

# **PAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the six months ended 30 June 2019 and 2018

**PAO Severstal and subsidiaries**  
**Consolidated interim condensed financial statements**  
**Six months ended 30 June 2019 and 2018**

**Contents**

	<u>Page</u>
Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements	1
Consolidated interim condensed income statements	3
Consolidated interim condensed statements of comprehensive income	4
Consolidated interim condensed statements of financial position	5
Consolidated interim condensed statements of cash flows	6
Consolidated interim condensed statements of changes in equity	7
Notes to the consolidated interim condensed financial statements	8 – 15
1. Accounting policies and estimates	8
2. Revenue	9
3. Foreign exchange gain/(loss), net	9
4. Related party transactions	10
5. Related party balances	10
6. Carrying amounts and fair values	10
7. Assets held for sale	11
8. Alternative performance measures	11
9. Contingencies for litigation liabilities	14
10. Capital commitments	15
11. Dividends	15



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## Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors  
PAO Severstal

### **Introduction**

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO Severstal (the "Company") and its subsidiaries (the "Group") as at 30 June 2019, and the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2019 and 2018, and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month periods ended 30 June 2019 and 2018, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our reviews.

### **Scope of Reviews**

We conducted our reviews in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Reviewed entity: PAO Severstal  
Registration No. in the Unified State Register of Legal Entities  
1023501236901  
Cherepovets, Russia.

Audit firm: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Registration No. in the Unified State Register of Legal Entities  
1027700125628

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203



**Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2019 and for the three- and six-month periods ended 30 June 2019 and 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Larisa Kiseleva

JSC "KPMG"

Moscow, Russia

18 July 2019

# PAO Severstal and subsidiaries

## Consolidated interim condensed income statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	Six months ended 30 June		Three months ended 30 June	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
<b>Revenue</b>					
Revenue - third parties		4,130	4,360	2,136	2,223
Revenue - related parties	4	78	72	41	36
	2	4,208	4,432	2,177	2,259
Cost of sales		(2,573)	(2,579)	(1,308)	(1,265)
<b>Gross profit</b>		1,635	1,853	869	994
General and administrative expenses		(183)	(157)	(108)	(77)
Distribution expenses		(261)	(304)	(138)	(139)
Other taxes and contributions		(27)	(33)	(15)	(15)
Share of associates' and joint ventures' gain		11	8	6	4
Loss on disposal of property, plant and equipment and intangible assets		(6)	(19)	(6)	(7)
Net other operating income		11	3	17	6
<b>Profit from operations</b>		1,180	1,351	625	766
Reversal of impairment of non-current assets		-	2	-	3
Net other non-operating expenses		(24)	(22)	(9)	(13)
<b>Profit before financing and taxation</b>		1,156	1,331	616	756
Finance income		3	12	2	4
Finance costs		(62)	(61)	(37)	(28)
(Loss)/gain on disposal and remeasurement of financial instruments		(51)	14	(16)	7
Foreign exchange gain/(loss), net	3	101	(44)	30	(56)
<b>Profit before income tax</b>		1,147	1,252	595	683
Income tax expense		(244)	(234)	(120)	(126)
<b>Profit for the period</b>		903	1,018	475	557
Attributable to shareholders of PAO Severstal					
		903	1,018	475	557
Basic weighted average number of shares outstanding during the period (millions of shares)		823.7	814.3	825.0	814.4
Basic earnings per share (US dollars)		1.10	1.25	0.58	0.68
Diluted weighted average number of shares outstanding during the period (millions of shares)		849.1	846.7	848.6	814.4
Diluted earnings per share (US dollars)		1.09	1.24	0.57	0.68

These consolidated interim condensed financial statements were approved by the Board of Directors on 18 July 2019.

The accompanying notes form an integral part of these consolidated interim condensed financial statements.

