

**Corporate Social
Responsibility and Sustainable
Development Report**



2018

Severstal is a participant of Russian and international ratings and initiatives:



RSPP Indices on Sustainable Development:
"Responsibility and Openness"
"Vector of Sustainable Development"



RUSSIAN UNION OF
INDUSTRIALISTS AND
ENTREPRENEURS

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Chairman's Review



Dear partners and colleagues:

In 2018, Severstal achieved sustainable operating and financial results, and overall we believe we had a positive year. This was largely made possible by our efficient strategy, conservative CAPEX policy and employee engagement.

We remain one of the global steel industry leaders and the most profitable steelmaker. Our competitive advantages include a low cost profile, the geographical location of our assets and a large share of high-value-added products in our sales portfolio.

Maintaining our competitive edge requires not only investing in our operations, but also improving business performance, developing our corporate culture, responding promptly to changes in popular demand and customer needs, and expanding international cooperation.

We responded to these challenges by updating Severstal's development strategy to include a large-scale innovative business transformation. For the next five years, we have set an ambitious goal to increase our EBITDA by 10-15% per year, adjusted for market factors. We are planning to increase our cost advantage over the competition in the main product groups to 10% or more. Our priorities also include delivering outstanding customer experience and utilising new opportunities created by the development of new technologies.

To achieve these goals, we are fostering a culture of continuous improvement that we have enriched with three additional elements, speed, inspiration and collaboration. We would like to reinvent the approach of our employees to work, change the culture and inspire our people to take initiative, experiment, build teams to overcome challenges, and involve external experts, including research institutions, laboratories, innovative businesses and start-ups.

Our core business objective is, certainly, developing our operations while meeting customer needs. However, a business does not operate in vacuum. We share the responsibility for the future of our country and need to maintain a continuous discussion with our business partners, communities and government authorities. Our renewed strategy and investment programme is fully aligned with the nationwide projects outlined by the national government. These include digital transformation, increasing non-primary exports, improving our competitive edge and reducing our impact on the environment.

In October 2018, the Board of Severstal approved our long-term goals in occupational health, industrial safety and environmental protection. By 2025, we are planning to reduce our LTIFR by fifty percent from 2017, and completely eliminate workplace fatalities. We have set specific goals in environmental protection. For example, we have committed to reduce atmospheric emissions of pollutants by 7%. In 2018, Severstal invested 3.44 billion roubles in environmental protection.

Our assets play an important role in the development of local communities. Severstal helps address social issues, invests in improving the quality of life in the communities, municipal landscaping, and renovation of health care, culture and sports facilities. Last year, Severstal invested 1.86 billion roubles in external social programmes.

I am confident that with our renewed strategy, expertise and engagement of our employees, we will be able to overcome our future challenges and make an even greater contribution to the sustainable development of our country!

Alexey Mordashov
Chairman of the Board of Directors



CEO's Review



Despite the fact that Russia's steel consumption did not increase in 2018, Severstal achieved positive operating and financial results.

Our success was driven by our vertical integration that ensures our almost complete self-sufficiency in raw materials, as well as corporate performance improvement programmes. Yet as this alone is not sufficient to ensure future leadership, we have also decided to reimagine our corporate development strategy.

Further improvement of our cost advantage over the competition will make us an even more customer centric company. We will pursue outstanding customer experience by going beyond the sales of products and services and offering one-of-a-kind solutions based on our deep understanding of customer needs. We need to be ready to use new organisational and technology capabilities, such as agile methodology and digital operations and business processes. All of this is only possible with the active involvement of our people and partners, and therefore requires further development of our corporate culture.

To deliver the newly announced strategy, we launched a large-scale business transformation programme covering almost all aspects of our operations.

For example, we have set common goals for our upstream assets that mine raw materials and produce concentrate, pellets, hot metal and steel, and for our downstream assets that include our flat-rolled and long product plants, pipe and tube plants, and Severstal Metiz businesses manufacturing downstream products. This will help us avoid conflicts of interest between our individual businesses and focus on achieving common goals. We are also going to subject all our processes to digital transformation.

We have joined the UN Global Compact in the reporting year and committed to supporting its principles in the protection of human rights, labour rights and the environment, and anti-corruption. We work on integrating these principles in Severstal operations and follow the United Nations Sustainable Development Goals.

Severstal pays significant attention to the professional development of our employees. In 2018, we rolled out new forms of training including those involving virtual reality. We implemented a new form of feedback across the Company and work on employee social support programmes.

We see the global demand for green manufacturing and a growing demand from the investor community and other stakeholders for the analysis of social and economic factors and matters of corporate governance. We believe that the transformation process we have launched across the Company is fully consistent with Severstal's commitment to sustainable

development. In 2018 we adopted long-term corporate goals in the areas of occupational health, industrial safety and environmental protection. We disclosed our greenhouse gas emission data and started to publish bi-annual updates on our OHSE performance and operating results.

We always consider the environmental component of all our performance improvement initiatives, and the new Severstal strategy includes a new environmental programme. This programme includes targeted environmental protection initiatives, such as upgrades to our water treatment facilities or deep waste recycling, and the use of the latest technologies to reduce our environmental footprint. We continue reducing our environmental emissions and improving the energy efficiency of our operations.

In the reporting year, we completed the first large project of the Coke Battery Plant No. 4 upgrade programme at Cherepovets Steel Mill. This project helped us increase coke production while significantly reducing our environmental footprint. We will reduce the overall amount of dust by 690 tonnes per year, and its concentration in treated gas to 20 mg/m³, an outstanding achievement for any steelmaker worldwide. In 2019 our environmental projects will see a significant increase in funding, which will exceed 825 million roubles.

Industrial safety is a key area of focus for Severstal. Over the past ten years, we have reduced the incidence of workplace injuries by a factor of three, and LTIFR almost by a factor of two. Our goal in this area is to completely eliminate workplace fatalities. In 2018 Severstal invested 4.4 billion roubles in occupational health and industrial safety initiatives.

Our social responsibility commitments go beyond paying wages on a timely basis, improving workplaces and paying taxes. We actively invest in the development of local communities. Supporting social stability and prosperity of our regions is a foundation for the sustainable development of Severstal itself.

Alexander Shevelev
Chief Executive Officer



ABOUT SEVERSTAL

Severstal is one of the world's largest vertically integrated steel and mining companies, ranked the 34th largest worldwide by World Steel Association¹.

Severstal is the fourth out of the six largest Russian steelmakers together producing 90% of Russia's steel². With core assets in Russia, Severstal also invests in businesses in other regions.

GRI 102-7

Severstal has approximately 50,000 employees. We are a supplier to the leading Russian and international energy enterprises, automakers, machinery and construction companies. Forbes consistently includes Severstal in its Forbes Global 2000 ranking of world's largest publicly traded businesses. In 2018, Severstal ranked 982nd³. In Russia's Top 200 Private Companies ranking, Severstal moved one spot up and finished 14th in 2018⁴. Severstal climbed two spots to place 11th in the RIA Novosti 2018 ranking⁵ of the 100 highest-valued Russian publicly traded companies.

GRI 102-8

Our core asset, Cherepovets Steel Mill, is among the most profitable steelmaking plants worldwide. Vertical integration gives Severstal almost full self-sufficiency in raw materials for steelmaking and provides approximately 60% of all required coking coal.

Efficient cost management helps Severstal maintain cost leadership in the industry.

The authorised capital of Severstal consists of 837,718,660 issued and fully paid shares. All Severstal shares carry equal distribution rights. The majority shareholder of Severstal is Alexey Mordashov. As of 31 December 2018, he indirectly controlled 77.03% of shares of PAO Severstal. 21.15% of shares are publicly traded. The remaining 1.82% are treasury stock. The Board of Severstal plays the key role in the development of corporate strategy and monitors the implementation of shareholder decisions.

GRI 102-5

In 2018 the Board of Directors adopted a new dividend policy that includes a provision for Severstal to pay dividends of 100% of its free cash flow for the full year provided the debt ratio requirements are met. In 2018, a total of around US\$ 2 billion was returned to our shareholders via dividend payments, representing an average dividend yield of circa 15% for the reporting period.

Severstal is listed on the Moscow Exchange (MOEX), and our GDRs are traded on the London Stock Exchange (LSE).

Moody's upgraded the long-term issuer default rating of Severstal from Baa3 to Baa2 and revised the outlook from positive to stable⁶. Fitch Ratings and Standard & Poor's reconfirmed Severstal's rating of BBB-/Stable as of the year end.

¹ <https://www.worldsteel.org/steel-by-topic/statistics/top-producers.html>

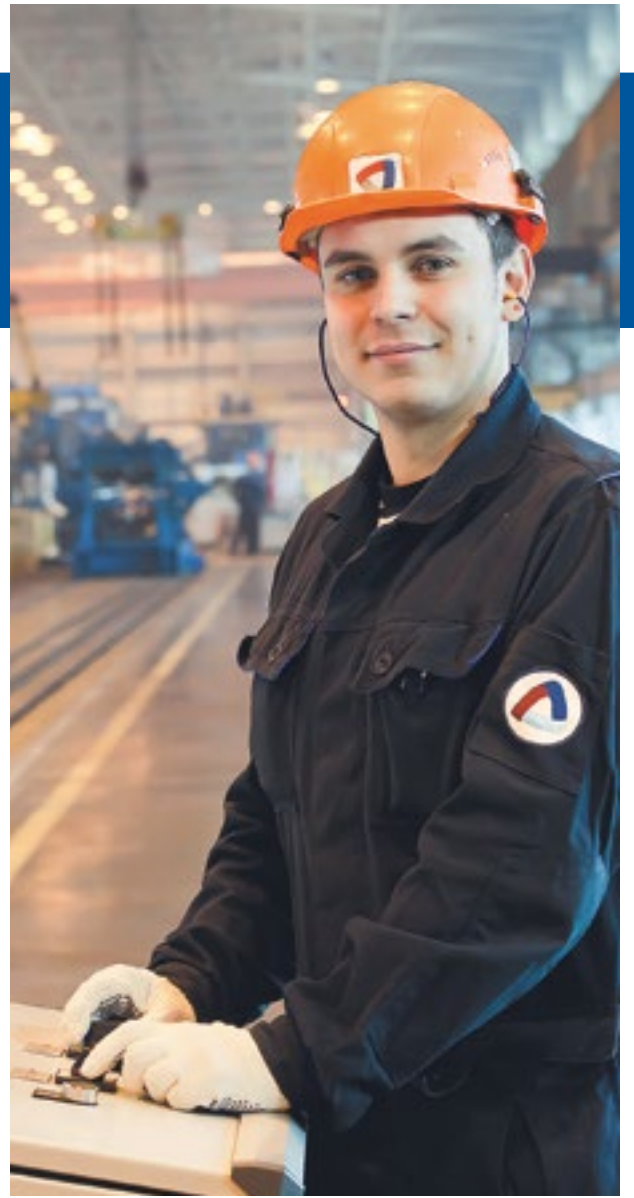
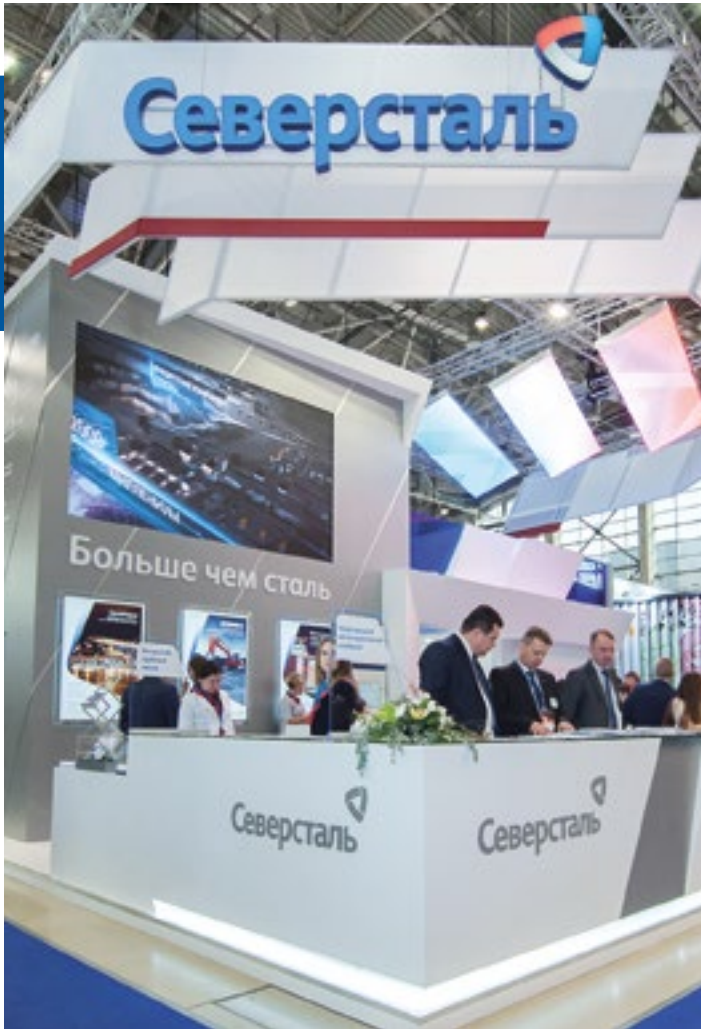
² https://www2.deloitte.com/content/dam/Deloitte/ru/Documents/research-center/Iron_and_steel_industry_report_2018_ru.pdf

