1,054)</u>
Long-term borrowings			<u>2,002</u>	<u>2,432</u>

* Rates and maturity as of 30 June 2021

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

	As at 30 June 2021		As at 31 December 2020	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Bonds	1,832	1,941	1,709	1,864

10 Borrowings (continued)

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 June 2021 were designated as hedging instruments with carrying amount and fair value of \$1,960 and \$2,022, 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 June 2021 and 31 December 2020, the total amount of the Group companies' collateral for borrowings and committed unutilised credit facilities was \$811 and \$406, respectively (Notes 5 and 6).

11 Earnings per share

	For the six months ended 30 June 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Profit for the period attributable to NLMK shareholders (millions of US dollars)	2,134	366	1,359	77
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)	0.3561	0.0611	0.2268	0.0128

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

12 Revenue

(a) Revenue by type

	For the six months ended 30 June 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Revenue from sale of goods				
Flat products	3,924	2,440	2,251	1,099
Pig iron, slabs and billets	1,774	1,386	1,126	680
Long products and metalware	864	435	483	199
Coke and other chemical products	114	83	63	33
Scrap	47	28	29	12
Iron ore and sintering ore	44	42	42	36
Other products	89	64	65	34
Total revenue from sale of goods	6,856	4,478	4,059	2,093
Revenue from transportation services	150	153	80	81
	7,006	4,631	4,139	2,174

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 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Russia	3,075	1,806	1,769	797
European Union	1,224	863	723	358
North America	1,211	784	781	299
Middle East, including Turkey	750	491	407	250
Central and South America	395	93	255	23
CIS	158	133	84	58
Asia and Oceania	131	362	98	333
Other regions	62	99	22	56
	7,006	4,631	4,139	2,174

Except for NBH Group (Note 17), 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 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Foreign exchange (loss)/gain on cash and cash equivalents	(23)	5	(39)	(113)
Foreign exchange (loss)/gain on financial investments	(46)	5	(42)	(40)
Foreign exchange gain/(loss) on debt financing	38	(61)	12	69
Foreign exchange (loss)/gain on other assets and liabilities	(16)	(16)	6	14
	(47)	(67)	(63)	(70)

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 six months ended 30 June 2021 and 2020 are 18% and 22%, 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.

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 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	52	3,871	1,038	1,102	301	754	-	(112)	7,006
Intersegment revenue	1,154	1,435	287	-	-	23	(2,876)	(23)	-
Gross profit	994	2,508	309	289	15	60	(427)	(177)	3,571
Operating profit/(loss)*	948	1,979	226	257	(23)	(27)	(355)	(90)	2,915
Profit/(loss) for the period	729	1,527	184	233	(25)	(31)	(257)	(218)	2,142
Segment assets	2,990	8,704	1,100	1,287	508	1,637	(3,473)	(1,439)	11,314
Segment liabilities	(734)	(6,258)	(425)	(453)	(423)	(1,445)	3,380	880	(5,478)
Depreciation and amortization	(69)	(186)	(21)	(21)	(6)	(28)	-	28	(303)

* 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 six months ended 30 June 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	34	2,760	511	615	225	667	-	(181)	4,631
Intersegment revenue	614	652	131	-	-	23	(1,397)	(23)	-
Gross profit/(loss)	464	947	70	(13)	29	29	41	(54)	1,513
Operating profit/(loss)*	420	471	1	(48)	(3)	(61)	60	36	876
Profit/(loss) for the period	338	545	(12)	(49)	(5)	(64)	(250)	(137)	366
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	(55)	(187)	(23)	(29)	(6)	(28)	-	28	(300)

* 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 June 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	48	2,275	589	699	157	344	-	27	4,139
Intersegment revenue	637	914	214	-	-	11	(1,765)	(11)	-
Gross profit	583	1,581	190	219	5	22	(243)	(107)	2,250
Operating profit/(loss)*	556	1,292	147	203	(16)	(21)	(198)	(64)	1,899
Profit/(loss) for the period	410	997	121	181	(6)	(24)	(155)	(160)	1,364
Depreciation and amortization	(29)	(101)	(10)	(10)	(3)	(14)	-	14	(153)

* 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 June 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	24	1,384	251	238	95	297	-	(115)	2,174
Intersegment revenue	312	240	75	-	-	11	(627)	(11)	-
Gross profit	245	455	34	1	9	15	26	(26)	759
Operating profit/(loss)*	221	213	(1)	(11)	(6)	(28)	32	17	437
Profit/(loss) for the period	178	355	(7)	(11)	(7)	(30)	(275)	(126)	77
Depreciation and amortization	(27)	(90)	(11)	(14)	(3)	(14)	-	14	(145)

* 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	-	-	-
Change of hedge reserve of cash flows – recognition of (loss)/income from the remeasurement of hedging instruments	(134)	27	(107)
Change of hedge reserve of cash flows – hedging result	4	(1)	3
As at 30 June 2020	(130)	26	(104)
As at 1 January 2021	(205)	41	(164)
Change of hedge reserve of cash flows – recognition of income/(loss) from the remeasurement of hedging instruments	70	(13)	57
Change of hedge reserve of cash flows – hedging result	3	(1)	2
As at 30 June 2021	(132)	27	(105)

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 June 30, 2021 is as follows:

	2021	2022	2023	2024	2025	2026	Total
Reclassifications	(5)	21	(83)	(57)	(23)	12	(135)
Income tax	1	(4)	18	11	5	(3)	28
	(4)	17	(65)	(46)	(18)	9	(107)

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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 six months ended 30 June 2021	For the six months ended 30 June 2020	For the three months ended 30 June 2021	For the three months ended 30 June 2020
Sales				
NBH group companies	642	486	371	182
Purchases				
Companies of Freight One group and other transport companies under the common control of beneficial owner	196	187	109	96
NBH group companies	23	23	11	11
Other related parties	16	12	8	6

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 9.2% and 10.5% of the total sales of the Group for the six months ended 30 June 2021 and 2020, respectively, and 9.0% and 8.4% of the total sales of the Group for the three months ended 30 June 2021 and 2020, respectively.

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

	As at 30 June 2021	As at 31 December 2020
Accounts receivable and advances given		
NBH group companies	448	298
Companies of Freight One group and other transport companies under the common control of beneficial owner	80	32
Accounts payable		
NBH group companies	19	22
Companies of Freight One group and other transport companies under the common control of beneficial owner	17	11

(c) Financial transactions

As at 30 June 2021 and 31 December 2020, loans issued to NBH group companies amounted to \$117 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 June 2021 and 31 December 2020, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$314 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 June 2021	As at 31 December 2020
Less than 1 year	108	107
From 1 to 2 years	149	127
Over 2 years	57	49
	314	283

18 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.

18 Commitments and contingencies (continued)**(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.

By the Decree of the Government of the Russian Federation for the period from 1 August to 31 December 2021 a customs duty on metal products in relation to exports outside the states - participants in agreements on the Customs Union was introduced. The rate of the duty is 15% but not less than a fixed level set individually for types of products. The Group is currently evaluating the impact of these changes on the financial results.

(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 2021 and 31 December 2020.

(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 first half 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 June 2021 and has not identified existence of the impairment indicators for the Group cash generating units. As at 30 June 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.

19 Significant accounting policies

The accounting policies 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.

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20 Subsequent events

On 22 July 2021, the Board of Directors of the Parent Company recommended dividends for the second quarter of 2021 of 13.62 Russian rubles per share in the total amount of \$1,096 at the exchange rate as at 22 July 2021.