## PAO Severstal and subsidiaries

### Consolidated interim condensed statements of comprehensive income Six months ended 30 June 2019 and 2018

*(Amounts expressed in millions of US dollars, except as otherwise stated)*

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
<b>Profit for the period</b>	903	1,018	475	557
<b>Other comprehensive income/(loss):</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial losses	(2)	(2)	-	-
Translation to presentation currency	304	(324)	77	(340)
<b>Total items that will not be reclassified to profit or loss</b>	<u>302</u>	<u>(326)</u>	<u>77</u>	<u>(340)</u>
<b>Items that may be reclassified subsequently to profit or loss</b>				
Translation to presentation currency - foreign operations	-	(3)	1	(7)
Changes in fair value of financial assets measured through other comprehensive income	-	-	-	5
<b>Total items that may be reclassified subsequently to profit or loss</b>	<u>-</u>	<u>(3)</u>	<u>1</u>	<u>(2)</u>
<b>Items that were reclassified to profit or loss</b>				
Changes in fair value of financial assets measured through other comprehensive income	-	(4)	-	(4)
<b>Total items that were reclassified to profit or loss</b>	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>(4)</u>
<b>Other comprehensive income/(loss) for the period</b>	<u>302</u>	<u>(333)</u>	<u>78</u>	<u>(346)</u>
<b>Total comprehensive income for the period</b>	<u>1,205</u>	<u>685</u>	<u>553</u>	<u>211</u>
 Attributable to shareholders of PAO Severstal	 <u>1,205</u>	 <u>685</u>	 <u>553</u>	 <u>211</u>

The accompanying notes form an integral part of these consolidated interim condensed financial statements.

## PAO Severstal and subsidiaries

### Consolidated interim condensed statements of financial position Six months ended 30 June 2019 and 2018 (Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	30 June 2019 (unaudited)	31 December 2018
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		345	228
Short-term financial investments		3	7
Trade accounts receivable		658	554
Accounts receivable from related parties	5	26	20
Inventories		1,190	1,087
VAT recoverable		68	66
Income tax recoverable		7	5
Other current assets		147	105
Assets held for sale	7	265	-
<b>Total current assets</b>		<u>2,709</u>	<u>2,072</u>
<b>Non-current assets:</b>			
Long-term financial investments		13	8
Investments in associates and joint ventures		89	76
Property, plant and equipment		3,937	3,469
Intangible assets		253	212
Deferred tax assets		43	27
Other non-current assets		12	10
<b>Total non-current assets</b>		<u>4,347</u>	<u>3,802</u>
<b>Total assets</b>		<u>7,056</u>	<u>5,874</u>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable		595	545
Accounts payable to related parties	5	17	21
Short-term debt finance	6	255	110
Income taxes payable		27	11
Other taxes and social security payable		161	107
Dividends payable		6	6
Other current liabilities	6	408	323
Liabilities related to assets held for sale	7	59	-
<b>Total current liabilities</b>		<u>1,528</u>	<u>1,123</u>
<b>Non-current liabilities:</b>			
Long-term debt finance	6	1,559	1,345
Deferred tax liabilities		336	295
Retirement benefit liabilities		64	56
Other non-current liabilities	6	314	176
<b>Total non-current liabilities</b>		<u>2,273</u>	<u>1,872</u>
<b>Equity:</b>			
Share capital		2,753	2,753
Treasury shares		(107)	(133)
Additional capital		308	308
Translation reserve		(2,041)	(2,345)
Retained earnings		2,320	2,274
Other reserves		8	8
<b>Total equity attributable to shareholders of PAO Severstal</b>		<u>3,241</u>	<u>2,865</u>
<b>Non-controlling interests</b>		<u>14</u>	<u>14</u>
<b>Total equity</b>		<u>3,255</u>	<u>2,879</u>
<b>Total equity and liabilities</b>		<u>7,056</u>	<u>5,874</u>

The accompanying notes form an integral part of these consolidated interim condensed financial statements.

