Calculation of free cash flow, *US$ million*

	2018	2017	Change	Change, %
EBITDA	3,777	2,624	1,153	43.9
EBITDA excluding non-cash items	**3,773**	**2,627**	**1,146**	**43.6**
Changes in working capital	(430)	(154)	(276)	n/a
Income tax accrued	(683)	(485)	(198)	40.8
Social and social infrastructure maintenance expenses	(27)	(31)	4	(12.9)
Net cash flows from operating activities	**2,633**	**1,957**	**676**	**34.5**
Interest and similar payments	(298)	(453)	155	(34.2)
Capital expenditures, including recorded in financing activities and non-cash transactions	(527)	(603)	76	(12.6)
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	52	412	(360)	(87.4)
Other cash flows from investing activities	80	9	71	n/a
Free cash flow	**1,940**	**1,322**	**618**	**46.7**

In 2018, net cash flows from operating activities climbed by 34.5% year-on-year. Free cash flow for the period was US$1,940 million.

For the definition of free cash flow, please refer to page 261.

CAPEX and key projects

In 2018, EVRAZ capital expenditures fell to US$527 million, compared with US$603 million a year earlier, as EVRAZ NTMK finished implementing two main projects, the construction of blast furnace No. 7 (first pig iron was obtained in Q1 2018) and the grinding ball mill (first ball was produced in Q1 2018), amid the weakening of the rouble exchange rate against the US dollar. EVRAZ North America also started to implement two projects to reduce costs that are scheduled to be completed in 2019.

Capital expenditures (including those recognised in financing activities) for 2018 in millions of US dollars can be summarised as follows.

Capital expenditures in 2018, *US$ million*

Steel segment	
Blast furnace No. 7 construction at EVRAZ NTMK The project aim is to maintain stable pig iron production volumes during the capital repair of blast furnace No. 6 in 2018-19.	48
Wheel resurfacing capacity expansion at EVRAZ NTMK The project aim is to expand wheel resurfacing capacity to balance production capacity in 2019-22 and increase production volumes.	10
Grinding ball mill construction at EVRAZ NTMK The project aim is to construct a new grinding ball mill that can make the grinding balls of hardness category five.	5
Steel, North America segment	
EVRAZ Pueblo seamless threading The project aim is to in-source seamless threading and coupling process from third-party providers to improve cost competitiveness.	15
EVRAZ Red Deer heat treatment The project aim is to develop heat treatment capability to access a higher margin market.	13
Coal segment	
Access and development of reserves in the Uskovskaya mine's seam No. 48 The project aim is to prepare the reserves in seam No. 48 for mining.	20
Access and development of reserves in the Esaulskaya mine's seam No. 29a The project aim is to relocate mining operations from seam No. 26 to seam No. 29a.	5
Other development projects	51
Maintenance	360
Total	**527**

Financing and liquidity

EVRAZ began 2018 with total debt of US$5,432 million. The Group used the cash flows it generated during the period to reduce its debt and completed several transactions to manage its maturity profile.

In February, EVRAZ repaid US$500 million in loans, comprising US$200 million from Alfa Bank due in 2019, US$200 million from Alfa Bank due in 2023 and US$100 million from Sberbank due in 2020. The Group financed these repayments with a combination of its cash balances and a new five-year, US$300 million term loan from Alfa Bank. These transactions helped to improve the repayment schedule in terms of loan tenures and reduce interest charges.

Between April and June, to reduce its interest charges, the Group completed an early repayment of its outstanding loans to VTB with principal amounts of US$495 million using cash accumulated on the balance sheet.

These actions, together with scheduled bank loan repayments and changes in credit line balances, reduced total debt by US$794 million to US$4,638 million as at 31 December 2018.

In 2018, EVRAZ made four dividend payments to its shareholders totalling US$1,556 million.

During the reporting period, net debt decreased by US$395 million to US$3,571 million, compared with US$3,966 million as at 31 December 2017. Interest expense accrued in respect of loans, bonds and notes amounted to US$322 million in 2018, compared with US$394 million in 2017. The lower interest expense was mainly due to a reduction of total debt by early repayments.

The strong market trends seen in 2018 drove significant growth of EBITDA and free cash flow generation. This helped to substantially improve the Group's major leverage metric, the ratio of net debt to EBITDA, which fell to 0.9 times as at 31 December 2018, compared with 1.5 times as at 31 December 2017.

As at 31 December 2018, debt with financial maintenance covenants comprised various bilateral facilities with a total outstanding principal of around US$1,061 million. Maintenance covenants under these facilities include two key ratios calculated using EVRAZ plc's consolidated financials: a maximum net leverage and a minimum EBITDA interest cover. As at 31 December 2018, EVRAZ was in full compliance with its financial covenants.

As at 31 December 2018, cash amounted to US$1,067 million, while short-term loans and the current portion of long-term loans stood at US$377 million. Cash-on-hand and committed credit facilities are sufficient to cover all of EVRAZ refinancing requirements for 2019 and 2020.