



**NOVOLIPETSK STEEL**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 31 MARCH 2021  
AND FOR THE THREE MONTHS ENDED 31 MARCH 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 31 March 2021 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-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".

21 April 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 31 March 2021	As at 31 December 2020
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	489	842
Short-term financial investments	4	350	191
Trade and other accounts receivable	5	1,415	1,148
Inventories	6	1,464	1,373
Other current assets		12	16
		<b>3,730</b>	<b>3,570</b>
<b>Non-current assets</b>			
Long-term financial investments	4	6	7
Investments in joint ventures	4	110	131
Property, plant and equipment	7	5,577	5,659
Goodwill	8	208	212
Other intangible assets	8	153	159
Deferred income tax assets		159	119
Other non-current assets		9	5
		<b>6,222</b>	<b>6,292</b>
<b>Total assets</b>		<b>9,952</b>	<b>9,862</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other accounts payable	9	1,138	1,065
Dividends payable		8	109
Short-term borrowings	10	857	1,054
Current income tax liability		94	51
Other short-term liabilities		-	3
		<b>2,097</b>	<b>2,282</b>
<b>Non-current liabilities</b>			
Long-term borrowings	10	2,069	2,432
Deferred income tax liability		360	359
Other long-term liabilities		46	48
		<b>2,475</b>	<b>2,839</b>
<b>Total liabilities</b>		<b>4,572</b>	<b>5,121</b>
<b>Equity attributable to Novolipetsk Steel shareholders</b>			
Common stock		221	221
Additional paid-in capital		8	8
Accumulated other comprehensive loss		(7,279)	(7,140)
Retained earnings		12,416	11,641
		<b>5,366</b>	<b>4,730</b>
<b>Non-controlling interests</b>		<b>14</b>	<b>11</b>
<b>Total equity</b>		<b>5,380</b>	<b>4,741</b>
<b>Total liabilities and equity</b>		<b>9,952</b>	<b>9,862</b>

The interim condensed consolidated financial statements as set out on pages 5 to 23 were approved by the Group's management and authorised for issue on 21 April 2021.



**Novolipetsk Steel**

**Interim condensed consolidated statement of profit or loss (unaudited)**

*(millions of US dollars, unless otherwise stated)*

	Note	For the three months ended 31 March 2021	For the three months ended 31 March 2020
Revenue	12, 15	2,867	2,457
Cost of sales		(1,546)	(1,703)
<b>Gross profit</b>		<b>1,321</b>	<b>754</b>
General and administrative expenses		(97)	(86)
Selling expenses		(186)	(212)
Net impairment losses on financial assets		-	(3)
Other operating (expenses)/income, net		(1)	3
Taxes, other than income tax		(21)	(17)
<b>Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment</b>		<b>1,016</b>	<b>439</b>
Loss on disposals of property, plant and equipment		(2)	-
Impairment of non-current assets		(1)	(1)
Share of results of joint ventures		(34)	(30)
Finance income		1	3
Finance costs		(22)	(21)
Foreign currency exchange income, net	13, 16	16	3
Hedging result	16	(1)	(2)
Other expenses, net		(4)	(24)
<b>Profit before income tax</b>		<b>969</b>	<b>367</b>
Income tax expense	14	(191)	(78)
<b>Profit for the period</b>		<b>778</b>	<b>289</b>
Profit attributable to:			
<b>Novolipetsk Steel shareholders</b>		<b>775</b>	<b>289</b>
<b>Non-controlling interests</b>		<b>3</b>	<b>-</b>
<b>Earnings per share – basic and diluted:</b>			
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	11	0.1293	0.0482



**Novolipetsk Steel**

**Interim condensed consolidated statement of comprehensive income (unaudited)**

*(millions of US dollars)*

	<b>Note</b>	<b>For the three months ended 31 March 2021</b>	<b>For the three months ended 31 March 2020</b>
Profit for the period		778	289
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Hedge reserve of cash flows	16	(13)	(267)
Income tax related to hedge reserve of cash flows	16	3	53
Cumulative translation adjustment		<u>(129)</u>	<u>(1,094)</u>
<b>Total comprehensive income/(loss) for the period</b>		<b><u>639</u></b>	<b><u>(1,019)</u></b>
attributable to:			
Novolipetsk Steel shareholders		636	(1,016)
Non-controlling interests		<u>3</u>	<u>(3)</u>



