



NOVOLIPETSK STEEL

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT 30 JUNE 2020
AND FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2020
(UNAUDITED)**



Novolipetsk Steel
Interim condensed consolidated financial statements
as at 30 June 2020 and for the three and the six months ended 30 June 2020 (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 2020 and the related interim condensed consolidated statements of profit or loss, comprehensive income for the three- and the six-month periods then ended, changes in equity and cash flows for the six-month periods 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 2020

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

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

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 2020	As at 31 December 2019
Assets			
Current assets			
Cash and cash equivalents	3	1,121	713
Short-term financial investments	4	450	287
Trade and other accounts receivable	5	918	1,047
Inventories	6	1,376	1,634
Other current assets		13	14
		<u>3,878</u>	<u>3,695</u>
Non-current assets			
Long-term financial investments	4	5	5
Investments in joint ventures	4	177	223
Property, plant and equipment	7	5,574	6,039
Goodwill	8	223	248
Other intangible assets	8	160	162
Deferred income tax assets		104	101
Other non-current assets		9	11
		<u>6,252</u>	<u>6,789</u>
Total assets		<u><u>10,130</u></u>	<u><u>10,484</u></u>
Liabilities and equity			
Current liabilities			
Trade and other accounts payable	9	948	1,124
Dividends payable		285	318
Short-term borrowings	10	1,219	468
Current income tax liability		36	32
		<u>2,488</u>	<u>1,942</u>
Non-current liabilities			
Long-term borrowings	10	2,139	2,188
Deferred income tax liability		375	405
Other long-term liabilities		35	2
		<u>2,549</u>	<u>2,595</u>
Total liabilities		<u><u>5,037</u></u>	<u><u>4,537</u></u>
Equity attributable to Novolipetsk Steel shareholders			
Common stock		221	221
Additional paid-in capital		9	9
Accumulated other comprehensive loss		(6,816)	(6,140)
Retained earnings		11,668	11,840
		<u>5,082</u>	<u>5,930</u>
Non-controlling interests		<u>11</u>	<u>17</u>
Total equity		<u><u>5,093</u></u>	<u><u>5,947</u></u>
Total liabilities and equity		<u><u>10,130</u></u>	<u><u>10,484</u></u>

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 22 July 2020.



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 2020	For the six months ended 30 June 2019	For the three months ended 30 June 2020	For the three months ended 30 June 2019
Revenue	12, 15	4,631	5,666	2,174	2,797
Cost of sales		(3,118)	(3,886)	(1,415)	(1,898)
Gross profit		1,513	1,780	759	899
General and administrative expenses		(168)	(170)	(82)	(88)
Selling expenses		(439)	(428)	(227)	(202)
Net impairment losses on financial assets		(5)	(2)	(2)	(1)
Other operating income, net		9	5	6	3
Taxes, other than income tax		(34)	(33)	(17)	(18)
Operating profit before share of results of joint ventures, impairment of non-current assets and loss on disposals of property, plant and equipment		876	1,152	437	593
Loss on disposals of property, plant and equipment		(2)	(1)	(2)	(1)
Impairment of non-current assets		(1)	(5)	-	-
Share of results of joint ventures		(176)	(45)	(146)	(49)
Finance income		5	8	2	4
Finance costs		(41)	(35)	(20)	(19)
Foreign currency exchange (loss)/gain, net	13, 18	(67)	(40)	(70)	21
Hedging result	18	(4)	-	(2)	-
Expenses on operations with financial instruments		(31)	-	(31)	-
Other (expenses)/income, net		(40)	(17)	(16)	3
Profit before income tax		519	1,017	152	552
Income tax expense	14	(153)	(220)	(75)	(137)
Profit for the period		366	797	77	415
Profit attributable to:					
Novolipetsk Steel shareholders		366	796	77	414
Non-controlling interests		-	1	-	1
Earnings per share – basic and diluted:					
Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)	11	0.0611	0.1328	0.0128	0.0691