³ <https://www.forbes.com/companies/severstal/?list=global2000#2dca293745c2>

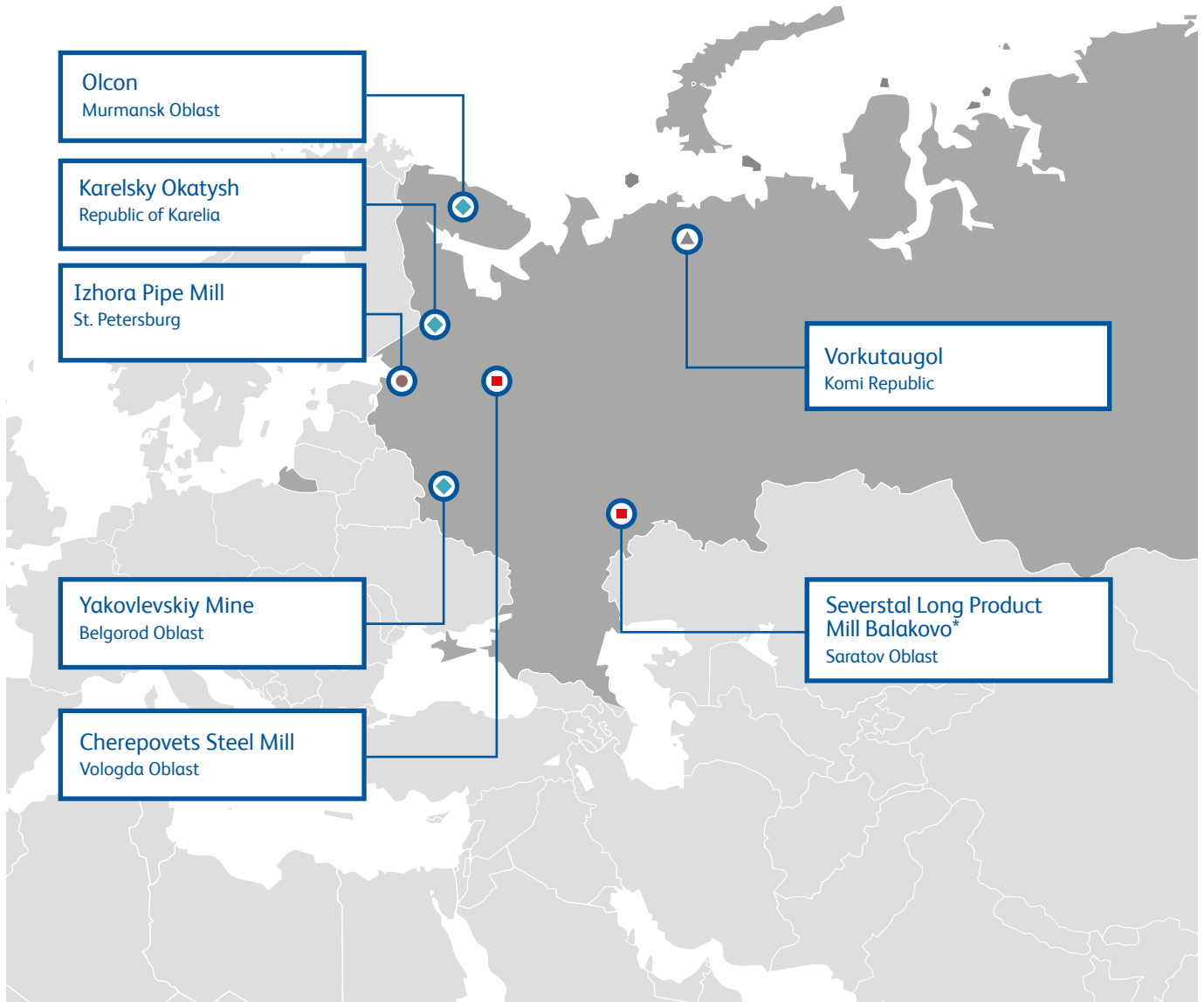
⁴ <https://www.forbes.ru/rating/367067-200-krupneyshih-rossiyskih-chastnyh-kompaniy-2018-reyting-forbes>

⁵ <http://www.riarating.ru/infografika/20180130/630080911.html>





⁶ 12 February 2019



Major assets of Severstal



Products

-  Steel
-  Coking and steam coal
-  Iron ore
-  Large diameter pipes, high value added products

* Severstal Long Product Mill Balakovo was sold in the first half of 2019

Key Results in 2018

8,580 **+9%**

2017: 7,848

Revenue, US\$ million

3,142 **+22%**

2017: 2,577

EBITDA, US\$ million

1,601 **+15%**

2017: 1,393

Free cash flow, US\$ million

688 **+16%**

2017: 591

CAPEX, US\$ million

12.0 **+3%**

2017: 11,7

Steel production, million tonnes

9.1 **-1%**

2017: 9.2

Hot metal production, million tonnes

46 **0%**

2017: 46

Share of high-value-added products, %

3.4 **+3%**

2017: 3.3

Coking coal concentrate, million tonnes

11.0 **-1%**

2017: 11.1

Iron ore pellets, million tonnes

4.3 **+2%**

2017: 4.2

Iron ore concentrate, million tonnes

49,667 **+0,4%**

2017: 49,462

Average headcount, total

45.7 **-1%**

2017: 46.2

Training hours (per employee)

39 **+2%**

2017: 37

Share of women among managers and specialists, %

0.95 **-1%**

2017: 0.96

LTIFR

78 **+3%**

2017: 75

Employee engagement, %

96 **0%**

2017: 96

Waste recycling, %

22.1 **-0.5%**

2017: 22.2

Greenhouse gas emissions, million tonnes

25.1 **-6%**

2017: 26.8

Atmospheric emissions, kg per tonne of steel

44 **+10%**

2017: 40

Spending on local communities, US\$ million

Core Businesses and Corporate Structure

Severstal comprises two core production divisions, Severstal Russian Steel (steelmaking and steel product manufacturing facilities) and Severstal Resources (iron ore and coking coal mining and processing plants).

Severstal Resources

Iron ore concentrate

Olenegorsk Iron Ore Plant

- 5 open pits
- 1 underground mine

Yakovlevsky mine

- 1 underground mine

Coking coal

Vorkutaugol

- 4 active mines
- 1 open pit
- 2 preparation plants
- 1 mechanical plant

Iron ore pellets

Karelsky Okatysh

- 5 open pits



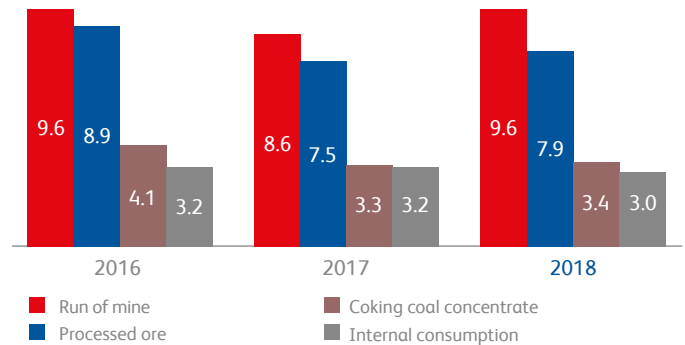
Coal Mining and Coking Coal Production

We mine coal at Vorkutaugol, which is located in the Komi Republic in the north-western part of European Russia. Vorkutaugol is a major Russian producer of hard coking coal used as a raw material to produce coke, which is in turn used in production of hot metal. Vorkutaugol also produces steam coal for local power plants and cement factories.

Severstal carefully follows global steelmaking trends and strives to use the best available technologies to create an opportunity for a gradual transition to low-carbon production. However, steelmaking is not sustainable without coal today. Severstal's view on the use of fossil fuels is provided in the Corporate Social Responsibility and Sustainable Development Report of PAO Severstal for 2017 (page 11).

By the end of 2018, Vorkutaugol had improved its overall performance. Its production increased from 8.6 million tonnes in 2017 to 9.6 million tonnes, largely due to increased mining volumes at Zapolyarnaya and Komsomolskaya. Preparation plants processed 5% more raw materials than a year before. Production of concentrate increased by 3% to 3.4 million tonnes, compared with 3.3 million tonnes in 2017, and included 1.6 million tonnes of our new product, low-ash concentrate.

Coal mining and coking coal concentrate production, million tonnes



Iron Ore Production

Severstal Resources supplies almost all of the iron ore required by Severstal's steel business. The division comprises three industry-leading producers.

GRI 102-2

Located in Karelia in north-western part of Russia, Karelsky Okatysh is one of Russia's largest and most advanced iron ore producers. Karelsky Okatysh mines magnetite quartzite ores and produces high-quality iron ore pellets with 64% to 66% iron content. It manufactures approximately one third of all the iron ore pellets in Russia.

In 2018, pellet sales were flat at 11 million tonnes. Internal consumption of pellets reduced marginally, from 4.6 million tonnes in 2017 to 4.5 million tonnes in the reporting year.

GRI 301-1

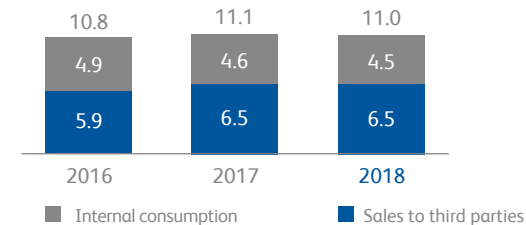
Olcon mines magnetite quartzite ores in Murmansk Oblast. It produces high-quality iron ore concentrate with 67% iron content. In 2018, it increased its sales by volume to 4.3 million tonnes (compared with 4.2 million tonnes in 2017). Internal consumption also increased marginally, from 4.1 million tonnes of concentrate in the previous reporting period to 4.2 million tonnes in 2018.

GRI 301-1

Yakovlevskiy Mine, our new asset in Belgorod Oblast, develops the Yakovlevskiy iron ore deposit, one of the largest deposits in the Kursk Magnetic Anomaly. Ore mining in 2018 increased to 1.239 million tonnes, which is 41% higher than in 2017.

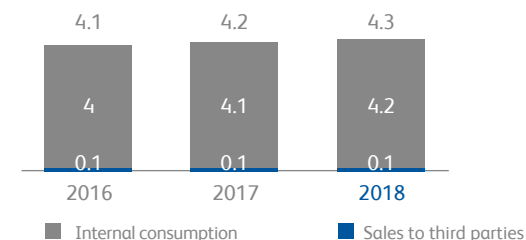
All mining facilities are designed by SPb-Giproshakht.

Sales of iron ore pellets, million tonnes



Sales of iron ore concentrate, million tonnes

GRI 102-10



Steel Production

Severstal Russian Steel is the leading Russian steelmaker with world-class steelmaking assets. Severstal Russian Steel produces rolled and downstream products, and has the highest share of high-value-added products among its domestic peers.

Severstal Russian Steel

Steel and rolled products	Tubes, pipes and machinery products	Steel products	Supporting facilities and service providers
<p>Cherepovets Steel Mill</p> <ul style="list-style-type: none"> • steelmaking • flat-rolled and long products 	<p>Severstal TPZ Sheksna</p> <ul style="list-style-type: none"> • straight seam electric welded pipes 	<p>Severstal Metiz</p> <ul style="list-style-type: none"> • fasteners 	<p>Severstal SMC Vsevolozhsk</p> <ul style="list-style-type: none"> • steel processing services
<p>Severstal Long Product Mill Balakovo</p> <ul style="list-style-type: none"> • scrap recycling into steel products • long products 	<p>Izhora Pipe Mill</p> <ul style="list-style-type: none"> • large diameter pipes 	<p>Gestamp-Severstal-Kaluga</p> <ul style="list-style-type: none"> • steel parts and assemblies for automotive applications 	<p>Severstal-Gonvarri-Kaluga</p> <ul style="list-style-type: none"> • steel processing services
<p>Severstal SMC Kolpino</p> <ul style="list-style-type: none"> • semi-finished steel products 	<p>SSM Tyazhmash</p> <ul style="list-style-type: none"> • machinery products 	<p>Gestamp-Severstal-Vsevolozhsk</p> <ul style="list-style-type: none"> • steel parts and assemblies for automotive applications 	<p>Severstal Vtorchermet</p> <ul style="list-style-type: none"> • scrap purchasing, processing and sales
		<p>Severstal Steel Ropes</p> <ul style="list-style-type: none"> • wire products and steel ropes 	<p>Severstal Infocom</p> <ul style="list-style-type: none"> • information and communication services
		<p>Severstal Lifting Technologies</p> <ul style="list-style-type: none"> • rope service and distribution centre 	

The core asset of Severstal Russian Steel is Cherepovets Steel Mill located in the north-western part of Russia. Cherepovets Steel Mill is the second largest full-cycle steelmaking facility in Russia. Cherepovets Steel Mill is located at the meeting point of three Russian economic regions: Northern, Northwestern and Central. It has convenient rail access to our mining businesses and direct river access to Baltic Sea ports.

Its unique location simplifies quick delivery of raw materials to ensure uninterrupted production and equally quick delivery of products to buyers.

GRI 102-2

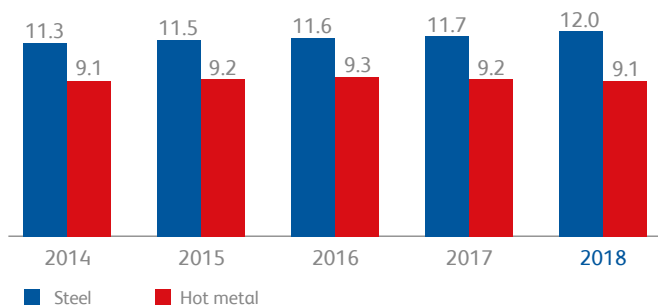
This division also includes Severstal Long Product Mill Balakovo⁷, a next-generation mini mill which manufactured a range of products for the construction industry and was sold in the first half of 2019, Izhora Pipe Mill (ITZ), Severstal Sheksna Pipe Mill (Severstal TPZ Sheksna), and scrap processing facilities. Severstal Russian Steel also includes a leading metalware producer, Severstal Metiz Group.

The service businesses of Severstal Russian Steel repair and manufacture equipment, and produce hardware and machinery products, supporting the manufacturing processes of Cherepovets Steel Mill and serving external customers.

Severstal product range includes the following: long products, shapes, tubes pipes and formed shapes, colour-coated steel, cold-rolled steel, hot-rolled steel, hot-rolled pickled steel, large diameter pipes, metalware and secondary products.

Severstal product catalogue is available on our corporate website⁸.

Hot metal and steel production, million tonnes



Hot metal production stayed flat in 2018, at 9.146 million tonnes. Steel production increased by 3%, to 12.03 million tonnes, reflecting performance improvements following the launch of Ladle Furnace No. 2 and increased production at Balakovo Long Product Mill.

Consumption of skip coke was reduced to a record 375 kilograms per tonne of hot metal (approximately 400 kilograms per tonne in 2017).

Severstal continuously works on maintaining cost leadership, particularly through labour productivity. We are the highest performer in Vologda Oblast by this measure.

⁷ Severstal Long Product Mill Balakovo was sold in the first half of 2019

⁸ <https://www.severstal.com/rus/products/>

Productivity improvement, %

Indicator	2017 vs 2015	2018 vs 2017
Steel	2	6
Steel products	1	6

Project and construction services for this division and third-party clients are provided by Severstal Project, VNIIMETMASH and Severstal Steel Solutions.

Transportation

We transport raw materials and products of Severstal and Severstal Resources by rail, water and road. Transportation is provided by our own transportation businesses and, for certain services, third parties.