**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		
<b>Balance at 1 January 2020</b>	<b>221</b>	<b>9</b>	<b>(6,140)</b>	<b>11,840</b>	<b>17</b>	<b>5,947</b>
Profit for the period	-	-	-	289	-	289
Hedge reserve of cash flows net of related income tax	-	-	(214)	-	-	(214)
Cumulative translation adjustment	-	-	(1,091)	-	(3)	(1,094)
<b>Total comprehensive (loss)/income</b>	<b>-</b>	<b>-</b>	<b>(1,305)</b>	<b>289</b>	<b>(3)</b>	<b>(1,019)</b>
<b>Balance at 31 March 2020</b>	<b>221</b>	<b>9</b>	<b>(7,445)</b>	<b>12,129</b>	<b>14</b>	<b>4,928</b>
<b>Balance at 1 January 2021</b>	<b>221</b>	<b>8</b>	<b>(7,140)</b>	<b>11,641</b>	<b>11</b>	<b>4,741</b>
Profit for the period	-	-	-	775	3	778
Hedge reserve of cash flows net of related income tax	-	-	(10)	-	-	(10)
Cumulative translation adjustment	-	-	(129)	-	-	(129)
<b>Total comprehensive (loss)/income</b>	<b>-</b>	<b>-</b>	<b>(139)</b>	<b>775</b>	<b>3</b>	<b>639</b>
<b>Balance at 31 March 2021</b>	<b>221</b>	<b>8</b>	<b>(7,279)</b>	<b>12,416</b>	<b>14</b>	<b>5,380</b>





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

	Note	For the three months ended 31 March 2021	For the three months ended 31 March 2020
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>		<b>778</b>	<b>289</b>
<b>Adjustments to reconcile profit for the period to net cash provided by operating activities:</b>			
Depreciation and amortisation		150	155
Gain on disposals of property, plant and equipment		2	-
Finance income		(1)	(3)
Finance costs		22	21
Share of results of joint ventures		34	30
Income tax expense	14	191	78
Impairment of non-current assets		1	1
Foreign currency exchange gain, net	13, 16	(16)	(3)
Hedging result	16	1	2
Change in impairment allowance for inventories and credit loss allowance for accounts receivable		(5)	15
<b>Changes in operating assets and liabilities</b>			
Increase in trade and other accounts receivable		(304)	(44)
(Increase)/decrease in inventories		(115)	126
Decrease in other operating assets		3	2
Increase in trade and other accounts payable		127	1
<b>Cash provided by operating activities</b>		<b>868</b>	<b>670</b>
Income tax paid		(177)	(53)
<b>Net cash provided by operating activities</b>		<b>691</b>	<b>617</b>
<b>Cash flows from investing activities</b>			
Purchases and construction of property, plant and equipment and intangible assets		(232)	(288)
Proceeds from sale of property, plant and equipment		2	-
Proceeds from repayment of loans given		41	85
Placement of bank deposits		(217)	(248)
Withdrawal of bank deposits		12	158
Interest received		1	4
Contribution to share capital of joint venture	4	(18)	(55)
<b>Net cash used in investing activities</b>		<b>(411)</b>	<b>(344)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		139	938
Repayment of borrowings		(652)	(116)
Payments on leases		(5)	(4)
Interest paid		(8)	(2)
Dividends paid to Novolipetsk Steel shareholders		(100)	(308)
<b>Net cash (used in)/provided by financing activities</b>		<b>(626)</b>	<b>508</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(346)</b>	<b>781</b>
Effect of exchange rate changes on cash and cash equivalents		(7)	(38)
Cash and cash equivalents at the beginning of the year	3	842	713
<b>Cash and cash equivalents at the end of the period</b>	3	<b>489</b>	<b>1,456</b>



## 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 rouble (“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 rouble 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>
<b>Russian rouble to US dollar</b>		
For the 1 <sup>st</sup> quarter	74.3414	66.3818
As at 31 March	75.7023	77.7325
As at 31 December		73.8757
<b>Russian rouble to Euro</b>		
For the 1 <sup>st</sup> quarter	89.7047	73.2348
As at 31 March	88.8821	85.7389
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**

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
Cash	247	441
Deposits	224	384
Other cash equivalents	18	17
	<b>489</b>	<b>842</b>

**4 Investments**

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
<b>Short-term financial investments</b>		
Bank deposits	350	149
Loans to related parties (Note 17(c))	-	41
Other short-term financial investments	-	1
	<b>350</b>	<b>191</b>
<b>Long-term financial investments</b>		
Loans to related parties (Note 17(c))	5	6
Bank deposits	1	1
	<b>6</b>	<b>7</b>
	<b>356</b>	<b>198</b>

The carrying amounts of financial investments approximate their fair values.

