

PAO Severstal and subsidiaries

Consolidated interim condensed financial statements
for the nine months ended 30 September 2019 and 2018

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Nine months ended 30 September 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 30 September 2019, and the related consolidated interim condensed income statements and consolidated interim condensed statements of comprehensive income for the three- and nine-month periods ended 30 September 2019 and 2018, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month periods ended 30 September 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.



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 30 September 2019, and for the three- and nine-month periods ended 30 September 2019 and 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Larisa Kiseleva

JSC "KPMG"

Moscow, Russia

17 October 2019

PAO Severstal and subsidiaries

Consolidated interim condensed income statements Nine months ended 30 September 2019 and 2018

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

	Note	Nine months ended 30 September		Three months ended 30 September	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue					
Revenue - third parties		6,203	6,386	2,073	2,026
Revenue - related parties	4	116	109	38	37
	2	6,319	6,495	2,111	2,063
Cost of sales		(3,789)	(3,739)	(1,216)	(1,160)
Gross profit		2,530	2,756	895	903
General and administrative expenses		(265)	(241)	(82)	(84)
Distribution expenses		(392)	(440)	(131)	(136)
Other taxes and contributions		(44)	(48)	(17)	(15)
Share of associates' and joint ventures' gain		16	10	5	2
Loss on disposal of property, plant and equipment and intangible assets		(7)	(19)	(1)	-
Net other operating income		12	4	1	1
Profit from operations		1,850	2,022	670	671
Reversal of impairment of non-current assets		1	13	1	11
Net other non-operating expenses	7	(50)	(36)	(26)	(14)
Profit before financing and taxation		1,801	1,999	645	668
Finance income		4	12	1	-
Finance costs		(98)	(86)	(36)	(25)
(Loss)/gain on remeasurement and disposal of financial instruments		(13)	(13)	38	(27)
Foreign exchange gain/(loss), net	3	51	(85)	(50)	(41)
Profit before income tax		1,745	1,827	598	575
Income tax expense		(352)	(354)	(108)	(120)
Profit for the period		1,393	1,473	490	455
Attributable to shareholders of PAO Severstal		1,393	1,473	490	455
Basic weighted average number of shares outstanding during the period (millions of shares)		824.3	815.7	825.4	818.6
Basic earnings per share (US dollars)		1.69	1.81	0.59	0.56
Diluted weighted average number of shares outstanding during the period (millions of shares)		848.6	847.0	847.7	847.6
Diluted earnings per share (US dollars)		1.63	1.81	0.54	0.56

These consolidated interim condensed financial statements were approved by the Board of Directors on 17 October 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 Nine months ended 30 September 2019 and 2018

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

	Nine months ended 30 September		Three months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Profit for the period	1,393	1,473	490	455
Other comprehensive income/(loss):				
Items that will not be reclassified to profit or loss				
Actuarial losses	(3)	(2)	(1)	-
Translation to presentation currency	222	(500)	(82)	(176)
Total items that will not be reclassified to profit or loss	219	(502)	(83)	(176)
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations	(4)	(2)	(4)	1
Total items that may be reclassified subsequently to profit or loss	(4)	(2)	(4)	1
Items that were reclassified to profit or loss				
Changes in fair value of financial assets measured through other comprehensive income	-	(4)	-	-
Total items that were reclassified to profit or loss	-	(4)	-	-
Other comprehensive income/(loss) for the period	215	(508)	(87)	(175)
Total comprehensive income for the period	1,608	965	403	280
 Attributable to shareholders of PAO Severstal	 1,608	 965	 403	 280

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 Nine months ended 30 September 2019 and 2018 (Amounts expressed in millions of US dollars, except as otherwise stated)

	Note	30 September 2019 (unaudited)	31 December 2018
Assets			
Current assets:			
Cash and cash equivalents		1,317	228
Short-term financial investments		6	7
Trade accounts receivable		617	554
Accounts receivable from related parties	5	22	20
Inventories		1,133	1,087
VAT recoverable		65	66
Income tax recoverable		6	5
Other current assets		138	105
Total current assets		3,304	2,072
Non-current assets:			
Long-term financial investments		14	8
Investments in associates and joint ventures		107	76
Property, plant and equipment		4,067	3,469
Intangible assets		251	212
Deferred tax assets		44	27
Other non-current assets		10	10
Total non-current assets		4,493	3,802
Total assets		7,797	5,874
Liabilities and shareholders' equity			
Current liabilities:			
Trade accounts payable		581	545
Accounts payable to related parties	5	16	21
Short-term debt finance	6	269	110
Income taxes payable		1	11
Other taxes and social security payable		172	107
Dividends payable		7	6
Other current liabilities	6	365	323
Total current liabilities		1,411	1,123
Non-current liabilities:			
Long-term debt finance	6	2,348	1,345
Deferred tax liabilities		350	295
Retirement benefit liabilities		62	56
Other non-current liabilities	6	302	176
Total non-current liabilities		3,062	1,872
Equity:			
Share capital		2,753	2,753
Treasury shares		(107)	(133)
Additional capital		308	308
Translation reserve		(2,127)	(2,345)
Retained earnings		2,475	2,274
Other reserves		8	8
Total equity attributable to shareholders of PAO Severstal		3,310	2,865
Non-controlling interests		14	14
Total equity		3,324	2,879
Total equity and liabilities		7,797	5,874