# PAO Severstal and subsidiaries

## Consolidated interim condensed statements of cash flows Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

	Six months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
<b>Operating activities:</b>		
Profit before financing and taxation	1,156	1,331
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortisation	230	206
Reversal of impairment of non-current assets	-	(2)
Movements in provision for inventories, receivables and other provisions	7	5
Loss on disposal of property, plant and equipment and intangible assets	6	19
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(11)	(8)
Changes in operating assets and liabilities:		
Trade accounts receivable	(74)	(2)
Accounts receivable from related parties	(4)	(6)
VAT recoverable	2	(33)
Inventories	(13)	39
Trade accounts payable	24	(11)
Accounts payable to related parties	1	(6)
Other taxes and social security payable	49	39
Other non-current liabilities	(4)	(6)
Net other changes in operating assets and liabilities	18	(105)
<b>Cash generated from operations</b>	<b>1,387</b>	<b>1,460</b>
Interest paid	(48)	(57)
Income tax paid	(222)	(240)
<b>Net cash from operating activities</b>	<b>1,117</b>	<b>1,163</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(461)	(286)
Additions to intangible assets	(15)	(10)
Additions to financial investments	(6)	(17)
Proceeds from disposal of property, plant and equipment	8	6
Proceeds from disposal of financial investments	6	200
Interest received	3	14
<b>Net cash used in investing activities</b>	<b>(465)</b>	<b>(93)</b>
<b>Financing activities:</b>		
Proceeds from debt finance	383	8
Acquisition of non-controlling interests	-	(2)
Repayments of debt finance *	(52)	(562)
Repayments of lease liabilities	(7)	-
Dividends paid	(870)	(172)
<b>Net cash used in financing activities</b>	<b>(546)</b>	<b>(728)</b>
Effect of exchange rates on cash and cash equivalents	11	3
<b>Net increase in cash and cash equivalents</b>	<b>117</b>	<b>345</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>228</b>	<b>1,031</b>
<b>Cash and cash equivalents at end of the period</b>	<b>345</b>	<b>1,376</b>

\* For the six months ended 30 June 2019 this amount includes exercise of bonds' conversion rights of US\$ 50 million.

The accompanying notes form an integral part of these consolidated interim condensed financial statements.

## PAO Severstal and subsidiaries

### Consolidated interim condensed statements of changes in equity

Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

	Attributable to shareholders of PAO Severstal						Non-	Total	
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	controlling interests		
Balances at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	15	3,398
Profit for the period (unaudited)	-	-	-	-	1,018	-	1,018	-	1,018
Translation to presentation currency (unaudited)	-	-	-	(327)	-	-	(327)	-	(327)
Other comprehensive loss (unaudited)	-	-	-	-	(6)	-	(6)	-	(6)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(327)	1,012	-	685	-	685
Dividends (unaudited)	-	-	-	-	(871)	-	(871)	-	(871)
Conversion of bonds (unaudited)	-	11	-	-	-	-	11	-	11
Other (unaudited)	-	-	-	-	2	(3)	(1)	(1)	(2)
Balances at 30 June 2018 (unaudited)	2,753	(195)	308	(2,006)	2,338	9	3,207	14	3,221
Balances at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	2,865	14	2,879
Profit for the period (unaudited)	-	-	-	-	903	-	903	-	903
Translation to presentation currency (unaudited)	-	-	-	304	-	-	304	-	304
Other comprehensive loss (unaudited)	-	-	-	-	(2)	-	(2)	-	(2)
Total comprehensive income for the period (unaudited)	-	-	-	304	901	-	1,205	-	1,205
Dividends (unaudited)	-	-	-	-	(855)	-	(855)	-	(855)
Conversion of bonds (unaudited)	-	26	-	-	-	-	26	-	26
Balances at 30 June 2019 (unaudited)	2,753	(107)	308	(2,041)	2,320	8	3,241	14	3,255

The accompanying notes form an integral part of these consolidated interim condensed financial statements.

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

### 1. Accounting policies and estimates

These consolidated interim condensed financial statements of PAO Severstal and subsidiaries ('the Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board. The Group additionally prepared IFRS consolidated interim condensed financial statements presented in Russian roubles and in the Russian language in accordance with the Federal Law No. 208-FZ On consolidated financial reporting.

The following exchange rates were used in the consolidated interim condensed financial statements:

	30 June 2019	Six months ended 30 June 2019	Three months ended 30 June 2019	31 December 2018	30 June 2018	Six months ended 30 June 2018	Three months ended 30 June 2018
USD/RUB	63.08	65.33	64.56	69.47	62.76	59.35	61.79
EUR/USD	1.15	1.14	1.13	1.15	1.17	1.21	1.19

#### *Adoption of new Standards*

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2018, except that the Group has adopted those new Standards that are mandatory for financial annual periods beginning on 1 January 2019.

The Group has adopted *IFRS 16 Leases* using the modified retrospective approach with the effect of initial application recognised as at 1 January 2019. Accordingly, the information presented for comparative periods has not been restated.

On transition date, the discounted present value of the Group's operating lease payments, except for agreements with variable lease payments, amounting to US\$ 47 million was recognised as right-of-use assets and corresponding lease liabilities.

