

# **PAO Severstal and subsidiaries**

Consolidated interim condensed financial statements  
for the three months ended 31 March 2020 and 2019

# PAO Severstal and subsidiaries

## Consolidated interim condensed financial statements Three months ended 31 March 2020 and 2019

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JSC "KPMG"  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123112  
Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **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 2020, 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 2020 and 2019, 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, Vologodskaya oblast, 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-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

**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 2020 and for the three-month periods ended 31 March 2020 and 2019 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

  
Georgy Pataraya

JSC "KPMG"

Moscow, Russia

23 April 2020



## PAO Severstal and subsidiaries

### Consolidated interim condensed income statements Three months ended 31 March 2020 and 2019

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

	Note	Three months ended 31 March	
		2020 (unaudited)	2019 (unaudited)
<b>Revenue</b>			
Revenue - third parties		1,741	1,994
Revenue - related parties		36	37
	3	<u>1,777</u>	<u>2,031</u>
Cost of sales		<u>(1,099)</u>	<u>(1,265)</u>
<b>Gross profit</b>		678	766
General and administrative expenses		(92)	(75)
Distribution expenses		(147)	(123)
Other taxes and contributions		(10)	(12)
Share of associates' and joint ventures' gain		6	5
Loss on disposal of property, plant and equipment and intangible assets		(8)	-
Net other operating expenses		<u>(2)</u>	<u>(6)</u>
<b>Profit from operations</b>		425	555
Net other non-operating expenses		<u>(17)</u>	<u>(15)</u>
<b>Profit before financing and taxation</b>		408	540
Finance income		3	1
Finance costs		(40)	(25)
Gain/(loss) on remeasurement and disposals of financial instruments		58	(35)
Foreign exchange (loss)/gain	4	<u>(378)</u>	<u>71</u>
<b>Profit before income tax</b>		<u>51</u>	<u>552</u>
Income tax benefit/(expense)		<u>21</u>	<u>(124)</u>
<b>Profit for the period</b>		<u>72</u>	<u>428</u>
Attributable to shareholders of PAO Severstal		<u>72</u>	<u>428</u>
Basic weighted average number of shares outstanding during the period (millions of shares)		825	823
Diluted weighted average number of shares outstanding during the period (millions of shares)		849	850
Basic and diluted earnings per share (US dollars)		<u>0.09</u>	<u>0.52</u>

These consolidated interim condensed financial statements were approved by the Board of Directors on 23 April 2020.

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 2020 and 2019

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

	Three months ended 31 March	
	2020	2019
	(unaudited)	(unaudited)
<b>Profit for the period</b>	72	428
<b>Other comprehensive (loss)/income:</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial losses	-	(2)
Translation to presentation currency	(711)	227
<b>Total items that will not be reclassified to profit or loss</b>	(711)	225
<b>Items that may be reclassified subsequently to profit or loss</b>		
Translation to presentation currency - foreign operations	(4)	(1)
<b>Total items that may be reclassified subsequently to profit or loss</b>	(4)	(1)
<b>Other comprehensive (loss)/income for the period</b>	(715)	224
<b>Total comprehensive (loss)/income for the period</b>	(643)	652
 Attributable to:		
shareholders of PAO Severstal	(642)	652
non-controlling interests	(1)	-

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 2020 and 31 December 2019**  
*(Amounts expressed in millions of US dollars, except as otherwise stated)*

	31 March 2020 Note (unaudited)	31 December 2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	1,042	1,081
Short-term financial investments	8	6
Trade accounts receivable	533	582
Accounts receivable from related parties	18	21
Inventories	853	1,137
VAT recoverable	68	97
Income tax recoverable	20	5
Other current assets	125	166
<b>Total current assets</b>	<b>2,667</b>	<b>3,095</b>
<b>Non-current assets:</b>		
Long-term financial investments	24	26
Investments in associates and joint ventures	118	120
Property, plant and equipment	3,911	4,670
Intangible assets	234	279
Deferred tax assets	8	15
Other non-current assets	9	17
<b>Total non-current assets</b>	<b>4,304</b>	<b>5,127</b>
<b>Total assets</b>	<b>6,971</b>	<b>8,222</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable	543	709
Accounts payable to related parties	15	17
Short-term debt finance	56	290
Income taxes payable	2	19
Other taxes and social security payable	95	126
Dividends payable	6	7
Other current liabilities	252	418
<b>Total current liabilities</b>	<b>969</b>	<b>1,586</b>
<b>Non-current liabilities:</b>		
Long-term debt finance	2,514	2,361
Deferred tax liabilities	258	365
Retirement benefit liabilities	59	74
Other non-current liabilities	5 336	358
<b>Total non-current liabilities</b>	<b>3,167</b>	<b>3,158</b>
<b>Equity:</b>		
Share capital	2,753	2,753
Treasury shares	(107)	(107)
Additional capital	308	308
Translation reserve	(2,696)	(1,982)
Retained earnings	2,555	2,483
Other reserves	8	8
<b>Total equity attributable to shareholders of PAO Severstal</b>	<b>2,821</b>	<b>3,463</b>
<b>Non-controlling interests</b>	<b>14</b>	<b>15</b>
<b>Total equity</b>	<b>2,835</b>	<b>3,478</b>
<b>Total equity and liabilities</b>	<b>6,971</b>	<b>8,222</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 2020 and 2019