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

		For the six months ended	For the six months ended	For the three months ended	For the three months ended
	Note	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Profit for the period		366	797	77	415
Other comprehensive (loss)/income:					
Items that may be reclassified subsequently to profit or loss:					
Hedge reserve of cash flows	18	(130)	-	137	-
Deferred tax related to hedge reserve of cash flows	18	26	-	(27)	-
Cumulative translation adjustment		(574)	539	520	132
Total comprehensive (loss)/income for the period		(312)	1,336	707	547
attributable to:					
Novolipetsk Steel shareholders		(310)	1,334	706	546
Non-controlling interests		(2)	2	1	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 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
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 deferred 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



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

	Note	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Cash flows from operating activities			
Profit for the period		366	797
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation and amortisation		300	278
Loss on disposals of property, plant and equipment		2	1
Finance income		(5)	(8)
Finance costs		41	35
Share of results of joint ventures		176	45
Income tax expense	14	153	220
Impairment of non-current assets		1	5
Foreign currency exchange loss, net	13, 18	67	40
Hedging result	18	4	-
Expenses on operations with financial instruments		31	-
Change in impairment allowance for inventories and credit loss allowance for accounts receivable		4	3
Changes in operating assets and liabilities			
Decrease/(increase) in trade and other accounts receivable		65	(82)
Decrease in inventories		149	174
Decrease in other operating assets		3	4
(Decrease)/increase in trade and other accounts payable		(75)	15
Cash provided by operating activities		1,282	1,527
Income tax paid		(116)	(182)
Net cash provided by operating activities		1,166	1,345
Cash flows from investing activities			
Purchases and construction of property, plant and equipment and intangible assets		(507)	(405)
Proceeds from sale of property, plant and equipment		1	1
Purchases of investments and loans given, net		-	(62)
Proceeds from repayment of loans given		85	-
Placement of bank deposits		(405)	(644)
Withdrawal of bank deposits		159	282
Interest received		6	19
Contribution to share capital of joint venture	4	(131)	-
Acquisition of non-controlling interest		-	(1)
Net cash used in investing activities		(792)	(810)
Cash flows from financing activities			
Proceeds from borrowings		1,307	853
Repayment of borrowings		(635)	(213)
Payments on leases		(9)	(7)
Interest paid		(30)	(23)
Dividends paid to Novolipetsk Steel shareholders		(579)	(1,162)
Net cash provided by/(used in) financing activities		54	(552)
Net increase/(decrease) in cash and cash equivalents		428	(17)
Effect of exchange rate changes on cash and cash equivalents		(20)	(20)
Cash and cash equivalents at the beginning of the year	3	713	1,179
Cash and cash equivalents at the end of the period	3	1,121	1,142



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 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

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

	<u>2020</u>	<u>2019</u>
Russian ruble to US dollar		
For the 1 st quarter	66.3818	66.1271
For the 2 nd quarter	72.3611	64.5584
As at 30 June	69.9513	63.0756
As at 31 December		61.9057
Russian ruble to Euro		
For the 1 st quarter	73.2348	75.1715
For the 2 nd quarter	79.6485	72.5210
As at 30 June	78.6812	71.8179
As at 31 December		<u>69.3406</u>



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

3 Cash and cash equivalents

	As at 30 June 2020	As at 31 December 2019
Cash	660	388
Deposits	432	296
Other cash equivalents	29	29
	1,121	713

4 Investments

	As at 30 June 2020	As at 31 December 2019
Short-term financial investments		
Bank deposits	407	157
Loans to related parties (Note 16(c))	43	128
Other short-term financial investments	-	2
	450	287
Long-term financial investments		
Loans to related parties (Note 16(c))	5	5
	5	5
	455	292

The carrying amounts of financial investments approximate their fair values.

Investments in joint ventures

	As at 30 June 2020 Ownership	As at 31 December 2019 Ownership	As at 30 June 2020	As at 31 December 2019
NLMK Belgium Holdings S.A. ("NBH")	49.0%	49.0%	167	213
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.0%	50.0%	10	10
			177	223

Management has analysed the performance of NBH in the six months ended 30 June 2020, information about the investment impairment testing is disclosed in Note 7.