The lease liability is discounted using the Group's incremental borrowing rates varying between 1% and 10% depending on the lease agreement's currency. For some specific lease agreements, the discount rate is determined by the interest rate implicit in these lease agreements.

The Group's right-of-use assets include land and buildings, plant and machinery, vehicles and other productive assets. Short-term and low value leases are accounted as leases; lease and non-lease components are treated as a single lease item for all leased assets.

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

#### 2. Revenue

Revenue by product was as follows:

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Hot-rolled strip and plate	1,376	1,414	683	736
Pellets and iron ore	382	305	206	184
Long products	360	362	198	189
Galvanized and other metallic coated sheet	353	316	185	170
Cold-rolled sheet	315	448	152	205
Metalware products	257	273	138	143
Shipping and handling *	246	295	126	142
Other tubes and pipes, formed shapes	223	248	122	131
Colour-coated sheet	216	160	129	99
Large diameter pipes	207	243	110	90
Semi-finished products	82	204	31	94
Coal and coking coal concentrate	59	35	25	15
Scrap	2	3	1	1
Others	130	126	71	60
	<u>4,208</u>	<u>4,432</u>	<u>2,177</u>	<u>2,259</u>

\* Shipping and handling do not represent a separate performance obligation under IFRS 15 "Revenue from contracts with customers" and is disclosed only for presentation purposes. For the six months ended 30 June 2019 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 13 million and US\$ 233 million, respectively (six months ended 30 June 2018: US\$ 62 million and US\$ 233 million, respectively).

Revenue by delivery destination was as follows:

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Russian Federation	2,873	2,540	1,532	1,364
Europe	919	1,214	414	621
CIS	234	241	122	120
Central and South America	55	31	34	9
The Middle East	51	182	30	53
Africa	41	83	21	54
North America	34	115	23	38
China and Central Asia	1	26	1	-
	<u>4,208</u>	<u>4,432</u>	<u>2,177</u>	<u>2,259</u>

#### 3. Foreign exchange gain/(loss), net

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	104	(63)	28	(69)
Foreign exchange (loss)/gain on other assets and liabilities	(3)	19	2	13
	<u>101</u>	<u>(44)</u>	<u>30</u>	<u>(56)</u>

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

#### 4. Related party transactions

	Six months ended 30 June		Three months ended 30 June	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue from:				
Associates	14	16	7	8
Joint ventures	42	40	22	21
Other related parties	22	16	12	7
Income from services to other related parties	6	5	3	2
	<u>84</u>	<u>77</u>	<u>44</u>	<u>38</u>
Purchases from:				
Associates	31	33	16	16
Joint ventures	3	3	1	1
Other related parties	30	22	14	14
	<u>64</u>	<u>58</u>	<u>31</u>	<u>31</u>

#### 5. Related party balances

	30 June 2019 (unaudited)	31 December 2018
Accounts receivable:		
Associates	3	3
Joint ventures	9	6
Other related parties	14	11
	<u>26</u>	<u>20</u>
Accounts payable:		
Associates	6	6
Other related parties	11	15
	<u>17</u>	<u>21</u>
Short-term loans - Joint ventures	-	6
Long-term loans - Joint ventures	7	5
	<u>7</u>	<u>11</u>

The amounts outstanding are expected to be settled in cash. The Group did not hold any collateral for amounts owed by related parties.

#### 6. Carrying amounts and fair values

In April 2019, the Group issued two rouble denominated bonds amounting to US\$ 230 million and US\$ 153 million with put-options in 2026 and 2024, respectively, both due in 2029. The bonds bear an interest rate of 8.65% per annum, which is payable every 182 days, beginning in October 2019. Proceeds from the bond issues were used mainly for general corporate purposes. As at 30 June 2019 the amounts outstanding under these facilities were US\$238 million and US\$158 million, respectively.

As at 30 June 2019, the value of the conversion option of convertible bonds maturing in 2021 was US\$ 38 million and was determined with reference to the quoted market price (level 2 of the fair

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

value hierarchy) and included in other non-current liabilities (31 December 2018: US\$ 50 million was included in other current liabilities).

As at 30 June 2019, the value of the conversion option of convertible bonds maturing in 2022 was US\$ 77 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities (31 December 2018: US\$ 35 million was included in other non-current liabilities).