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

	Three months ended 31 March	
	2020 (unaudited)	2019 (unaudited)
<b>Operating activities:</b>		
Profit before financing and taxation	408	540
Adjustments to reconcile profit to cash generated from operations:		
Depreciation and amortisation	118	110
Movements in provision for inventories, receivables and other provisions	8	(1)
Loss on disposal of property, plant and equipment and intangible assets	8	-
Share of associates' and joint ventures' gain	(6)	(5)
Changes in operating assets and liabilities:		
Trade accounts receivable	(44)	(36)
Accounts receivable from related parties	(3)	(2)
VAT recoverable	11	25
Inventories	32	62
Trade accounts payable	(15)	14
Accounts payable to related parties	4	-
Other taxes and social security payable	(1)	32
Other non-current liabilities	(3)	(3)
Net other changes in operating assets and liabilities	(50)	(17)
<b>Cash generated from operations</b>	<b>467</b>	<b>719</b>
Interest paid	(32)	(20)
Income tax paid	(41)	(103)
<b>Net cash from operating activities</b>	<b>394</b>	<b>596</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(330)	(204)
Additions to intangible assets	(14)	(5)
Additions to financial investments	(6)	(2)
Net cash outflow on acquisition of subsidiary (Note 6)	(19)	-
Proceeds from disposal of property, plant and equipment and intangible assets	1	2
Proceeds from disposal of financial investments	1	1
Interest received	3	-
<b>Net cash used in investing activities</b>	<b>(364)</b>	<b>(208)</b>
<b>Financing activities:</b>		
Repayments of debt finance *	(8)	(30)
Repayments of lease liabilities	(5)	(3)
<b>Net cash used in financing activities</b>	<b>(13)</b>	<b>(33)</b>
Effect of exchange rates on cash and cash equivalents	(56)	-
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(39)</b>	<b>355</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,081</b>	<b>228</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,042</b>	<b>583</b>

\* For the three months ended 31 March 2020 this amount includes exercise of bonds' conversion rights of US\$ 2 million (three months ended 31 March 2019: 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 2020 and 2019

(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 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
Balances at 31 December 2019	2,753	(107)	308	(1,982)	2,483	8	3,463	15	3,478
Profit for the period (unaudited)	-	-	-	-	72	-	72	-	72
Translation to presentation currency (unaudited)	-	-	-	(714)	-	-	(714)	(1)	(715)
Total comprehensive (loss)/income for the period (unaudited)				(714)	72	-	(642)	(1)	(643)
Balances as at 31 March 2020 (unaudited)	2,753	(107)	308	(2,696)	2,555	8	2,821	14	2,835

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 2020 and 2019

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

### 1. Economic environment

The first months of 2020 have seen significant global market turmoil triggered by the outbreak and spread of coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and stock market indices, as well as a depreciation of the Russian rouble. The significance of the impact of COVID-19 on the Group's business largely depends on the duration and effect of the pandemic on the Russian and world economy.

The Group has developed plans for mitigating the impact on its business and has reviewed: the economic environment; the demand for the Group's products; its supply chain; its available bank facilities; and the possible effects on its cash flow and liquidity position, including consideration of debt covenants.

Management has considered events and conditions that could give rise to material uncertainties and concluded that the range of possible outcomes does not cast significant doubt over the Group's ability to continue as a going concern.

### 2. 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.

#### *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 2019.

### 3. Revenue

Revenue by product was as follows:

	Three months ended 31 March	
	2020	2019
	(unaudited)	(unaudited)
Hot-rolled strip and plate	675	693
Shipping and handling *	140	120
Galvanized and other metallic coated sheet	139	168
Metalware products	129	119
Pellets and iron ore	126	176
Cold-rolled sheet	122	163
Other tubes and pipes, formed shapes	116	101
Long products	82	162
Colour-coated sheet	76	87
Semi-finished products	74	51
Coal and coking coal concentrate	16	34
Large diameter pipes	15	97
Scrap	1	1
Others	66	59
	<u>1,777</u>	<u>2,031</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 2020 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 2 million and US\$ 138 million, respectively (three months ended 31 March 2019: US\$ 9 million and US\$ 111 million, respectively).