Passenger and freight transportation

Severstal Air Company

- domestic and international air travel

Neva Metal

- shipping and storage of steel products for export

Cherepovets Industrial Port

- water transportation of products and raw materials

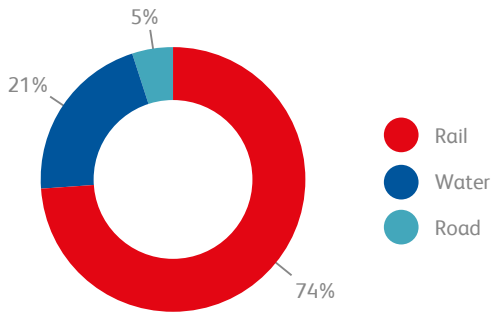
The core mode of transport covering of the needs of Cherepovets Steel Mill is rail. Severstal uses major railway operators with some of the largest rolling stock, including Freight One and Federal Freight.

We use water transport for 21% of our products and raw materials. This process is enabled by Cherepovets Industrial Port, which operates as a shop floor of Cherepovets Steel Mill, and Neva Metal stevedoring company operating at the Big Port St. Petersburg. Neva Metal transfers more than 3 million tonnes of cargo per year; the overall turnover of Cherepovets Industrial Port is 6.7 million tonnes.

Road transport only covers 5% of our product and raw material transportation needs. Road vehicles are used at Cherepovets Steel Mill to support manufacturing and internal transportation of steel products and other cargo. We only use Euro 5 compliant vehicles with internal combustion engines in our fleet. All new vehicles

meet international standards and have improved emission characteristics. Three Severstal Resources businesses maintain a fleet of excavators and 101 mine trucks to load and deliver mined ore, as well as other vehicles to transport people and freight.

Transportation of products and raw materials in 2018, %



Our IT system monitors marine and road transport operations, as well as domestic and international rail deliveries. Integrated transportation planning and management using SAP Transportation Management (SAP TM) helps Severstal to streamline product shipping and delivery schedule, including efficient use of vehicles and cost management. Multimodal transportation helps reduce costs, accelerate delivery, reduce dry runs and reduce CO₂ emissions.

The transportation branch of Severstal also includes Severstal Air Company offering scheduled passenger flights including business trips of our employees.

In 2018, Severstal Air Company served 15 domestic and two international destinations. It transported 236,000 passengers in the reporting period, compared to 229,000 passengers in 2017. Severstal Air Company is based in Cherepovets Airport. It will completely renovate its fleet by 2022 by purchasing six Sukhoi SuperJet 100 aeroplanes.

Purchasing and Sales

Purchasing

We purchase approximately 150,000 stock-keeping units of materials and equipment. In 2018, we purchased approximately 80 SKU out of this range. The Central Purchasing Department of Severstal purchases a variety of materials, equipment and services for our individual businesses. An efficient sourcing system ensures uninterrupted operation of Severstal businesses and makes a significant contribution to cost reduction.

In 2018, Severstal had 7,279 suppliers. The majority of our purchases are iron ore (16%), coking coal (12%) and scrap metal (15%). Most of these come from internal suppliers: we buy over half of our coking coal from Vorkutaugol and two thirds of iron ore products from Karelsky Okatysh and Olcon.

A large expense item is the purchase of transportation services from third parties (12%). Energy, ferroalloys and other materials each represent approximately 8%. Apart from process equipment

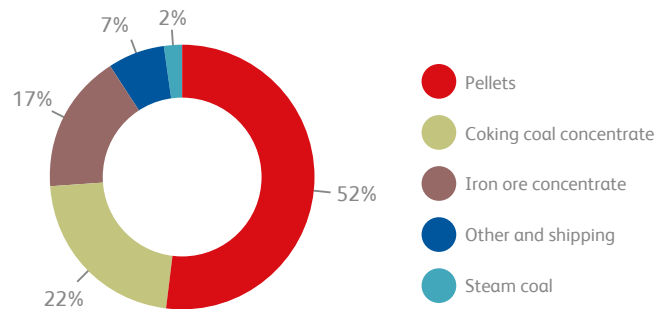
(5%), we purchase construction and repair services, and also purchase refractory materials, colour coatings, fuel, rollers, etc. We usually have three to four large suppliers in every major product group covering approximately 60% to 90% of our purchases.

Detailed information about our relationships with business partners is provided in the Cooperation with Suppliers and Supply Chain Responsibility section of this report.

Sales

The main sales market for Severstal Resources is Russia, which is home to our key steelmaking assets. Russia's share of the consolidated sales of Severstal Resources has increased to by 2% in 2018, to 71%. Severstal Resources sells the majority of its products for internal consumption. Inter-segment transactions represent 59% of our iron ore pellets sales, 98% of iron ore concentrate sales, and 97% of coking coal sales. Severstal also sells these materials to third parties in Russia. These include the majority of large Russian steelmakers. The revenue of Severstal Resources in 2018 was US\$1,908 million compared with US\$1,727 million in 2017.

Revenue of Severstal Resources by product group in 2018, %



Severstal Russian Steel sells its products directly to end users in the domestic market. Our products are also delivered to regional distributors and end users in Russia and abroad through Severstal Distribution, our in-house distribution network. Severstal Russian Steel sold approximately 16% of its steel products through Severstal Distribution in the reporting period.

Sales of Severstal Distribution

Five sales businesses offering steel products to customers across Russia, Ukraine, Belarus and the European Union.

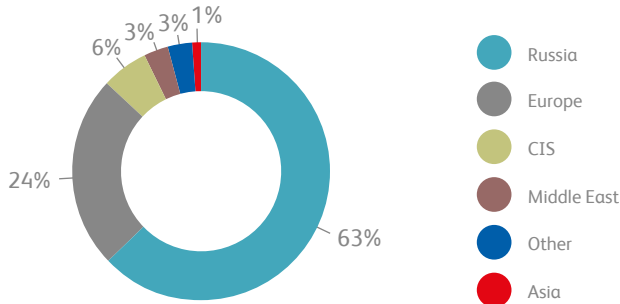
Severstal Export

Sales of steel products to countries other than Baltic States and CIS.

GRI 102-9

Russia remains the key market for Severstal Russian Steel. In 2018, domestic market represented 63% of divisional sales, compared with 64% in 2017. The main export market for this division is Europe. The share of this region increased to 24% in the reporting period, compared with 16% in 2017.

Sales of Severstal Russian Steel in 2018 by region, %



Sales of high-value-added products remain our priority. The share of high-value-added products in the reporting period remained at a high level of 46% (2017: 46%).

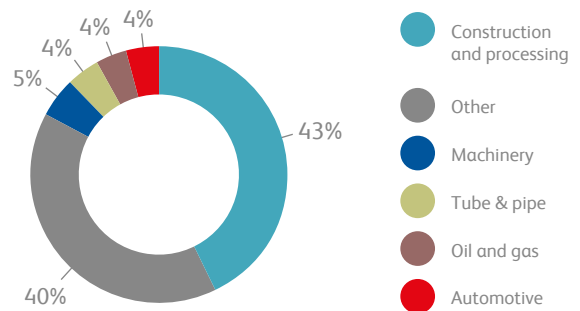
Key consumers of Severstal products

The construction industry remains the largest consumer of our steel products, even though its share in 2018 reduced marginally (-1%). Severstal retained its market share in the automotive and machinery industries. We are a leading producer of automotive products including a number of unique products such as cold-rolled high-strength steel, heat-strengthening steel, and other products. Our products are used by manufacturers of cranes, excavators and dump trucks, as well as household appliances. Severstal is one of

the largest Russian suppliers of large-diameter pipes used in oil & gas mining, transportation and processing. Demand for these products remained flat compared with the previous year. The largest reduction was attributable to pipe and tube manufacturers (-3%).

Wind power is a new promising market for steel products. SMC-Kolpino shipped more than 6.5 thousand tonnes of steel products to the builders of wind turbines, which is 48% more than in the previous year. These products were shipped to European consumers as well as WRS Towers, a joint venture of Severstal, Rusnano and Windar Renewables S.L. with a localised production facility in Rostov Oblast.

Sales of Severstal Russian Steel in 2018 by industry, %



The revenue of Severstal Russian Steel in 2018 was US\$7,803 million compared with US\$7,182 million in 2017.



Market Review and Corporate Business Strategy

Steelmaking is a core industry of the Russian economy. It contributes 4% to the national GDP and is one of the top three sources of foreign currency revenue in Russia, together with oil & gas and machinery industries. More than 1,500 businesses and organisations are involved in steelmaking; 70% of them playing a vital role in the economy of their cities and regions, making a critical contribution to regional social stability.

More than 80% of steel products are manufactured by nine large enterprises, including Severstal. Severstal is on the list of national backbone enterprises with significant impact on GDP, job market and social stability in Russia.

More than 660,000 people work in this industry. Experts believe that one job in steelmaking creates up to seven jobs in adjacent industries.

Russian steelmaking is integrated in the global economy. Russia is an important player in the global steel market, being the third largest exporter and the fifth largest steelmaker in the world⁹.

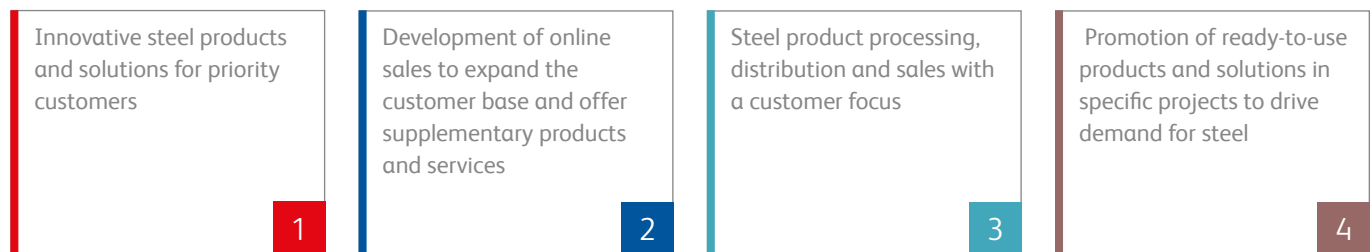
The industry is gradually migrating towards the production of complex products. New grades of steel demonstrate strong

performance in plasticity, strength and corrosion resistance, creating great opportunities for the steelmaking industry. Despite the growing consumption of aluminium, plastics, concrete and other materials, steel retains its unique competitive advantages, including its environmental aspects. These advantages include its high strength, low weight, and potential for unlimited 100% recycling, completely addressing the issue of waste. Plastics and concrete production generate two to eight times more CO₂ emissions than steelmaking.

The analysis of steel market and its 2019 forecast are available in the Market Trends section of the Annual Report¹⁰.

Even though steelmaking is considered a traditional industry, blast furnace smelting and basic oxygen steelmaking processes are continuously improved. We expect further significant changes in hot metal and steel production technologies in the future. This is why Severstal's development strategy goes beyond simple upgrades and targets explosive innovations. Severstal identifies new trends that can revolutionise the steelmaking industry and technology processes, studies them and tries to adjust them to our needs.

New Severstal Marketing Strategy



Severstal Vision and Strategy

Today, value creation is mostly driven by efficiency rather than growth. We are trying to secure long-term competitive advantages taking market trends, social, economic and environmental factors into account.

In May 2018, Severstal announced our new vision and new development strategy focused on innovative transformation. Together with an enhanced marketing strategy, customer care programme and internal performance improvement projects, transformation is expected to be a core driver of our efficiency over the next few years. For the first time, Severstal's strategy directly includes aspects of sustainable development, including occupational health and safety, society and the environment.

Our new vision: Severstal is the leader of future steelmaking. Severstal is the first choice for our employees, clients and partners. A safe and attractive company to work for.

In rolling out our new business model, Severstal is committed to ensuring our differentiation from other offerings on the market. The Company focuses on the following strategic priorities:

SDG 8

⁹ <https://www.worldsteel.org/media-centre/press-releases/2018/World-crude-steel-output-increases-by-5.3--in-2017.html>

¹⁰ 2018 Annual Report, page 18

1. Outstanding customer experience

- Differentiation from other offerings on the market
- Use of downstream opportunities
- New market business models
- Maintenance
- High-quality and reliable deliveries

2. Maintaining base cost leadership

- Continuous improvement programme
- Digitalisation
- Investment projects
- Comprehensive hot-end modernisation

3. New opportunities

- Becoming the top Russian steelmaker by product quality in 2019
- Seeing new opportunities and investing in them before competition
- Developing an open innovation system

4. Developing corporate culture

- Accelerating business processes
- Increasing engagement
- Customer partnerships
- Maintaining sustainable social and natural environment



Key performance targets:

- Sell 100% of products in key markets as one-of-a-kind offerings
- Bring new products to market four times faster
- At least 20% profitability regardless of market conditions; increase EBITDA by 10-15% per year over the next five years
- Reduce core product manufacturing costs by at least 10% against the competition
- Double CAPEX in the short term; focus investments on the hot end
- Retain existing dividend policy to distribute up to 100% of free cash flow among shareholders

Investment Programme

We will significantly increase our CAPEX until 2023 compared with previous years. Severstal's investment programme for 2019 and 2020 will be larger than usual as we will work on three major projects: overhaul of two blast furnaces and construction of a coke battery at Cherepovets Steel Mill. We are planning to increase our capacity and production volumes mostly in the Resources segment. The majority of our investment programme will be financed with our own funds. Under the revised development strategy, Severstal will actively use the latest available technologies.

