



**NOVOLIPETSK STEEL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

**AS AT AND FOR THE YEAR ENDED  
31 DECEMBER 2020**

**(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**



---

**CONTENTS**

|  |    |
|--|----|
| Independent auditor's report                   | 3  |
| Consolidated statement of financial position   | 9  |
| Consolidated statement of profit or loss       | 10 |
| Consolidated statement of comprehensive income | 11 |
| Consolidated statement of changes in equity    | 12 |
| Consolidated statement of cash flows           | 13 |
| Notes to the consolidated financial statements | 14 |



## Independent Auditor's Report

To the Shareholders and the Board of Directors of Novolipetsk Steel:

---

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Novolipetsk Steel and its subsidiaries (together – the “Group”) as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

---

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

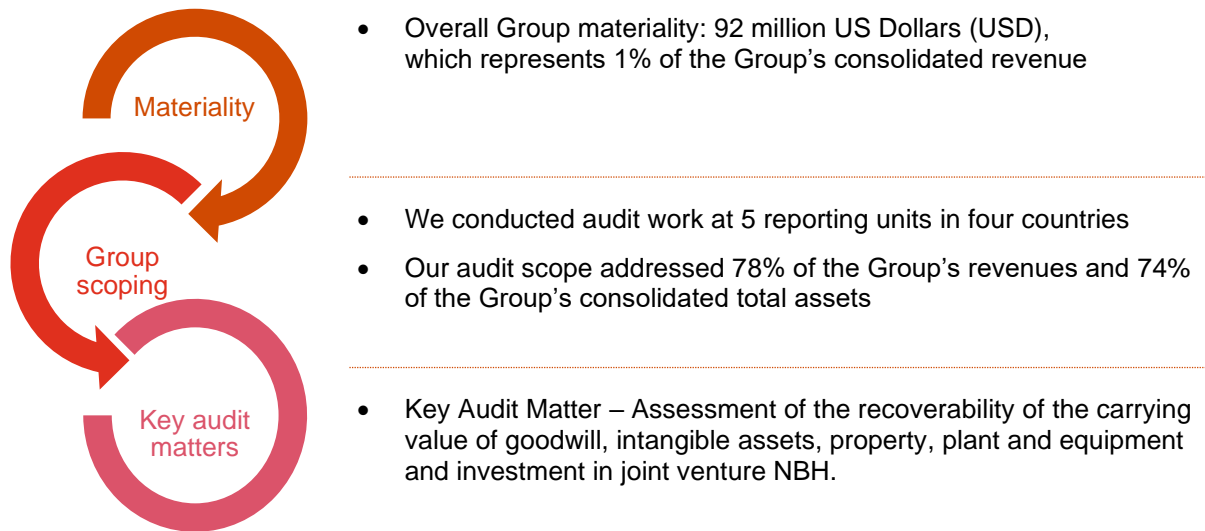
We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

---

## Our audit approach

### Overview

---



As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.



|  |  |
|--|--|
| <b>Overall Group materiality</b>                       | USD 92 million (2019: USD 106 million)   |
| <b>How we determined it</b>                            | 1% of the Group's consolidated revenue   |
| <b>Rationale for the materiality benchmark applied</b> | We chose revenue as the benchmark because, in our view, it is the benchmark which objectively best represents the performance of the Group over a period of time while financial results are volatile. We determined overall materiality as 1%, which in our experience is within the range of acceptable quantitative materiality thresholds applied for public companies in the relevant industry. |

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

| Key audit matter  | How our audit addressed the key audit matter   |
|---|--|
| <p><b>Assessment of the recoverability of the carrying value of goodwill, intangible assets, property, plant and equipment, and investment in joint venture NBH</b></p> <p><i>Refer to Notes 8, 9 and 4 to the consolidated financial statements</i></p> <p>The Group management performed an analysis of existence of indicators of impairment of the Group's property, plant and equipment (PP&amp;E), intangible assets, goodwill and carrying value of investment in joint venture NBH (a joint venture between the Group and Societe Wallonne de Gestion et de Participations S. A.(SOGEPA), as well as indicators of potential reversal of an impairment loss recognised in prior periods. This analysis revealed:</p> <ul style="list-style-type: none"> <li>sales volumes and prices decline on the market of certain finished products and raw materials because of the spread of COVID -19;</li> <li>high volatility on the market of certain finished products and raw materials.</li> </ul> <p>The analysis triggered testing a number of the Group's cash-generating units (CGUs) for impairment. No indicators that an impairment loss recognised in prior periods may no longer exist or may have decreased have been identified.</p> <p>The recoverable amount of PP&amp;E, intangible assets and goodwill for each CGU subject to testing as well as recoverable amount of investment in NBH were calculated by management as at 31 December 2020 or as at 30 June 2020.</p> | <p>We obtained, understood and evaluated management's impairment models. We involved our valuation experts to assist in the evaluation of the methodology, mathematical accuracy and assumptions used in the models.</p> <p>Specific work performed over the impairment test included:</p> <ul style="list-style-type: none"> <li>comparing the key assumptions used within the impairment models to the historic performance of the respective CGUs, approved estimates, and other supporting calculations;</li> <li>sample benchmarking the key assumptions used within the impairment models, including price forecasts for core raw materials and finished products, inflation and discount rates, against external expert valuations, macroeconomic and industry forecasts, which corroborated their validity;</li> <li>performing a sensitivity analysis over the key assumptions in order to assess their potential impact on impairment results and ranges of possible outcomes of the recoverable amounts;</li> <li>assessing compliance with the requirements of IFRS of the related disclosures in the consolidated financial statements and verification of disclosure.</li> </ul> |



| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <p>Management assessed the recoverable amount of CGU PJSC NLMK as fair value less cost to sell and as value in use for each other CGU using discounted cash flow models.</p> <p>As a result of this testing performed, additional impairment loss of USD 120 million was recognized in respect to investment in NBH. In respect to other CGUs management concluded that no impairment was required as at 31 December 2020.</p> <p>We focused on this area because of the significant judgmental factors involved in the calculation of recoverable amount of each CGU, and the significant carrying value of the assets in scope of the test.</p> | <p>The scope of the audit procedures for verification of impairment models for each CGU was based on its significance, safety margin, sensitivity to assumptions and on individual risks.</p> |

**How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group’s major production facilities are located in the Russian Federation, the USA and Western Europe and the trading company is based in Switzerland. Based on our continuing assessment, we included in our group audit scope the 5 components located in these regions.

The audits of the components were conducted by PwC network firms in accordance with International Standard on Auditing (ISA) 600 “Special considerations – audits of group financial statements (including the work of component auditors)”. The Group engagement team’s instructions to component auditors included results of our risk assessment, materiality levels and the approach to the audit of centralised processes and systems. The Group engagement team is in regular contact with the component auditors. Our selection is based on the relative significance of the entities within the Group or specific risks identified.

By performing the procedures above at the components in combination with additional procedures performed at the Group level, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial statements as a whole that provides a basis for our opinion.

**Other information**

Management is responsible for the other information. The other information comprises the Group Annual Report for 2020 and the Issuer’s Report for the first quarter of 2021 (but does not include the consolidated financial statements and our auditor’s report thereon), which are expected to be made available to us after the date of this auditor’s report

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group Annual Report for 2020 and the Issuer’s Report for the first quarter of 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



---

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

---

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is A. B. Fomin.

10 February 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  
28 January 1993 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



|  | Note  | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|-------|---------------------------|---------------------------|---------------------------|
| <b>Assets</b>  |       |                           |                           |                           |
| <b>Current assets</b>  |       |                           |                           |                           |
| Cash and cash equivalents                                    | 3     | 842                       | 713                       | 1,179                     |
| Short-term financial investments                             | 5     | 191                       | 287                       | 19                        |
| Trade and other accounts receivable                          | 6     | 1,148                     | 1,047                     | 1,326                     |
| Inventories  | 7     | 1,373                     | 1,634                     | 1,816                     |
| Other current assets   |       | 16                        | 14                        | 10                        |
|  |       | <b>3,570</b>              | <b>3,695</b>              | <b>4,350</b>              |
| <b>Non-current assets</b>                                    |       |                           |                           |                           |
| Long-term financial investments                              | 5     | 7                         | 5                         | 85                        |
| Investments in joint ventures                                | 4     | 131                       | 223                       | 159                       |
| Property, plant and equipment                                | 8     | 5,659                     | 6,039                     | 4,798                     |
| Goodwill   | 9     | 212                       | 248                       | 224                       |
| Other intangible assets                                      | 9     | 159                       | 162                       | 165                       |
| Deferred income tax assets                                   | 17    | 119                       | 101                       | 152                       |
| Other non-current assets                                     |       | 5                         | 11                        | 11                        |
|  |       | <b>6,292</b>              | <b>6,789</b>              | <b>5,594</b>              |
| <b>Total assets</b>  |       | <b>9,862</b>              | <b>10,484</b>             | <b>9,944</b>              |
| <b>Liabilities and equity</b>                                |       |                           |                           |                           |
| <b>Current liabilities</b>                                   |       |                           |                           |                           |
| Trade and other accounts payable                             | 10    | 1,065                     | 1,124                     | 1,122                     |
| Dividends payable  |       | 109                       | 318                       | 525                       |
| Short-term borrowings  | 11    | 1,054                     | 468                       | 398                       |
| Current income tax liability                                 |       | 51                        | 32                        | 28                        |
| Other short-term liabilities                                 |       | 3                         | -                         | -                         |
|  |       | <b>2,282</b>              | <b>1,942</b>              | <b>2,073</b>              |
| <b>Non-current liabilities</b>                               |       |                           |                           |                           |
| Long-term borrowings   | 11    | 2,432                     | 2,188                     | 1,677                     |
| Deferred income tax liability                                | 17    | 359                       | 405                       | 346                       |
| Other long-term liabilities                                  |       | 48                        | 2                         | 14                        |
|  |       | <b>2,839</b>              | <b>2,595</b>              | <b>2,037</b>              |
| <b>Total liabilities</b>                                     |       | <b>5,121</b>              | <b>4,537</b>              | <b>4,110</b>              |
| <b>Equity attributable to Novolipetsk Steel shareholders</b> |       |                           |                           |                           |
| Common stock   | 12(a) | 221                       | 221                       | 221                       |
| Additional paid-in capital                                   |       | 8                         | 9                         | 10                        |
| Accumulated other comprehensive loss                         |       | (7,140)                   | (6,140)                   | (6,782)                   |
| Retained earnings  |       | 11,641                    | 11,840                    | 12,370                    |
|  |       | <b>4,730</b>              | <b>5,930</b>              | <b>5,819</b>              |
| Non-controlling interests                                    |       | 11                        | 17                        | 15                        |
| <b>Total equity</b>  |       | <b>4,741</b>              | <b>5,947</b>              | <b>5,834</b>              |
| <b>Total liabilities and equity</b>                          |       | <b>9,862</b>              | <b>10,484</b>             | <b>9,944</b>              |

The consolidated financial statements as set out on pages 9 to 66 were approved by the Group's management and authorised for issue on 10 February 2021.

|  | Note   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 | For the year ended<br>31 December 2018 |
|--|--------|--|--|--|
| Revenue  | 14     | 9,245                                  | 10,554                                 | 12,046                                 |
| Cost of sales  |        | (5,920)                                | (7,303)                                | (7,680)                                |
| <b>Gross profit</b>  |        | <b>3,325</b>                           | <b>3,251</b>                           | <b>4,366</b>                           |
| General and administrative expenses  |        | (346)                                  | (352)                                  | (375)                                  |
| Selling expenses   |        | (845)                                  | (843)                                  | (886)                                  |
| Net impairment losses on financial assets  |        | (8)                                    | (1)                                    | (1)                                    |
| Other operating income/(expenses), net   |        | 9                                      | 13                                     | (4)                                    |
| Taxes other than income tax  | 16     | (64)                                   | (66)                                   | (88)                                   |
| <b>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</b> |        | <b>2,071</b>                           | <b>2,002</b>                           | <b>3,012</b>                           |
| Loss on disposals of property, plant and equipment   |        | (8)                                    | (4)                                    | (7)                                    |
| Impairment of non-current assets   | 8, 9   | (5)                                    | (30)                                   | (4)                                    |
| Share of results of joint ventures and impairment of investments in joint ventures   | 4      | (236)                                  | (88)                                   | (243)                                  |
| Losses on investments, net   |        | -                                      | -                                      | (2)                                    |
| Finance income   | 18     | 18                                     | 18                                     | 21                                     |
| Finance costs  | 18     | (90)                                   | (68)                                   | (70)                                   |
| Foreign currency exchange (loss)/gain, net   | 19, 22 | (40)                                   | (6)                                    | 33                                     |
| Hedging result   | 22     | (24)                                   | -                                      | -                                      |
| Expenses on operations with financial instruments  |        | (39)                                   | -                                      | -                                      |
| Other expenses, net  |        | (67)                                   | (30)                                   | (11)                                   |
| <b>Profit before income tax</b>  |        | <b>1,580</b>                           | <b>1,794</b>                           | <b>2,729</b>                           |
| Income tax expense   | 17     | (343)                                  | (453)                                  | (486)                                  |
| <b>Profit for the year</b>   |        | <b>1,237</b>                           | <b>1,341</b>                           | <b>2,243</b>                           |
| Profit is attributable to:   |        |  |  |  |
| <b>Novolipetsk Steel shareholders</b>  |        | <b>1,236</b>                           | <b>1,339</b>                           | <b>2,238</b>                           |
| <b>Non-controlling interests</b>   |        | <b>1</b>                               | <b>2</b>                               | <b>5</b>                               |
| <b>Earnings per share:</b>   |        |  |  |  |
| Earnings per share attributable to Novolipetsk Steel shareholders (US dollars)   | 13     | 0.2062                                 | 0.2234                                 | 0.3734                                 |
| Weighted-average number of shares outstanding: basic and diluted (in thousands)  | 12(a)  | 5,993,227                              | 5,993,227                              | 5,993,227                              |



|  | <b>Note</b> | <b>For the year ended<br/>31 December 2020</b> | <b>For the year ended<br/>31 December 2019</b> | <b>For the year ended<br/>31 December 2018</b> |
|--|-------------|--|--|--|
| Profit for the year  |             | 1,237  | 1,341  | 2,243  |
| Other comprehensive (loss)/income:                             |             |  |  |  |
| Items that may be reclassified subsequently to profit or loss: |             |  |  |  |
| Hedge reserve of cash flows                                    | 22          | (205)  | -  | -  |
| Income tax related to hedge reserve of cash flows              | 22          | 41   | -  | -  |
| Cumulative translation adjustment                              | 2(b)        | (839)  | 644  | (1,154)  |
| <b>Total comprehensive income/(loss) for the year</b>          |             | <b>234</b>                                     | <b>1,985</b>                                   | <b>1,089</b>                                   |
| attributable to:   |             |  |  |  |
| Novolipetsk Steel shareholders                                 |             | 236  | 1,981  | 1,087  |
| Non-controlling interests                                      |             | (2)  | 4  | 2  |