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 Nine months ended 30 September 2019 and 2018 (Amounts expressed in millions of US dollars, except as otherwise stated)

	Nine months ended 30 September	
	2019	2018
Note	(unaudited)	(unaudited)
Operating activities:		
Profit before financing and taxation	1,801	1,999
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortisation	345	301
Reversal of impairment of non-current assets	(1)	(13)
Movements in provision for inventories, receivables and other provisions	(3)	14
Loss on disposal of property, plant and equipment and intangible assets	7	19
Loss on disposal of subsidiaries	7	-
Share of associates' and joint ventures' results less dividends from associates and joint ventures	(16)	(10)
Changes in operating assets and liabilities:		
Trade accounts receivable	(39)	24
Accounts receivable from related parties	(2)	(9)
VAT recoverable	4	62
Inventories	14	(76)
Trade accounts payable	1	(3)
Accounts payable to related parties	(1)	(7)
Other taxes and social security payable	62	12
Other non-current liabilities	(5)	(5)
Assets held for sale	(10)	-
Net other changes in operating assets and liabilities	2	(71)
Cash generated from operations	2,177	2,237
Interest paid	(70)	(77)
Income tax paid	(337)	(358)
Net cash from operating activities	1,770	1,802
Investing activities:		
Additions to property, plant and equipment	(761)	(439)
Additions to intangible assets	(26)	(25)
Additions to financial investments	(31)	(23)
Net cash inflow from disposal of subsidiary	7	-
Proceeds from disposal of property, plant and equipment	12	12
Proceeds from disposal of financial investments	18	201
Interest received	3	16
Dividends received	-	2
Net cash used in investing activities	(570)	(256)
Financing activities:		
Proceeds from debt finance	1,181	7
Acquisition of non-controlling interests	-	(2)
Repayments of debt finance *	(50)	(562)
Repayments of lease liabilities	(12)	-
Net proceeds of other financing activities	-	1
Dividends paid	(1,214)	(956)
Net cash used in financing activities	(95)	(1,512)
Effect of exchange rates on cash and cash equivalents	(16)	(11)
Net increase in cash and cash equivalents	1,089	23
Cash and cash equivalents at beginning of the period	228	1,031
Cash and cash equivalents at end of the period	1,317	1,054

* For the nine months ended 30 September 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

Nine months ended 30 September 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			
Balances at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	15	3,398
Profit for the period (unaudited)	-	-	-	-	1,473	-	1,473	-	1,473
Translation to presentation currency (unaudited)	-	-	-	(502)	-	-	(502)	-	(502)
Other comprehensive loss (unaudited)	-	-	-	-	(6)	-	(6)	-	(6)
Total comprehensive (loss)/income for the period (unaudited)	-	-	-	(502)	1,467	-	965	-	965
Dividends (unaudited)	-	-	-	-	(1,420)	-	(1,420)	-	(1,420)
Conversion of bonds (unaudited)	-	55	-	-	-	-	55	-	55
Other (unaudited)	-	-	-	-	1	(3)	(2)	(1)	(3)
Balances at 30 September 2018 (unaudited)	2,753	(151)	308	(2,181)	2,243	9	2,981	14	2,995
Balances at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	2,865	14	2,879
Profit for the period (unaudited)	-	-	-	-	1,393	-	1,393	-	1,393
Translation to presentation currency (unaudited)	-	-	-	218	-	-	218	-	218
Other comprehensive loss (unaudited)	-	-	-	-	(3)	-	(3)	-	(3)
Total comprehensive income for the period (unaudited)	-	-	-	218	1,390	-	1,608	-	1,608
Dividends (unaudited)	-	-	-	-	(1,189)	-	(1,189)	-	(1,189)
Conversion of bonds (unaudited)	-	26	-	-	-	-	26	-	26
Balances at 30 September 2019 (unaudited)	2,753	(107)	308	(2,127)	2,475	8	3,310	14	3,324