US\$1.22 B

Investments in resource assets and improvement of product range

+US\$597 M
EBITDA increase in 2023

US\$1.24 B

Investments in steel assets

+US\$197 M
EBITDA increase in 2023

A variety of investments in production upgrades, environmental and social projects, and IT

Projects

Results

Severstal Russian Steel

Invested in 2018 about 32.5 billion rubles

- Modernisation of coke battery plant: Reconstruction of Coke Battery No. 4
- Retrofitting flat rolled products plant (2018)
- Modernisation of coke battery plant: continued construction of Coke Battery No. 11 and Blast Furnace No. 3
- Launch of wide rolled products (2019)

- Increase in production volume and product quality for hot rolled, pickled and cold rolled steel products
- Expansion of product range, including the addition of new product types

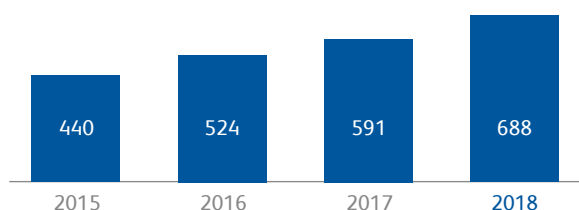
Severstal Resources

Invested in 2018 about 17 billion rubles

- Continued installation of the integrated safety system in Vorkutaugol mines
- Transition of Karelsky Okatysh to closed-loop water system
- Expansion of mining operations
- Approximately 470 million rubles of investments in industrial safety projects
- Approximately 390 million rubles of investments in environmental projects
- Approximately 3.4 billion rubles in digital and IT initiatives

- Increasing industrial safety
- Reducing impact on water sources
- Increasing production volumes
- Improving business processes and client services using information technologies

CAPEX, US\$ million



Direct economic value generated and distributed, US\$ million¹¹

GRI 201-1

	2018
Direct economic value generated:	
Revenue	8,571
Economic value distributed:	
including:	
Operating expenses	(5,781)
Salaries and benefits	(982)
Payments to providers of capital	(2,081)
Payments to governments	(508)
Direct community investments and donations	(44)

¹¹ Calculation formula is provided in Appendix 2

Key Priorities in Corporate Social Responsibility and Sustainable Development. Financial and Economic Component

● Achieved ● In progress ○ Not achieved

2018 objectives

Reduce costs, increase the share of high-value-added products, develop customer care

- Maintain industry leadership as prices stabilise in global raw material and steel markets
- Maintain a strong financial position relative to comparable companies in Russia and worldwide thanks to high quality of operating assets, low debt and high share of high-value-added products in sales portfolio

Maintain stable positive free cash flow despite fierce competition and increased capital expenditure

- Keep a prudent approach to capital expenditure in further development of customer care, responsible environmental protection and improved performance of manufacturing assets
- Implement the long-term programme of blast furnace modernisation with the latest technology at Cherepovets Steel Mill

Implement Severstal investment programme of US\$884 million

Maintain ideal ratio of Net debt to EBITDA

Increase shareholder value and continue paying high dividends

Progress and 2018 highlights

- Our cost remains among the lowest in the industry

- EBITDA margins rose to almost 37%, from 33% in 2017 and represented one of highest EBITDA margins in the steel industry globally

- Free cash flow: US\$1,601 million (2017: US\$1,393 million)



- US\$688 million

- Net debt/EBITDA = 0.4

- Severstal paid dividends of \$2 billion (2017: \$1.5 billion)

2019 objectives

The highest EBITDA margin in the industry through improved efficiency and cost management

Positive free cash flow through the cycle

Smart CAPEX requiring a minimum IRR of 20% on every investment project

A strong balance sheet with the aim of not exceeding net debt/EBITDA ratio target level of 1.5

Returning value to shareholders in the form of dividends amounting to 100% of the Group's Free Cash Flow for the respective reporting period as long as Net debt/EBITDA ratio remains below 1.0



2

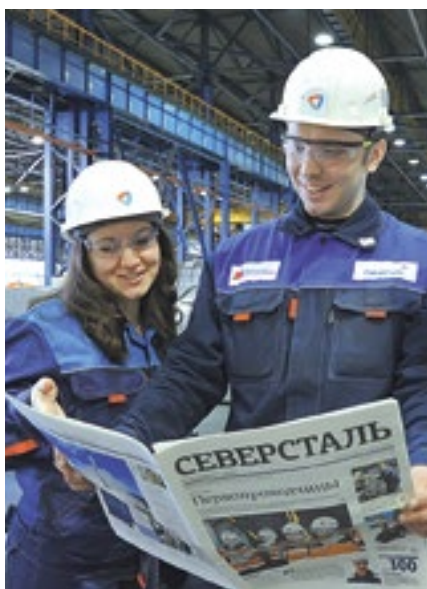
BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY

GRI 102-19

GRI 102-20

In delivering our strategic priorities, including outstanding customer experience, cost leadership in the industry and realising new opportunities, we will rely on Severstal's top-notch corporate culture. Its core components include corporate social responsibility and sustainable development.

Consideration for social, economic and environmental aspects, improvements in environmental performance, and focus on safety and corporate governance are the sources of Severstal's long-term competitive advantage.



Management of Social Responsibility and Sustainable Development in Severstal

Severstal has a Corporate Social Responsibility Policy that defines a standardised understanding of CSR and key directions of CSR implementation by all corporate businesses and divisions, and provides common ground to improve our efficiency. Our social responsibility policy is consistent with our mission, strategy and corporate values. It is also aligned with CSR principles and approaches recognised by the Russian and international business communities. In implementing this policy, Severstal takes stakeholder views, opinions and expectations into account, and works closely with stakeholders on addressing important social challenges.

The primary tool for the implementation of this policy is the Business System of Severstal. It covers all key CSR areas such as corporate governance, human rights, labour practices, environment, consumer and supplier relations, and community involvement. The purpose of Business System projects is to ensure Severstal leadership through continuous improvement. The projects of Business System link financial, economic, social and environmental aspects of our business together, and establish employee values and models of conduct aligned with long-term development priorities, efficiency, mutual responsibility and partnership. To address these challenges, we need to consider employee ideas and engage every employee from workers to managers.

Customer care is another critical component of our responsibility. We keep enhancing our customer care while improving product and service quality. These initiatives span beyond marketing and sales, covering all our core functions such as manufacturing, logistics, finance, IT and human resources.

Our decision-making principles, structures and processes are largely compliant with the requirements of the ISO 26000 standard.

Following the principles of transparency and accountability, Severstal takes commitments, sets specific, measurable and achievable goals, and establishes means of progress monitoring in these areas.

The Board of Severstal oversees the delivery of integrated injury prevention, workplace improvement and environmental footprint reduction programmes. In 2018, the Board approved the long-term goals of Severstal in occupational health, industrial safety and environmental protection. We also made amendments to the existing Environmental Protection Policy and the Code of Business Partnership.

Together with long-term goals, the Board adopted a Human Rights Policy defining the approaches and principles Severstal will follow to protect, support and develop human rights.

Our key policies in the area of sustainable development are available on Severstal website¹². Further details on our activities in the areas of CSR and sustainable development are provided in respective sections of this Report.

Additional information on CSR topics is also provided in Report sections on individual Severstal businesses.

GRI 102-20



¹² <https://www.severstal.com/rus/it/esg/>

	Corporate Governance	Stakeholder Engagement	Supply Chain	Human Rights	People Management	Environmental Protection	Industrial Safety and Occupational Health	Energy efficiency and Energy Conservation	Local Communities
AO Severstal Management Executive Authority	✓						✓		
Board of Directors	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ethics Committee		✓	✓	✓	✓				
Health, Safety and Environmental Protection Committee of the Board	✓	✓	✓	✓		✓	✓	✓	
Remuneration and Nomination Committee of the Board	✓	✓		✓	✓				
Divisional occupational health, industrial safety and environmental protection committees	✓	✓	✓	✓		✓	✓		
Communications and Investor Relations Department	✓	✓							
HR Directorates	✓	✓		✓	✓				✓
CSR and Brand Department	✓	✓		✓	✓	✓	✓	✓	✓
Central Purchasing Department		✓	✓						
HR committees of individual businesses		✓		✓	✓				
Chief Power Engineer departments of individual businesses								✓	
Energy Efficiency Centre of Cherepovets Steel Mill								✓	
Production Planning and Procurement Directorate		✓	✓					✓	
BSS Development Centre	✓	✓			✓	✓	✓	✓	
Occupational health and safety committees in the individual businesses		✓	✓	✓			✓		
Government Relations and Public Relations departments of individual businesses		✓							✓

Severstal's Documents and Initiatives in the Areas of Sustainable Development and Corporate Social Responsibility

Severstal shares the principles of the Social Charter of RSP and Sustainable Development Policy of the WorldSteel Association reflecting Russian and international best practices in productive cooperation with the communities. As a top 75 steelmaker worldwide, Severstal signed the Worldsteel Sustainable Development Charter reconfirming their commitment to the principles of sustainable development of our industry.

In 2018, Severstal joined the UN Global Compact.

In 2018, Severstal joined the UN Global Compact and committed to follow its 10 principles.

Severstal believes that our approaches and commitments towards CSR fully focus on meeting the Sustainable Development Goals included in the 2030 Agenda for Sustainable Development. Severstal activities aligned with the UN SDG are marked in this report using the SGD pictograph followed by the goal number.

Our impact on the UN Sustainable Development Goals



In 2018, Severstal for the second time was listed in the FTSE4Good Index Series of companies demonstrating high CSR performance. For the first time, Severstal provided data on emissions affecting climate change, in accordance with the Carbon Disclosure Product international initiative. We also received the Quality Mark of the Institutional Shareholder Services (ISS) for high performance in corporate governance.

Severstal is one of the leaders in the Responsibility and Transparency and Sustainable Development Vector indices published annually by RSPP.

Internal documents

- Code of Business Conduct
- Code of Corporate Governance
- Employee Code of Conduct
- Comprehensive Energy Conservation Program
- Corporate External Social Programme Management Policy
- Corporate Standard for the Management of Charitable Activities
- Quality Policy
- Severstal Group Environmental Protection Policy
- Occupational Safety Policy
- Energy Efficiency Policy
- Compensation policy
- HR policy
- Anti-Corruption Policy
- CSR Policies
- Employee training and development regulations and recommendations
- Talent selection and onboarding regulations and recommendations
- Goal discussions and employee evaluation regulations and recommendations
- Social and residential standard
- Employee Code of Conduct

External documents

- ISO 14001
- ISO 26000
- ISO 50001:2011
- ISO 50001:2011 — Energy Management Systems
- British Code of Corporate Governance
- UN Universal Declaration of Human Rights
- UN Global Compact
- Russian Central Bank Code of Corporate Governance
- Constitution of the Russian Federation
- OHSAS 18001:2007
- Worldsteel policy
- Worldsteel Sustainable Development Policy
- UN Guiding Principles on Business and Human Rights
- Social Charter of RSPP
- UN Sustainable Development Goals

GRI 102-12

Stakeholder Engagement

Principles and Forms of Engagement

GRI 102-16

GRI 102-21

GRI 102-43

GRI 102-44

Being a reliable partner for our stakeholders is a part of Severstal's social responsibility. We are trying to find the best possible balance between strategic priorities of business development, needs of individual regions and local communities, and the interests and expectations of a wide range of social groups.

The tools that we use to work with our stakeholders provide a feedback loop and give us an opportunity to identify new risks and opportunities for business development and enhancement of our social initiatives on a timely basis.

We take special care of stakeholders whose interests are closely intertwined with those of the Company. We take into consideration those organisations and individuals whom Severstal activities impact the most or who can affect the ability of Severstal to achieve our targets.

GRI 102-42

The list of stakeholders is identified by the Corporate Social Responsibility and Sustainable Development Report work group and is reviewed annually.

In 2018 Severstal identified the following key stakeholders:

- Shareholders and investors
- Employees
- Government authorities
- Customers and consumers
- Suppliers and vendors
- Local communities and general public

Common principles of engagement with key stakeholders are established in several corporate documents, including codes and policies¹³.

Severstal works with our stakeholders in Russia on federal, regional and local levels. As a global player in the world steel market, Severstal also works with international partners on matters of industry development.

Shareholders and Investors

In our dealings with shareholders and investors, we are committed to the latest Russian and international standards of corporate governance and global best practices in information disclosure. Severstal fully complies with applicable laws protecting the interests of shareholders and investors. Our General Meeting preparation and management process ensures that shareholders have an opportunity to review all necessary data and to speak up.

Shareholders owning at least 2% of Severstal's registered ordinary shares are entitled to propose items for the agenda of the Annual General Meeting and nominate their candidates to the Board of Directors and Internal Audit Commission, and for the role of the Sole Executive Body.

We strive to make regular dividend payments to shareholders while following our Dividend Policy. In 2018, the Board approved the new revision of the policy.

Severstal works hard to ensure that investors and partners receive full information about our financial position and operating performance in a timely manner, so that they can make an objective evaluation of our results and make sound investing decisions. Our corporate website has a special section for investors¹⁴.

Traditionally, a significant number of questions from the investment community focuses on Severstal's development strategy and plans, market forecasts, financial and operating performance. Investors are also interested in corporate governance (systems, Board of Directors and its Committees, executive remuneration), and in social and environmental topics.

¹³ These include: Code of Corporate Governance, Employee Code of Conduct, Code of Business Partnership, Corporate Social Responsibility Policy, Anti-Corruption Policy of Severstal and Affiliates, Corporate Standard for the Management of Charitable Activities, Human Resource Policy and Quality Policy.

¹⁴ <https://www.severstal.com/rus/ir/>

The most significant risks facing Severstal's operations and financial results are also of great interest to investors. Priority topics include safety and impact on climate. HR management, human rights and their monitoring and supply chain responsibility.

We were one of the first Russian companies to publish international reports, and we regularly organise analyst teleconferences and investor meetings.

The largest of these meetings is the annual Investor Day when our top executives are available to respond directly to investors' and analysts' questions. In November 2018, we hosted this event in London, and our executive team presented the revised Severstal strategy focused on further financial growth, maximum value creation and investor returns¹⁵.

According to Centre for Corporate Information Disclosure¹⁶, we published almost 168 notices of material facts in 2018. Severstal invites investors and analysts to our facilities, and provides tours at the request of stakeholders so they can personally review the quality of our assets, talk to production managers, and evaluate the corporate culture of Severstal.

Severstal puts a strong emphasis on communication with professional corporate governance associations and investors. We are a member of the Russian Institute of Directors.

The Communications and Investor Relations Department of Severstal maintains continuous communication with investors.

Business Partners and Consumers

Cooperation with Suppliers

Severstal is committed to building long-term mutually beneficial relationships with our business partners, based on fair, open and ethical collaboration, mutual respect and accountability for mutual commitments and obligations. The key fundamentals of our cooperation are established in the Code of Business Partnership that includes both provisions on business ethics and the social responsibility requirements for the participants in the supply chain. Our suppliers need to comply with a range of requirements in the area of industrial and environmental safety, follow our Anti-Corruption Policy, and inform their employees who work with Severstal of the rules and principles of the Severstal Code of Business Partnership.

All Severstal businesses use the automated Electronic Trading System to manage supplier relationships. It supports the supplier selection and evaluation process, as well as the paperless exchange of orders and product shipment / service completion notifications between Severstal and its suppliers. We are working

¹⁵ https://www.severstal.com/files/23501/Capital_Markets_Day_2018_final.pdf

¹⁶ www.e-disclosure.ru

to improve our purchasing system to ensure timely supply of goods and optimise our stock.