|   |              | Attributable to Novolipetsk Steel shareholders |                       |                      |                             |              |  |
|---|--------------|--|-----------------------|----------------------|-----------------------------|--------------|--|
|   |              | Accumulated<br>other                           |                       |                      |                             |              |  |
| Note  | Common stock | Additional<br>paid-in capital                  | comprehensive<br>loss | Retained<br>earnings | Non-controlling<br>interest | Total equity |  |
| <b>Balance at 1 January 2018</b>                      | <b>221</b>   | <b>10</b>                                      | <b>(5,631)</b>        | <b>12,029</b>        | <b>17</b>                   | <b>6,646</b> |  |
| Profit for the year                                   | -            | -  | -                     | 2,238                | 5                           | 2,243        |  |
| Cumulative translation adjustment                     | 2(b)         | -  | (1,151)               | -                    | (3)                         | (1,154)      |  |
| <b>Total comprehensive income</b>                     | -            | -  | <b>(1,151)</b>        | <b>2,238</b>         | <b>2</b>                    | <b>1,089</b> |  |
| Acquisition of non-controlling interest               | -            | -  | -                     | (1)                  | (3)                         | (4)          |  |
| Dividends to shareholders                             | 12(b)        | -  | -                     | (1,896)              | (1)                         | (1,897)      |  |
| <b>Balance at 31 December 2018</b>                    | <b>221</b>   | <b>10</b>                                      | <b>(6,782)</b>        | <b>12,370</b>        | <b>15</b>                   | <b>5,834</b> |  |
| Profit for the year                                   | -            | -  | -                     | 1,339                | 2                           | 1,341        |  |
| Cumulative translation adjustment                     | 2(b)         | -  | 642                   | -                    | 2                           | 644          |  |
| <b>Total comprehensive income</b>                     | -            | -  | <b>642</b>            | <b>1,339</b>         | <b>4</b>                    | <b>1,985</b> |  |
| Disposal of assets to an entity under common control  | -            | (1)  | -                     | -                    | -                           | (1)          |  |
| Acquisition of non-controlling interest               | -            | -  | -                     | -                    | (2)                         | (2)          |  |
| Dividends to shareholders                             | 12(b)        | -  | -                     | (1,869)              | -                           | (1,869)      |  |
| <b>Balance at 31 December 2019</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 year                                   | -            | -  | -                     | 1,236                | 1                           | 1,237        |  |
| Hedge reserve of cash flows net of related income tax | 22           | -  | (164)                 | -                    | -                           | (164)        |  |
| Cumulative translation adjustment                     | 2(b)         | -  | (836)                 | -                    | (3)                         | (839)        |  |
| <b>Total comprehensive income</b>                     | -            | -  | <b>(1,000)</b>        | <b>1,236</b>         | <b>(2)</b>                  | <b>234</b>   |  |
| Disposal of assets to an entity under common control  | -            | (1)  | -                     | -                    | -                           | (1)          |  |
| Dividends to shareholders                             | 12(b)        | -  | -                     | (1,435)              | (4)                         | (1,439)      |  |
| <b>Balance at 31 December 2020</b>                    | <b>221</b>   | <b>8</b>                                       | <b>(7,140)</b>        | <b>11,641</b>        | <b>11</b>                   | <b>4,741</b> |  |

|   | Note  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 | For the year ended<br>31 December 2018 |
|---|-------|--|--|--|
| <b>Cash flows from operating activities</b>   |       |  |  |  |
| <b>Profit for the year</b>  |       | <b>1,237</b>                           | <b>1,341</b>                           | <b>2,243</b>                           |
| <b>Adjustments to reconcile profit for the year to net cash provided by operating activities:</b> |       |  |  |  |
| Depreciation and amortisation   |       | 574                                    | 562                                    | 577                                    |
| Loss on disposals of property, plant and equipment  |       | 8                                      | 4                                      | 7                                      |
| Losses on investments   |       | -                                      | -                                      | 2                                      |
| Finance income  | 18    | (18)                                   | (18)                                   | (21)                                   |
| Finance costs   | 18    | 90                                     | 68                                     | 70                                     |
| Share of results of joint ventures and impairment of investments in joint ventures                | 4     | 236                                    | 88                                     | 243                                    |
| Income tax expense  | 17    | 343                                    | 453                                    | 486                                    |
| Impairment of non-current assets  | 8, 9  | 5                                      | 30                                     | 4                                      |
| Foreign currency exchange loss/(gain), net  | 19,22 | 40                                     | 6                                      | (33)                                   |
| Hedging result  | 22    | 24                                     | -                                      | -                                      |
| Expenses on operations with financial instruments   |       | 39                                     | -                                      | -                                      |
| Change in impairment allowance for inventories and credit loss allowance of accounts receivable   |       | 4                                      | 5                                      | 1                                      |
| <b>Changes in operating assets and liabilities</b>  |       |  |  |  |
| (Increase)/decrease in trade and other accounts receivable  |       | (177)                                  | 314                                    | (258)                                  |
| Decrease/(increase) in inventories  |       | 117                                    | 284                                    | (187)                                  |
| (Increase)/decrease in other operating assets   |       | (2)                                    | (1)                                    | 7                                      |
| Increase /(decrease) in trade and other accounts payable  |       | 46                                     | (132)                                  | 177                                    |
| <b>Cash provided by operations</b>  |       | <b>2,566</b>                           | <b>3,004</b>                           | <b>3,318</b>                           |
| Income tax paid   |       | (285)                                  | (381)                                  | (577)                                  |
| <b>Net cash provided by operating activities</b>  |       | <b>2,281</b>                           | <b>2,623</b>                           | <b>2,741</b>                           |
| <b>Cash flows from investing activities</b>   |       |  |  |  |
| Purchases and construction of property, plant and equipment and intangible assets                 |       | (1,124)                                | (1,080)                                | (680)                                  |
| Proceeds from sale of property, plant and equipment   |       | 15                                     | 1                                      | 3                                      |
| Purchases of investments and loans given  |       | (51)                                   | (164)                                  | (91)                                   |
| Proceeds from repayment of loans given  |       | 142                                    | 115                                    | -                                      |
| Placement of bank deposits  |       | (836)                                  | (933)                                  | (305)                                  |
| Withdrawal of bank deposits   |       | 847                                    | 777                                    | 1,349                                  |
| Interest received   |       | 10                                     | 29                                     | 22                                     |
| Contribution to share capital of joint venture  | 4     | (131)                                  | (155)                                  | -                                      |
| Acquisition of subsidiary, net of cash and cash equivalents acquired                              |       | (4)                                    | -                                      | (4)                                    |
| Acquisition of non-controlling interest   |       | -                                      | (1)                                    | (4)                                    |
| <b>Net cash (used in)/provided by investing activities</b>  |       | <b>(1,132)</b>                         | <b>(1,411)</b>                         | <b>290</b>                             |
| <b>Cash flows from financing activities</b>   |       |  |  |  |
| Proceeds from borrowings  |       | 2,002                                  | 1,015                                  | 470                                    |
| Repayment of borrowings   |       | (1,284)                                | (500)                                  | (643)                                  |
| Payments on leases  |       | (20)                                   | (14)                                   | -                                      |
| Interest paid   |       | (64)                                   | (49)                                   | (56)                                   |
| Payments from settlement of derivative financial instruments                                      |       | (16)                                   | -                                      | -                                      |
| Dividends paid to Novolipetsk Steel shareholders  |       | (1,637)                                | (2,120)                                | (1,888)                                |
| Dividends paid to non-controlling interests   |       | (1)                                    | -                                      | (2)                                    |
| <b>Net cash used in financing activities</b>  |       | <b>(1,020)</b>                         | <b>(1,668)</b>                         | <b>(2,119)</b>                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                       |       | <b>129</b>                             | <b>(456)</b>                           | <b>912</b>                             |
| Effect of exchange rate changes on cash and cash equivalents                                      |       | -                                      | (10)                                   | (34)                                   |
| Cash and cash equivalents at the beginning of the year  | 3     | 713                                    | 1,179                                  | 301                                    |
| <b>Cash and cash equivalents at the end of the year</b>   | 3     | <b>842</b>                             | <b>713</b>                             | <b>1,179</b>                           |
| <b>Supplemental disclosures of cash flow information:</b>   |       |  |  |  |
| <b>Non-cash investing activities:</b>   |       |  |  |  |
| Conversion of debt to equity  | 4     | -                                      | -                                      | 210                                    |

## 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 Parent Company is a public joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatised in the form of an open joint stock company on 28 January 1993. On 29 December 2015, the legal form of the Parent Company was changed to public joint stock company due to changes in legislation of the Russian Federation.

The Group is a vertically integrated steel company and the largest steel producer in Russia. The Group also operates in the mining segment (Note 21).

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 respective state and regional authorities. The Parent Company’s registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

As at 31 December 2020, the Parent Company’s major shareholder with 79.25% (81.40% as at 31 December 2019 and 84.03% as at 31 December 2018) ownership interest is Fletcher Group Holdings Limited, which is beneficially owned by Mr. Vladimir Lisin.

The major companies of the Group by reportable segment (see Note 21) are:

| Activity   | Country of incorporation                       | Share at 31 December 2020 | Share at 31 December 2019 | Share at 31 December 2018 |         |
|--|--|---------------------------|---------------------------|---------------------------|---------|
| <b>Russian flat products</b>                                 |  |                           |                           |                           |         |
| LLC VIZ-Steel  | Production of steel                            | Russia                    | 100.00%                   | 100.00%                   | 100.00% |
| JSC Altai-Koks   | Production of blast furnace coke               | Russia                    | 100.00%                   | 100.00%                   | 100.00% |
| NLMK Trading S.A.<br>(formerly – Novex Trading (Swiss) S.A.) | Trading  | Switzerland               | 100.00%                   | 100.00%                   | 100.00% |
| <b>NLMK DanSteel and Plates Distribution Network</b>         |  |                           |                           |                           |         |
| NLMK DanSteel A/S  | Production of steel                            | Denmark                   | 100.00%                   | 100.00%                   | 100.00% |
| <b>NLMK USA</b>  |  |                           |                           |                           |         |
| NLMK Indiana LLC   | Production of steel                            | USA                       | 100.00%                   | 100.00%                   | 100.00% |
| NLMK Pennsylvania LLC  | Production of steel                            | USA                       | 100.00%                   | 100.00%                   | 100.00% |
| <b>Russian long products</b>                                 |  |                           |                           |                           |         |
| JSC NLMK-Ural  | Production of steel and long products          | Russia                    | 92.59%                    | 92.59%                    | 92.59%  |
| LLC NLMK-Metalware   | Production of metalware                        | Russia                    | 100.00%                   | 100.00%                   | 100.00% |
| LLC NLMK-Kaluga  | Production of long products                    | Russia                    | 100.00%                   | 100.00%                   | 100.00% |
| LLC Vtorchermet NLMK   | Processing of metal                            | Russia                    | 100.00%                   | 100.00%                   | 100.00% |
| <b>Mining</b>  |  |                           |                           |                           |         |
| JSC Stoilensky GOK   | Mining, processing and pelletising of iron-ore | Russia                    | 100.00%                   | 100.00%                   | 100.00% |

## 1 Background (continued)

Among joint ventures the major is:

| Activity                                    | Country of incorporation | Share at 31 December 2020 | Share at 31 December 2019 | Share at 31 December 2018 |
|---|--------------------------|---------------------------|---------------------------|---------------------------|
| NLMK Belgium Holdings S.A. Holding company* | Belgium                  | 49.00%                    | 49.00%                    | 49.00%                    |

\*NLMK Belgium Holdings S.A. is owned jointly by the Group and Societe Wallonne de Gestion et de Participations S. A. (SOGEPA), a Belgian state company (Note 4). It comprises strip and plate manufacturers located in Belgium, France and Italy.

## 2 Basis of preparation of the consolidated financial statements

### (a) Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described in the principal accounting policies applied in the preparation of these consolidated financial statements, as set out in Note 25. These policies have been consistently applied to all the periods presented in these consolidated financial statements except for new standards adopted as set out in Note 27. Figures for three reporting periods are presented for users' convenience.

### (b) Functional and reporting currency

The functional currency of all of the Group's Russian entities is considered to be the Russian ruble. The functional currency of the majority of the foreign subsidiaries is their local currency. The Group uses US dollars as the presentation currency of these consolidated financial statements. All amounts in the consolidated financial statements are rounded to the nearest million unless otherwise stated.

The results of operations and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities in the statement of financial position are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates for each month (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historical rate;
- all resulting exchange differences are recognised in other comprehensive income.

Items of consolidated statement of cash flows are translated at average exchange rates for each month (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case proceeds and disposals are translated at the dates of the transactions).

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from accumulated other comprehensive income/loss to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

## 2 Basis of preparation of the consolidated financial statements (continued)

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

|                                   | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|-----------------------------------|-------------|-------------|-------------|
| <b>Russian ruble to US dollar</b> |             |             |             |
| For the year ended 31 December    | 72.1464     | 64.7362     | 62.7078     |
| As at 31 December                 | 73.8757     | 61.9057     | 69.4706     |
| <b>Russian ruble to Euro</b>      |             |             |             |
| For the year ended 31 December    | 82.4488     | 72.5021     | 73.9546     |
| As at 31 December                 | 90.6824     | 69.3406     | 79.4605     |

## 3 Cash and cash equivalents

|                        | <u>As at<br/>31 December 2020</u> | <u>As at<br/>31 December 2019</u> | <u>As at<br/>31 December 2018</u> |
|------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Cash                   | 441                               | 388                               | 526                               |
| Deposits               | 384                               | 296                               | 627                               |
| Other cash equivalents | 17                                | 29                                | 26                                |
|                        | <u>842</u>                        | <u>713</u>                        | <u>1,179</u>                      |

## 4 Investments in joint ventures

|  | <u>As at<br/>31 December 2020</u> | <u>As at<br/>31 December 2019</u> | <u>As at<br/>31 December 2018</u> |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| NLMK Belgium Holdings S.A. ("NBH")             | 121                               | 213                               | 149                               |
| TBEA & NLMK (Shenyang) Metal Product Co., Ltd. | 10                                | 10                                | 10                                |
|  | <u>131</u>                        | <u>223</u>                        | <u>159</u>                        |

The table below summarises the movements in the carrying amount of the Group's investments in joint ventures.

|   | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|-------------|
| <b>As at 1 January</b>                            | <u>223</u>  | <u>159</u>  | <u>205</u>  |
| Share of net loss                                 | (81)        | (101)       | (120)       |
| Contribution into share capital                   | 131         | 155         | 210         |
| Impairment of investments                         | (120)       | (31)        | (87)        |
| Disposal of 2% stake in NBH                       | -           | -           | (7)         |
| Share of change in unrealised profit in inventory | (35)        | 44          | (36)        |
| Share of change in other comprehensive income     | (1)         | (1)         | (2)         |
| Translation adjustment                            | 14          | (2)         | (4)         |
| <b>As at 31 December</b>                          | <u>131</u>  | <u>223</u>  | <u>159</u>  |



#### 4 Investments in joint ventures (continued)

Summarised consolidated financial information for NBH before impairment losses is as follows:

|                          | As at<br>31 December 2020                      | As at<br>31 December 2019                      | As at<br>31 December 2018                      |
|--------------------------|--|--|--|
| Current assets           | 693  | 767  | 969  |
| Non-current assets       | 673  | 551  | 562  |
| <b>Total assets</b>      | <b>1,366</b>                                   | <b>1,318</b>                                   | <b>1,531</b>                                   |
| Current liabilities      | (635)  | (654)  | (684)  |
| Non-current liabilities  | (539)  | (507)  | (673)  |
| <b>Total liabilities</b> | <b>(1,174)</b>                                 | <b>(1,161)</b>                                 | <b>(1,357)</b>                                 |
| <b>Equity</b>            | <b>192</b>                                     | <b>157</b>                                     | <b>174</b>                                     |
|                          | <b>For the year ended<br/>31 December 2020</b> | <b>For the year ended<br/>31 December 2019</b> | <b>For the year ended<br/>31 December 2018</b> |
| Revenue                  | 1,374  | 1,562  | 1,837  |
| Net loss                 | (167)  | (207)  | (242)  |

NBH cash and cash equivalents as at 31 December 2020, 2019 and 2018 amounted to \$32, \$25 and \$1, respectively.