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



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

5 Trade and other accounts receivable

	<u>As at 30 June 2020</u>	<u>As at 31 December 2019</u>
Financial assets		
Trade accounts receivable	704	818
Credit loss allowance for trade accounts receivable	(17)	(18)
Other accounts receivable	46	33
Credit loss allowance for other accounts receivable	<u>(22)</u>	<u>(23)</u>
	<u>711</u>	<u>810</u>
Non-financial assets		
Advances given to suppliers	71	70
Allowance for impairment of advances given to suppliers	(5)	(3)
VAT and other taxes receivable	140	168
Accounts receivable from employees	<u>1</u>	<u>2</u>
	<u>207</u>	<u>237</u>
	<u>918</u>	<u>1,047</u>

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

As at 30 June 2020 and 31 December 2019, accounts receivable with a carrying value of \$124 and \$133, respectively, served as collateral for certain borrowings (Note 10).

6 Inventories

	<u>As at 30 June 2020</u>	<u>As at 31 December 2019</u>
Raw materials	753	927
Work in process	289	383
Finished goods	<u>387</u>	<u>384</u>
	1,429	1,694
Impairment allowance	<u>(53)</u>	<u>(60)</u>
	<u>1,376</u>	<u>1,634</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:

	<u>As at 30 June 2020</u>	<u>As at 31 December 2019</u>
Raw materials	174	219
Work in process	97	141
Finished goods	43	42
		12



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

6 Inventories (continued)

As at 30 June 2020 and 31 December 2019, inventories with a carrying value of \$350 and \$460, respectively, served as collateral for certain borrowings (Note 10).

7 Property, plant and equipment

	As at 30 June 2020	As at 31 December 2019
Land	130	143
Buildings	1,893	2,081
Land and buildings improvements	2,201	2,263
Machinery and equipment	6,467	6,880
Vehicles	346	370
Construction in progress	<u>1,218</u>	<u>1,472</u>
	12,255	13,209
Accumulated depreciation and impairment	<u>(6,681)</u>	<u>(7,170)</u>
	<u>5,574</u>	<u>6,039</u>

The amount of borrowing costs capitalized was \$17 and \$24 for the six months ended 30 June 2020 and 2019, respectively. The capitalisation rate was 1.6% and 2.7% for the six months ended 30 June 2020 and 2019, respectively.

The amount of borrowing costs capitalized was \$7 and \$13 for the three months ended 30 June 2020 and 2019, respectively. The capitalisation rate was 0.7% and 1.5% for the three months ended 30 June 2020 and 2019, respectively.

Management estimates the outstanding commitments in connection with equipment supply and construction works amounted to \$1,068 and \$1,157 as at 30 June 2020 and 31 December 2019, respectively.

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 2020. Against the background of the spread of coronavirus infection (COVID-19) heightened volatility accompanied by the sales volumes and prices decline on the market of certain finished products and raw materials triggered impairment assessment of some of the Group's cash generating units, which required the reassessment of the recoverable amounts using the income approach based primarily on Level 3 inputs as at 30 June 2020. Goodwill was also tested for impairment as of the same date. No indicators that an impairment loss recognized in prior periods may no longer exists or may have decreased have been identified.

For the purpose of the impairment test, the Group management used a forecast of cash flows for five years and normalised cash flows for a post-forecast period. 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 and \$31 as at 30 June 2020 and 31 December 2019, respectively.



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

8 Intangible assets

	As at 30 June 2020	As at 31 December 2019
Goodwill	236	262
Mineral rights	276	311
Industrial intellectual property	95	86
	<u>607</u>	<u>659</u>
Accumulated amortization and impairment	<u>(224)</u>	<u>(249)</u>
	<u>383</u>	<u>410</u>

9 Trade and other accounts payable

	As at 30 June 2020	As at 31 December 2019
Financial liabilities		
Trade accounts payable	409	558
Accounts payable for purchases of property, plant and equipment	150	184
Other accounts payable	33	29
	<u>592</u>	<u>771</u>
Non-financial liabilities		
Accounts payable and accrued liabilities to employees	136	149
Advances received	114	103
Taxes payable other than income tax	106	101
	<u>356</u>	<u>353</u>
	<u>948</u>	<u>1,124</u>