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 Nine months ended 30 September 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:

	30 September 2019	Nine months ended 30 September 2019	Three months ended 30 September 2019	31 December 2018	30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2018
USD/RUB	64.42	65.07	64.56	69.47	65.59	61.43	65.52
EUR/USD	1.09	1.12	1.11	1.15	1.16	1.19	1.16

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 Nine months ended 30 September 2019 and 2018

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

2. Revenue

Revenue by product was as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Hot-rolled strip and plate	2,139	2,078	763	664
Pellets and iron ore	541	435	159	130
Galvanized and other metallic coated sheet	528	477	175	161
Long products	505	541	145	179
Cold-rolled sheet	461	621	146	173
Metalware products	399	411	142	138
Shipping and handling *	368	416	122	121
Other tubes and pipes, formed shapes	342	361	119	113
Colour-coated sheet	327	277	111	117
Large diameter pipes	301	371	94	128
Semi-finished products	119	252	37	48
Coal and coking coal concentrate	76	58	17	23
Scrap	3	5	1	2
Others	210	192	80	66
	<u>6,319</u>	<u>6,495</u>	<u>2,111</u>	<u>2,063</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 nine months ended 30 September 2019 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 17 million and US\$ 351 million, respectively (nine months ended 30 September 2018: US\$ 88 million and US\$ 328 million, respectively).

Revenue by delivery destination was as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Russian Federation	4,310	3,861	1,437	1,321
Europe	1,382	1,664	463	450
CIS	346	366	112	125
The Middle East	97	251	46	69
Central and South America	76	74	21	43
Africa	64	106	23	23
North America	42	123	8	8
China and Central Asia	2	26	1	-
South-East Asia	-	24	-	24
	<u>6,319</u>	<u>6,495</u>	<u>2,111</u>	<u>2,063</u>

3. Foreign exchange gain/(loss), net

	Nine months ended 30 September		Three months ended 30 September	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Foreign exchange gain/(loss) on cash and cash equivalents and debt finance	55	(104)	(49)	(41)
Foreign exchange (loss)/gain on other assets and liabilities	(4)	19	(1)	-
	<u>51</u>	<u>(85)</u>	<u>(50)</u>	<u>(41)</u>

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2019 and 2018

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

4. Related party transactions

	Nine months ended 30 September		Three months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue from:				
Associates	22	23	8	7
Joint ventures	64	62	22	22
Other related parties	30	24	8	8
Income from services to other related parties	9	8	3	3
	<u>125</u>	<u>117</u>	<u>41</u>	<u>40</u>
Purchases from:				
Associates	47	48	16	15
Joint ventures	4	5	1	2
Other related parties	47	31	17	9
	<u>98</u>	<u>84</u>	<u>34</u>	<u>26</u>

5. Related party balances

	30 September 2019 (unaudited)	31 December 2018
Accounts receivable:		
Associates	4	3
Joint ventures	11	6
Other related parties	7	11
	<u>22</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	4	6
Long-term loans - Joint ventures	8	5
	<u>12</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 September 2019, the Group issued US\$ 800 million bonds denominated in US dollars maturing in 2024. These bonds bear an interest rate of 3.15% per annum, which is payable semi-annually in September and March each year, beginning in March 2020. The proceeds from the bonds' issuance will be used for general corporate purposes.

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 September 2019 the amounts outstanding under these facilities, including interest, were US\$243 million and US\$161 million, respectively.

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2019 and 2018

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

As at 30 September 2019, the value of the conversion option of convertible bonds maturing in 2021 was US\$ 28 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (31 December 2018: US\$ 50 million was included in other current liabilities).

As at 30 September 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\$ 70 million (31 December 2018: US\$ 4 million).

7. Disposal of subsidiary

AO Severstal LPM Balakovo

In May 2019 Severstal entered into a definitive agreement to sell its subsidiary AO Severstal LPM Balakovo.

As at 30 June 2019 its major assets and liabilities were classified as "held for sale" and were measured at the lower of the carrying amount and the fair value less costs to sell, based on the offer price.

In July 2019, the Group sold its 100% stake in AO Severstal LPM Balakovo to a third party for a total consideration of US\$215 million, of which US\$205 million related to intercompany loan redemption. The fair value measurement for the disposal subsidiary has been categorised as a Level 3 of the fair value hierarchy.

The loss on disposal of US\$18 million was recognised in these consolidated interim condensed financial statements as part of net other non-operating expenses.