NBH financial liabilities excluding trade and other accounts payable as at 31 December 2020, 2019 and 2018 amounted to \$510, \$649 and \$690, respectively, and are included in current and non-current liabilities.

Reconciliation of net assets of NBH, calculated in accordance with its consolidated financial statements, to the carrying amount of the investment is below.

|   | 2020       | 2019       | 2018       |
|---|------------|------------|------------|
| <b>Net assets as at 1 January</b>   | <b>23</b>  | <b>33</b>  | <b>19</b>  |
| Net loss for the year   | (161)      | (202)      | (197)      |
| Contribution into share capital   | 185        | 195        | 210        |
| Acquisition of treasury shares  | -          | -          | (5)        |
| Other comprehensive income  | (1)        | (2)        | 1          |
| Translation adjustment  | 3          | (1)        | 5          |
| <b>Net assets as at 31 December</b>   | <b>49</b>  | <b>23</b>  | <b>33</b>  |
| PP&E valuation difference   | 143        | 134        | 141        |
| <b>Adjusted net assets as at 31 December</b>                                | <b>192</b> | <b>157</b> | <b>174</b> |
| <b>As at 31 December:</b>   |            |            |            |
| Share in net assets   | 94         | 77         | 85         |
| Excess of fair value of investment in NBH as at the deconsolidation date    | 100        | 100        | 100        |
| Accumulated share of the other investor in contributions into share capital | 416        | 376        | 316        |
| Accumulated impairment of investments                                       | (469)      | (349)      | (318)      |
| Share of unrealised profit in inventory                                     | (61)       | (26)       | (70)       |
| Cumulative translation adjustment   | 41         | 35         | 36         |
| <b>Investments in NBH</b>   | <b>121</b> | <b>213</b> | <b>149</b> |

The other investor in NBH is SOGEPA, a Belgian state-owned company, controlling the stake of 49.0% as of 31 December 2020, 2019 and 2018.

#### 4 Investments in joint ventures (continued)

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.

In December 2018, the Group converted existing loans to NBH into share capital in the amount of \$210.

Information about the Group's operations with NBH and investment impairment testing is disclosed in Notes 23 and 8, respectively.

#### 5 Financial investments

|   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|---------------------------|
| <b>Short-term financial investments</b> |                           |                           |                           |
| Bank deposits (Note 22(c))              | 149                       | 157                       | 5                         |
| Loans to related parties (Note 23(c))   | 41                        | 128                       | 14                        |
| Other short-term financial investments  | 1                         | 2                         | -                         |
|   | <u>191</u>                | <u>287</u>                | <u>19</u>                 |
| <b>Long-term financial investments</b>  |                           |                           |                           |
| Loans to related parties (Note 23(c))   | 6                         | 5                         | 85                        |
| Bank deposits (Note 22(c))              | 1                         | -                         | -                         |
|   | <u>7</u>                  | <u>5</u>                  | <u>85</u>                 |
|   | <u><u>198</u></u>         | <u><u>292</u></u>         | <u><u>104</u></u>         |

The carrying amounts of financial investments approximate their fair values.

#### 6 Trade and other accounts receivable

|   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|---------------------------|
| <b>Financial assets</b>                                 |                           |                           |                           |
| Trade accounts receivable                               | 834                       | 818                       | 1,099                     |
| Credit loss allowance of trade accounts receivable      | (14)                      | (18)                      | (21)                      |
| Other accounts receivable                               | 147                       | 33                        | 30                        |
| Credit loss allowance of other accounts receivable      | (22)                      | (23)                      | (17)                      |
|   | <u>945</u>                | <u>810</u>                | <u>1,091</u>              |
| <b>Non-financial assets</b>                             |                           |                           |                           |
| Advances given to suppliers                             | 79                        | 70                        | 76                        |
| Allowance for impairment of advances given to suppliers | (9)                       | (3)                       | (3)                       |
| VAT and other taxes receivable                          | 132                       | 168                       | 161                       |
| Accounts receivable from employees                      | 1                         | 2                         | 1                         |
|   | <u>203</u>                | <u>237</u>                | <u>235</u>                |
|   | <u><u>1,148</u></u>       | <u><u>1,047</u></u>       | <u><u>1,326</u></u>       |

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

## 6 Trade and other accounts receivable (continued)

As at 31 December 2020, 2019 and 2018, accounts receivable with a carrying value of \$119, \$133 and \$173, respectively, served as collateral for certain borrowings (Note 11).

Movements in the credit loss allowance of financial receivables are as follows:

|                                  | 2020        | 2019        | 2018        |
|----------------------------------|-------------|-------------|-------------|
| <b>As at 1 January</b>           | <b>(41)</b> | <b>(38)</b> | <b>(43)</b> |
| Credit loss allowance recognised | (5)         | (7)         | (8)         |
| Accounts receivable written-off  | 3           | 2           | -           |
| Credit loss allowance reversed   | 3           | 5           | 7           |
| Translation adjustment           | 4           | (3)         | 6           |
| <b>As at 31 December</b>         | <b>(36)</b> | <b>(41)</b> | <b>(38)</b> |

## 7 Inventories

|                      | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|----------------------|---------------------------|---------------------------|---------------------------|
| Raw materials        | 771                       | 927                       | 859                       |
| Work in process      | 298                       | 383                       | 504                       |
| Finished goods       | 350                       | 384                       | 501                       |
|                      | 1,419                     | 1,694                     | 1,864                     |
| Impairment allowance | (46)                      | (60)                      | (48)                      |
|                      | <b>1,373</b>              | <b>1,634</b>              | <b>1,816</b>              |

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:

|                 | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|-----------------|---------------------------|---------------------------|---------------------------|
| Raw materials   | 82                        | 219                       | 97                        |
| Work in process | 108                       | 141                       | 249                       |
| Finished goods  | 42                        | 42                        | 65                        |

As at 31 December 2020, 2019 and 2018 inventories with a carrying value of \$287, \$460 and \$472, respectively, served as collateral for certain borrowings (Note 11).

Cost of raw materials and acquired semi-finished goods in cost of production for the years ended 31 December 2020, 2019 and 2018 amounted to \$3,939, \$4,835 and \$5,521, respectively. Cost of fuel and energy resources in cost of production for the years ended 31 December 2020, 2019 and 2018 amounted to \$540, \$607 and \$632, respectively.

In November 2020 the Group has signed settlement agreement with the United States Government and will receive refund of paid steel tariffs and accrued interests, enacted by Department of Commerce under Section 232 of the USA Trade Expansion Act. Cost of sales for the year ended 31 December 2020 was reduced by \$97.

## 8 Property, plant and equipment

|  | Land       | Buildings    | Land and buildings improvements | Machinery and equipment | Vehicles   | Construction in progress | Total        |
|--|------------|--------------|---------------------------------|-------------------------|------------|--------------------------|--------------|
| Cost at 1 January 2018                         | 128        | 2,057        | 2,328                           | 6,533                   | 279        | 855                      | 12,180       |
| Accumulated depreciation and impairment        | -          | (783)        | (1,442)                         | (4,218)                 | (188)      | -                        | (6,631)      |
| <b>Net book value at 1 January 2018</b>        | <b>128</b> | <b>1,274</b> | <b>886</b>                      | <b>2,315</b>            | <b>91</b>  | <b>855</b>               | <b>5,549</b> |
| Additions                                      | -          | -            | -                               | -                       | -          | 731                      | 731          |
| Disposals                                      | -          | (1)          | (1)                             | (3)                     | -          | (4)                      | (9)          |
| Impairment                                     | -          | -            | -                               | -                       | -          | (4)                      | (4)          |
| Transfers                                      | 5          | 55           | 37                              | 201                     | 43         | (341)                    | -            |
| Reclassification to intangible assets (Note 9) | -          | -            | -                               | -                       | -          | (24)                     | (24)         |
| Depreciation charge                            | -          | (47)         | (76)                            | (424)                   | (16)       | -                        | (563)        |
| Translation adjustment                         | (23)       | (207)        | (147)                           | (321)                   | (17)       | (167)                    | (882)        |
| Cost at 31 December 2018                       | 110        | 1,774        | 1,956                           | 5,701                   | 266        | 1,050                    | 10,857       |
| Accumulated depreciation and impairment        | -          | (700)        | (1,257)                         | (3,933)                 | (165)      | (4)                      | (6,059)      |
| <b>Net book value at 31 December 2018</b>      | <b>110</b> | <b>1,074</b> | <b>699</b>                      | <b>1,768</b>            | <b>101</b> | <b>1,046</b>             | <b>4,798</b> |
| Adjustment on adoption of IFRS 16              | 22         | 42           | 2                               | 13                      | -          | -                        | 79           |
| <b>Net book value at 1 January 2019</b>        | <b>132</b> | <b>1,116</b> | <b>701</b>                      | <b>1,781</b>            | <b>101</b> | <b>1,046</b>             | <b>4,877</b> |
| Additions                                      | -          | 6            | -                               | 3                       | -          | 1,158                    | 1,167        |
| Disposals                                      | (3)        | -            | (2)                             | (4)                     | (1)        | -                        | (10)         |
| Impairment                                     | -          | -            | -                               | (4)                     | -          | (4)                      | (8)          |
| Transfers                                      | 1          | 53           | 88                              | 657                     | 75         | (874)                    | -            |
| Depreciation charge                            | -          | (56)         | (73)                            | (391)                   | (25)       | -                        | (545)        |
| Translation adjustment                         | 13         | 128          | 85                              | 179                     | 16         | 137                      | 558          |
| Cost at 31 December 2019                       | 143        | 2,081        | 2,263                           | 6,880                   | 370        | 1,472                    | 13,209       |
| Accumulated depreciation and impairment        | -          | (834)        | (1,464)                         | (4,659)                 | (204)      | (9)                      | (7,170)      |
| <b>Net book value at 31 December 2019</b>      | <b>143</b> | <b>1,247</b> | <b>799</b>                      | <b>2,221</b>            | <b>166</b> | <b>1,463</b>             | <b>6,039</b> |

8 Property, plant and equipment (continued)

|  | Land       | Buildings    | Land and buildings<br>improvements | Machinery and<br>equipment | Vehicles   | Construction in<br>progress | Total        |
|--|------------|--------------|------------------------------------|----------------------------|------------|-----------------------------|--------------|
| Including:                                 |            |              |                                    |                            |            |                             |              |
| <b>Right-of-use assets</b>                 |            |              |                                    |                            |            |                             |              |
| Cost at 31 December 2019                   | 19         | 53           | 1                                  | 16                         | 1          | -                           | 90           |
| Accumulated depreciation                   | -          | (8)          | -                                  | (3)                        | -          | -                           | (11)         |
| <b>Net book value at 31 December 2019</b>  | <b>19</b>  | <b>45</b>    | <b>1</b>                           | <b>13</b>                  | <b>1</b>   | <b>-</b>                    | <b>79</b>    |
| Additions                                  | 5          | 1            | -                                  | 1                          | -          | 1,087                       | 1,094        |
| Disposals                                  | -          | (1)          | -                                  | (14)                       | (1)        | (3)                         | (19)         |
| Impairment                                 | -          | -            | -                                  | -                          | -          | (5)                         | (5)          |
| Transfers                                  | -          | 62           | 302                                | 642                        | 48         | (1,054)                     | -            |
| Depreciation charge                        | -          | (57)         | (84)                               | (388)                      | (28)       | -                           | (557)        |
| Translation adjustment                     | (20)       | (189)        | (138)                              | (302)                      | (29)       | (215)                       | (893)        |
| <b>Total property, plant and equipment</b> |            |              |                                    |                            |            |                             |              |
| Cost at 31 December 2020                   | 128        | 1,826        | 2,168                              | 6,487                      | 351        | 1,285                       | 12,245       |
| Accumulated depreciation and impairment    | -          | (763)        | (1,289)                            | (4,327)                    | (195)      | (12)                        | (6,586)      |
| <b>Net book value at 31 December 2020</b>  | <b>128</b> | <b>1,063</b> | <b>879</b>                         | <b>2,160</b>               | <b>156</b> | <b>1,273</b>                | <b>5,659</b> |
| Including:                                 |            |              |                                    |                            |            |                             |              |
| <b>Right-of-use assets</b>                 |            |              |                                    |                            |            |                             |              |
| Cost at 31 December 2020                   | 19         | 47           | 1                                  | 18                         | 1          | -                           | 86           |
| Accumulated depreciation                   | -          | (13)         | -                                  | (7)                        | -          | -                           | (20)         |
| <b>Net book value at 31 December 2020</b>  | <b>19</b>  | <b>34</b>    | <b>1</b>                           | <b>11</b>                  | <b>1</b>   | <b>-</b>                    | <b>66</b>    |

The amount of borrowing costs capitalised is \$32, \$59 and \$36 for the years ended 31 December 2020, 2019 and 2018, respectively. The capitalisation rate was 3.2%, 5.5% and 6.5% in 2020, 2019 and 2018, respectively.

## 8 Property, plant and equipment (continued)

The Group management made an analysis of impairment indicators of the Group's assets as well as indicators of potential reversal of an impairment loss recognized in prior periods as at 30 September 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 31 December 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 exist or may have decreased have been identified. Testing for impairment in the comparative periods was also caused by similar factors and was conducted as of 31 December 2019 and 2018.

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.

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 December 2020 (for JSC NLMK-Ural and LLC NLMK-Metalware as of 30 June 2020), major assumptions and their sensitivity used in the impairment models. Sales price is estimated using an average annual growth rate, over the 5-year forecast period (31 December 2019: 5-year; 31 December 2018: 5-year) based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is estimated using an average annual growth rate over the same forecast period based on past performance and management's expectations of market development. Discount rate reflects specific risks relating to the relevant segments and the countries in which they operate. Sensitivity in the table below was determined as a percentage of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values (in respect of NLMK Belgium Holdings S.A. - carrying value prior to current year impairment loss). As of 30 June 2020 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.

Recoverable amount for CGU NLMK has been determined as fair value less costs to sell. As a result of testing performed recoverable amount is higher than carrying amount and possible changes in assumptions do not lead to impairment recognition.

| CGU                                   | Asset type                    | Discount rate, % | Product types                         | Average sale price*, \$ per tonne (FCA) | Sensitivity, % of change |              |               |
|---------------------------------------|-------------------------------|------------------|---------------------------------------|---|--------------------------|--------------|---------------|
|                                       |                               |                  |                                       |   | Sales Price              | Sales volume | Discount rate |
| NLMK Belgium Holdings S.A. Investment |                               | 7.7%             | Flat products and plate               | 650                                     | -0.4%                    | -2.7%        | 0.5 p.p.      |
| NLMK Pennsylvania LLC                 | Property, plant and equipment | 9.8%             | Flat products                         | 768                                     | -1.4%                    | -5.6%        | 0.8 p.p.      |
| NLMK Indiana LLC                      | Property, plant and equipment | 9.7%             | Plate                                 | 641                                     | -0.7%                    | -6.4%        | 1.5 p.p.      |
| NLMK Indiana LLC                      | Goodwill                      | 9.7%             | Plate                                 | 641                                     | -0.4%                    | -3.3%        | 0.7 p.p.      |
| JSC Altai-Koks                        | Goodwill                      | 14.1%            | Coke, chemical products               | 179                                     | -57.0%                   | -47.9%       | 70.1 p.p.     |
| LLC VIZ-Steel                         | Property, plant and equipment | 13.9%            | Flat products                         | 1,455                                   | -40.0%                   | -9.2%        | 14.8 p.p.     |
| LLC VIZ-Steel                         | Goodwill                      | 13.9%            | Flat products                         | 1,455                                   | -38.5%                   | -8.8%        | 13.4 p.p.     |
| JSC NLMK-Ural                         | Property, plant and equipment | 13.6%            | Long-products and semi-finished goods | 453                                     | -0.2%                    | -1.0%        | 0.3 p.p.      |
| LLC NLMK-Metalware                    | Property, plant and equipment | 13.4%            | Metalware                             | 615                                     | -6.5%                    | -32.9%       | 39.6 p.p.     |
| NLMK DanSteel A/S                     | Property, plant and equipment | 8.1%             | Plate                                 | 687                                     | -2.5%                    | -7.4%        | 3.7 p.p.      |

\* Weighted average prices based on the forecast product mix, averaged for the period from 2021 to 2025.