To involve local suppliers and small and medium businesses in online purchasing, the Cherepovets Agency for Urban Development together with Severstal offers training courses on the use of the online trading platform in Cherepovets and Vologda. For further details, please refer to the Contribution to Sustainable Development of Severstal Regions section.

Severstal tries to build strategic partnerships in order to work closer with them and sign long-term contracts. From our suppliers, we expect support with the launches of new solutions and alternative products to help us reduce costs.

We created a partner portal where we publish information on R&D tenders and priority areas of cooperation. With all work orders available for public access, Severstal will be able to expand its professional communities and attract new partners, gain new knowledge, use new technologies and ensure high-quality delivery.

We audit the quality management systems of our partners to improve the expertise of our suppliers. We use the audit results to prepare a report with recommendations for quality improvements for both suppliers and buyers upon the conclusion of the audit.

customers, and support for self-service functions. CSC Centre handles approximately 5.5 million transactions, more than 260,000 phone calls, 500 self-service requests and 20,000 reports per year.

Our complaint management process requires timely decisions on defective products, prompt resolution of complaints and financial settlements, and corrective measures to eliminate the root causes of complaints.

We have confidently achieved our objectives related to our performance, notification and complaint response times, and payment times for validated claims, as we started to monitor the stages of notification and complaint review process in SAP automated system, implemented a simplified complaint review process for complaints under 300,000 roubles, and switched to electronic document exchange between businesses.

Quality complaints that we receive from customers storing or processing our products are prioritised based on how critical they are for our customers. We use the 8D methodology to address critical, high-cost, repetitive problems (failures to meet specifications and defects) within 90 days.

Severstal conducts customer satisfaction surveys on a regular basis. The results of the customer survey are provided in the Customer Care section.

In April, Severstal presented a new range of products for the construction industry in Sochi to leaders and experts of companies that are members of the Russian Union of Metal and Steel Suppliers.

GRI 205-1

Customer Relations

Severstal has a customer relations management system that includes:

- Research of customer preferences through business meetings, interviews and surveys, including site visits for customers
- Joint projects to reduce the cost of our products and improve their properties
- Development of new products for specific projects or to customer requirements
- Creation of special committees and coordination groups for long-term strategic accounts
- Issue resolution

Severstal sells our products to more than 80 countries all over the world. Our customers include some of the largest enterprises in Russia and worldwide. Our 49 key customers generate almost 80% of Severstal's profit. We have signed agreements on controlled parameters and unique requirements with every one of them. If there is an issue, the client gets assigned a cross-functional team including a production and technology expert, customer care specialists and representatives of the sales directorate. The objective of this team is to adjust our internal processes to meet actual customer needs. Our strong intellectual and technological portfolio gives us an opportunity to find quick solutions to complex research and development challenges and implement innovative projects and meet the requirements of our key customers.

We have a multifunctional Central Service Centre in Yaroslavl that is responsible for all transactional operations. The Central Service Centre hosts customer interaction services, including an employee call centre and hotline, a call centre for internal and external



Employee Communications

Internal communications system

Our internal communications system establishes a unified information space and ensures that we maintain an ongoing discussion with our employees. We develop this system in alignment with the Key Provisions and Standards of Internal Communications at Severstal.

The main communications medium in Severstal is the weekly Severstal newspaper. Approximately 84% of our employees read the newspaper, and over half of them use it as the preferred source of company news.

The audience for the Severstal News TV programme is 68% of our employees. In addition to that, 80% of our employees read our email newsletter, and about the same number read our newscast on the internal corporate web portal. We have developed a mobile application that includes the Severstal newspaper, Severstal News TV programme and the portal newscast.

We also use official Severstal pages on Facebook and VK to communicate information and receive feedback from our employees and local communities.

Unified internal media communications system of Severstal



Feedback Channels

Severstal has a comprehensive feedback system in place. We use issue rosters and SMS Centres in individual departments and businesses to address current issues and problems experienced by our employees. Our dedicated hotline is available 24x7. Employees can make their submissions, including anonymous submissions, over phone, email or our corporate web portal. All submissions are logged into a unified database, and a responsible person and a due date are assigned to every submission.

In 2018 we received 406 submissions, compared with 564 in 2017. Of those, 25% were related to HR issues (compensation, bonuses and other payments), 7% were related to health and safety, and 7% were related to landscaping, parking lots and walkways.

We were able to help 87% of employees who contacted our hotline.

Besides that, CEO hotlines are available in several of our businesses, and the Ethics Committee headed by the Chairman of Severstal Alexey Mordashov is in place at the corporate level.

In 2018, the Committee reviewed 42 employee submissions. Of those, 45% were partially or fully corroborated, and we took administrative actions.

In addition to feedback channels between employees and their managers and an interdepartmental knowledge exchange system, our corporate communications system includes direct communication channels. At the end of April 2018, Severstal Chairman Alexey Mordashov hosted a traditional video

GRI 102-17

conference with employees of 26 industrial sites of Severstal. The main topics of this conference included the steel markets, competition, occupational health and safety, and innovations. Our executive team meets our employees every year.

Severstal conducts an annual large-scale anonymous social survey, Severstal Pulse, to understand the level of satisfaction of our employees and their engagement with Severstal's strategy, and to identify the most important issues (for further details, please refer to Goals and Engagement).

GRI 412-1 We also use the survey to understand the employee perception of human rights, including any cases of intimidation or gender, sex, ethnic or religious discrimination, sexual harassment, verbal attacks, humiliation or physical attacks, including those by management.

In 2018, we released a new version of our Severstal Info mobile application used by more than 5,000 of our employees. The new version includes a personal profile section where an employee can access their payslip, verify the remaining number of vacation days, use an address book, send their questions to their manager and contact technical support. The application also has a survey functionality that can help understand opinions of colleagues on work matters, and offers the possibility to host documents for work meetings.

GRI 407-1 **Collaboration with trade unions**

Severstal develops its employee relations on the basis of mutual accountability and respect, trust, social partnership and full compliance with labour laws. Severstal respects employees' freedom of association and the right for collective bargaining. Trade unions are active contributors to the strategic development of our businesses, and also our key partners in delivery of social and labour security to our employees.

Between 33% and 66% of the employees of Severstal's core businesses are members of GMPR (Miners' and Metallurgical Workers' Union of Russia), Rosugleprof (Russian Independent Union of Coal Workers) or NPG (Independent Miner Union), who have their representation in our businesses.

As a full member of the Mining Industry Employer Association (OORUP) and Metallurgy Employer Association (AMROS), Severstal negotiates industry agreements with these trade unions. The rights and guarantees of trade unions working with our businesses are established by respective sections of industry agreements and collective bargaining agreements. Employers sign collective bargaining agreements with local trade union representatives.

Industrial agreements and collective bargaining agreements cover almost all employees of Severstal, with the exception of Severstal Management whose employees are fewer than 2% of the overall workforce.

In 2018 the collective agreement of Severstal won the Social and Economic Efficiency nomination of the nationwide Socially Responsible Mining and Steelmaking Businesses industry contest.

Vorkutaugol won the regional competition of collective agreements among businesses with more than 3,000 employees. The competition is organised by the Ministry of labour, employment and social protection of the Republic of Komi on an annual basis.

In 2018, six of our businesses signed new collective agreements, and one extended its existing agreement. Our 2018 agreements include all employee benefits that were present in the previous agreements, and some of them, such as the agreement of Yakovlevskiy mine, extended previous benefits.

Trade union involvement at the core businesses of Severstal in 2018, %

GRI 102-41

Cherepovets Steel Mill	66.4
Vorkutaugol	65.4
Karelsky Okatysh	41.4
Olcon	33.4

Tariff commissions established by joint organisations of employers and trade unions conduct bi-annual monitoring of compliance with federal and industry agreements. At the level of individual businesses, compliance is also monitored by joint commissions including employer and union representatives.

Our main topics for discussion with the trade unions revolve around occupational safety, ensuring decent social environment and standard of living, and competitive compensation. Our collective bargaining agreements also contain provisions for prevention and resolution of labour disputes, and termination notices protecting employees and reducing the risk of conflicts.

GRI 102-1

We discuss the following topics at meetings with union leaders:

GRI 102-44

- Performance of collective agreements
- Recreation for children, health resort treatments for employees (distribution of packages)
- Hosting events planned together with the management team
- Engaging with management to improve health and occupational safety



- Engaging union representatives with commissions and committees
- Information about GMPR activities

All employment procedures, layoff implementation and advance notice criteria are included in industry agreements and collective bargaining agreements, and also in internal policies which are enacted as appendices to collective bargaining agreements.

Collective bargaining agreements also include provisions for benefits applicable in case of organisational or divisional restructuring or staff reductions, including the following:

- Provision for early retirement two years before retirement age
- Professional training and cross-training
- Paid allowance of four hours per week for the search for a new job for employees who received layoff notices
- One-off bonus of 15% of the average monthly income for each year of employment in the mining industry if the employment is terminated within two years of retirement, due to dissolution of the organisation or its department, or reduction of staff (applicable to Vorkutaugol employees)

Industry agreements and collective bargaining agreements include procedures for collective labour dispute resolution. These provisions have never been violated by any parties. All issues arising in social and labour contexts were resolved in negotiations with trade unions, and all parties honoured the resulting agreements.

GRI MM4

We also use specialised commissions to facilitate our discussions with employees and minimise social risks, including the following:

- Labour Dispute Commission
- Social Insurance Commission
- Special-Purpose Loans and Financial Aid Commission
- Retirement Commission
- Moral Damage Determination Commission
- Special Workplace Assessment Commission

There were no irregularities, work suspensions due to labour disputes, or strikes in any Severstal businesses in the reporting period.

Many work-life balance issues are addressed with consideration of employee opinions. Severstal also works with trade unions on employee expertise and productivity, and on working and living conditions for women and youth. We jointly organise professional contests, industry day celebrations, sports events and veteran support initiatives.

Government Authorities

The key principles of our partnership with government authorities are as follows:

- Meeting all our legal obligations towards the state
- Partnership in development of our industry and regions
- Responsible use of labour and environmental resources

Severstal is committed to strategic partnership with regions and cities where we work. Severstal signs agreements on social and economic partnership to achieve these goals. As a rule, local authorities commit to supporting Severstal's business interests, while Severstal commits to investing in regional social and economic development, creating stable jobs for local residents and working on projects to improve the environment and ensure occupational health and industrial safety.

The following agreements were active or signed in 2018:

- Cooperation agreement between Vorkutaugol and the City of Vorkuta
- Cooperation agreement between Severstal Long Product Mill Balakovo and the Government of Saratov Oblast
- Strategic partnership agreement between Severstal and PhosAgro on the development of social and economic potential of businesses in our joint regions, including Vologda, Murmansk, Leningrad and Saratov oblasts
- Framework agreement with the Government of Khanty-Mansi Autonomous Okrug on the development of processing industries, joint projects in metal and lumber processing, mining, IT development and digital economy. This document reconfirmed an earlier agreement on the construction of a metal finishing plant in Surgut. The plant is expected to start operation in the end of 2020. This will create 500 additional jobs and generate approximately 500 million roubles of annual payments to the consolidated budget
- Social and economic cooperation agreement with the Government of Belgorod Oblast and Yakovlevskiy Municipal Administration

Locally, Severstal supports the development of partnerships between small and medium businesses and large enterprises. In Vologda Oblast, Severstal participates in the Cooperation Council of the regional Department of Economic Development.

Severstal discusses steelmaking industry trends with the national government, and engages in discussions on tariff policies and protection of Severstal interests in domestic and foreign markets in the light of Russia's WTO and Eurasian Economic Union membership.

Severstal is interested in transparent and clear relationships between the state and market participants, and in the opportunity to use regional and federal support in delivering capital-intensive investment projects.

Our representatives work in commissions and workgroups of the Ministry of Industry and Trade of the Russian Federation,

participate in advisory and coordination committees of the Ministry of Economic Development, participate in workgroups of other ministries and authorities.

In February 2018, the President of Russia Vladimir Putin had a meeting with the Chairman of Severstal Alexey Mordashov. Our Chairman reviewed the performance of Severstal in the previous year with the President and discussed the potential for further development of our businesses and the progress with investment and social programmes.

In March 2018, the Plenipotentiary Representative of the President of Russia in the Northwestern Federal District Alexander Beglov visited the Cherepovets industrial site during his trip to Cherepovets.

In 2018, Severstal and the Ministry of Economic Development of Russia signed an agreement on cooperation under the Federal Programme on Improvement of Labour Productivity and Employment Support. The purpose of this agreement is to support the improvement of labour productivity through the use of best practices, employee training and development of professional competencies, to create favourable conditions for productivity improvements in the regions where the programme runs, and to develop and deploy standardised solutions and international best practices.

Severstal has representatives in the Expert Council on Steelmaking and Mining of the State Duma Committee on Economic Policy, Industry, Innovative Development and Entrepreneurship, work in Russia-Congo and Russia-India intergovernmental commissions, and the Alexander Gorchakov Public Diplomacy Fund.

Severstal also participates in the Government Commission on the Celebration of 100th Anniversary of the Republic of Karelia, and the Organising Committee of the Celebration of 100th Anniversary of the Komi Republic.

Local Communities

GRI 102-44 Severstal maintains a productive cooperation with local administrations and the general public on acute social, economic and environmental challenges, and works with regional non-profit organisations and professional associations. We design tools for multi-faceted cooperation focused on addressing specific social issues and on developing the inherent potential of the regions. For further details, please refer to the Social Projects and Investments section of this Report.

Together with government authorities, Severstal is working on a comprehensive programme of social support in the Vologda Oblast districts.

GRI MM7 We consider the opinions of all stakeholders on all projects with potential impact on local communities. Our local community feedback and grievance management system is an important component of our community engagement. Severstal has internal regulations in place to govern these processes. All individual and collective submissions are filed and forwarded to responsible managers for review.

As a part of the Clean Metallurgy informational and educational project that includes environmental competitions and events, round tables and guest conferences, Severstal informs Cherepovets residents about our environmental protection activities.

For further details about our cooperation with local communities, please refer to Social Investments and Social Partnership.

Businesses and Non-Governmental Organisations

Severstal works closely with businesses and non-governmental organisations, and contributes to initiatives focused on social and environmental sustainability, and support of culture. Our employees participate in inter-industry unions and other associations such as RSPP, CCI of Russia, Business Russia or NP Market Council.

In 2001, Severstal became a member of the World Steel Association representing 161 steel producers from 60 different countries. We actively support all initiatives of the association, participate in its most important committees and in joint projects. Our representatives are active in all commissions of the Russian Steel Steelmaker Association and chair the Information and Analytics Commission.