The fair value of the Group's other financial liabilities was greater than their carrying amount by approximately US\$ 55 million (31 December 2018: US\$ 4 million).

#### 7. Assets held for sale

##### AO Severstal LPM Balakovo

In May 2019 Severstal entered into a definitive agreement to sell its subsidiary AO Severstal LPM Balakovo and accordingly has classified it as "held for sale". Its major assets and liabilities have been measured at the lower of the carrying amount and the fair value less costs to sell, based on the offer price. The carrying values at 30 June 2019 are summarised below:

	30 June 2019 (unaudited)
<b>Current assets:</b>	
Inventories	21
VAT recoverable	1
Other current assets	2
<b>Total current assets</b>	<b>24</b>
<b>Non-current assets:</b>	
Property, plant and equipment	240
Intangible assets	1
<b>Total non-current assets</b>	<b>241</b>
<b>Total assets</b>	<b>265</b>
<b>Current liabilities:</b>	
Trade accounts payable	26
Other taxes and social security payable	15
Other current liabilities	2
<b>Total current liabilities</b>	<b>43</b>
<b>Non-current liabilities:</b>	
Deferred tax liabilities	16
<b>Total non-current liabilities</b>	<b>16</b>
<b>Total equity and liabilities</b>	<b>59</b>

#### 8. Alternative performance measures

As at 30 June 2019, the Group had two reportable segments: Severstal Resources and Severstal Russian Steel.

Severstal Resources has its extraction facilities in the Russian Federation producing iron ore and coal.

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

Severstal Russian Steel produces a wide range of products, including hot-rolled sheets, profiles, large-diameter pipes and cold-rolled coated sheets encompassing sheets for the automotive industry, hot-rolled plates, metalware and long products in steel production facilities located in the Russian Federation. It sells products to the domestic Russian market, serving the needs of the Russian automotive, construction and service processing, machinery, oil and gas and other industries, as well as the international market.

The Group uses EBITDA and free cash flow among other alternative performance measures to assess the underlying performance of the business.

The following is an analysis of the Group's revenue and a reconciliation of profit from operations to EBITDA by segment:

Six months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	1,158	4,117	(1,067)	4,208
<b>Profit from operations</b>	630	637	(87)	1,180
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	79	150	-	229
Loss on disposal of property, plant and equipment and intangible assets	2	4	-	6
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	1	-	1
<b>EBITDA</b>	<u>711</u>	<u>792</u>	<u>(87)</u>	<u>1,416</u>

Additional information:

intersegment revenue	1,030	37	(1,067)	-
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Six months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	877	4,061	(506)	4,432
<b>Profit from operations</b>	345	1,013	(7)	1,351
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	70	135	-	205
Loss on disposal of property, plant and equipment and intangible assets	5	14	-	19
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	3	2	5
<b>EBITDA</b>	<u>420</u>	<u>1,165</u>	<u>(5)</u>	<u>1,580</u>

Additional information:

intersegment revenue	468	38	(506)	-
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## PAO Severstal and subsidiaries

**Notes to the consolidated interim condensed financial statements**  
**Six months ended 30 June 2019 and 2018**  
*(Amounts expressed in millions of US dollars, except as otherwise stated)*

Three months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	647	2,151	(621)	2,177
<b>Profit from operations</b>	374	311	(60)	625
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	41	77	1	119
Loss/(gain) on disposal of property, plant and equipment and intangible assets	1	6	(1)	6
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	3	-	3
<b>EBITDA</b>	<u>416</u>	<u>397</u>	<u>(60)</u>	<u>753</u>

Additional information:  
intersegment revenue

602	19	(621)	-
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Three months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	475	2,036	(252)	2,259
<b>Profit from operations</b>	196	560	10	766
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	32	66	-	98
Loss on disposal of property, plant and equipment and intangible assets	4	3	-	7
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	1	2	3
<b>EBITDA</b>	<u>232</u>	<u>630</u>	<u>12</u>	<u>874</u>

Additional information:  
intersegment revenue

231	21	(252)	-
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Reconciliation between profit from operations to profit before income tax is presented in the consolidated interim condensed income statements.