## 8 Property, plant and equipment (continued)

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 December 2019, major assumptions and their sensitivity used in the impairment models. Sales price is estimated using an average annual growth rate, over the 5-year forecast period (31 December 2018: 5-year) based on current industry trends and including long-term inflation forecasts for each territory. Sales volume is estimated using an average annual growth rate over the same forecast period based on past performance and management's expectations of market development. Discount rate reflects specific risks relating to the relevant segments and the countries in which they operate. Sensitivity in the table below was determined as a percentage of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values (in respect of NLMK Belgium Holdings S.A. - carrying value prior to current year impairment loss). As of 31 December 2019 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 \$31.

| CGU                                   | Asset type                    | Discount rate, % | Product types                         | Average sale price*, \$ per tonne (FCA) | Sensitivity, % of change |              |               |
|---------------------------------------|-------------------------------|------------------|---------------------------------------|---|--------------------------|--------------|---------------|
|                                       |                               |                  |                                       |   | Sales Price              | Sales volume | Discount rate |
| NLMK Belgium Holdings S.A. Investment |                               | 7.5%             | Flat products and plate               | 622                                     | 0.3%                     | 2.3%         | -0.3 p.p.     |
| NLMK Pennsylvania LLC                 | Property, plant and equipment | 9.8%             | Flat products                         | 737                                     | -4.0%                    | -31.4%       | 6.4 p.p.      |
| NLMK Indiana LLC                      | Property, plant and equipment | 9.7%             | Plate                                 | 582                                     | -0.5%                    | -6.1%        | 1.3 p.p.      |
| NLMK Indiana LLC                      | Goodwill                      | 9.7%             | Plate                                 | 582                                     | -0.4%                    | -4.4%        | 0.9 p.p.      |
| JSC Altai-Koks                        | Property, plant and equipment | 12.9%            | Coke, chemical products               | 147                                     | -47.2%                   | -34.0%       | 36.6 p.p.     |
| JSC Altai-Koks                        | Goodwill                      | 12.9%            | Coke, chemical products               | 147                                     | -38.6%                   | -27.8%       | 32.6 p.p.     |
| LLC VIZ-Steel                         | Property, plant and equipment | 13.8%            | Flat products                         | 1,286                                   | -4.2%                    | -22.3%       | 5.8 p.p.      |
| LLC VIZ-Steel                         | Goodwill                      | 13.8%            | Flat products                         | 1,286                                   | -3.5%                    | -18.7%       | 4.4 p.p.      |
| LLC NLMK-Kaluga                       | Property, plant and equipment | 13.6%            | Long-products and semi-finished goods | 421                                     | -0.6%                    | -3.0%        | 0.5 p.p.      |
| NLMK DanSteel A/S                     | Property, plant and equipment | 8.1%             | Plate                                 | 649                                     | -0.1%                    | -0.3%        | 0.1 p.p.      |

\* Weighted average prices based on the forecast product mix, averaged for the period from 2020 to 2024.

## 8 Property, plant and equipment (continued)

The table below summarises CGUs and types of assets, subject to determination of the recoverable amount as of 31 December 2018, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined based on forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their carrying values (in respect of NLMK Belgium Holdings S.A. - carrying value prior to current year impairment loss). As of 31 December 2018 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 \$87.

| CGU                                   | Asset type                    | Discount rate, % | Product types           | Average sale price*, \$ per tonne (FCA) | Sensitivity, % of change |              |               |
|---------------------------------------|-------------------------------|------------------|-------------------------|---|--------------------------|--------------|---------------|
|                                       |                               |                  |                         |   | Sales Price              | Sales volume | Discount rate |
| NLMK Belgium Holdings S.A. Investment |                               | 7.6%             | Flat products and plate | 642                                     | 0.7%                     | 6.9%         | -0.8 p.p.     |
| JSC Altai-Koks                        | Property, plant and equipment | 13.0%            | Coke, chemical products | 187                                     | -15.4%                   | -10.6%       | 13.5 p.p.     |
| JSC Altai-Koks                        | Goodwill                      | 13.0%            | Coke, chemical products | 187                                     | -2.4%                    | -1.6%        | 1.5 p.p.      |
| NLMK DanSteel A/S                     | Property, plant and equipment | 7.8%             | Plate                   | 674                                     | -0.7%                    | -3.6%        | 0.8 p.p.      |

\* Weighted average prices based on the forecast product mix, averaged for the period from 2019 to 2023.



9 Intangible assets

|  | Goodwill   | Mineral rights | Industrial<br>intellectual<br>property | Beneficial lease<br>interest | Total      |
|--|------------|----------------|--|------------------------------|------------|
| Cost at 1 January 2018                                       | 279        | 351            | 53                                     | 9                            | 692        |
| Accumulated amortisation and impairment                      | (14)       | (234)          | (14)                                   | (1)                          | (263)      |
| <b>Net book value at 1 January 2018</b>                      | <b>265</b> | <b>117</b>     | <b>39</b>                              | <b>8</b>                     | <b>429</b> |
| Additions  | -          | 1              | 18                                     | -                            | 19         |
| Reclassification from property, plant and equipment (Note 8) | -          | 24             | -                                      | -                            | 24         |
| Amortisation charge  | -          | (4)            | (10)                                   | -                            | (14)       |
| Translation adjustment                                       | (41)       | (21)           | (7)                                    | -                            | (69)       |
| Cost at 31 December 2018                                     | 238        | 296            | 57                                     | 9                            | 600        |
| Accumulated amortisation and impairment                      | (14)       | (179)          | (17)                                   | (1)                          | (211)      |
| <b>Net book value at 31 December 2018</b>                    | <b>224</b> | <b>117</b>     | <b>40</b>                              | <b>8</b>                     | <b>389</b> |
| Adjustment on adoption of IFRS 16                            | -          | -              | -                                      | (8)                          | (8)        |
| <b>Net book value at 1 January 2019</b>                      | <b>224</b> | <b>117</b>     | <b>40</b>                              | <b>-</b>                     | <b>381</b> |
| Additions  | -          | 1              | 24                                     | -                            | 25         |
| Impairment   | -          | (22)           | -                                      | -                            | (22)       |
| Amortisation charge  | -          | (3)            | (14)                                   | -                            | (17)       |
| Translation adjustment                                       | 24         | 14             | 5                                      | -                            | 43         |
| Cost at 31 December 2019                                     | 262        | 311            | 86                                     | -                            | 659        |
| Accumulated amortisation and impairment                      | (14)       | (204)          | (31)                                   | -                            | (249)      |
| <b>Net book value at 31 December 2019</b>                    | <b>248</b> | <b>107</b>     | <b>55</b>                              | <b>-</b>                     | <b>410</b> |
| Additions  | -          | 1              | 44                                     | -                            | 45         |
| Disposals  | -          | -              | (3)                                    | -                            | (3)        |
| Amortisation charge  | -          | (3)            | (14)                                   | -                            | (17)       |
| Translation adjustment                                       | (36)       | (16)           | (12)                                   | -                            | (64)       |
| Cost at 31 December 2020                                     | 226        | 263            | 100                                    | -                            | 589        |
| Accumulated amortisation                                     | (14)       | (174)          | (30)                                   | -                            | (218)      |
| <b>Net book value at 31 December 2020</b>                    | <b>212</b> | <b>89</b>      | <b>70</b>                              | <b>-</b>                     | <b>371</b> |
| Including:   |            |                |  |                              |            |
| <b>Right-of-use assets</b>                                   |            |                |  |                              |            |
| Cost at 31 December 2020                                     | -          | -              | 17                                     | -                            | 17         |
| Accumulated amortisation                                     | -          | -              | (2)                                    | -                            | (2)        |
| <b>Net book value at 31 December 2020</b>                    | <b>-</b>   | <b>-</b>       | <b>15</b>                              | <b>-</b>                     | <b>15</b>  |

## 9 Intangible assets (continued)

Mineral rights include a license for iron ore and non-metallic minerals mining of Stoilensky iron-ore deposit in Belgorod Region expiring in 2040, with the carrying value of \$59, \$73 and \$68 as at 31 December 2020, 2019 and 2018, respectively.

In October 2019, the Group decided to stop coal exploration works in the Usinsky mine field area No. 3 and returned an exploration and extraction license expiring in 2031 to the government. As a result, impairment charge of \$22 was recognized which equals the full amount of the exploration asset carrying value.

Goodwill arising on acquisitions was allocated to the appropriate business segments in which the respective acquisitions took place.

Allocation of net book value of goodwill to each segment is as follows:

|                       | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|-----------------------|---------------------------|---------------------------|---------------------------|
| Russian flat products | 137                       | 163                       | 146                       |
| NLMK USA              | 21                        | 21                        | 21                        |
| Russian long products | 3                         | 3                         | 3                         |
| Mining                | 51                        | 61                        | 54                        |
|                       | <b>212</b>                | <b>248</b>                | <b>224</b>                |

### **Goodwill impairment testing**

The Group tested goodwill for impairment as at 31 December 2020, 2019 and 2018. For the purpose of annual impairment testing of goodwill related to CGU JSC Stoilensky GOK as at 31 December 2020, management decided to use the previous detailed calculation of this CGU recoverable amount as there were no significant changes in the underlying business. The recoverable amount has been determined as value in use of the respective asset. For the purpose of this impairment testing (excluding CGU JSC Stoilensky GOK), the Group used the same assumptions and estimates as for other assets, as disclosed in Note 8. Impairment testing showed no impairment of goodwill as at 31 December 2020, 2019 and 2018.

## 10 Trade and other accounts payable

|   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|---------------------------|
| <b>Financial liabilities</b>                                    |                           |                           |                           |
| Trade accounts payable  | 429                       | 558                       | 584                       |
| Accounts payable for purchases of property, plant and equipment | 159                       | 184                       | 121                       |
| Other accounts payable  | 27                        | 29                        | 26                        |
|   | <b>615</b>                | <b>771</b>                | <b>731</b>                |
| <b>Non-financial liabilities</b>                                |                           |                           |                           |
| Accounts payable and accrued liabilities to employees           | 144                       | 149                       | 177                       |
| Advances received   | 175                       | 103                       | 120                       |
| Taxes payable other than income tax                             | 131                       | 101                       | 94                        |
|   | <b>450</b>                | <b>353</b>                | <b>391</b>                |
|   | <b>1,065</b>              | <b>1,124</b>              | <b>1,122</b>              |

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

In 2020 and 2019 the Group recognised revenue equal to the amount of contracts liability included into advances received as at the beginning of the year.

## 11 Borrowings

| Rates*   | Currency | Maturity* | As at            | As at            | As at            |
|--|----------|-----------|------------------|------------------|------------------|
|  |          |           | 31 December 2020 | 31 December 2019 | 31 December 2018 |
| <b>Bonds</b>   |          |           |                  |                  |                  |
| From 4.00% to 4.70%  | USD      | 2023-2026 | 1,709            | 1,709            | 1,354            |
| <b>Loans</b>   |          |           |                  |                  |                  |
| From EURIBOR+0.85% to EURIBOR+1.30%  | EUR      | 2021-2024 | 1,065            | 784              | 562              |
| From LIBOR +1.20% to LIBOR +1.50%  | USD      | 2021      | 258              | 85               | 159              |
| 0.94%  | EUR      | 2022      | 123              | -                | -                |
| 0.95%  | EUR      | 2022      | 245              | -                | -                |
| <b>Leases</b>  |          |           |                  |                  |                  |
|  |          | 2021-2089 | 86               | 78               | -                |
|  |          |           | <b>3,486</b>     | <b>2,656</b>     | <b>2,075</b>     |
| Less: short-term loans and current maturities of long-term loans, bonds and leases |          |           | (1,054)          | (468)            | (398)            |
| <b>Long-term borrowings</b>  |          |           | <b>2,432</b>     | <b>2,188</b>     | <b>1,677</b>     |

\* Rates and maturity as of 31 December 2020

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

|       | As at            |            | As at            |            | As at            |            |
|-------|------------------|------------|------------------|------------|------------------|------------|
|       | 31 December 2020 |            | 31 December 2019 |            | 31 December 2018 |            |
|       | Carrying amount  | Fair value | Carrying amount  | Fair value | Carrying amount  | Fair value |
| Bonds | 1,709            | 1,864      | 1,709            | 1,823      | 1,209            | 1,159      |

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

The Group has complied with the financial and non-financial covenants of its borrowing facilities during the years ended 31 December 2020, 2019 and 2018.

Bonds and bonds' coupons as at 31 December 2020 were designated as hedging instrument with carrying amount and fair value of \$1,287 and \$1,386, respectively (Note 22).

The long-term borrowings mature as follows:

|              | As at            | As at            | As at            |
|--------------|------------------|------------------|------------------|
|              | 31 December 2020 | 31 December 2019 | 31 December 2018 |
| 1-2 years    | 579              | 410              | 133              |
| 2-5 years    | 1,327            | 1,245            | 1,044            |
| Over 5 years | 526              | 533              | 500              |
|              | <b>2,432</b>     | <b>2,188</b>     | <b>1,677</b>     |

### Collateral

As at 31 December 2020, 2019 and 2018, the loan facilities were secured by inventories and accounts receivable with the total carrying value of \$406, \$593 and \$645, respectively (Notes 6, 7).

## 11 Borrowings (continued)

### Net debt reconciliation

|                                    | Short-term borrowings | Long-term borrowings | Cash and cash equivalents | Short-term bank deposits | Net debt       |
|------------------------------------|-----------------------|----------------------|---------------------------|--------------------------|----------------|
| <b>Balance at 1 January 2018</b>   | <b>(380)</b>          | <b>(1,901)</b>       | <b>301</b>                | <b>1,057</b>             | <b>(923)</b>   |
| Cash flows                         | 55                    | 199                  | 840                       | (1,055)                  | 39             |
| Interest accrued                   | (77)                  | -                    | -                         | 12                       | (65)           |
| Foreign exchange difference        | (19)                  | (246)                | 72                        | 62                       | (131)          |
| Translation adjustment             | 23                    | 271                  | (34)                      | (71)                     | 189            |
| <b>Balance at 31 December 2018</b> | <b>(398)</b>          | <b>(1,677)</b>       | <b>1,179</b>              | <b>5</b>                 | <b>(891)</b>   |
| Cash flows                         | 17                    | (436)                | (456)                     | 143                      | (732)          |
| Interest accrued                   | (81)                  | -                    | -                         | 13                       | (68)           |
| Foreign exchange difference        | 23                    | 184                  | (94)                      | (17)                     | 96             |
| Recognition on adoption of IFRS 16 | (8)                   | (71)                 | -                         | -                        | (79)           |
| Leasing recognised                 | -                     | (15)                 | -                         | -                        | (15)           |
| Translation adjustment             | (21)                  | (173)                | 84                        | 13                       | (97)           |
| <b>Balance at 31 December 2019</b> | <b>(468)</b>          | <b>(2,188)</b>       | <b>713</b>                | <b>157</b>               | <b>(1,786)</b> |
| Cash flows                         | (424)                 | (178)                | 129                       | (14)                     | (487)          |
| Interest accrued                   | (100)                 | -                    | -                         | 7                        | (93)           |
| Foreign exchange difference        | (42)                  | (342)                | 59                        | 5                        | (320)          |
| Leasing recognised                 | (12)                  | (17)                 | -                         | -                        | (29)           |
| Other financial expenses           | -                     | (7)                  | -                         | -                        | (7)            |
| Translation adjustment             | (8)                   | 300                  | (59)                      | (6)                      | 227            |
| <b>Balance at 31 December 2020</b> | <b>(1,054)</b>        | <b>(2,432)</b>       | <b>842</b>                | <b>149</b>               | <b>(2,495)</b> |

## 12 Shareholders' equity

### (a) Shares

As at 31 December 2020, 2019 and 2018, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.