The Chairman of the Board of Severstal Alexey Mordashov represents our company in several reputable Russian and international organisations:

- Russian Steel Steelmaker Association, Member of the Supervisory Council

GRI 102-12

GRI 102-13



- World Steel Association, headquartered in Brussels, Belgium, Member of the Executive Committee. Earlier, Chairman (from 2012 to 2013) and Deputy Chairman (from 2013 to 2015)
- Russian Union of Industrialists and Entrepreneurs (RSPP), Vice President, Member of the RSPP Management Board Bureau, Head of Committee on Trade and Customs Policy, Integration and WTO, Head of RSPP Coordination Council in North-Western Federal District
- Public Council of the Federal Customs Service of Russia, Council Member
- Expert Consulting Council on the Implementation of Customs Policy of the Federal Customs Service, Presidium Member
- Investment Council under the Patronage of the Chairman of State Duma, Council Member
- Trade and Investments Group of the G20 Business Twenty (B20), Co-Chairman
- Business Council of the Northern Dimension (an informal association of the representatives of industrial and business communities of Northwest Russia and Northern Europe), Co-Chairman
- Russian-German Foreign Trade Chamber, Vice President
- Russian-German Workgroup on Strategic Matters of Economy and Finance, Member
- EU-Russia Business Cooperation Council, Member

Severstal is also represented in the following organisations:

- Association of Russia's Managers
- Donor Forum
- Association of Russia's Directors
- Association of Russia's Directors of Communications and Corporate Media
- Russian national network of the UN Global Compact

In 2018, Severstal representatives of Severstal presented at many international and industry events and forums.



Science, Culture and Arts Organisations

Cooperation with specialised universities and research institutions including St. Petersburg Polytechnic University, MISIS National University of Science and Technology, St. Petersburg State Mining Institute, Institute of Biology of Inland Waters of the Russian Academy of Sciences, Nosov Magnitogorsk State Technical University, Cherepovets State University, Bardin Steelmaking Research Institute and FGUP TsNII KM Prometei, enables Severstal to ensure constant intake of specially trained experts, increase quality and embrace new technologies and offer competitive products. For these purposes Severstal uses the resources of 20 laboratories and more than 150 scientists involved with those science and education centres.

Severstal collaborates with science centres under federal special purpose programmes, helping them to secure state financial support of their R&D initiatives while Severstal offers them an opportunity to use survey results under mutually beneficial license agreements.

Severstal has representatives in the following boards of trustees:

- State Russian Museum
- Tretyakov State Gallery
- Cherepovets Museum Association
- Bolshoi Theatre
- Mariinsky Theatre
- Graduate School of Management of St. Petersburg State University
- St. Petersburg State University of Economics
- European University in St. Petersburg



Key Priorities in Corporate Social Responsibility and Sustainable Development.

Quality of governance

● Achieved ● In progress ○ Not achieved

2018 objectives

Consistently outperforming competitors and maintaining industry leadership by key performance indicators with the following:

- a) Implementing state-of-the-art management practices and solutions:
- Enhancement of Hoshin Kanri¹⁷ strategy development methodology in achieving our EBITDA objective
 - Creation of innovation centres
 - Leadership in speed of change
- b) Completing new projects:
- Development of supply chain
 - Achievement of TSR objective¹⁸ in sales and comprehensive customer services concept
 - Improvement of investing process

Transition of all Company employees to an unified corporate objective with targets depending on previous results

- Integrate Total Shareholder Return in the business plan and cascade the objective to achieve leadership in TSR
- Full cascading and horizontal alignment using goal matrices — from top executives to first-line managers

Transition of individual Company businesses to unified structure of annual objectives

Progress and 2018 highlights

We outperformed our competitors and achieved industry leadership using the following:

- a) Implementing state-of-the-art management practices and solutions:
- Development of agile, scrum and digital transformation methodologies to ensure flexibility and high speed of development
 - Every manufacturing segment and all key functional departments of Severstal have innovation centres (CTR, Centres for Technology Research; MPCR — Managers of Product Category Research; Severstal Ventures)
 - To ensure leadership in agility and promote innovative solutions, we started establishing internal and external accelerators, and several projects to establish internal start-ups within Severstal
- b) Completing new projects:
- Development of supply chain using supplier and key contractor development projects
 - Development of sales functional area and the concept of comprehensive customer service through the creation of self-organised cross-functional teams (Value Streams) for customers in machinery, energy and construction industries
 - Improvement of the investment process to speed up the making and implementation of investment decisions

● We moved to a uniform corporate goal for all Company employees, which is to generate surplus EBITDA over 2017 of US\$385 million (basic target)

○ We did not set a target for Total Shareholder Return. We keep working on defining TSR targets and a set of measures to manage TSR components

○ Our goals cascade through all departmental matrices from top executives all the way to foremen

● We implemented a unified structure for all employees: a corporate goal + individual goals cascaded to every employee from the very top (through directorates, segments, business units and shops)

2019 objectives

Generate surplus EBITDA on top of 2018 of US\$424 million and OCF (Operating Cash Flow) of US\$1,882 million (basic targets)

Implement the road map and deliver OKR on the implementation of the “Building the organisation with consideration for customer needs using the agile methodology” transformation initiative

Develop and implement a road map for the use of exponential technologies

Develop a portfolio of projects to support strategic priorities

Develop the engagement project, enhance the knowledge exchange system and move forward the Progress Innovations project

¹⁷ A method for strategic goal setting in the Company

¹⁸ Total shareholder return

Severstal Awards and Rankings in 2018

- Institutional Shareholder Services Inc. (ISS), an agency providing the investor community with information on companies committed to investing in sustainable development, reviewed Severstal's ratings in three areas: Environment (from 4 to 3; 1 being the highest); Social Quality (from 5 to 4; 1 being the highest); and Corporate Governance (from 4 to 1; 1 being the highest).
- Sustainalytics, an international ESG agency, upgraded the rating of Severstal in 2018 from 54 to 70 points (out of 100 possible) and ranked it 8th among 42 steelmakers across the world. Sustainalytics also assigned the Outperformer category to Severstal.
- RobecoSAM DJSI Annual Review, an international company focused on investments in sustainable development, upgraded Severstal rating to 36 points compared with 15 points a year ago.
- In the joint rating of WWF Russia and UN Environmental Programme, Severstal was ranked seventh, compared with 16/17th in 2017.
- Severstal moved from 22nd in 2017 to 14th in the rating of corporate transparency of the largest Russian enterprises.
- Severstal moved from 106th to 42nd in the Interfax ERA rating of environmental and energy efficiency.
- An independent rating agency Oekom Research upgraded our rating from D+ (2017) to C-.
- Russian AK&M agency ranked Severstal seventh in its rating of social efficiency of the largest Russian enterprises (among steelmaking and mining companies).
- The Chairman of Severstal Alexey Mordashov received the Honorary Badge of the Ministry of Foreign Affairs of Russia "For Contribution to International Cooperation" and the Honorary Badge of the EEU Business Council "For Significant Business Contribution to the Foundation of the Eurasian Economic Union".
- Severstal won the PEOPLE INVESTOR award in the Environmental Efficiency nomination for its research project on the use of vegetation for final treatment of water discharged from Olenegorsk and Cherepovets industrial sites.
- Severstal won the High-Quality Sustainable Development Reporting Award of the Russian Business Leaders: Agility and Responsibility 2017 Contest organised by RSPP.
- Severstal won the Special Award for Reflection of the Alignment of Corporate Goals, Objectives and Results with the 2030 Sustainable Development Goals in Corporate Reporting of the Russian Business Leaders: Agility and Responsibility 2018 Contest organised by RSPP.
- Severstal won the "Russian Top 100 Businesses: Environment and Environmental Management" award presented at the 12th Russian National Conference on Environment and Manufacturing: The Future of Economic Tools of Environmental Protection.
- Severstal finished first in the Workplace Mentoring nomination of the Mentoring Best Practices contest.
- Two projects of Severstal Steel Solutions received awards of the Russian National Competition for the Best Use of Steel and Aluminium in Construction organised by the Steel Construction Development Association.
- Severstal received awards for the development of new technologies and products at the 46th International Exhibition of Inventions in Geneva. Severstal received the Gold Medal, Expo Award, Medal and Award of the Chinese Inventor Association for the development of damping steel.
- Vorkutaugol received the Ecoworld international environmental award. Its programme to reduce environmental footprint of coal operations received the First Degree Award in the Environment and Human Health nomination.
- Severstal's Hockey Without Borders volunteering project won the regional section of the Russian National Volunteer 2018 Competition in the Born to Help nomination; while the Youth Council of Vorkutaugol won the Helping at Work nomination in corporate volunteering.
- Severstal's environmental programmes at Cherepovets Industrial Site received the Third Degree Award of the regional Contribution to Environmental Protection competition.
- Cherepovets Volunteer Environmental Protection Centre issued a Letter of Commendation for contribution to preservation of the environment to Severstal volunteers participating in Saturday area cleaning events. Our colleagues indeed participate in river bank cleaning, spring cleaning, and municipal landscaping volunteer events.
- Karelsky Okatysh finished second in the regional section of the Leading Corporate Donors — North-West competition organised by the Donor Forum together with PwC and Vedomosti.
- Karelsky Okatysh received the Gratitude of Kostomuksha 2018 award in the Investor nomination for its work on investment projects to reduce its environmental footprint.



3

CORPORATE GOVERNANCE

Management of Severstal's activities in the area of sustainable development is integrated in our corporate governance system.



Standards of Corporate Governance

GRI 103 Severstal's corporate governance system ensures high effectiveness of our operations and combines high quality of management decisions with protection of shareholder interests and consideration of the interests of other stakeholders.

Severstal follows the highest standards of corporate governance, fully complies with Russian laws and follows international best practices. Severstal follows the recommendations of the Corporate Governance Code (2014) approved by the Central Bank of Russia and recommended for application by publicly listed companies, UK Corporate Governance Code, and Severstal Code of Corporate Governance as amended by the Board of Severstal¹⁹ on 4 February 2019.

We comply with all requirements of the Moscow Exchange for Russian issuers included in quotation lists. Common shares of PAO Severstal are a part of Level 1 "A" quotations list, the highest-

level list with the strictest issuer requirements in the areas of corporate governance, transparency, information disclosure and share liquidity.

Severstal is a member of the Russian Institute of Directors, the leading expert consulting centre in corporate governance established by major Russian enterprises to develop, implement and monitor the standards of corporate governance in Russia.

In the 13th National Director of the Year Competition of the Association of Independent Directors, four independent directors of Severstal were included in the Top 50 Independent Directors ranking for 2018. The Corporate Secretary of Severstal received the National Director of the Year 2018 award in the Director of Corporate Governance / Corporate Secretary nomination.

Governing Bodies

GRI 102-18 The Annual General Meeting is the supreme corporate body of Severstal. Shareholders exercise their governance rights by the virtue of voting in General Meetings of Shareholders.

Severstal provides timely notifications to shareholders on the dates of the General Meetings of Shareholders, and on the vote results by publishing announcements on our official website. The competence of the General Meeting of Shareholders is established by Severstal Charter and applicable Russian laws.

GRI 102-31
GRI 102-32 The Annual General Meeting of Shareholders, in particular, reviews and approves the Annual Report that includes information on financial, environmental and social topics, as well as their impact, risks and opportunities. 30 days before the Annual General Meeting of Shareholders, the Board reviews the Annual Report and provides its preliminary approval.

On 8 June 2018, the Annual General Meeting of Shareholders elected Board Members, approved the Annual Report and accounting (financial) statements of Severstal for 2017, and rendered a decision on dividend payment for the fourth quarter of 2017 and several other decisions on the agenda.

At Extraordinary Meetings of Shareholders on 14 September and 23 November 2018, Shareholders approved dividend payments for the first six months and the first nine months of 2018 respectively. In September, the EGM also elected the new Board of Directors.

GRI 102-20
GRI 102-26 The Board of Severstal is responsible for the general management of the Company, including the review, analysis and approval of its strategy and business model. The Board directly controls financial and operating activities of Severstal, by individual segment and overall.

The Board decides on the most important aspects of Severstal business except for those that are in the competence of the General Meeting of Shareholders.

The Board is also responsible for disclosure and dissemination of the information about Severstal's operations, for implementation of its information policy, and for the matters related to insider information of Severstal.

GRI 102-20 Board Members are responsible for decisions on financial, environmental and social matters. An important function of the Board is ensuring uninterrupted operation of the risk management system and internal controls in Severstal.

The Board operates according to applicable Russian laws, the Severstal Charter²⁰ (as amended on 23.11.2018) and the Regulations for the Board of Directors (as amended on 23.11.2018)²¹ published on the Company website.

GRI 405-1 A balanced board is key to high-quality decision-making. The Board consists of ten members, including five Independent Non-Executive Directors, one Non-Executive Director and four Executive Directors. The ratio of Independent Non-Executive Directors to the total number of directors on the Board guarantees equal protection of the interests of all shareholders. Each member of the Board must be a physical person. In 2018, a woman was elected to the Board for the first time, the Chief Technical Director of Severstal Management Agnes Ritter. Severstal has separate roles for the Chairman and the Chief Executive.

The Chairman of the Board of Severstal Alexey Mordashov works on matters of strategic development and talent management.

¹⁹ <https://www.severstal.com/files/16709/document23797.pdf>

²⁰ <https://www.severstal.com/files/16708/document23550.pdf>

²¹ <https://www.severstal.com/files/16710/document23551.pdf>

GRI 102-22 Information about the composition of the Board, biographies of Board members and their professional experience are provided in the Composition of the Board of Directors section of the 2018 Severstal Annual Report²². In 2018, the Board had 19 meetings and reviewed the following key issues:

- Occupational health, safety and environmental protection
- Approval of Company goals in the areas of environment, industrial safety and occupational health for the period until 2025
- Approval of the new revisions of the Code of Business Partnership, the Environmental Protection Policy, and the Human Rights Policy
- Approval of the new revision of the Dividend Policy
- Achieving Company goals in priority areas
- Financial statements and reports of the Company
- Company risks and their mitigation
- Results of the internal assessment of the Board and its committees' performance for 2017
- Issues related to the composition of the Board and its committees
- Issues related to the selection and approval of external auditor
- Approval of the external auditor's fee
- Company budget for 2019
- Related-party transactions, etc.