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2020 and 2019

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

Revenue by delivery destination was as follows:

	Three months ended 31 March	
	2020	2019
	(unaudited)	(unaudited)
Russian Federation	1,047	1,341
Europe	524	505
CIS	131	112
The Middle East	41	21
Africa	21	20
Central and South America	12	21
China and Central Asia	1	-
North America	-	11
	<u>1,777</u>	<u>2,031</u>

#### 4. Foreign exchange (loss)/gain

	Three months ended 31 March	
	2020	2019
	(unaudited)	(unaudited)
Foreign exchange (loss)/gain on cash and cash equivalents and debt finance	(319)	76
Foreign exchange loss on derivatives	(55)	-
Foreign exchange loss on other assets and liabilities	(4)	(5)
	<u>(378)</u>	<u>71</u>

#### 5. Carrying amounts and fair values

As at 31 March 2020, the value of the conversion option of convertible bonds maturing in 2021 was US\$ 15 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 2019: US\$ 34 million).

As at 31 March 2020, the value of the conversion option of convertible bonds maturing in 2022 was US\$ 20 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 2019: US\$ 59 million was included in other current liabilities).

The fair value of the Group's other financial liabilities was lower than their carrying amount by approximately US\$ 10 million (31 December 2019: the fair value was greater than carrying amount by US\$ 83 million).

#### 6. Acquisition of subsidiary

In March 2020, the Group acquired a 100% stake in the Sintez group of companies from a third party for a preliminary consideration of 1.4 billion Russian roubles (US\$ 20 million at the transaction date exchange rate). Sintez is located in Dzerzhinsk and produces a wide range of unique carbonyl iron powders.

Management has not yet completed the estimation of fair values of the acquired assets, mainly property plant and equipment and intangible assets, and liabilities, and does not currently possess all necessary information to disclose the effect of this acquisition on the Group's financial position

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2020 and 2019

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

or results of operations. The final purchase price allocation is expected to be completed before 31 December 2020.

A summary of assets acquired and liabilities assumed at the date of acquisition is presented below:

	Three months ended 31 March 2020 (unaudited)
Cash and cash equivalents	1
Inventories	2
Property, plant and equipment	3
Other	2
Total assets	8
Debt finance	(3)
Other	(1)
Total liabilities	(4)
Net identifiable assets and liabilities acquired	4
Consideration in cash	(20)
Goodwill on acquisition of subsidiary	(16)
Net change in cash and cash equivalents	(19)

## 7. Alternative performance measures

As at 31 March 2020, 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.

In order to assess the Group's performance the Group's management constantly monitors the following set of alternative performance measures presented in the table below:

	Three months ended 31	
	2020 (unaudited)	2019 (unaudited)
EBITDA	555	663
EBITDA margin <sup>1</sup> , %	31.2	32.6
Free Cash Flow	54	389
Low Debt (Net Debt <sup>2</sup> /EBITDA <sup>3</sup> ), x	0.6	0.3

<sup>1</sup> EBITDA margin is equal to EBITDA divided by Revenue;

<sup>2</sup> Net Debt is equal to the total debt finance less cash and cash equivalents;

<sup>3</sup> EBITDA for the last twelve months.

## PAO Severstal and subsidiaries

### Notes to the consolidated interim condensed financial statements Three months ended 31 March 2020 and 2019

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

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 2020 (unaudited):

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
<b>Revenue</b>	400	1,770	(393)	1,777
<b>Profit from operations</b>	126	285	14	425
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	44	74	-	118
Loss on disposal of property, plant and equipment and intangible assets	1	7	-	8
Share of associates' and joint ventures' depreciation and amortisation and non-operating (income)/expenses	-	4	-	4
<b>EBITDA</b>	<u>171</u>	<u>370</u>	<u>14</u>	<u>555</u>
Additional information:				
intersegment revenue	369	24	(393)	-

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>	<u>295</u>	<u>395</u>	<u>(27)</u>	<u>663</u>
Additional information:				
intersegment revenue	428	18	(446)	-

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 2020 (unaudited):

	Severstal Resources	Severstal Russian Steel	Conso- lidated
<b>Net cash from operating activities</b>	86	308	394
Additions to property, plant and equipment	(97)	(233)	(330)
Additions to intangible assets	(2)	(12)	(14)
Proceeds from disposal of property, plant and equipment	-	1	1
Interest received	1	2	3
<b>Free cash flow</b>	<u>(12)</u>	<u>66</u>	<u>54</u>

# PAO Severstal and subsidiaries

## Notes to the consolidated interim condensed financial statements Three months ended 31 March 2020 and 2019

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

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>	<b>247</b>	<b>143</b>	<b>(1)</b>	<b>389</b>

### 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 the 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 for 17 July 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.

### 9. Capital commitments

As at 31 March 2020, the Group had contractual capital commitments of US\$ 601 million (31 December 2019: US\$ 664 million).