A summary of assets and liabilities disposed during the nine months ended 30 September 2019 and 2018 was as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Property, plant and equipment	(246)	-	(246)	-
Inventories	(21)	-	(21)	-
Other	(8)	-	(8)	-
Assets held for sale	(275)	-	(275)	-
Short-term debt finance	205	-	205	-
Trade accounts payable	22	-	22	-
Deferred tax liabilities	16	-	16	-
Other taxes and social security payable	3	-	3	-
Other	1	-	1	-
Liabilities related to assets held for sale	247	-	247	-
Net identifiable assets	(28)	-	(28)	-
Consideration in cash	215	-	215	-
<i>including intercompany loan redemption</i>	(205)	-	(205)	-
Net loss on disposal	(18)	-	(18)	-
Net change in cash and cash equivalents	215	-	215	-

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2019 and 2018

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

8. Alternative performance measures

As at 30 September 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:

Nine months ended 30 September 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,767	6,219	(1,667)	6,319
Profit from operations	969	996	(115)	1,850
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	121	223	(1)	343
Loss on disposal of property, plant and equipment and intangible assets	3	3	1	7
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	3	-	3
EBITDA	1,093	1,225	(115)	2,203
Additional information:				
intersegment revenue	1,606	61	(1,667)	-

Nine months ended 30 September 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	1,345	5,958	(808)	6,495
Profit from operations	565	1,500	(43)	2,022
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	102	198	-	300
Loss on disposal of property, plant and equipment and intangible assets	6	13	-	19
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	7	-	7
EBITDA	673	1,718	(43)	2,348
Additional information:				
intersegment revenue	754	54	(808)	-

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2019 and 2018

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

Three months ended 30 September 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	609	2,102	(600)	2,111
Profit from operations	339	359	(28)	670
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	42	73	(1)	114
Loss/(gain) on disposal of property, plant and equipment and intangible assets	1	(1)	1	1
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	2	-	2
EBITDA	<u>382</u>	<u>433</u>	<u>(28)</u>	<u>787</u>

Additional information:

intersegment revenue	576	24	(600)	-
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Three months ended 30 September 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Revenue	468	1,897	(302)	2,063
Profit from operations	220	487	(36)	671
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	32	63	-	95
Loss/(gain) on disposal of property, plant and equipment and intangible assets	1	(1)	-	-
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	4	(2)	2
EBITDA	<u>253</u>	<u>553</u>	<u>(38)</u>	<u>768</u>

Additional information:

intersegment revenue	286	16	(302)	-
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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:

Nine months ended 30 September 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	985	762	23	1,770
Additions to property, plant and equipment	(283)	(495)	17	(761)
Additions to intangible assets	(6)	(21)	1	(26)
Proceeds from disposal of property, plant and equipment	-	32	(20)	12
Interest received	24	8	(29)	3
Free cash flow	<u>720</u>	<u>286</u>	<u>(8)</u>	<u>998</u>

PAO Severstal and subsidiaries

Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2019 and 2018

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

Nine months ended 30 September 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	534	1,234	34	1,802
Additions to property, plant and equipment	(215)	(224)	-	(439)
Additions to intangible assets	(4)	(21)	-	(25)
Proceeds from disposal of property, plant and equipment	1	11	-	12
Interest received	28	22	(34)	16
Dividends received	-	2	-	2
Free cash flow	<u>344</u>	<u>1,024</u>	<u>-</u>	<u>1,368</u>

Three months ended 30 September 2019 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	307	349	(3)	653
Additions to property, plant and equipment	(108)	(209)	17	(300)
Additions to intangible assets	(3)	(10)	2	(11)
Proceeds from disposal of property, plant and equipment	-	24	(20)	4
Interest received	3	2	(5)	-
Free cash flow	<u>199</u>	<u>156</u>	<u>(9)</u>	<u>346</u>

Three months ended 30 September 2018 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	234	406	(1)	639
Additions to property, plant and equipment	(79)	(74)	-	(153)
Additions to intangible assets	(3)	(11)	(1)	(15)
Proceeds from disposal of property, plant and equipment	1	5	-	6
Interest received	(1)	-	3	2
Dividends received	-	2	-	2
Free cash flow	<u>152</u>	<u>328</u>	<u>1</u>	<u>481</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. 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

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Notes to the consolidated interim condensed financial statements Nine months ended 30 September 2019 and 2018

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

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 September 2019, the Group had contractual capital commitments of US\$ 370 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 14 September 2018, an Extraordinary Meeting of Shareholders approved an interim dividend of RUB 45.94 (US\$ 0.67 at 14 September 2018 exchange rate) per share and per GDR for the first six months 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.

On 6 September 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 26.72 (US\$ 0.4 at 6 September 2019 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2019.