

# **PAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the three months ended 31 March 2019 and 2018

**PAO Severstal and subsidiaries**  
**Consolidated interim condensed financial statements**  
**Three months ended 31 March 2019 and 2018**

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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 31 March 2019, and the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 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 International Financial Reporting Standard 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.

Audited entity: PAO Severstal

Registration No. in the Unified State Register of Legal Entities  
1023501236901.

Cherepovets, Russia.

Independent auditor: 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.



**PAO Severstal**

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**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 31 March 2019 and for the three-month periods ended 31 March 2019 and 2018 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Larisa Kiseleva

JSC "KPMG"

Moscow, Russia

18 April 2019

## PAO Severstal and subsidiaries

### Consolidated interim condensed income statements Three months ended 31 March 2019 and 2018

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

	Note	Three months ended 31 March	
		2019 (unaudited)	2018 (unaudited)
<b>Revenue</b>			
Revenue - third parties		1,994	2,137
Revenue - related parties	4	37	36
	2	2,031	2,173
Cost of sales		(1,265)	(1,314)
<b>Gross profit</b>		766	859
General and administrative expenses		(75)	(80)
Distribution expenses		(123)	(165)
Other taxes and contributions		(12)	(18)
Share of associates' and joint ventures' gain		5	4
Loss on disposal of property, plant and equipment and intangible assets		-	(12)
Net other operating expenses		(6)	(3)
<b>Profit from operations</b>		555	585
Impairment of non-current assets		-	(1)
Net other non-operating expenses		(15)	(9)
<b>Profit before financing and taxation</b>		540	575
Finance income		1	8
Finance costs		(25)	(33)
(Loss)/gain on remeasurement of financial instruments		(35)	7
Foreign exchange gain, net	3	71	12
<b>Profit before income tax</b>		552	569
Income tax expense		(124)	(108)
<b>Profit for the period</b>		428	461
Attributable to shareholders of PAO Severstal		428	461
Basic weighted average number of shares outstanding during the period (millions of shares)		822.5	814.1
Basic earnings per share (US dollars)		0.52	0.57
Diluted weighted average number of shares outstanding during the period (millions of shares)		849.5	846.6
Diluted earnings per share (US dollars)		0.52	0.54

These consolidated interim condensed financial statements were approved by the Board of Directors on 18 April 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 Three months ended 31 March 2019 and 2018

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

	Three months ended 31 March	
	2019 (unaudited)	2018 (unaudited)
<b>Profit for the period</b>	428	461
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial losses	(2)	(2)
Translation to presentation currency	227	16
<b>Total items that will not be reclassified to profit or loss</b>	225	14
<b>Items that may be reclassified subsequently to profit or loss</b>		
Translation to presentation currency - foreign operations	(1)	4
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>	(1)	(1)
<b>Other comprehensive income for the period</b>	224	13
<b>Total comprehensive income for the period</b>	652	474
 Attributable to shareholders of PAO Severstal	 652	 474

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 31 March 2019 and 31 December 2018 (Amounts expressed in millions of US dollars, except as otherwise stated)

	31 March 2019	31 December 2018
	Note	(unaudited)
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents		583
Short-term financial investments		7
Trade accounts receivable		615
Accounts receivable from related parties	5	23
Inventories		1,099
VAT recoverable		45
Income tax recoverable		6
Other current assets		146
<b>Total current assets</b>		<b>2,524</b>
<b>Non-current assets:</b>		
Long-term financial investments		9
Investments in associates and joint ventures		83
Property, plant and equipment		3,871
Intangible assets		224
Deferred tax assets		32
Other non-current assets		17
<b>Total non-current assets</b>		<b>4,236</b>
<b>Total assets</b>		<b>6,760</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable		563
Accounts payable to related parties	5	16
Short-term debt finance		319
Income taxes payable		18
Other taxes and social security payable		147
Dividends payable		7
Other current liabilities	6	415
<b>Total current liabilities</b>		<b>1,485</b>
<b>Non-current liabilities:</b>		
Long-term debt finance		1,127
Deferred tax liabilities		333
Retirement benefit liabilities		62
Other non-current liabilities	6	222
<b>Total non-current liabilities</b>		<b>1,744</b>
<b>Equity:</b>		
Share capital		2,753
Treasury shares		(133)
Additional capital		308
Translation reserve		(2,119)
Retained earnings		2,700
Other reserves		8
<b>Total equity attributable to shareholders of PAO Severstal</b>		<b>3,517</b>
<b>Non-controlling interests</b>		<b>14</b>
<b>Total equity</b>		<b>3,531</b>
<b>Total equity and liabilities</b>		<b>6,760</b>