GRI 102-28 The Board undergoes an annual self-evaluation of its performance based on the individual contribution of each Board member, and an external evaluation once every three years. The Board reviewed the results and observations from its evaluation for 2018 in a meeting in February 2019. Detailed information about the results of the evaluation of the Board in 2018 is provided in the 2018 Annual Report²³.

GRI 102-35 The General Meeting of Shareholders may decide to compensate Directors for the delivery of their duties. Severstal may reimburse business expenses, including transportation, lodging and postal costs as well as fees for translation of documents and other

GRI 102-36

materials, to Directors. Remuneration and compensation of Board Members is linked to their individual contribution to Severstal achievement of strategic objectives, including objectives related to occupational safety and environmental protection, as well as talent development. Other interested parties are not involved in the determination of remuneration and compensation.

GRI 102-37

The compensation of key leadership team, including the Chief Executive and their deputies, and Board Members, consisting of salaries and bonuses, did not change in 2018 and was US\$ 11 million²⁴. Severstal has processes in place to prevent conflicts of interest in the Board. Board members must refrain from any actions that would or could lead to a conflict between their interests and the interests of Severstal, and disclose such conflicts to the Board whenever they arise. This is one of the requirements of the Related-Party Transactions Regulation of PAO Severstal.

GRI 102-25

Severstal receives advice and recommendations from the following Board Committees:

- Audit Committee
- Remuneration and Nomination Committee
- Health, Safety and Environmental Committee

Committees may not act on behalf of the Board, are not considered management bodies of the company, and are not authorised to manage the Company. Committees meet as needed to discuss the matters risen by the Board and requiring analysis prior to their approval by the Board.

Detailed information about the Committees of the Board, their meetings and performance in 2018 is provided in the 2018 Annual Report²⁵.

Severstal Management is the sole executive authority (Chief Executive) of Severstal. The management company is responsible for all matters of everyday business management, including economic, environmental and social matters. This responsibility can be delegated to other employees according to their functional areas. Exceptions include matters that are the responsibility of General Meeting of Shareholders and the Board.

Governance Structure

AO Severstal Management is the sole executive authority of Severstal. Its employees include the Chief Executive Officer of Severstal Management, their deputies, management teams of all Severstal's core manufacturing businesses, employees of the General Directorate providing services to divisional departments, as well as employees of value chain planning, inter-segment

planning, external procurement, analytics, expertise, innovations, standardisation and standard compliance control departments.

Alexander Shevelev has been the Chief Executive Officer of Severstal Management since December 2016.

²² 2018 Annual Report, pages 36–41

²³ 2018 Annual Report, page 45

²⁴ See Notes to the consolidated financial statements for years ending 31 December 2018, 2017 and 2016 <https://e-disclosure.ru/portal/FileLoad.ashx?Fileid=1486517>, page 33

²⁵ 2018 Annual Report, pages 47–53.

Risk Management

Severstal uses a risk management system that supports our strategic goals. This system is designed for early risk identification, a systemic approach to risk mitigation and engagement of officers, managers and employees at all levels in risk management.

The risk management system involves the Board, the Audit Committee of the Board, and the Risk Management Committee — a special department that includes key Severstal executives. The Risk Management and Internal Control Department coordinates risk identification, assessment and mitigation. The Internal Audit Department conducts an independent assessment of the Internal Control and Risk Management System and provides its results to the Audit Committee of the Board. For further details, please refer to the Corporate Social Responsibility and Sustainable Development Report of PAO Severstal for the year 2018.

Our risk management system covers the whole range of risks affecting our business, including but not limited to safety risks, social risks and environmental risks.

Anti-corruption measures are discussed in the Prevention of Corruption and Violations of Laws and Internal Regulations section of this Report. A list of the principal risks that Severstal is exposed to is provided in the Risk Management section of the Annual Report 2018²⁶.

Key non-financial risks that can affect Severstal business, financial position and operations, as well as actions taken to measure them, are listed below.

Management of Occupational Safety and Environmental Protection Risks

The operation of steelmaking and mining businesses may affect the health of employees and local residents, their property and the environment. Our key risk factors include dangerous workplace conditions, pollutant emissions, and violations of waste management rules. These risks may drive costs related to long-term injuries of employees, financial penalties for violations of environmental regulations, damages awarded to other parties, and other similar items.

We rely on the Occupational Health and Industrial Safety Policy of Severstal, the Environmental Protection Policy of Severstal and Affiliates, and voluntary commitments in the area of CSR to manage these risks. The management of environmental risks is the responsibility of the Occupational Health, Safety and Environmental Protection Department.

²⁶ 2018 Annual Report, page 24

Severstal's occupational safety and environmental protection programmes comply with all national and regional laws and regulations. For further details, please refer to the Occupational Health, Industrial Safety and Environmental Protection section.

Management of Social Risks

The success of our business depends on good relations with our employees. Severstal engages in fair and productive discussions with our employees, and supports their freedom of association.

Severstal puts a strong emphasis on employee training, professional development and benefit programmes. We invest in creating good living conditions for our employees and their families.

Severstal accepts attrition resulting from technology development and digital transformation. All staff reductions are agreed upon with trade unions and implemented in compliance with all employee rights in order to prevent the development of any social issues in the region. We help our employees whose services are no longer needed, for example due to automation, by finding them jobs in other business units or helping them start their own businesses.

Severstal monitors the social wellness of our employees and listens to their opinions. We have an efficient communications framework that includes a comprehensive feedback system. We conduct regular surveys to understand how much our employees are satisfied with the content and conditions of their work, public activities and their relationships with the management. Severstal continuously works with our employees through special-purpose commissions and regularly meets with trade union representatives. For further details about our employee relations, please refer to Stakeholder Engagement, and Employees. The HR Directorate works with unions in Company businesses to prevent labour conflicts, identifies specific risks and takes actions to mitigate them.

Severstal considers the potential increase in social tension in local communities caused by labour market trends or other social or economic conditions as a social risk.

To minimise such risks, Severstal actively contributes to social and economic development of our regions, cooperates with local authorities and communities, helps resolve specific social issues and invests in local quality of life programmes. Together with regional authorities and local communities, Severstal works on small and medium business development programmes, on developing local talent, and on developing and landscaping municipal infrastructure. Helping to address specific social issues gives us an opportunity to establish a favourable social environment for the operation of our businesses, and ensure their sustainable development. For further details, please refer to the Social Projects and Investments sections of this Report.

We conduct an annual Social Environment Monitoring survey to solicit feedback in the regions where our major assets are located, including Balakovo, Vorkuta, Kostomuksha, Olenegorsk and Cherepovets. This survey includes evaluation of the regional environment and opinions of local communities on the most pressing social issues. It measures the perception of Severstal businesses and the Company in general, and evaluates the social responsibility of individual businesses and their contribution to the development of cities and regions. According to monitoring

data, local communities appreciate both the technology level of Severstal and the social aspects of our operations. Approximately half of the population of these cities think of Severstal as a socially responsible company taking care of their cities and regions, contributing to solving social issues, and conducting charitable activities.

Managing Innovations

SDG 9

GRI 102-15

Severstal is the industry-leading developer and supplier of new technologies. We finance multiple R&D programmes every year. Our R&D programmes focus on the development of more efficient and sometimes exclusive technologies and products, and also on improving the features and quality of our products and reducing costs.

Severstal has several businesses offering project design and construction services. We also work on our R&D programmes together with leading universities and research institutions. In 2018, Severstal signed an agreement with Technopark of Novosibirsk Akademgorodok (Academpark) on the joint development of several technology groups to support the expansion of our product range. Severstal and MISIS National University of Science and Technology signed an agreement to establish a joint Green Steelmaking centre. In the reporting year, Severgroup and Gazprom signed a partnership agreement on development of innovative technologies and import substitution in the gas industry.

Severstal has an in-house technology park providing a unique opportunity for the development of innovative steelmaking ideas using the actual production equipment of Cherepovets Steel Mill. Participants of joint projects hosted by the technology park, including research centres, educational institutions and innovation start-ups, have an opportunity to use its infrastructure and services. If there is a confirmed demand from Severstal for a proposed product, the technology park runs a pilot project together with Cherepovets Steel Mill and then scales and commercialises its results. The portfolio of technology park already includes 19 projects.

Severstal is building an ecosystem to search for radical technology ideas together with partners all over the world. This is a dedicated service for Company employees that enables the analysis and processing of external data, such as patents or research studies, using special software. The ecosystem also gives every Company employee an opportunity to build a computer model of technology processes. The Severstal ecosystem already works with more than 110 Russian and international partners and competitors with active involvement of 26 external experts.

Severstal participates in two Federal Special Purpose Programmes funded by Russian Ministry of Education and Science and focused

on the development of materials with new properties. We conduct research and development activities on request and with participation of our major corporate customers.

Deployment of innovations is the responsibility of Business Development and Corporate Venture Project Directorate. In 2018 Severstal established a special-purpose entity, Severstal Ventures, to develop venture projects in the area of new production technologies and materials. Severstal also partnered with Sberbank Accelerator and the 500 Start-ups project. The Company expressed interest in evaluating several ideas and participated in the start-up selection process to invite those projects in the programme that are interesting for us as potential technology suppliers or investing opportunities.

In 2018 Severstal started creating Centres for Technology Research (CTR) across the Company. One of the key aspects of CTR operation is the development of a wide network of business contacts, as well as establishing partnerships with universities, research institutions, and suppliers of equipment and technologies. Severstal Russian Steel Division already has eight CTRs. Our latest addition is the Centre for Technology Research of the Mining Assets that will research new technologies and opportunities across international best practices and adjust them for the use in our mining operations.



Severstal Innovations Project



Severstal experts actively work on new innovations. We establish interdisciplinary teams of employees from different departments to develop new product types. They use scrum and agile²⁷ methodologies ensuring flexible approach and deep development of new product ideas. Our employees already proposed 1,300 ideas on product innovations that may bring tremendous value when implemented. As a part of the process innovation project, our teams were able to achieve significant acceleration in development, review and implementation of new ideas and solutions.

To make the best use of our intellectual resources, we are building a corporate expert network. It helps us identify successful technology innovations at individual sites or in individual units, and replicate them across all our subsidiaries. Approximately 850 experts (800 in 2017) work on operating efficiency and process optimisation. More than 80 Severstal employees work in R&D. We reward our employees for new inventions to promote innovations across the company.

Severstal has an active prototyping facility. It has laboratory-grade equipment that allows us to prototype new products.

300 product innovations proposed by employees

25 modelling projects in implementation phase

12 products developed using the prototype model

118 external experts work on validation of their hypotheses in the prototyping facility

- Severstal launched the SeverFarm brand of colour-coated products resistant to aggressive environments for use in construction of industrial and agricultural facilities.
- Severstal started producing innovative K60 strip for large-diameter pipes. Our low temperature products have unique properties allowing them to retain their toughness even under extreme temperatures (up to -42°C).

The Chief Digital Officer is responsible for the development and implementation of the corporate digital transformation policy and integration of all digital resources within a single unified system.

Severstal believes that the potential for future IT development and creation of new revenue sources lies in areas such as robotic process automation, remote control and operation of equipment, and increased labour productivity through digitalisation and deployment of integrated platforms. Arrays of technology data collected in individual Company businesses are processed and used to deliver deep analytics, machine learning and artificial intelligence projects. We continue rolling out predictive analytics at our steelmaking facilities as they enable us to predict steel quality in near real time. Mobile applications for maintenance and repair systems along with preventive repairs rolled out across our businesses speed up maintenance and reduce unscheduled downtime.

Integrated multimodal transportation planning and management systems enable precise forecasting of order turnaround and delivery times. Severstal works on practical applications of blockchain technology to streamline payment processing.

We expect that digital transformation initiatives will bring benefits beyond financial performance, helping us to improve safety and reduce injury rates. However, automation, including robotic process automation, and creation of digital workplaces will affect the labour market.

As we work with innovations, we view new technologies not only as new opportunities, but also as potential sources of risk, and we study their application with appropriate precautions. We use internal and external professional expertise as the main risk management tool.

Severstal actively participates in international exhibitions of inventions and new technologies. In 2018, our new products were on display at the 46th International Exhibition of Inventions in Geneva and at the 24th International Metal Expo in Moscow. Our inventions received two gold and four silver medals and three special awards.

- Severstal launched the first industrial 3D printer. SSM Tyazhmash will use it in its semi-finished product shop to manufacture casting moulds for assembly components. This will help us improve product quality, increase productivity and eliminate human error.

^{SDG 9} In the last few years, information technology has been playing a greater role in Severstal. Digitalisation and innovations are becoming the drivers of change in business processes.

²⁷ Project management methodologies.

Innovations in Severstal

	2015	2016	2017	2018
R&D investments, million roubles	43.7	32.7	48.3	59.9
Number of patents granted in Russia	507	462	486	484
Number of own inventions used in production	88	93	104	178
Savings from the use of inventions, million roubles	8.78	56.23	137	148

Quality Management

The high quality of Severstal products results from the vision of the management team and diligent, qualified and creative effort of every employee. Severstal was among the first companies in the industry to develop a quality management system in 1999. Our QMS meets international quality standards and the needs of our key customers. It has received approvals of independent certification authorities.

Our goals in the areas of product quality and QMS improvement are based on our Quality Policy. In 2018, Severstal adopted a new revision of this policy. The revised Quality Policy includes the following seven principles:

- Customer care and focus on exceeding their expectations
- Leadership at all levels
- Competent, empowered and collaborative employees
- Aligned management system
- Responding to changes and continuous improvement
- Data analysis and evaluation with consideration for risks
- Mutually beneficial relationships with stakeholders

The full text of the Quality Policy is available in the Products and Services section of the Severstal website²⁸. Our products for domestic market are certified for compliance with voluntary GOST R standard, while our export products are certified with organisations approved by our customers.

Our products are approved by various international and Russian authorities including the Marine Register of the Russian Federation, LRQA, American Bureau of Shipping, Det Norske Veritas, Germanischer Lloyd, Bureau Veritas, Russian River Register and others. In 2018, Severstal was the first steelmaker to receive certification of compliance with the IATF 16949 automotive standard.

GRI 417-1 The general approach of Severstal to quality management also applies to our subsidiaries. All our businesses have multi-stage quality control. The components of this system ensure high product quality at various production steps. All raw materials pass laboratory tests to confirm their quality and compliance with technology requirements. Product acceptance and certification are performed by shift personnel. We subject our

²⁸ <https://www.severstal.com/contant-static/file/15196/vko.pdf>

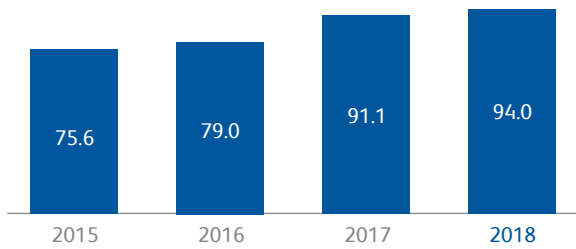
products to all tests mandated by applicable standards and ship them with quality certificates confirming their compliance with regulatory requirements.