### (b) Dividends

Dividends are paid on common shares at the recommendation of the Board of Directors and approval at a General Shareholders Meeting, subject to certain limitations as determined by the Russian legislation. Profits available for distribution to the shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2020, 2019 and 2018, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$3,322, \$4,671 and \$4,689, converted into US dollars using the exchange rates at 31 December 2020, 2019 and 2018, respectively.

According to the Group's dividend policy, the Group pays dividends on a quarterly basis as follows:

- If Net Debt/EBITDA is below 1.0x, the payout amount shall be equivalent to or above 100% of free cash flow, based on the Company's IFRS Consolidated Financial Statements for the reporting period;
- If Net Debt/EBITDA is above 1.0x, the payout amount shall be equivalent to or above 50% of free cash flow, based on the Company's IFRS Consolidated Financial Statements for the reporting period.

## 12 Shareholders' equity (continued)

Dividends, declared by the Parent Company and translated to US dollars at the historical rate as of the announcement date, are as in the table below.

|  | Declaration period | 2020       |              | 2019       |              | 2018       |              |
|--|--------------------|------------|--------------|------------|--------------|------------|--------------|
|  |                    | Per share* | Total amount | Per share* | Total amount | Per share* | Total amount |
| For the 4 <sup>th</sup> quarter of previous year | April              | 3.12       | 263          | 5.80       | 543          | 3.36       | 326          |
| For the 1 <sup>st</sup> quarter of current year  | June               | 3.21       | 275          | 7.34       | 674          | 5.73       | 556          |
| For the 2 <sup>nd</sup> quarter of current year  | September          | 4.75       | 369          | 3.68       | 343          | 5.24       | 477          |
| For the 3 <sup>rd</sup> quarter of current year  | December           | 6.43       | 528          | 3.22       | 309          | 6.04       | 537          |
|  |                    |            | <b>1,435</b> |            | <b>1,869</b> |            | <b>1,896</b> |

\* Dividends per share are shown in Russian rubles.

## (c) Capital management

The Group's objectives when managing capital are to safeguard financial stability and a target return for the shareholders, as well as the reduction of cost of capital and optimisation of its structure. To achieve these objectives, the Group may revise its investment program, borrow new or repay existing loans, offer equity or debt instruments on capital markets.

When managing capital, the Group uses the following indicators:

- the return on invested capital ratio, which is defined as 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 less income tax divided by capital employed for the last twelve months, should exceed cost of capital;
- the net debt to EBITDA ratio, which is defined as total debt less cash and cash equivalents and short-term bank deposits divided by 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 less depreciation and amortization for the last twelve months;
- free cash flow, which is defined as net cash provided by operating activities less net interest paid less capital expenditures, should be positive.

There were no changes in the Group's approach to capital management during the reporting period.

## 13 Earnings per share

|   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 | For the year ended<br>31 December 2018 |
|---|--|--|--|
| Profit for the year attributable to the NLMK shareholders<br>(millions of US dollars) | 1,236                                  | 1,339                                  | 2,238                                  |
| Weighted average number of shares   | 5,993,227,240                          | 5,993,227,240                          | 5,993,227,240                          |
| <b>Basic and diluted earnings per share (US dollars)</b>                              | <b>0.2062</b>                          | <b>0.2234</b>                          | <b>0.3734</b>                          |

Basic and diluted net earnings per share is calculated by dividing profit for the year attributable to the NLMK shareholders by the weighted average number of common shares outstanding during the reporting period. NLMK does not have potentially dilutive financial instruments during the years ended 31 December 2020, 2019 and 2018.

## 14 Revenue

### (a) Revenue by type

|   | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|---|--|--|--|
| <b>Revenue from sale of goods</b>       |  |  |  |
| Flat products                           | 4,819  | 5,804  | 6,416  |
| Pig iron, slabs and billets             | 2,684  | 2,628  | 3,477  |
| Long products and metalware             | 990  | 1,231  | 1,268  |
| Coke and other chemical products        | 197  | 295  | 307  |
| Iron ore and sintering ore              | 69   | 48   | -  |
| Scrap                                   | 54   | 75   | 86   |
| Other products                          | 136  | 178  | 194  |
| <b>Total revenue from sale of goods</b> | <b><u>8,949</u></b>                            | <b><u>10,259</u></b>                           | <b><u>11,748</u></b>                           |
| Revenue from transportation services    | 296  | 295  | 298  |
|   | <b><u>9,245</u></b>                            | <b><u>10,554</u></b>                           | <b><u>12,046</u></b>                           |

### (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:

|                               | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|-------------------------------|--|--|--|
| Russia                        | 3,820  | 4,337  | 4,051  |
| European Union                | 1,562  | 1,917  | 2,268  |
| North America                 | 1,426  | 1,948  | 2,556  |
| Middle East, including Turkey | 1,033  | 1,169  | 1,375  |
| Asia and Oceania              | 780  | 244  | 489  |
| CIS                           | 249  | 405  | 405  |
| Central and South America     | 210  | 285  | 557  |
| Other regions                 | 165  | 249  | 345  |
|                               | <b><u>9,245</u></b>                            | <b><u>10,554</u></b>                           | <b><u>12,046</u></b>                           |

The Group does not have customers with a share of more than 10% of the total revenue in 2020 and 2019, except NBH group companies in 2018 (Note 23).

## 15 Labour costs

The Group's labour costs, including social security costs, which are included in the corresponding lines of the consolidated statement of profit or loss, were as indicated below.

|                                     | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|-------------------------------------|--|--|--|
| Cost of sales                       | 696  | 750  | 720  |
| General and administrative expenses | 182  | 191  | 230  |
| Selling expenses                    | <u>31</u>                                      | <u>29</u>                                      | <u>29</u>                                      |
|                                     | <u><b>909</b></u>                              | <u><b>970</b></u>                              | <u><b>979</b></u>                              |

Remuneration of the key management personnel that comprises payments to members of the Management Board and the Board of Directors of the Parent Company, is recorded within general and administrative expenses and includes annual compensation and performance bonus contingent on the Group's results for the reporting year.

Total remuneration of the key management personnel, including social security costs amounted to \$14, \$17 and \$38 in 2020, 2019 and 2018, respectively. As at 31 December 2020, 2019 and 2018 accrued liabilities to key management personnel related to the long-term incentive plan amounted to nil, nil and \$25, respectively.

## 16 Taxes other than income tax

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

|                                     | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|-------------------------------------|--|--|--|
| Cost of sales                       | 59   | 57   | 76   |
| General and administrative expenses | 4  | 3  | 4  |
| Other operating expenses            | <u>1</u>                                       | <u>6</u>                                       | <u>8</u>                                       |
|                                     | <u><b>64</b></u>                               | <u><b>66</b></u>                               | <u><b>88</b></u>                               |

## 17 Income tax

Income tax charge comprises the following:

|   | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|---|--|--|--|
| Current income tax expense                        | (308)  | (379)  | (574)  |
| Deferred income tax benefit/(expense)             | 6  | (74)   | 88   |
| Income tax related to hedge reserve of cash flows | <u>(41)</u>                                    | <u>-</u>                                       | <u>-</u>                                       |
| <b>Total income tax expense</b>                   | <u><b>(343)</b></u>                            | <u><b>(453)</b></u>                            | <u><b>(486)</b></u>                            |

The corporate income tax rate applicable to the Group entities located in Russia, is predominantly 20%. The corporate income tax rate applicable to income of foreign subsidiaries ranges from 11% to 30%.

17 Income tax (continued)

Profit before income tax is reconciled to the income tax expense as follows:

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 | For the year ended<br>31 December 2018 |
|--|--|--|--|
| Profit before income tax   | 1,580                                  | 1,794                                  | 2,729                                  |
| Income tax at rate 20%   | (316)                                  | (359)                                  | (546)                                  |
| Change in income tax:  |  |  |  |
| - tax effect of non-deductible income/(expenses)                   | 3                                      | (15)                                   | -                                      |
| - non-taxable translation adjustments                              | 4                                      | (1)                                    | 7                                      |
| - effect of different tax rates                                    | 22                                     | 9                                      | 27                                     |
| - unrecognized deferred tax asset on investments in joint ventures | (59)                                   | (26)                                   | (71)                                   |
| - unrecognized tax loss carry forward for the year                 | (10)                                   | (27)                                   | (8)                                    |
| - utilisation of previously unrecognised tax loss carry forward    | 13                                     | 1                                      | 56                                     |
| - effect of tax on intercompany dividends                          | -                                      | (1)                                    | (6)                                    |
| - impairment of previously recognised deferred tax assets          | -                                      | (34)                                   | (15)                                   |
| - recognition of previously unrecognised tax loss carry forward    | -                                      | -                                      | 70                                     |
| <b>Total income tax expense</b>                                    | <b>(343)</b>                           | <b>(453)</b>                           | <b>(486)</b>                           |

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities, are presented below:

|  | As at<br>31 December 2020 | (Charged)/credited<br>to profit or loss | Translation<br>adjustment | As at<br>1 January 2020 |
|--|---------------------------|---|---------------------------|-------------------------|
| <b>Deferred tax assets</b>               |                           |   |                           |                         |
| Trade and other accounts payable         | 26                        | 8                                       | (3)                       | 21                      |
| Trade and other accounts receivable      | 13                        | 4                                       | (2)                       | 11                      |
| Inventories                              | 18                        | 5                                       | -                         | 13                      |
| Tax losses carried forward               | 39                        | (6)                                     | -                         | 45                      |
| Borrowings                               | 13                        | 3                                       | -                         | 10                      |
| Other long-term liabilities              | 10                        | 10                                      | -                         | -                       |
|  | <b>119</b>                | <b>24</b>                               | <b>(5)</b>                | <b>100</b>              |
| <b>Deferred tax liabilities</b>          |                           |   |                           |                         |
| Property, plant and equipment            | (348)                     | (14)                                    | 62                        | (396)                   |
| Other intangible assets                  | (11)                      | (4)                                     | 1                         | (8)                     |
|  | <b>(359)</b>              | <b>(18)</b>                             | <b>63</b>                 | <b>(404)</b>            |
| <b>Total deferred tax liability, net</b> | <b>(240)</b>              | <b>6</b>                                | <b>58</b>                 | <b>(304)</b>            |



17 Income tax (continued)

|  | As at<br>31 December 2019 | (Charged)/credited<br>to profit or loss | Translation<br>adjustment | As at<br>1 January 2019 |
|--|---------------------------|---|---------------------------|-------------------------|
| <b>Deferred tax assets</b>               |                           |   |                           |                         |
| Trade and other accounts payable         | 21                        | (9)                                     | 2                         | 28                      |
| Trade and other accounts receivable      | 11                        | 1                                       | 1                         | 9                       |
| Inventories                              | 13                        | (10)                                    | -                         | 23                      |
| Tax losses carried forward               | 45                        | (42)                                    | -                         | 87                      |
| Borrowings                               | 10                        | 10                                      | -                         | -                       |
|  | <b>100</b>                | <b>(50)</b>                             | <b>3</b>                  | <b>147</b>              |
| <b>Deferred tax liabilities</b>          |                           |   |                           |                         |
| Property, plant and equipment            | (396)                     | (27)                                    | (38)                      | (331)                   |
| Other intangible assets                  | (8)                       | 3                                       | (1)                       | (10)                    |
|  | <b>(404)</b>              | <b>(24)</b>                             | <b>(39)</b>               | <b>(341)</b>            |
| <b>Total deferred tax liability, net</b> | <b>(304)</b>              | <b>(74)</b>                             | <b>(36)</b>               | <b>(194)</b>            |
|  |                           |   |                           |                         |
|  | As at<br>31 December 2018 | (Charged)/credited<br>to profit or loss | Translation<br>adjustment | As at<br>1 January 2018 |
| <b>Deferred tax assets</b>               |                           |   |                           |                         |
| Trade and other accounts payable         | 28                        | 11                                      | (4)                       | 21                      |
| Trade and other accounts receivable      | 9                         | (2)                                     | (3)                       | 14                      |
| Inventories                              | 23                        | 6                                       | (6)                       | 23                      |
| Tax losses carried forward               | 87                        | 56                                      | 1                         | 30                      |
|  | <b>147</b>                | <b>71</b>                               | <b>(12)</b>               | <b>88</b>               |
| <b>Deferred tax liabilities</b>          |                           |   |                           |                         |
| Property, plant and equipment            | (331)                     | 20                                      | 59                        | (410)                   |
| Other intangible assets                  | (10)                      | (3)                                     | 4                         | (11)                    |
|  | <b>(341)</b>              | <b>17</b>                               | <b>63</b>                 | <b>(421)</b>            |
| <b>Total deferred tax liability, net</b> | <b>(194)</b>              | <b>88</b>                               | <b>51</b>                 | <b>(333)</b>            |

The amount of tax loss carry-forwards that can be utilised each year is limited under the Group's different tax jurisdictions. The Group regularly evaluates assumptions underlying its assessment of the realisability of its deferred tax assets and makes adjustments to the extent necessary. In assessing the probability that future taxable profit against which the Group can utilise the potential benefit of the tax loss carry forwards will be available, management considers the current situation and the future economic benefits outlined in specific business plans for each subsidiary. Deferred tax assets are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

## 17 Income tax (continued)

The table below summarises unused cumulative tax losses for which no deferred tax assets has been recognised, with a breakdown by the expiry dates.

|                     | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---------------------|---------------------------|---------------------------|---------------------------|
| From 10 to 20 years | 180                       | 256                       | -                         |
| No expiration       | 1,468                     | 1,407                     | 1,393                     |
| <b>Total</b>        | <b>1,648</b>              | <b>1,663</b>              | <b>1,393</b>              |

The unused tax losses were incurred mostly by Group subsidiaries located in Europe and USA.

The Group has not recorded a deferred tax liability in respect of temporary differences of \$1,441, \$1,417 and \$1,728 for the years ended 31 December 2020, 2019 and 2018, respectively, associated with investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In accordance with the statutory legislation, the Group's entities in Russia (major entities, including NLMK) and USA were integrated in two separate consolidated groups of taxpayers for the purpose of assessment and payment of corporate income tax in line with the combined financial result of business operations. The Group's entities that are not part of the consolidated groups of taxpayers assess their income taxes individually.

As at 31 December 2020, 2019 and 2018, the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that all deductible tax positions which form the basis for income tax returns of the Group companies, are recognised and measured in accordance with the applicable tax legislation.

## 18 Finance income and costs

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 | For the year ended<br>31 December 2018 |
|--|--|--|--|
| Interest income on bank accounts and bank deposits | 7                                      | 13                                     | 12                                     |
| Other finance income                               | 11                                     | 5                                      | 9                                      |
| <b>Total finance income</b>                        | <b>18</b>                              | <b>18</b>                              | <b>21</b>                              |
| Interest expense on borrowings                     | (100)                                  | (81)                                   | (77)                                   |
| Capitalised interest                               | 32                                     | 33                                     | 21                                     |
| Other finance costs                                | (22)                                   | (20)                                   | (14)                                   |
| <b>Total finance costs</b>                         | <b>(90)</b>                            | <b>(68)</b>                            | <b>(70)</b>                            |

## 19 Foreign exchange differences

|   | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|---|--|--|--|
| Foreign exchange gain/(loss) on cash and cash equivalents | 59   | (94)   | 72   |
| Foreign exchange gain/(loss) on financial investments     | 74   | (139)  | 245  |
| Foreign exchange (loss)/gain on debt financing            | (171)  | 242  | (250)  |
| Foreign exchange loss on other assets and liabilities     | (2)  | (15)   | (34)   |
|   | <u>(40)</u>                                    | <u>(6)</u>                                     | <u>33</u>                                      |

Starting from February 3, 2020 the Group adopted hedge accounting of cash flows in accordance with IFRS 9 "Financial instruments" (Note 22).