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 Three months ended 31 March 2019 and 2018

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

	Three months ended 31 March	
	2019 (unaudited)	2018 (unaudited)
<b>Operating activities:</b>		
Profit before financing and taxation	540	575
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortisation	110	107
Impairment of non-current assets	-	1
Movements in provision for inventories, receivables and other provisions	(1)	2
Loss on disposal of property, plant and equipment and intangible assets	-	12
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(5)	(4)
Changes in operating assets and liabilities:		
Trade accounts receivable	(36)	(104)
Accounts receivable from related parties	(2)	(3)
VAT recoverable	25	(41)
Inventories	62	67
Trade accounts payable	14	(5)
Accounts payable to related parties	-	(2)
Other taxes and social security payable	32	30
Other non-current liabilities	(3)	(6)
Net other changes in operating assets and liabilities	(17)	(57)
<b>Cash generated from operations</b>	<b>719</b>	<b>572</b>
Interest paid	(20)	(30)
Income tax paid	(103)	(129)
<b>Net cash from operating activities</b>	<b>596</b>	<b>413</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(204)	(131)
Additions to intangible assets	(5)	(5)
Additions to financial investments	(2)	(10)
Proceeds from disposal of property, plant and equipment	2	2
Proceeds from disposal of financial investments	1	1
Interest received	-	10
<b>Net cash used in investing activities</b>	<b>(208)</b>	<b>(133)</b>
<b>Financing activities:</b>		
Acquisition of non-controlling interests	-	(1)
Repayments of debt finance *	(30)	(553)
Repayments of lease liabilities	(3)	-
<b>Net cash used in financing activities</b>	<b>(33)</b>	<b>(554)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>355</b>	<b>(274)</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>583</b>	<b>757</b>

\* For the three months ended 31 March 2019 this amount includes exercise of bonds' conversion rights of US\$ 30 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

Three months ended 31 March 2019 and 2018

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

	Attributable to shareholders of PAO Severstal						Non-controlling interests	Total	
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total		
Balances at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	15	3,398
Profit for the period (unaudited)	-	-	-	-	461	-	461	-	461
Translation to presentation currency (unaudited)	-	-	-	20	-	-	20	-	20
Other comprehensive loss (unaudited)	-	-	-	-	(2)	(5)	(7)	-	(7)
Total comprehensive income/(loss) for the period (unaudited)	-	-	-	20	459	(5)	474	-	474
Other (unaudited)	-	-	-	-	(2)	-	(2)	-	(2)
Balances as at 31 March 2018 (unaudited)	2,753	(206)	308	(1,659)	2,652	7	3,855	15	3,870
Balances at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	2,865	14	2,879
Profit for the period (unaudited)	-	-	-	-	428	-	428	-	428
Translation to presentation currency (unaudited)	-	-	-	226	-	-	226	-	226
Other comprehensive loss (unaudited)	-	-	-	-	(2)	-	(2)	-	(2)
Total comprehensive income for the period (unaudited)	-	-	-	226	426	-	652	-	652
Balances as at 31 March 2019 (unaudited)	2,753	(133)	308	(2,119)	2,700	8	3,517	14	3,531

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 Three months ended 31 March 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 following exchange rates were used in the consolidated interim condensed financial statements:

	<u>31 March 2019</u>	<u>Three months ended 31 March 2019</u>	<u>31 December 2018</u>	<u>31 March 2018</u>	<u>Three months ended 31 March 2018</u>
USD/RUB	64.73	66.12	69.47	57.26	56.88
EUR/USD	1.12	1.14	1.15	1.23	1.23

### *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 Three months ended 31 March 2019 and 2018

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

#### 2. Revenue

Revenue by product was as follows:

	Three months ended 31 March	
	2019	2018
	(unaudited)	(unaudited)
Hot-rolled strip and plate	693	678
Pellets and iron ore	176	121
Galvanized and other metallic coated sheet	168	146
Cold-rolled sheet	163	243
Long products	162	173
Shipping and handling *	120	153
Metalware products	119	130
Other tubes and pipes, formed shapes	101	117
Large diameter pipes	97	153
Colour-coated sheet	87	61
Semi-finished products	51	110
Coal and coking coal concentrate	34	20
Scrap	1	2
Others	59	66
	<u>2,031</u>	<u>2,173</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 three months ended 31 March 2019 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 9 million and US\$ 111 million, respectively (three months ended 31 March 2018: US\$ 21 million and US\$ 132 million, respectively).