**Investments in joint ventures**

	<b>As at 31 March 2021 Ownership</b>	<b>As at 31 December 2020 Ownership</b>	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
NLMK Belgium Holdings S.A. ("NBH")	49.0%	49.0%	100	121
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			<b>110</b>	<b>131</b>

Management has analysed the performance of NBH in the three months ended 31 March 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

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
<b>Financial assets</b>		
Trade accounts receivable	1,202	834
Credit loss allowance for trade accounts receivable	(13)	(14)
Other accounts receivable	41	147
Credit loss allowance for other accounts receivable	(21)	(22)
	<u>1,209</u>	<u>945</u>
<b>Non-financial assets</b>		
Advances given to suppliers	74	79
Allowance for impairment of advances given to suppliers	(7)	(9)
VAT and other taxes receivable	137	132
Accounts receivable from employees	2	1
	<u>206</u>	<u>203</u>
	<u><b>1,415</b></u>	<u><b>1,148</b></u>

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

As at 31 March 2021 and 31 December 2020, accounts receivable with a carrying value of \$175 and \$119, respectively, served as collateral for certain borrowings (Note 10).

#### 6 Inventories

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
Raw materials	687	771
Work in process	370	298
Finished goods	448	350
	1,505	1,419
Impairment allowance	(41)	(46)
	<u><b>1,464</b></u>	<u><b>1,373</b></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", "Work in process" and "Finished goods" categories as follows:

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
Raw materials	62	82
Work in process	182	108
Finished goods	76	42
		12

**Novolipetsk Steel**

**Notes to the interim condensed consolidated financial statements (unaudited)**

(millions of US dollars)

**6 Inventories (continued)**

As at 31 March 2021 and 31 December 2020, inventories with a carrying value of \$342 and \$287, respectively, served as collateral for certain borrowings (Note 10).

**7 Property, plant and equipment**

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
Land	125	128
Buildings	1,823	1,826
Land and buildings improvements	2,184	2,168
Machinery and equipment	6,300	6,487
Vehicles	353	351
Construction in progress	1,354	1,285
	<u>12,139</u>	<u>12,245</u>
Accumulated depreciation and impairment	<u>(6,562)</u>	<u>(6,586)</u>
	<u><b>5,577</b></u>	<u><b>5,659</b></u>

The amount of borrowing costs capitalized was \$8 and \$9 for the three months ended 31 March 2021 and 2020, respectively. The capitalisation rate was 0.7% and 0.9% for the three months ended 31 March 2021 and 2020, respectively.

Management estimates the outstanding commitments in connection with equipment supply and construction works amounted to \$788 and \$881 as at 31 March 2021 and 31 December 2020, respectively.

Management has analysed the financial performance of key cash generating units in the three months ended 31 March 2021 and believes that no changes to the estimates made as at 31 December 2020 regarding impairment of fixed assets and goodwill are required.

**8 Intangible assets**

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
Goodwill	222	226
Mineral rights	255	263
Industrial intellectual property	101	100
	<u>578</u>	<u>589</u>
Accumulated amortization and impairment	<u>(217)</u>	<u>(218)</u>
	<u><b>361</b></u>	<u><b>371</b></u>



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

**9 Trade and other accounts payable**

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
<b>Financial liabilities</b>		
Trade accounts payable	487	429
Accounts payable for purchases of property, plant and equipment	124	159
Other accounts payable	31	27
	<u>642</u>	<u>615</u>
<b>Non-financial liabilities</b>		
Accounts payable and accrued liabilities to employees	156	144
Advances received	135	175
Taxes payable other than income tax	205	131
	<u>496</u>	<u>450</u>
	<u><b>1,138</b></u>	<u><b>1,065</b></u>

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

**10 Borrowings**

<b>Rates*</b>	<b>Currency</b>	<b>Maturity*</b>	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
<b>Bonds</b>				
From 4.00% to 4.70%	USD	2023-2026	1,718	1,709
<b>Loans</b>				
From EURIBOR+0.85% to EURIBOR+1.30%	EUR	2021-2024	774	1,065
0.95%	EUR	2022	235	245
0.94%	EUR	2022	117	123
From LIBOR +1.20% to LIBOR +1.50%	USD	2021	-	258
<b>Leases</b>				
		2021-2089	82	86
			<u>2,926</u>	<u>3,486</u>
Less: short-term loans and current maturities of long-term loans, bonds and leases			<u>(857)</u>	<u>(1,054)</u>
<b>Long-term borrowings</b>			<u><b>2,069</b></u>	<u><b>2,432</b></u>