## 20 Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

|   | <u>As at<br/>31 December 2020</u> | <u>As at<br/>31 December 2019</u> | <u>As at<br/>31 December 2018</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Within 1 year                                       | -                                 | -                                 | 15                                |
| From 1 to 5 years                                   | -                                 | -                                 | 50                                |
| After 5 years                                       | -                                 | -                                 | 228                               |
| <b>Total commitments for minimum lease payments</b> | <u>-</u>                          | <u>-</u>                          | <u>293</u>                        |

In 2018 total rental expenses relating to operating leases were \$17.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

## 21 Segment information

The Group management examines the Group's performance both from a product and geographic perspective and has identified six reportable segments of its business: Mining, Russian flat products, Russian long products, NLMK USA, NLMK DanSteel and Plates Distribution Network, and Investments in NBH. Each of these segments represents a combination of subsidiaries (except for Investments in NBH – see Note 4), offers its own products, has a separate management team and is managed separately with relevant results reviewed on a monthly basis by the Group's Management Board which is the Chief Operating Decision Maker as defined by IFRS 8 Segment Reporting.

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 each segment based on segment revenues, gross profit, 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, profit for the year 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 year" line together with other intercompany elimination adjustments, including elimination of NBH's liabilities to the Group companies (Note 23). NBH deconsolidation adjustments include elimination of NBH's sales, recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 4, 23), elimination of NBH's assets and liabilities and recognition of the investment in joint venture (Note 4), recognition of impairment and share of NBH's loss, and other consolidation adjustments.

## 21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2020 and their assets and liabilities as of this date is as follows:

|                                 | Mining | Russian flat products | Russian long products | NLMK USA | NLMK DanSteel and Plates Distribution Network | Investments in NBH | Elimination of intersegmental operations and balances | NBH deconsolidation adjustments | Total   |
|---------------------------------|--------|-----------------------|-----------------------|----------|---|--------------------|---|---------------------------------|---------|
| Revenue from external customers | 92     | 5,600                 | 1,171                 | 1,086    | 399   | 1,325              | -   | (428)                           | 9,245   |
| Intersegment revenue            | 1,307  | 1,188                 | 368                   | -        | 1   | 49                 | (2,864)   | (49)                            | -       |
| Cost of sales                   | (355)  | (4,775)               | (1,343)               | (1,007)  | (359)   | (1,361)            | 2,850   | 430                             | (5,920) |
| Gross profit                    | 1,044  | 2,013                 | 196                   | 79       | 41  | 13                 | (14)  | (47)                            | 3,325   |
| Operating profit/(loss)*        | 957    | 1,076                 | 49                    | 19       | (16)  | (154)              | 21  | 119                             | 2,071   |
| Net finance income/(costs)      | 1      | (73)                  | -                     | 3        | (3)   | (13)               | -   | 13                              | (72)    |
| Income tax (expense)/benefit    | (188)  | (152)                 | (7)                   | 3        | (1)   | -                  | 2   | -                               | (343)   |
| Profit/(loss) for the year      | 760    | 1,260                 | 28                    | 24       | (23)  | (167)              | (541)   | (104)                           | 1,237   |
| 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   | (107)  | (354)                 | (44)                  | (57)     | (12)  | (61)               | -   | 61                              | (574)   |
| Capital expenditures            | (202)  | (806)                 | (38)                  | (49)     | (44)  | (274)              | -   | 274                             | (1,139) |

\* 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.

## 21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2019 and their assets and liabilities as of this date is as follows:

|                                 | Mining | Russian flat products | Russian long products | NLMK USA | NLMK DanSteel and Plates Distribution Network | Investments in NBH | Elimination of intersegmental operations and balances | NBH deconsolidation adjustments | Total   |
|---------------------------------|--------|-----------------------|-----------------------|----------|---|--------------------|---|---------------------------------|---------|
| Revenue from external customers | 77     | 5,897                 | 1,428                 | 1,715    | 490   | 1,502              | -   | (555)                           | 10,554  |
| Intersegment revenue            | 1,238  | 1,430                 | 329                   | -        | 1   | 60                 | (2,998)   | (60)                            | -       |
| Cost of sales                   | (381)  | (5,239)               | (1,554)               | (1,728)  | (435)   | (1,568)            | 2,938   | 664                             | (7,303) |
| Gross profit/(loss)             | 934    | 2,088                 | 203                   | (13)     | 56  | (6)                | (60)  | 49                              | 3,251   |
| Operating profit/(loss)*        | 864    | 1,160                 | 39                    | (95)     | (3)   | (197)              | (7)   | 241                             | 2,002   |
| Net finance income/(costs)      | 15     | (55)                  | -                     | (8)      | (2)   | (12)               | -   | 12                              | (50)    |
| Income tax (expense)/benefit    | (161)  | (239)                 | (8)                   | (31)     | (1)   | 4                  | (13)  | (4)                             | (453)   |
| Profit/(loss) for the year      | 661    | 1,941                 | 15                    | (128)    | (6)   | (207)              | (1,097)   | 162                             | 1,341   |
| 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   | (113)  | (330)                 | (50)                  | (58)     | (11)  | (63)               | -   | 63                              | (562)   |
| Capital expenditures            | (218)  | (854)                 | (50)                  | (37)     | (33)  | (118)              | -   | 118                             | (1,192) |

\* 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.

## 21 Segment information (continued)

Information on the segments' profit or loss for the year ended 31 December 2018 and their assets and liabilities as of this date is as follows:

|                                 | Mining | Russian flat products | Russian long products | NLMK USA | NLMK DanSteel and Plates Distribution Network | Investments in NBH | Elimination of intersegmental operations and balances | NBH deconsolidation adjustments | Total   |
|---------------------------------|--------|-----------------------|-----------------------|----------|---|--------------------|---|---------------------------------|---------|
| Revenue from external customers | 22     | 6,327                 | 1,720                 | 2,134    | 513   | 1,772              | -   | (442)                           | 12,046  |
| Intersegment revenue            | 1,189  | 2,416                 | 432                   | -        | 1   | 65                 | (4,038)   | (65)                            | -       |
| Cost of sales                   | (381)  | (5,672)               | (1,779)               | (1,863)  | (475)   | (1,812)            | 3,856   | 446                             | (7,680) |
| Gross profit                    | 830    | 3,071                 | 373                   | 271      | 39  | 25                 | (182)   | (61)                            | 4,366   |
| Operating profit/(loss)*        | 771    | 2,005                 | 161                   | 196      | (26)  | (162)              | (59)  | 126                             | 3,012   |
| Net finance income/(costs)      | 19     | (49)                  | (6)                   | (9)      | (4)   | (12)               | -   | 12                              | (49)    |
| Income tax (expense)/benefit    | (179)  | (355)                 | (25)                  | 69       | (4)   | 19                 | 8   | (19)                            | (486)   |
| Profit/(loss) for the year      | 706    | 1,875                 | 155                   | 255      | (34)  | (242)              | (435)   | (37)                            | 2,243   |
| Segment assets                  | 2,081  | 6,822                 | 1,150                 | 1,019    | 373   | 1,531              | (1,748)   | (1,284)                         | 9,944   |
| Segment liabilities             | (412)  | (4,262)               | (450)                 | (350)    | (251)   | (1,357)            | 2,126   | 846                             | (4,110) |
| Depreciation and amortization   | (117)  | (334)                 | (60)                  | (57)     | (9)   | (75)               | -   | 75                              | (577)   |
| Capital expenditures            | (137)  | (520)                 | (36)                  | (20)     | (37)  | (116)              | -   | 116                             | (750)   |

\* 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.

## 21 Segment information (continued)

Geographically, all significant assets, production and administrative facilities of the Group are located in Russia, USA and Europe. The following is a summary of non-current assets other than financial instruments, investments in joint ventures and deferred tax assets by location:

|                    | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--------------------|---------------------------|---------------------------|---------------------------|
| Russian Federation | 5,503                     | 5,975                     | 4,731                     |
| USA                | 287                       | 298                       | 310                       |
| Denmark            | 220                       | 169                       | 145                       |
| Other              | 25                        | 18                        | 12                        |
|                    | <u>6,035</u>              | <u>6,460</u>              | <u>5,198</u>              |

## 22 Risks and uncertainties

### (a) Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 24(f)).

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. This environment may have a significant impact on the Group's operations and financial position and the future effects of the current economic situation are difficult to predict therefore management's current expectations and estimates could differ from actual results. Management is taking necessary measures to ensure sustainability of the Group's operations.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

### (b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and commodity price risk.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term borrowings with variable interest rates. To manage this risk, the Group continuously monitors interest rate movements. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate borrowings.

## 22 Risks and uncertainties (continued)

The interest rate risk profile of the Group is follows:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|---------------------------|
| <b>Fixed rate instruments</b>   |                           |                           |                           |
| Financial assets  |                           |                           |                           |
| - cash and cash equivalents (Note 3)                                      | 842                       | 713                       | 1,179                     |
| - financial investments (Note 5)  | 198                       | 292                       | 104                       |
| - trade and other accounts receivable less credit loss allowance (Note 6) | 945                       | 810                       | 1,091                     |
|   | <b>1,985</b>              | <b>1,815</b>              | <b>2,374</b>              |
| Financial liabilities   |                           |                           |                           |
| - trade and other accounts payable (Note 10)                              | (615)                     | (771)                     | (731)                     |
| - dividends payable   | (109)                     | (318)                     | (525)                     |
| - borrowings (Note 11)  | (2,163)                   | (1,787)                   | (1,354)                   |
|   | <b>(2,887)</b>            | <b>(2,876)</b>            | <b>(2,610)</b>            |
| <b>Variable rate instruments</b>  |                           |                           |                           |
| Financial liabilities   |                           |                           |                           |
| - borrowings (Note 11)  | (1,323)                   | (869)                     | (721)                     |
|   | <b>(1,323)</b>            | <b>(869)</b>              | <b>(721)</b>              |

A change of 100 basis points in interest rates for variable rate instruments would not have significantly affected profit for the year and equity.

### **Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risks. To minimise foreign currency risks, the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts, the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency.

### **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. 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 11).

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.



## 22 Risks and uncertainties (continued)

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 effective since the future cash outflows on bonds and bonds' coupons payments match the future cash inflows on the hedged portion of revenue. Ineffectiveness may occur as hedged items and hedge instruments have different maturity dates.

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

|   | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|---|--|--|--|
| Hedge reserve of cash flows                       | (229)  | -  | -  |
| Hedging result                                    | 24   | -  | -  |
| Income tax related to hedge reserve of cash flows | <u>41</u>                                      | <u>-</u>                                       | <u>-</u>                                       |
|   | <b><u>(164)</u></b>                            | <b><u>-</u></b>                                | <b><u>-</u></b>                                |

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 December 31, 2020 is as follows:

|                   | <u>2020</u>        | <u>2021</u>        | <u>2022</u>        | <u>2023</u>        | <u>2024</u>        | <u>2025</u>        | <u>2026</u>       | <u>Total</u>        |
|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|---------------------|
| Reclassifications | (29)               | (29)               | (30)               | (55)               | (41)               | (20)               | (5)               | (209)               |
| Income tax        | <u>6</u>           | <u>6</u>           | <u>6</u>           | <u>11</u>          | <u>8</u>           | <u>4</u>           | <u>1</u>          | <u>42</u>           |
|                   | <b><u>(23)</u></b> | <b><u>(23)</u></b> | <b><u>(24)</u></b> | <b><u>(44)</u></b> | <b><u>(33)</u></b> | <b><u>(16)</u></b> | <b><u>(4)</u></b> | <b><u>(167)</u></b> |

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2020.

|                                      | <u>US dollar</u>   | <u>Euro</u>           | <u>Hong Kong<br/>dollar</u> | <u>Swiss franc</u> |
|--------------------------------------|--------------------|-----------------------|-----------------------------|--------------------|
| Cash and cash equivalents            | 409                | 139                   | 112                         | -                  |
| Trade and other accounts receivable  | 7                  | 401                   | -                           | -                  |
| Financial investments                | -                  | 139                   | 50                          | -                  |
| Trade and other accounts payable     | (49)               | (345)                 | -                           | -                  |
| Borrowings                           | (1,709)            | (1,433)               | -                           | -                  |
| Cash flow hedge                      | <u>1,287</u>       | <u>-</u>              | <u>-</u>                    | <u>-</u>           |
| <b>Net foreign currency position</b> | <b><u>(55)</u></b> | <b><u>(1,099)</u></b> | <b><u>162</u></b>           | <b><u>-</u></b>    |

## 22 Risks and uncertainties (continued)

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2019.

|                                      | US dollar      | Euro         | Hong Kong dollar | Swiss franc |
|--------------------------------------|----------------|--------------|------------------|-------------|
| Cash and cash equivalents            | 115            | 304          | 1                | 1           |
| Trade and other accounts receivable  | 4              | 349          | -                | -           |
| Financial investments                | -              | 133          | 154              | -           |
| Trade and other accounts payable     | (82)           | (324)        | -                | -           |
| Borrowings                           | (1,709)        | (784)        | -                | -           |
| <b>Net foreign currency position</b> | <b>(1,672)</b> | <b>(322)</b> | <b>155</b>       | <b>1</b>    |

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between financial assets and financial liabilities denominated in a currency other than the functional currency of each entity at 31 December 2018.

|                                      | US dollar      | Euro       | Hong Kong dollar | Swiss franc |
|--------------------------------------|----------------|------------|------------------|-------------|
| Cash and cash equivalents            | 84             | 480        | 309              | 24          |
| Trade and other accounts receivable  | 1              | 536        | 1                | -           |
| Financial investments                | -              | 99         | -                | -           |
| Trade and other accounts payable     | (56)           | (186)      | -                | -           |
| Borrowings                           | (1,355)        | (562)      | -                | -           |
| <b>Net foreign currency position</b> | <b>(1,326)</b> | <b>367</b> | <b>310</b>       | <b>24</b>   |

### Sensitivity analysis

Sensitivity is calculated by multiplying a net foreign currency position of a corresponding currency by percentage of currency rates changes.

A 25 percent strengthening of the following currencies against the functional currency as at 31 December 2020, 2019 and 2018 would have increased/(decreased) equity by the amounts shown below, however effect on profit for the year would be different, and would amount to \$230 loss, \$376 loss and \$29 loss, respectively, due to foreign exchange effects from intercompany operations (Note 19) and applying of hedge accounting.

|                  | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|------------------|---------------------------|---------------------------|---------------------------|
| US dollar        | (336)                     | (418)                     | (332)                     |
| Euro             | (275)                     | (81)                      | 92                        |
| Hong Kong dollar | 41                        | 39                        | 78                        |
| Swiss franc      | -                         | -                         | 6                         |

A 25 percent weakening of these currencies against the functional currency as at 31 December 2020, 2019 and 2018 would have had an equal but opposite effect to the amounts shown above, provided all other variables remain constant. Income tax was not recalculated on the possible reasonable change in exchange rates for the purpose of this sensitivity analysis.

## 22 Risks and uncertainties (continued)

### **Commodity price risk**

Commodity price risk is the risk arising from possible changes in price of raw materials and metal products, and their impact on the Group's future performance and the Group's operational results.