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



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

10 Borrowings

<u>Rates*</u>	<u>Currency</u>	<u>Maturity*</u>	<u>As at 30 June 2020</u>	<u>As at 31 December 2019</u>
Bonds				
From 4.00% to 4.70%	USD	2023-2026	1,709	1,709
Loans				
From EURIBOR+0.90% to EURIBOR+1.30%	EUR	2020-2022	897	784
From LIBOR +1.20% to LIBOR +1.50%	USD	2020-2021	360	85
From 2.25% to 2.50%	USD	2020	300	-
Leases		2020-2089	92	78
			3,358	2,656
Less: short-term loans and current maturities of long-term loans, bonds and leases			(1,219)	(468)
Long-term borrowings			2,139	2,188

* Rates and maturity as of 30 June 2020

Bonds and bonds' coupons as at 30 June 2020 were designated as hedging instrument with carrying amount and fair value of \$1,709 and \$1,834, respectively (Note 18).

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

	<u>As at 30 June 2020</u>		<u>As at 31 December 2019</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Bonds	1,709	1,834	1,709	1,823

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.

Collateral

As at 30 June 2020 and 31 December 2019, the total amount of the Group companies' collateral was \$474 and \$593, respectively (Notes 5 and 6).

11 Earnings per share

	<u>For the six months ended 30 June 2020</u>	<u>For the six months ended 30 June 2019</u>	<u>For the three months ended 30 June 2020</u>	<u>For the three months ended 30 June 2019</u>
Profit for the period attributable to NLMK shareholders (millions of US dollars)	366	796	77	414
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)	0.0611	0.1328	0.0128	0.0691

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

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

12 Revenue

(a) Revenue by type

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	For the three months ended 30 June 2020	For the three months ended 30 June 2019
Revenue from sale of goods				
Flat products	2,440	3,088	1,099	1,513
Pig iron, slabs and billets	1,386	1,517	680	726
Long products and metalware	435	611	199	328
Coke and other chemical products	83	154	33	80
Iron ore and sintering ore	42	10	36	10
Scrap	28	43	12	22
Other products	64	91	34	50
Total revenue from sale of goods	4,478	5,514	2,093	2,729
Revenue from transportation services	153	152	81	68
	4,631	5,666	2,174	2,797

(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 2020	For the six months ended 30 June 2019	For the three months ended 30 June 2020	For the three months ended 30 June 2019
Russia	1,806	2,093	797	1,158
European Union	863	1,164	358	625
North America	784	1,113	299	552
Middle East, including Turkey	491	602	250	230
Asia and Oceania	362	161	333	55
CIS	133	216	58	110
Central and South America	93	151	23	24
Other regions	99	166	56	43
	4,631	5,666	2,174	2,797

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

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

13 Foreign exchange differences

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	For the three months ended 30 June 2020	For the three months ended 30 June 2019
Foreign exchange gain/(loss) on cash and cash equivalents	5	(91)	(113)	(20)
Foreign exchange gain/(loss) on financial investments	5	(118)	(40)	(14)
Foreign exchange (loss)/gain on debt financing	(61)	173	69	51
Foreign exchange (loss)/gain on other assets and liabilities	(16)	(4)	14	4
	(67)	(40)	(70)	21

Starting from February 3, 2020 the Group adopted hedge accounting of cash flows in accordance with IFRS 9 “Financial instruments” (Note 18).

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 2020 and 2019 are 22% and 21%, respectively. The higher income tax rate expected for 2020 was mainly due to tax losses of foreign subsidiaries, for which deferred tax assets were partially recognized.

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 and recognition of the Group’s sales to NBH, elimination of unrealised profits (Note 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 2020 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	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	1,661	7,196	922	724	368	1,385	(983)	(1,143)	10,130
Segment liabilities	(272)	(4,759)	(368)	(197)	(259)	(1,111)	1,108	821	(5,037)
Depreciation and amortization	(55)	(187)	(23)	(29)	(6)	(28)	-	28	(300)

* 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 2019 and their assets and liabilities as at 31 December 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	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	2,120	7,483	1,160	840	371	1,318	(1,752)	(1,056)	10,484
Segment liabilities	(607)	(4,567)	(437)	(314)	(258)	(1,161)	2,028	779	(4,537)
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.