Revenue by delivery destination was as follows:

	Three months ended 31 March	
	2019	2018
	(unaudited)	(unaudited)
Russian Federation	1,341	1,176
Europe	505	593
CIS	112	121
The Middle East	21	129
Central and South America	21	22
Africa	20	29
North America	11	77
China and Central Asia	-	26
	<u>2,031</u>	<u>2,173</u>

#### 3. Foreign exchange gain, net

	Three months ended 31 March	
	2019	2018
	(unaudited)	(unaudited)
Foreign exchange gain on cash and cash equivalents and debt finance	76	6
Foreign exchange (loss)/gain on other assets and liabilities	(5)	6
	<u>71</u>	<u>12</u>

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2019 and 2018

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

#### 4. Related party transactions

	Three months ended 31 March	
	2019	2018
	(unaudited)	(unaudited)
Revenue from:		
Associates	7	8
Joint ventures	20	19
Other related parties	10	9
Income from services to other related parties	3	3
	<u>40</u>	<u>39</u>
Purchases from:		
Associates	15	17
Joint ventures	2	2
Other related parties	16	8
	<u>33</u>	<u>27</u>

#### 5. Related party balances

	31 March 2019	31 December 2018
	(unaudited)	
Accounts receivable:		
Associates	3	3
Joint ventures	9	6
Other related parties	11	11
	<u>23</u>	<u>20</u>
Accounts payable:		
Associates	6	6
Other related parties	10	15
	<u>16</u>	<u>21</u>
Short-term loans - Joint ventures	6	6
Long-term loans - Joint ventures	5	5
	<u>11</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

As at 31 March 2019, the value of conversion option of convertible bonds maturing in 2021 was US\$ 58 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\$ 50 million).

As at 31 March 2019, the value of the conversion option of convertible bonds maturing in 2022 was US\$ 50 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\$ 30 million (31 December 2018: US\$ 4 million).

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2019 and 2018

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

#### 7. Alternative performance measures

As at 31 March 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.

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:

Three months ended 31 March 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	511	1,966	(446)	2,031
<b>Profit from operations</b>	256	326	(27)	555
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	38	73	(1)	110
Loss/(Gain) on disposal of property, plant and equipment and intangible assets	1	(2)	1	-
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	(2)	-	(2)
<b>EBITDA</b>	<b>295</b>	<b>395</b>	<b>(27)</b>	<b>663</b>

Additional information:

intersegment revenue	428	18	(446)	-
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Three months ended 31 March 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	402	2,025	(254)	2,173
<b>Profit from operations</b>	149	453	(17)	585
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	38	69	-	107
Loss on disposal of property, plant and equipment and intangible assets	1	11	-	12
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	2	-	2
<b>EBITDA</b>	<b>188</b>	<b>535</b>	<b>(17)</b>	<b>706</b>

Additional information:

intersegment revenue	237	17	(254)	-
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## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2019 and 2018

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

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:

Three months ended 31 March 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Net cash from operating activities</b>	329	267	-	596
Additions to property, plant and equipment	(82)	(122)	-	(204)
Additions to intangible assets	-	(5)	-	(5)
Proceeds from disposal of property, plant and equipment	-	2	-	2
Interest received	-	1	(1)	-
<b>Free cash flow</b>	<u>247</u>	<u>143</u>	<u>(1)</u>	<u>389</u>

Three months ended 31 March 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Net cash from operating activities</b>	180	232	1	413
Additions to property, plant and equipment	(59)	(72)	-	(131)
Additions to intangible assets	-	(5)	-	(5)
Proceeds from disposal of property, plant and equipment	-	2	-	2
Interest received	1	10	(1)	10
<b>Free cash flow</b>	<u>122</u>	<u>167</u>	<u>-</u>	<u>289</u>

## 8. 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. 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.

## **PAO Severstal and subsidiaries**

### **Notes to the consolidated interim condensed financial statements Three months ended 31 March 2019 and 2018**

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

#### **9. Capital commitments**

As at 31 March 2019, the Group had contractual capital commitments of US\$ 278 million (31 December 2018: US\$ 247 million).

#### **10. Subsequent event**

In April 2019, the Group issued two rouble denominated bonds amounted 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 bonds issue will be used mainly for general corporate purposes.