The Group minimises its risks related to metal prices by having a wide range of geographical zones for sales, which allows the Group to respond quickly to negative changes in the situation on its existing markets on the basis of an analysis of the existing and prospective sales markets.

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

To mitigate the corresponding risks the Group also uses formula pricing tied to price indices for steel products when contracting raw and auxiliary materials.

### **(c) Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss for the Group. The Group is exposed to credit risk from its operating activities (primarily for outstanding receivables from customers) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group controls the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. In order to minimise credit risk, management developed and maintains the Group's credit risk grading to categorise exposures according to their degree of risk of default. A default on a financial asset is when the counterparty fails to make contractual payments within 30 days of when they fall due. The Group's credit risk grading framework comprises six categories:

- AAA – investments grade which correspond to international agencies ratings from AAA till BB+;
- A – low risk non-investments grade which correspond to international agencies ratings BB and BB-;
- B – moderate risk non-investments grade which correspond to international agencies ratings B+ and B;
- C – high risk non-investments grade which correspond to international agencies rating B-;
- D – critical risk non-investments grade which correspond to international agencies ratings from CCC till D;
- NR – not rated category used for related parties or secured debts.

The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment report, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies.

## 22 Risks and uncertainties (continued)

The Group monitors all financial assets, loans issued and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month estimated credit loss.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment.

The Group analyses all data collected using statistical models and estimates the remaining lifetime probability of default exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment and interest rates. Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of expected credit loss. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The base case scenario is the most likely outcome. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. The Group applies probabilities to the forecast scenarios identified and calculate probability-weighted expected credit loss by running each scenario through the relevant expected credit loss model and multiplying it by the appropriate scenario weighting. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The Group holds collateral to mitigate credit risk associated with trade accounts receivable by reducing expected credit loss in case of default. The main types of collateral are bank coverage and credit insurance. There was no change in the Group's collateral policy during the year.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years.

The measurement of expected credit loss is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis. In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis.

## 22 Risks and uncertainties (continued)

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

|  | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|--|---------------------------|---------------------------|---------------------------|
| Cash and cash equivalents (Note 3)           | 842                       | 713                       | 1,179                     |
| Trade and other accounts receivable (Note 6) | 945                       | 810                       | 1,091                     |
| Financial investments (Note 5)               | 198                       | 292                       | 104                       |
| <b>Total on-balance sheet exposure</b>       | <b>1,985</b>              | <b>1,815</b>              | <b>2,374</b>              |
| Financial guarantees issued (Note 23(d))     | 283                       | 331                       | 309                       |
|  | <b>2,268</b>              | <b>2,146</b>              | <b>2,683</b>              |

Credit risk related to investment in the charter capital of NBH is disclosed in Note 4.

Analysis of trade accounts receivable, net of credit loss allowance, by credit quality, based on internal credit ratings is as follows:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|---------------------------|
| AAA   | 23                        | 28                        | 19                        |
| A   | 80                        | 53                        | 25                        |
| B   | 89                        | 49                        | 41                        |
| C   | 51                        | 39                        | 18                        |
| D   | 12                        | 1                         | 2                         |
| NR, including:  |                           |                           |                           |
| - NBH group companies   | 297                       | 249                       | 411                       |
| - Credit insurance (AA international agencies' credit ratings)        | 169                       | 254                       | 284                       |
| - Bank coverage (A- and above international agencies' credit ratings) | 72                        | 55                        | 202                       |
| - Not covered   | 27                        | 72                        | 76                        |
|   | <b>820</b>                | <b>800</b>                | <b>1,078</b>              |

Analysis by credit quality, based on international agencies' credit rating, of bank balances and bank deposits is as follows:

|   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|---|---------------------------|---------------------------|---------------------------|
| <b>Bank balances and term deposits</b>        |                           |                           |                           |
| AAA-BBB                                       | 835                       | 706                       | 1,173                     |
| BB-B  | 5                         | 5                         | 4                         |
| Unrated and cash on hand                      | 2                         | 2                         | 2                         |
|   | <b>842</b>                | <b>713</b>                | <b>1,179</b>              |
| <b>Short-term and long-term bank deposits</b> |                           |                           |                           |
| AAA-BBB                                       | 148                       | 157                       | 5                         |
| BB-B  | 2                         | -                         | -                         |
|   | <b>150</b>                | <b>157</b>                | <b>5</b>                  |

**22 Risks and uncertainties (continued)**

As at 31 December 2020, ageing of trade and other receivables is as follows:

|                       | Trade and other receivables |                       |                  |
|-----------------------|-----------------------------|-----------------------|------------------|
|                       | Gross amount                | Credit loss allowance | Net of allowance |
| Not past due          | 919                         | (14)                  | 905              |
| Past due, including:  |                             |                       |                  |
| - up to 1 month       | 34                          | -                     | 34               |
| - from 1 to 3 months  | 3                           | -                     | 3                |
| - from 3 to 12 months | 4                           | (2)                   | 2                |
| - over 12 months      | 21                          | (20)                  | 1                |
| <b>Total</b>          | <b>981</b>                  | <b>(36)</b>           | <b>945</b>       |

As at 31 December 2019, ageing of trade and other receivables is as follows:

|                       | Trade and other receivables |                       |                  |
|-----------------------|-----------------------------|-----------------------|------------------|
|                       | Gross amount                | Credit loss allowance | Net of allowance |
| Not past due          | 773                         | (15)                  | 758              |
| Past due, including:  |                             |                       |                  |
| - up to 1 month       | 42                          | -                     | 42               |
| - from 1 to 3 months  | 6                           | -                     | 6                |
| - from 3 to 12 months | 5                           | (1)                   | 4                |
| - over 12 months      | 25                          | (25)                  | -                |
| <b>Total</b>          | <b>851</b>                  | <b>(41)</b>           | <b>810</b>       |

As at 31 December 2018, ageing of trade and other receivables is as follows:

|                       | Trade and other receivables |                       |                  |
|-----------------------|-----------------------------|-----------------------|------------------|
|                       | Gross amount                | Credit loss allowance | Net of allowance |
| Not past due          | 995                         | (10)                  | 985              |
| Past due, including:  |                             |                       |                  |
| - up to 1 month       | 93                          | -                     | 93               |
| - from 1 to 3 months  | 6                           | -                     | 6                |
| - from 3 to 12 months | 8                           | (2)                   | 6                |
| - over 12 months      | 27                          | (26)                  | 1                |
| <b>Total</b>          | <b>1,129</b>                | <b>(38)</b>           | <b>1,091</b>     |

## 22 Risks and uncertainties (continued)

### (d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

The table below analyses the Group's short-term and long-term borrowings and leases by their remaining corresponding contractual maturity. The amounts disclosed in the maturity table are the undiscounted cash outflows.

|                         | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|-------------------------|---------------------------|---------------------------|---------------------------|
| Less than 1 year        | 1,134                     | 545                       | 296                       |
| From 1 to 2 years       | 662                       | 491                       | 193                       |
| From 2 to 5 years       | 1,464                     | 1,432                     | 1,342                     |
| Over 5 years            | 672                       | 708                       | 520                       |
| <b>Total borrowings</b> | <b>3,932</b>              | <b>3,176</b>              | <b>2,351</b>              |

Liquidity risk related to investment in the charter capital of NBH and financial guarantees issued, is disclosed in Notes 4 and 23(d), respectively.

As at 31 December 2020, 2019 and 2018, the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

### (e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, construction and erection all risks, freightage, auto insurance and commercial (trade) credits. In respect of legislation requirements, the Group purchases compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance and accident insurance for employees of the Group.

## 23 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.

**23 Related party transactions (continued)**

**(a) Sales to and purchases from related parties**

|   | <u>For the year ended<br/>31 December 2020</u> | <u>For the year ended<br/>31 December 2019</u> | <u>For the year ended<br/>31 December 2018</u> |
|---|--|--|--|
| <b>Sales</b>  |  |  |  |
| NBH group companies   | 897  | 947  | 1,330  |
| Companies of Freight One Group and other transport companies under the common control of beneficial owner | 2  | 2  | 2  |
| Other related parties   | <u>4</u>                                       | <u>6</u>                                       | <u>1</u>                                       |
| <b>Purchases</b>  |  |  |  |
| Companies of Freight One Group and other transport companies under the common control of beneficial owner | 376  | 384  | 410  |
| NBH group companies   | 49   | 60   | 65   |
| Other related parties   | <u>26</u>                                      | <u>18</u>                                      | <u>5</u>                                       |

NBH group companies together are the major customer of the Group. Sales to NBH group are performed by the Russian flat products segment and represent 9.7%, 9.0% and 11.0% of the total sales of the Group for the years ended 31 December 2020, 2019 and 2018, respectively.

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

|   | <u>As at<br/>31 December 2020</u> | <u>As at<br/>31 December 2019</u> | <u>As at<br/>31 December 2018</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Accounts receivable and advances given</b>   |                                   |                                   |                                   |
| NBH group companies   | 298                               | 249                               | 412                               |
| Companies of Freight One Group and other transport companies under the common control of beneficial owner | <u>32</u>                         | <u>26</u>                         | <u>32</u>                         |
| <b>Accounts payable</b>   |                                   |                                   |                                   |
| NBH group companies   | 22                                | 28                                | 31                                |
| Companies of Freight One Group and other transport companies under the common control of beneficial owner | <u>11</u>                         | <u>5</u>                          | <u>6</u>                          |

**(c) Financial transactions**

As at 31 December 2020, 2019 and 2018 loans issued to NBH group companies amounted to \$47, \$133 and \$99 and maturing 31 December 2021, 31 December 2020 and 31 December 2020, respectively (Note 5). 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 the company's internal credit rating.

**(d) Financial guarantees issued**

As at 31 December 2020, 2019 and 2018, guarantees issued by the Group for borrowings received by NBH group companies amounted to \$283, \$331 and \$309, respectively, which is the maximum potential amount of future payments, payable on demand of the guarantee. No amount has been accrued in these 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.



## 23 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

|                   | As at<br>31 December 2020 | As at<br>31 December 2019 | As at<br>31 December 2018 |
|-------------------|---------------------------|---------------------------|---------------------------|
| Less than 1 year  | 107                       | 130                       | 57                        |
| From 1 to 2 years | 127                       | -                         | -                         |
| Over 2 years      | 49                        | 201                       | 252                       |
|                   | <u>283</u>                | <u>331</u>                | <u>309</u>                |

### (e) Investments transactions

In September 2018, the Group completed the sale of 2% stake in share capital of NBH to Tubes de Haren et Nimy S.A., a subsidiary of NBH, for a cash consideration of \$5, realising a loss of \$2 upon the decrease of carrying value of the investment of \$7. As a result of this transaction, direct ownership of the Group in the share capital of NBH decreased to 49.0%.

## 24 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, significant liabilities for management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore, there are no environmental damage and remediation.

## 24 Commitments and contingencies (continued)

### (d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$881, \$1,157 and \$714 as at 31 December 2020, 2019 and 2018, respectively.

### (e) Social commitments

The Group makes contributions to mandatory and voluntary 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.

### (f) Tax contingencies

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.

### (g) 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 December 2020, 2019 and 2018.

### (h) Assessment of the coronavirus impact on the Group

In 2020, the COVID-19 pandemic had significant impact on business activity, that initially led to weakening of demand for steel in traditional sales markets and a temporary drop in steel product prices which however started to recover gradually in second half 2020. In order to keep capacity utilization rates high the Group made changes to regional sales structure and diversified product mix. Production and supply chains of the Group were not significantly impacted by the COVID-19 pandemic.

At the date of issuing these 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 December 2020 the Group has liquid resources of \$991 comprising cash and cash equivalents as well as a committed and unutilised credit facilities amounting to \$1,715 which significantly exceeds repayment of borrowings in 2021 disclosed in Note 22 (d).

The Group management made an analysis of impairment indicators of the Group's assets considering impact of macroeconomic situation and impairment testing for some of the Group cash generating units (Note 8). No significant increase of expected credit losses or cases of significant debtor defaults have been identified. Management closely monitors the development of the situation and takes necessary measures to mitigate negative effects.

## 25 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The Group from one reporting period to another has consistently applied these accounting policies.

### (a) Basis of consolidation

#### *Subsidiaries*

Subsidiaries are those entities that the Group controls because the Group has (a) power over the investees (that is, it can direct relevant activities of the investees that significantly affect their returns); (b) exposure, or rights, to variable returns from its involvement with the investees; and (c) the ability to use its power over the investees to affect the amount of investor returns.

Subsidiaries are consolidated when the Group obtains control over an investee and terminates when the Group ceases to have control over the investee.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests, which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Parent Company's equity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of an acquiree from the aggregate of: the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

Consideration transferred for an acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as fees for advisory, legal, valuation and similar professional services. Transaction costs related to an acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

## 25 Significant accounting policies (continued)

All intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Parent Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

### **Joint ventures**

Joint ventures are entities over which the Group has joint control over financial or operating policies. Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint ventures are initially recognised at cost (fair value of the consideration transferred). The Group uses the equity method of accounting to subsequent measurement for an investment in joint ventures.

Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. The Group's share of profits or losses of joint ventures after acquisition is recorded in the consolidated statement of profit or loss for the year as share of financial result of joint ventures. The Group's share in the change of other comprehensive income after the acquisition is recorded within other comprehensive income as a separate line item. All other changes in the Group's share of the carrying amount of net assets of the joint ventures are recognised in profit or loss within the share of financial results of the joint ventures, or consolidated statement of changes in equity depending on the substance of the change.

However, when the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless this is required by law or it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses arising from transactions between the Group and its joint ventures are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

In the consolidated statement of financial position, the Group's share in the joint venture is presented at the carrying amount inclusive of goodwill at the acquisition date and the Group's share of post-acquisition profits and losses net of impairment loss.

In the consolidated statement of profit or loss the amount of impairment of investments in joint ventures is included in the line "Share of results of joint ventures and impairment of investments in joint ventures".

### **Disposals of subsidiaries and joint ventures**

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value as at the date of ceasing control or significant influence, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, or financial asset. In addition, any amounts previously recognised in other comprehensive income, in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

At the date when the Group's control ceases, it de-recognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognises profit or loss connected with the loss of control attributable to the former controlling stake.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### **(b) Cash and cash equivalents**

Cash and cash equivalents include cash balances in hand, cash on current accounts with banks, bank deposits and other short-term highly liquid investments with original maturities of three months or less.

**25 Significant accounting policies (continued)**

**(c) Value added tax (VAT)**

Output value added tax arising upon the sale of goods (performance of work, provision of services) is payable to the tax authorities on the earlier of: (a) collection of receivables from customers; or (b) delivery of goods (work, services) or property rights to customers. VAT is excluded from revenue.

Input VAT on goods and services purchased (received) is generally recoverable against output VAT upon receipt of the VAT invoice. VAT related to sales / purchases and services provision / receipt payments to the budget which has not been settled with at the balance sheet date (deferred VAT) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately within current assets and current liabilities.

Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debt, including VAT.

**(d) Inventories**

Inventories are recorded at the lower of cost and net realisable value (the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses).

Inventories include raw materials designated for use in the production process, finished goods, work in progress and goods for resale.

Release to production or any other write-down of inventories is carried at the weighted average cost.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Other costs are included in the cost of inventories only to the extent they were incurred to provide for the current location and condition of inventories.

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories, including obsolete inventories written down, shall be recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(e) Property, plant and equipment (PP&E)**

***Measurement at recognition***

Property, plant and equipment are initially stated at cost (historical cost model). The PP&E cost includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the relevant entity's management;
- the initial estimate of the cost of subsequent dismantling and removal of a fixed asset, and restoring the site on which it was located, the obligation for which the relevant entity incurs either when the item is acquired or as a consequence of having used the item during a specific period for purposes other than to produce inventories during that period.