\* Rates and maturity as of 31 March 2021

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

	<b>As at 31 March 2021</b>		<b>As at 31 December 2020</b>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Bonds	<u>1,718</u>	<u>1,835</u>	<u>1,709</u>	<u>1,864</u>



## Novolipetsk Steel

### Notes to the interim condensed consolidated financial statements (unaudited)

(millions of US dollars)

#### 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.

Bonds, loans and bonds' coupons as at 31 March 2021 were designated as hedging instruments with carrying amount and fair value of \$1,833 and \$1,910, respectively (Note 16). Carrying amount and fair value of hedging instrument as at 31 December 2020 were \$1,287 and \$1,386, respectively.

#### Collateral

As at 31 March 2021 and 31 December 2020, the total amount of the Group companies' collateral was \$517 and \$406, respectively (Notes 5 and 6).

#### 11 Earnings per share

	<b>For the three months ended 31 March 2021</b>	<b>For the three months ended 31 March 2020</b>
Profit for the period attributable to NLMK shareholders (millions of US dollars)	775	289
Weighted average number of shares	5,993,227,240	5,993,227,240
<b>Basic and diluted earnings per share (US dollars)</b>	<b>0.1293</b>	<b>0.0482</b>

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

#### 12 Revenue

##### (a) Revenue by type

	<b>For the three months ended 31 March 2021</b>	<b>For the three months ended 31 March 2020</b>
<b>Revenue from sale of goods</b>		
Flat products	1,673	1,341
Pig iron, slabs and billets	648	706
Long products and metalware	381	236
Coke and other chemical products	51	50
Scrap	18	16
Iron ore and sintering ore	2	6
Other products	24	30
<b>Total revenue from sale of goods</b>	<b>2,797</b>	<b>2,385</b>
Revenue from transportation services	70	72
	<b>2,867</b>	<b>2,457</b>

**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:

	<b>For the three months ended 31 March 2021</b>	<b>For the three months ended 31 March 2020</b>
Russia	1,306	1,009
European Union	501	505
North America	430	485
Middle East, including Turkey	343	241
Central and South America	140	70
CIS	74	75
Asia and Oceania	33	29
Other regions	40	43
	<b><u>2,867</u></b>	<b><u>2,457</u></b>

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**

	<b>For the three months ended 31 March 2021</b>	<b>For the three months ended 31 March 2020</b>
Foreign exchange gain on cash and cash equivalents	16	118
Foreign exchange (loss)/gain on financial investments	(4)	45
Foreign exchange gain/(loss) on debt financing	26	(130)
Foreign exchange loss on other assets and liabilities	(22)	(30)
	<b><u>16</u></b>	<b><u>3</u></b>

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 months ended 31 March 2021 and 2020 are 19% 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 three months ended 31 March 2021 and their assets and liabilities on this date is as follows:

	<b>Mining</b>	<b>Russian flat products</b>	<b>Russian long products</b>	<b>NLMK USA</b>	<b>NLMK DanSteel and Plates Distribution Network</b>	<b>Investments in NBH</b>	<b>Inter-segmental operations and balances</b>	<b>NBH deconsolidation adjustments</b>	<b>Total</b>
Revenue from external customers	4	1,596	449	403	144	410	-	(139)	2,867
Intersegment revenue	517	521	73	-	-	12	(1,111)	(12)	-
Gross profit	411	927	119	70	10	38	(184)	(70)	1,321
Operating profit/(loss)*	392	687	79	54	(7)	(6)	(157)	(26)	1,016
Profit/(loss) for the period	319	530	63	52	(19)	(7)	(102)	(58)	778
Segment assets	2,195	7,315	984	810	453	1,373	(2,013)	(1,165)	9,952
Segment liabilities	(442)	(4,869)	(392)	(157)	(364)	(1,162)	2,003	811	(4,572)
Depreciation and amortization	(40)	(85)	(11)	(11)	(3)	(14)	-	14	(150)

\* 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 31 March 2020 and their assets and liabilities as at 31 December 2020 is as follows:

	<b>Mining</b>	<b>Russian flat products</b>	<b>Russian long products</b>	<b>NLMK USA</b>	<b>NLMK DanSteel and Plates Distribution Network</b>	<b>Investments in NBH</b>	<b>Inter-segmental operations and balances</b>	<b>NBH deconsolidation adjustments</b>	<b>Total</b>
Revenue from external customers	10	1,376	260	377	130	370	-	(66)	2,457
Intersegment revenue	302	412	56	-	-	12	(770)	(12)	-
Gross profit/(loss)	219	492	36	(14)	20	14	15	(28)	754
Operating profit/(loss)*	199	258	2	(37)	3	(33)	28	19	439
Profit/(loss) for the period	160	190	(5)	(38)	2	(34)	25	(11)	289
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	(28)	(97)	(12)	(15)	(3)	(14)	-	14	(155)

\* 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 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”.

On February 3, 2020 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).

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”.

On January 1, 2021 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.

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.

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
<b>As at 1 January 2020</b>	-	-	-
Change of hedge reserve of cash flows – recognition of (loss)/income from the remeasurement of hedging instruments	(269)	53	(216)
Change of hedge reserve of cash flows – hedging result	2	-	2
<b>As at 31 March 2020</b>	<b>(267)</b>	<b>53</b>	<b>(214)</b>
<b>As at 1 January 2021</b>	<b>(205)</b>	<b>41</b>	<b>(164)</b>
Change of hedge reserve of cash flows – recognition of (loss)/income from the remeasurement of hedging instruments	(14)	3	(11)
Change of hedge reserve of cash flows – hedging result	1	-	1
<b>As at 31 March 2021</b>	<b>(218)</b>	<b>44</b>	<b>(174)</b>

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**Notes to the interim condensed consolidated financial statements (unaudited)**
*(millions of US dollars)*
**16 Management of foreign currency risk related to changes in cash flows of future receipts in foreign currency (continued)**

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 March 31, 2021 is as follows:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Total</u>
Reclassifications	(9)	7	(105)	(71)	(28)	(13)	(219)
Income tax	<u>2</u>	<u>(1)</u>	<u>20</u>	<u>14</u>	<u>6</u>	<u>3</u>	<u>44</u>
	<u><b>(7)</b></u>	<u><b>6</b></u>	<u><b>(85)</b></u>	<u><b>(57)</b></u>	<u><b>(22)</b></u>	<u><b>(10)</b></u>	<u><b>(175)</b></u>

**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**

	<u>For the three months ended 31 March 2021</u>	<u>For the three months ended 31 March 2020</u>
<b>Sales</b>		
NBH group companies	<u>271</u>	<u>304</u>
<b>Purchases</b>		
Companies of Freight One group and other transport companies under the common control of beneficial owner	87	91
NBH group companies	12	12
Other related parties	<u>8</u>	<u>6</u>

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 9.5% and 12.4% of the total sales of the Group for the three months ended 31 March 2021 and 2020, respectively.

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

	<u>As at 31 March 2021</u>	<u>As at 31 December 2020</u>
<b>Accounts receivable and advances given</b>		
NBH group companies	346	298
Companies of Freight One group and other transport companies under the common control of beneficial owner	<u>15</u>	<u>32</u>
<b>Accounts payable</b>		
NBH group companies	21	22
Companies of Freight One group and other transport companies under the common control of beneficial owner	<u>20</u>	<u>11</u>

**Novolipetsk Steel**

**Notes to the interim condensed consolidated financial statements (unaudited)**

*(millions of US dollars)*

**17 Related party transactions (continued)**

**(c) Financial transactions**

As at 31 March 2021 and 31 December 2020, loans issued to NBH group companies amounted to \$5 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 31 March 2021 and 31 December 2020, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$286 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.

The maturity of the guaranteed obligations is as follows:

	<b>As at 31 March 2021</b>	<b>As at 31 December 2020</b>
Less than 1 year	107	107
From 1 to 2 years	125	127
Over 2 years	54	49
	<b>286</b>	<b>283</b>

**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.

**18 Commitments and contingencies (continued)****(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 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 31 March 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. The Group benefits from a strong financial position, with low leverage and significant liquidity. As at 31 March 2021 the Group has liquid resources of \$839 comprising cash and cash equivalents as well as a committed and unutilised credit facilities amounting to \$1,942. Furthermore, repayments of borrowings to financial institutions in 2021 are scheduled with \$484 only.

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 31 March 2021 and has not identified existence of the impairment indicators for the Group cash generating units. As at 31 March 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.

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**Notes to the interim condensed consolidated financial statements (unaudited)**

*(millions of US dollars)*

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**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.