The following is a reconciliation of net cash from operating activities to free cash flow:

Six months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Net cash from operating activities</b>	678	413	26	1,117
Additions to property, plant and equipment	(175)	(286)	-	(461)
Additions to intangible assets	(3)	(11)	(1)	(15)
Proceeds from disposal of property, plant and equipment	-	8	-	8
Interest received	21	6	(24)	3
<b>Free cash flow</b>	<u>521</u>	<u>130</u>	<u>1</u>	<u>652</u>

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

(Amounts expressed in millions of US dollars, except as otherwise stated)

Six months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Net cash from operating activities</b>	300	828	35	1,163
Additions to property, plant and equipment	(136)	(150)	-	(286)
Additions to intangible assets	(1)	(10)	1	(10)
Proceeds from disposal of property, plant and equipment	-	6	-	6
Interest received	29	22	(37)	14
<b>Free cash flow</b>	<u>192</u>	<u>696</u>	<u>(1)</u>	<u>887</u>

Three months ended 30 June 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Net cash from operating activities</b>	349	146	26	521
Additions to property, plant and equipment	(93)	(164)	-	(257)
Additions to intangible assets	(3)	(6)	(1)	(10)
Proceeds from disposal of property, plant and equipment	-	6	-	6
Interest received	21	5	(23)	3
<b>Free cash flow</b>	<u>274</u>	<u>(13)</u>	<u>2</u>	<u>263</u>

Three months ended 30 June 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Net cash from operating activities</b>	120	596	34	750
Additions to property, plant and equipment	(77)	(78)	-	(155)
Additions to intangible assets	(1)	(5)	1	(5)
Proceeds from disposal of property, plant and equipment	-	4	-	4
Interest received	28	12	(36)	4
<b>Free cash flow</b>	<u>70</u>	<u>529</u>	<u>(1)</u>	<u>598</u>

## 9. Contingencies for litigation liabilities

In 2015 a claw-back claim had been made by Lucchini S.p.A's ('Lucchini') extraordinary commissioner against the Group's subsidiary amounting to approximately US\$ 142 million.

The bankruptcy claw-back action is a remedy offered by the Italian Bankruptcy Act to allow commissioners to declare ineffective, vis-à-vis all creditors of a bankrupt company, certain payments and transactions executed in the period preceding the insolvency declaration that altered the equal treatment of all the unsecured creditors of an insolvent debtor. Lucchini was previously the Group's subsidiary and was deconsolidated in 2011 and currently is under the bankruptcy procedure. This claim relates to cash received by the Group's subsidiary for supplies of raw materials to Lucchini primarily during the period when Lucchini was already not part of the Group.

The judge of the first instance court reduced the amount of the claw-back claim in its decision of 25 May 2018 to US\$ 86 million. Management did not agree both with this claim and the judgement of the first instance court and appealed against the court decision on 18 July 2018.

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Six months ended 30 June 2019 and 2018

*(Amounts expressed in millions of US dollars, except as otherwise stated)*

The hearing is scheduled on 28 April 2020. The Group and its legal advisors believe that there are strong grounds in support of the Group's position, however, the Group is unable to assess the ultimate outcome of the claim, including the outflow of the financial resources to settle the claim, if any, because it depends on multiple circumstances concerning the facts and the applicability and interpretation of the relevant statutes. In case the Group has to make any payment, the relevant amount paid will be included in Lucchini's creditors' list and will be settled in the course of the bankruptcy procedure.

#### 10. Capital commitments

As at 30 June 2019, the Group had contractual capital commitments of US\$ 249 million (31 December 2018: US\$ 247 million).

#### 11. Dividends

On 1 February 2018, the Board of Directors recommended an annual dividend of RUB 27.72 per share and per GDR for the year ended 31 December 2017 subject to approval at the Annual General Meeting of Shareholders in June 2018.

On 8 June 2018, the Meeting of Shareholders approved an annual dividend of RUB 27.72 (US\$ 0.45 at 8 June 2018 exchange rate) per share and per GDR for the year ended 31 December 2017 and an interim dividend of RUB 38.32 (US\$ 0.62 at 8 June 2018 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2018.

On 26 April 2019, the Meeting of Shareholders approved an annual dividend of RUB 32.08 (US\$ 0.50 at 26 April 2019 exchange rate) per share and per GDR for the year ended 31 December 2018.

On 7 June 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 35.43 (US\$ 0.54 at 7 June 2019 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2019.