The value of property, plant and equipment built using an entity's own resources includes the cost of materials and labour, and the relevant portion of production overhead costs directly attributable to the construction of the PP&E.

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to prepare for use or sale are included in the cost of this asset.

## 25 Significant accounting policies (continued)

Recognition of costs in the carrying amount of a property, plant and equipment item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management of the relevant entity.

### **Subsequent measurement**

Property, plant and equipment items are carried at cost less accumulated depreciation and recognised impairment losses.

### **Subsequent expenditures**

The costs of minor repairs and maintenance are expensed when incurred. The costs of regular replacement of large components of property, plant and equipment items are recognised in the carrying amount of the relevant asset when incurred subject to recognition criteria. The carrying amount of the parts being replaced is de-recognised.

When a large-scale technical inspection is conducted, related costs are recognised in the carrying amount of a fixed asset as replacement of previous technical inspection subject to recognition criteria. Any costs related to the previous technical inspection that remain in the carrying value shall be de-recognised.

Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in these assets.

All other expenses are treated as costs in the consolidated statement of profit or loss in the reporting period as incurred.

Property, plant and equipment line of the consolidated statement of financial position also includes capital construction and machinery, and equipment to be installed.

If PP&E items include major units with different useful lives, then each individual unit of the related asset is accounted for separately.

### **Borrowing costs**

Borrowing costs are capitalised from the date of capitalisation and up to the date when the assets are substantially ready for utilisation or sale.

The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale.

When funds borrowed for common purposes are used to purchase an asset, capitalised borrowing costs are determined through multiplying the capitalisation rate by expenses related to the asset.

Interest payments capitalised under IAS 23 are classified in consolidated statement of cash flows in a manner that is consistent with the classification of the underlying asset on which the interest is capitalised.

All other borrowing costs are attributed to expenses in the reporting period when incurred and recorded in the consolidated statement of profit or loss in the "Finance costs" line.

### **Mineral rights**

Exploration and evaluation assets are carried at original cost and classified consistently within tangible or intangible assets depending on their nature. Mineral rights acquired as a result of a business combination are measured at fair value at the acquisition date. Other mineral rights and licenses are recorded at cost. Mineral rights are amortised using the straight-line basis over the license term given approximately even production output during the license period.

## 25 Significant accounting policies (continued)

### **Right-of-use assets**

The Group leases various land, buildings, equipment and transport. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis and accounted within Property, plant and equipment.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

### **Depreciation**

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets through an even write-down of historical cost to their net book value. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation commences from the time an asset is available for use, i.e. when the location and condition provide for its operation in line with the Group management's intentions.

Depreciation is not charged on assets to be disposed of and on land. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the consumption of benefits to be derived from it.

The range of estimated useful lives of different asset categories is as follows:

|   |               |
|---|---------------|
| Buildings and land and buildings improvements | 10 – 70 years |
| Machinery and equipment                       | 2 – 30 years  |
| Vehicles                                      | 5 – 25 years  |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (h) "Impairment of non-current assets".

## 25 Significant accounting policies (continued)

### (f) Leases

#### **Applicable for the reporting periods starting 1 January 2019**

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

#### **Applicable for the reporting periods earlier 1 January 2019**

Leasing transactions are classified according to the relevant lease agreements, which specify the risks and rewards associated with the leased property and distributed between the lessor and lessee. Lease agreements are classified as financial leases or operating leases.

In a financial lease, the Group receives the major portion of economic benefits and risks associated with the ownership of the asset. At the commencement of the lease term, the leased asset is recognised in the consolidated statement of financial position at the lower of fair value or discounted value of future minimum lease payments. The corresponding rental obligations are included in borrowings. Interest expenses within lease payments are charged to profit or loss over the lease term using the effective interest method.

Accounting policies for depreciation of leased assets are consistent with the accounting policies applicable to owned depreciable assets.



## 25 Significant accounting policies (continued)

A lease is classified as an operating lease if it does not imply transferring the major portion of risks and rewards associated with the ownership of the asset. Payments made under operating leases are recorded as an expense on a straight-line basis over the lease term.

### (g) Goodwill and intangible assets

Goodwill is the difference between:

- the comprehensive fair value of the consideration transferred on the acquisition date and non-controlling interest, and, where the entity is acquired in instalments, the acquisition date fair value of the non-controlling interest previously held by the buyer in the acquired entity; and
- the share of net fair value of identifiable assets acquired and liabilities assumed.

The excess of the share of net fair value of identifiable assets bought and obligations assumed by the Group over the consideration transferred and the fair value of non-controlling interest at the acquisition date previously owned by the buyer in the acquired entity, represents income from a profitable acquisition. Income is recognised in the consolidated statement of profit or loss at the acquisition date.

Goodwill on joint ventures is included in the carrying amount of investments in these entities.

When interest in the previously acquired entity increases (within non-controlling interest) goodwill is not recognised. The difference between the acquired share of net assets and consideration transferred is recognised in equity.

Goodwill is measured at historical cost and subsequently stated less accumulated impairment losses.

#### ***Impairment of goodwill***

The goodwill is not amortised but tested for impairment at least annually and whenever there are indications that goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. The evaluation of impairment for cash-generating units, among which goodwill was distributed, is performed once a year or more often, when there are indicators of impairment of such CGUs.

If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to any other assets of the CGU pro-rata to the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

#### ***Disposal of goodwill***

If goodwill is a part of the cash-generating unit, and a part of the unit is disposed of, the goodwill pertaining to that part of disposed operations is included in the carrying amount of that operation when profit or loss on its disposal is determined. In such circumstances, the goodwill disposed of is generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

#### ***Intangible assets***

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

- its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates;
- directly attributable cost of preparing the asset for its intended use.

If an intangible asset is acquired as a result of a business combination, the cost of the intangible asset equals its fair value at the acquisition date.

## 25 Significant accounting policies (continued)

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the entire period of credit unless it is capitalised in accordance with IAS 23, "Borrowing Costs".

If an intangible asset is an integral part of a fixed asset to which it belongs, then it is recorded as part of that asset.

After the initial recognition of intangibles, they are carried at cost less sum of accumulated amortisation and accumulated impairment loss. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

### **Amortisation**

Intangible assets with a definite useful life are amortised using the straight-line method over the shorter of: the useful life or legal rights thereto.

The range of estimated useful lives of different asset categories is as follows:

- |                                    |             |
|------------------------------------|-------------|
| • Mineral rights                   | 20-36 years |
| • Industrial intellectual property | 1-10 years  |

### **(h) Impairment of non-current assets**

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets with indefinite useful lives are tested for impairment at least once a year and if their carrying amount impairment indicators are identified.

### **Recoverable value measurement**

If any such impairment indicators exist, then the asset's recoverable amount is estimated. In the event of impairment, the value of the asset is written down to its recoverable value, which represents the higher of: the fair value less costs to sell or the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset or payable on the transfer of a liability at the evaluation date, in an arm's length transaction between knowledgeable, willing parties, less any direct costs related to the sale or transfer.

Value in use is the present value of estimated future cash flows from expected continuous use of an asset and its disposal at the end of its useful life.

In assessing value-in-use, the anticipated future cash proceeds are discounted to their current value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units), which in most cases are determined as individual subsidiaries of the Group. Estimated cash flows are adjusted in line with the risk of specific conditions at sites and discounted at the rate based on the weighted average cost of capital. With regard to assets that do not generate cash regardless of cash flows generated by other assets, the recoverable amounts are based on the cash-generating unit to which such assets relate.

## 25 Significant accounting policies (continued)

### **Impairment loss**

The asset's carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets' impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

### **(i) Provisions for liabilities and charges**

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in impairment losses on financial assets in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no legal right to recover cash.

### **(j) Income taxes**

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

#### **Current tax**

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

#### **Deferred tax**

Deferred tax assets and liabilities are recognised for the differences between the carrying amount of an asset or liability in the consolidated statement of financial position and their tax base.

## 25 Significant accounting policies (continued)

Deferred tax is not recognised if temporary differences:

- arise at the goodwill initial recognition;
- arise at the initial recognition (except for business combination) of assets and liabilities that do not impact taxable or accounting profits;
- are associated with investments in subsidiaries where the Group controls the timing of the reversal of these temporary differences, and it is probable that the temporary differences will not be utilised in the foreseeable future.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Estimation of deferred tax assets and liabilities reflects tax implications that would arise depending on the method to be used at the end of the reporting period to recover or settle carrying value of these assets or liabilities.

Deferred tax assets are recognised in respect of the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits may be utilised.

The carrying amount of deferred tax assets is subject to revision at the end of each reporting period and is decreased to the extent of reduced probability of receiving sufficient taxable income to benefit from utilising the deferred tax assets partially or in full.

Deferred tax assets and liabilities are offset if there is a legal right for the offset of current tax assets and liabilities, and when they relate to income taxes levied by the same tax authority or on the same taxpayer; and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### ***Uncertain tax positions***

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

### **(k) Dividends payable**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

## 25 Significant accounting policies (continued)

### (l) Revenue recognition

#### *Revenue from sales of goods and provision of services*

Revenue is recognised at a transaction price that represents an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring those goods or services. Revenue from sale of goods and services is recognised when a performance obligation is satisfied, i.e. when control over the goods or services underlying the particular performance obligation is transferred to the customer. If the Group agrees to transport goods to a specified location (typically under contracts based on certain Incoterms types), revenue is split into two performance obligations – sale of goods and rendering of transportation services. Revenue from sale of goods is recognised at a point of time, when control over the goods is transferred to the customer, normally when the goods are shipped and the risks, rewards and legal title are passed. Revenue from rendering of transportation services is recognised over time as the transportation service is provided to the customer. This is determined based on the actual days of transportation relative to the average expected days of transportation. The transaction price is allocated to the rendering of transportation services on an average transportation price per ton basis. Costs related to the rendering of transportation services are included in selling expenses.

Revenue is recorded net of discounts, provisions, value added tax and export duties, and refunds, and after excluding intra-group sales turnover.

No element of financing is deemed present as the sales are made with an average credit term of 60 days, which is consistent with market practice.

#### *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

#### *Dividend income*

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

### (m) Segment information

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, “Operating Segments”.

The Group’s organisation comprises six reportable segments:

- the Mining segment, which comprises mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, and supplies raw materials to the steel segment and third parties;
- the Russian flat products segment, comprising production and sales of steel products and coke, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanised cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- the Russian long products segment, comprising a number of steel-production facilities combined in a single production system beginning from scrap iron collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- NLMK USA, comprising production and sales of steel products in the United States;
- NLMK DanSteel and Plates Distribution Network, comprising production and sales of plates in Europe and other regions of the world;
- Investments in NBH, comprising production of hot rolled, cold rolled coils and galvanised and pre-painted steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

The accounting policies of each segment consist with the principles outlined in significant accounting policies.

## 25 Significant accounting policies (continued)

### (n) Financial instruments

#### **Financial assets**

The Group's financial assets include cash and cash equivalents, trade and other accounts receivable and short-term financial instruments which are measured at amortised cost.

Debt instruments have the following categories based on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest:

- debt instruments the payments on which represent solely payments of principal and interest and that are intended to collect payments are classified as those to be measured subsequently at amortised cost;
- debt instruments the payments on which represent solely payments of principal and interest and that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets are classified as those to be measured subsequently at fair value through other comprehensive income; and
- other financial assets are measured subsequently at fair value through profit or loss.

The Group does not have equity financial instruments.

To assess the expected credit loss on financial assets measured subsequently at amortised cost the Group uses the expected credit losses model in accordance with a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. The Group assesses expected credit losses using lifetime expected credit losses for cash and cash equivalents, trade and other accounts receivable and short-term financial investments since their terms are less than 12 months.

#### **Initial recognition of financial assets**

Financial investments measured subsequently at fair value are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

#### **Write-off**

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a de-recognition event. Indicators that there is no reasonable expectation of recovery include expiration of statute of limitation.

#### **De-recognition**

The Group de-recognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control in respect of these assets.

Control of an asset is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. If the Group neither transfers nor retains substantially all risks and rewards of ownership of the asset, but retains control over such transferred asset, the Group continues recognition of its share in this asset and the related obligation in the amount of the anticipated consideration.

## 25 Significant accounting policies (continued)

### **Modification**

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a significant increase in credit risk has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets), and recognises a modification gain or loss in profit or loss.

### **Financial liabilities**

The Group's financial liabilities include trade and other payables, bank overdrafts, borrowings and financial guarantee agreements.

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss, except for the change of the fair value attributable to the change of own credit risk, which is recognized in other comprehensive income.

#### *Borrowings*

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

#### **Initial recognition of financial liabilities**

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

#### **De-recognition**

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

## 25 Significant accounting policies (continued)

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

### **Financial guarantee agreements**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments*; or
- the amount initially recognized, where applicable, less the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations by the third party. Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

### **Cash flow hedge accounting**

At inception of the hedge relationship, the Group documents its objective and strategy, identifies the hedging instrument and the hedged item, the nature of the hedged risk and method for evaluation whether the hedge relationship meets the hedge effectiveness requirements.

The hedge relationship meets all of the hedge effectiveness requirements when:

- an economic relationship exists between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes;
- the hedge ratio reflects the ratio between the quantity of the hedged item and the quantity of the hedging instrument.

The Group applies cash flow hedge accounting, the hedge objective is to protect the cash flows from exchange rate exposure by hedging the expected highly probable US dollars nominated revenue with the portion of US dollars nominated borrowings.

The effective portion of changes in the fair value of the hedging instrument (i.e. that portion which is compensated by the change in the hedge reserve of cash flows) is recognised in other comprehensive income and accumulated in hedge reserve of cash flows in equity.

The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss in separate line "Hedging result".

The amounts accumulated in equity are reclassified to profit or loss in the periods when payments on bonds and bonds' coupons occur.

The Group should revoke the hedge accounting prospectively when the hedge relationship (or part of the hedge relationship) no longer meets the criteria for hedge accounting. This requirement is also applied when the hedging instrument is expired or is sold, terminated, or exercised.



## 26 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures to this consolidated financial statements. Management also makes certain judgements in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, and management's estimates can be revised in the future, either positively or negatively, based on the facts surrounding each estimate.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities within the next financial year are reported below.

### (a) Tax legislation and potential tax gains and losses

The Group's potential tax gains and losses are reassessed by management at every reporting date. Liabilities which are recorded for income tax positions are determined by management based on the interpretation of current tax laws. Liabilities for penalties, fines and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax liabilities at the reporting date (Note 24).

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the statement of financial position (Note 17). Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

### (b) Estimation of useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production volumes, inventories, technical obsolescence rates, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may affect future useful lives (Note 8).

### (c) Impairment analysis of property, plant and equipment, goodwill and investments in joint ventures

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

## 27 New or revised standards and interpretations

The following amended standards became effective from 1 January 2020, but did not have a material impact on the Group:

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 3 *Definition of a business* (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);
- Amendments to IAS 1 and IAS 8 *Definition of materiality* (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest rate benchmark reform* (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Group has not early adopted and are not expected to have any material impact on the Group financial statements when adopted:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020;
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 17 *"Insurance Contracts"* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023);
- *Classification of liabilities as current or non-current* – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022);
- *Classification of liabilities as current or non-current, deferral of effective date* – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023);
- *Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework* – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023);
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

## 28 Subsequent events

In January 2021 the Group received refund of paid steel tariffs, enacted by Department of Commerce under Section 232 of the USA Trade Expansion Act., and accrued interests in the amount of \$105 (included in other accounts receivable as at 31 December 2020).