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 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, 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 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.

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

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 2020	For the six months ended 30 June 2019	For the three months ended 30 June 2020	For the three months ended 30 June 2019
Sales				
NBH group companies	486	554	182	352
Purchases				
Companies of Freight One group and other transport companies under the common control of beneficial owner	187	176	96	89
NBH group companies	23	22	11	11
Other related parties	12	7	6	4

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 10.5% and 9.8% of the total sales of the Group for the six months ended 30 June 2020 and 2019, respectively, and 8.4% and 12.6% of the total sales of the Group for the three months ended 30 June 2020 and 2019, respectively.

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

	As at 30 June 2020	As at 31 December 2019
Accounts receivable and advances given		
NBH group companies	242	249
Companies of Freight One group and other transport companies under the common control of beneficial owner	16	26
Accounts payable		
NBH group companies	28	28
Companies of Freight One group and other transport companies under the common control of beneficial owner	10	5

(c) Financial transactions

As at 30 June 2020 and 31 December 2019, loans issued to NBH group companies amounted to \$48 and \$133, 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 2020 and 31 December 2019, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$333 and \$331, 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 2020	As at 31 December 2019
Less than 1 year	138	130
Over 2 years	195	201
	333	331

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

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

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

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

(f) Major terms of loan agreements

Certain of the loan agreements contain covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations procedures or bankruptcy of the borrowers, and also require that the borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross-default provisions, as well as to legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies were in compliance with all debt covenants as at 30 June 2020 and 31 December 2019.

(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 30 June 2020 the Group has liquid resources of \$1,528 comprising cash and cash equivalents as well as a committed and unutilised credit facilities amounting to \$897. Furthermore, repayments of borrowings to financial institutions in 2020 are scheduled with \$800 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 30 June 2020 and identified existence of the impairment indicators for some of the Group cash generating units that resulted in the impairment testing (Note 7). Management closely monitors the development of the situation and takes necessary measures to mitigate negative effects.

Novolipetsk Steel
Notes to the interim condensed consolidated financial statements (unaudited)
(millions of US dollars)
18 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 2019 except for the adoption of hedge accounting of cash flows in accordance with IFRS 9 “Financial instruments”.

The Group is exposed to foreign currency risk related to the revenue expected to be received nominated in foreign currencies, mainly in US dollars. 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).

The nominal amounts of the hedged item and the hedging instrument are equal. To the extent that a change in the foreign currency rate impacts on the value of the hedging instrument, 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. The amount of hedged revenue aligns the amount of payments on bonds and bonds' coupons. The Group expects that the hedging relationships are highly effective since the future cash outflows on bonds and bonds' coupons payments match the future cash inflows on the hedged portion of revenue.

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

	For the six months ended 30 June 2020	For the six months ended 30 June 2019	For the three months ended 30 June 2020	For the three months ended 30 June 2019
Hedge reserve of cash flows	(134)	-	135	-
Hedging result	4	-	2	-
Deferred tax related to hedge reserve of cash flows	26	-	(27)	-
	(104)	-	110	-

A schedule of the expected reclassification of the accumulated effects from the remeasurement of hedging instrument recognized in other comprehensive loss to profit or loss as of June 30, 2020 is as follows:

	2020	2021	2022	2023	2024	2025	2026	Total
Reclassifications	(19)	(19)	(19)	(36)	(25)	(13)	(3)	(134)
Deferred tax	4	4	4	6	5	3	1	27
	(15)	(15)	(15)	(30)	(20)	(10)	(2)	(107)

19 Subsequent events

In July 2020 the Group signed a 4-year syndicated revolving credit facility with a group of international banks in the amount of EUR 600 million, with an accordion option allowing to increase the funding limit to EUR 1 billion.