Severstal was the first major Russian steelmaker to start the conversion of quality certificates in electronic format with digital signatures. Starting from October 2018, Cherepovets Steel Mill has been shipping all its products with electronic quality certificates, fully eliminating paper documentation. Our customers can validate the authenticity of our product quality certificates online through our corporate website.

In 2018, our long product mill achieved 100% OTIF. All SKUs were shipped to customers on time and in full.



First Time Through (FTT), %²⁹



Customer Care

Severstal strives to satisfy the needs of our consumers to the fullest extent and to be the best seller of steel products. In 2018 we kept our customer care focus and worked on multiple initiatives in the following areas:

- Quality system reform
- Improvement of customer support service
- Implementation of an integrated planning project
- Delivery of customer projects

We are migrating from traditional planning to supply chain management focused on customer needs and meeting their lead time, shipping and regularity expectations.



²⁹ Severstal Russian Steel

In 2018, we achieved our ambitious target for long products manufactured by Balakovo Long Product Mill and converter steel (as a product). We achieved basic targets for metal finishing shops No. 1 and 2, bent shapes plant, and pipe plant. The basic target was not achieved for cold-rolled steel and TPZ Sheksna.

7 quality improvement projects (including six agile projects)

80 new products in development at the end of 2018

Goal: exceed 90% customer satisfaction with product quality

We regularly conduct customer surveys on product quality, shipping discipline and service quality. In 2018, we achieved the highest level of customer satisfaction with product quality since the start of these surveys.

Customer satisfaction³⁰, %

	2016	2017	2018
Product quality	66	86	92
Supply discipline	46	47	53
All services	76	85	87

Our net promoter score (NPS) is also improving and has a great growth potential. In 2018, it reached 58% compared with 46% a year before.

Our target: offer unique service solutions to our customers while maintaining required quality.

High product and service quality help Severstal to build strong partnerships with customers from many industries. Severstal continuously works on homologation, the process of certifying our products for compliance with standard-based and process-based requirements of our clients.

Our online store offers rich functionality together with high speed and convenience. Severstal Online Store³¹ offers approximately 6,000 steel products and service centre products. As of May 2018, all 15 branches of Severstal Distribution in Russia were connected to the online store. We actively develop our latest e-commerce platform, updating website design and enhancing the functionality of the personal profile section. In 2018, the online store processed orders for more than two million tonnes of steel products.

³⁰ Severstal Russian Steel. Survey data for 2016–2017 has been restated from the previous reporting period due to changes in survey methodology.

³¹ market.severstal.com

In 2018 we did the following to keep improving our customer care:

- Proactive Quality Project (key components: Problem Resolution, Problem Prevention and Digital Quality Attestation)
- Comprehensive OTIF improvement programme for 2019–2020
- Pilot launch and diagnostics of the Distribution Model and Flow Model service models
- Enhancement of services (EDI expansion, development of personal profile section, acceleration of claims management and order confirmation, and improvement of information delivery)

- Under the Quality and Customer Orientation project, experts of BSS Development Centre conducted 48 development training sessions for 600 workers and foremen of Cherepovets Steel Mill. This project led to a significant improvement in the two key indicators of customer orientation in our steelmaking, FTT and OTIF (On Time In Full)
- The Technical Support Centre of Severstal Steel Ropes launched a 24x7 hotline. On business days, Technical Support Centre answers customer questions and provides advice on the use of steel ropes in real time

Transparency

Severstal follows international best practices to ensure high financial and operational transparency. We publish quarterly RAS (Russian Accounting Standards) and consolidated IFRS (International Financial Reporting Standards) statements.

We publish an Annual Report, Financial and Operating Statements, as well as Corporate Social Responsibility and Sustainable Development Reports.

Severstal arranges regular meetings with analysts, investors and journalists. For further details, please refer to the Stakeholder Engagement section of this report. Information on environmental protection, social responsibility and corporate governance (ESG) for investor community is published on a dedicated page of our website³². Social responsibility topics are covered on another dedicated page³³. This page also features news articles on our individual businesses and offers an opportunity to subscribe to RSS feeds published by some of them³⁴.

We actively use our channels in all popular social media to communicate with our employees and general public. Severstal accounts on VK, Facebook, Instagram, OK and YouTube show a steady growth in subscribers and serve as open forums for discussion of key news. On top of that, Severstal executives have active personal blogs on VK and Facebook.

Severstal communicates with local communities via mass media publications, public events, and public reports about production development and corporate environmental and social projects.

Number of Media Publications about Severstal

Total number of publications in Russian media, including:	44,853	48,630
negative	626	680
positive and neutral	44,227	47,950
Total number of publications in foreign English-language media	641	580

The largest number of publications covered the meeting of Alexey Mordashov with President of Russia Vladimir Putin, the launch of Severstal's joint venture on wind generators, the extension of the Olcon operation, the revision of Severstal's strategy, the investment programme for 2019 and a series of major investment projects.

In 2018, the number of messages about Severstal in foreign media reduced due to declining interest in anti-dumping investigations in the EU and the USA.



³² <https://www.severstal.com/rus/ir/esg/>

³³ <https://www.severstal.com/rus/csr/>

³⁴ <http://news.severstal.com/#>

4

EMPLOYEES

Severstal believes that the skills of our employees are an important competitive advantage. Our people are our core asset. The implementation of our revised strategy to become the steel company of the future is impossible without active engagement and accountability of our employees.

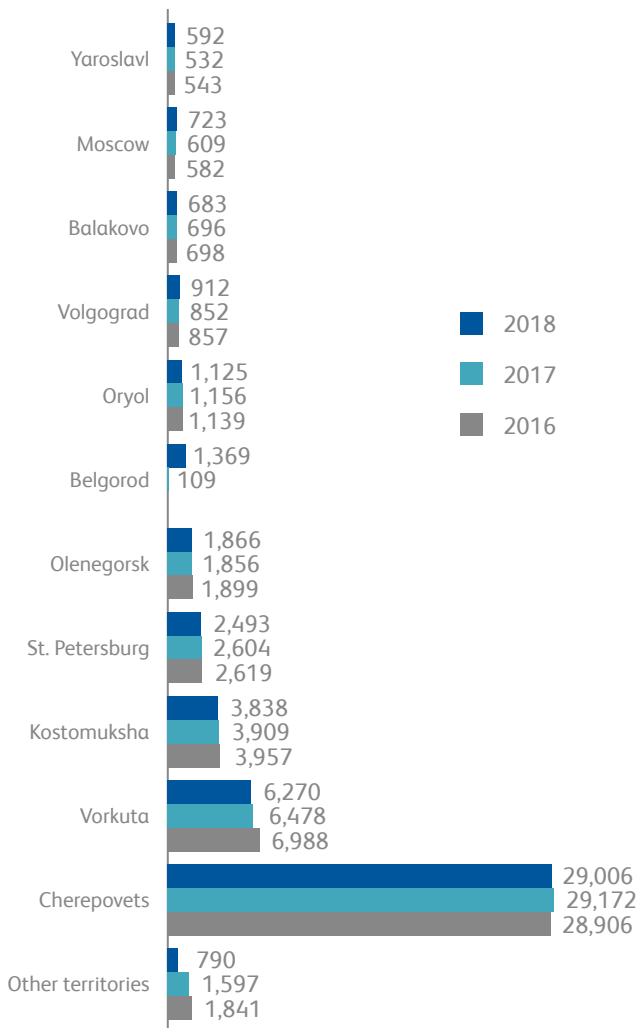
Severstal strives to offers our employees a comfortable work environment, develop and motivate them, and offer professional training and social support programmes.



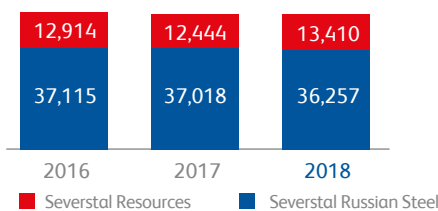
Staff Profile

In 2018, the average headcount of Severstal increased by 0.4% to 49,667 employees. Divisional distribution of our employees remained the same. The majority of employees (73%) worked in Severstal Russian Steel. Geographically, most employees (58%) worked in Cherepovets where we have our core manufacturing facilities. Our second largest location by the number of employees is Vorkuta (13%).

Average staff headcount by region



Average staff headcount by division

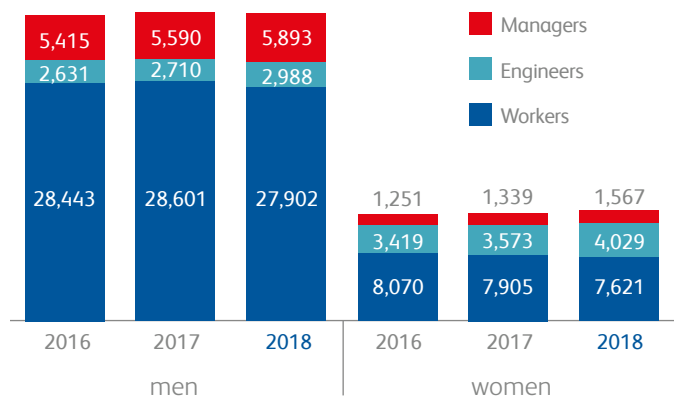


Reflecting the digital transformation initiative taking place in Severstal, by the end of 2018 the share of workers reduced from 73% at the end of the previous period to 71%, while the share of managers increased from 14% to 15%, and the share of specialists and office personnel increased from 13% to 14%.

The share of women among our employees stayed flat at 26%, which is a high number for our industry.

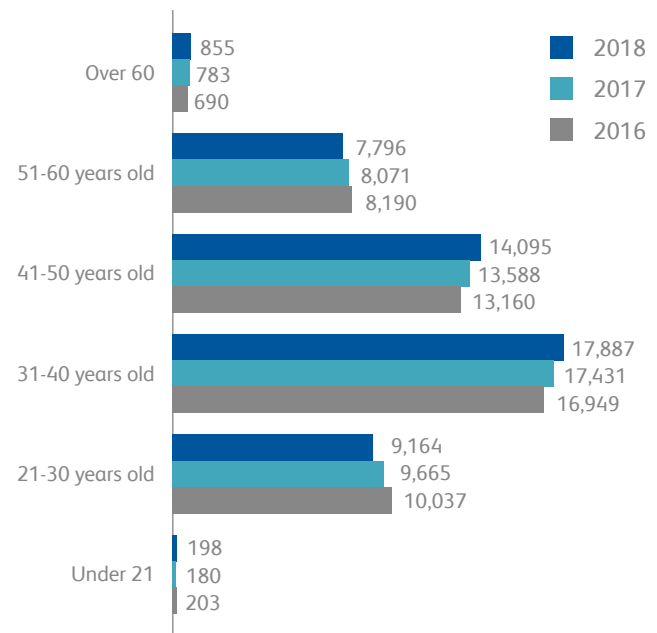
SDG 5

Staff composition by category and gender at the end of the year



The share of women among managers increased from 19% to 21% from the previous period. Women still constitute the majority of our engineers and technology specialists (57% versus 43%). Three quarters (79%) of our workers are men.

Staff composition by age at the end of the year



19% of our employees belong to the youngest age group (under 30). 36% of our employees are between 31 and 40, the age group that combines high expertise with good physical condition. The breakdown of our staff by age group is almost the same as in the previous reporting period, and the average age is now 40 years, compared with 39.9 in 2017.

GRI 401-1 We hired 4,791 new employees (10% of the overall headcount), including 3,401 men and 1,390 women, in the reporting period.

Our overall attrition increased marginally in the reporting period, to 3.7%, compared with 3.3% in 2017 and 3.5% in 2016.

We streamline our overall headcount every year to ensure high efficiency of our business processes while maintaining safety and quality of our technology process.

There were no significant staff reductions in Severstal in 2018.

Policy and Management

GRI 103 The HR Policy of Severstal is integrated with our Business System and reflected in our corporate regulations and methodologies, such as the Talent Selection and Onboarding Regulations, Employee Training and Development Regulations, Regulations for Discussions of Goals and Employee Evaluations, Compensation Policy and Employee Code of Conduct.

General management and supervision of the HR function is the responsibility of the Board of Severstal. Key decisions in this area are made by the Remuneration and Nomination Committee of the Board (see also, 2018 Annual Report, page 50). HR management at the corporate level is the responsibility of Severstal HR Director, and at departmental level it is provided by heads of functional departments and individual businesses.

GRI 102-33 Our Human Resource Directorate submits an annual report on HR strategy and medium-term goal adjustment to the Management Board. This report is approved by the Chief Executive of Severstal.

In 2018, our HR department had the following priorities:

- Further development of engaging leadership culture:
 - Supporting goal setting and motivation system for employees, including scrum team members
 - Improving engagement
 - Developing performance evaluation, feedback, comprehensive evaluation, and HiPo employee management system

- Supporting innovative transformation of Severstal with HR tools and processes
- Supporting customer orientation initiatives, as well as sales and marketing efficiency, including the development of professional competencies in technology development and quality departments
- Streamlining company management: transforming the organisational structure of individual departments during the implementation of innovation projects (agile structures); process simplification, automation and standardisation; and predictive analytics

We see the foundation for these changes in the development of engaging leadership culture. All Severstal employees, including workers, are involved in this process through the goal discussion system. This effort resulted in another significant improvement in employee engagement in 2018 (for further details, please refer to the Severstal Pulse section).

In 2018, we continued working on the Comprehensive Assessment of Line Managers project focused on improving the productivity and engagement of our employees through streamlined communications as well as personal and team ratings.

Motivation and Compensation

Goals and Engagement

We focus our HR activities on the new Severstal strategy and key priorities, including the transformation of our corporate culture. This transformation is based on three components: speed, inspiration and collaboration.

The effectiveness of our goal-setting system directly affects employee motivation. Our existing bonus system motivates employees to achieve ambitious financial goals and improve our

Speed

- High-speed achievement of set objectives

Inspiration

- High level of employee engagement

Collaboration

- Advanced partner ecosystem to enhance our own competencies

results every year. Today, we are paying close attention to goal setting and motivation of agile teams focused on team goals, and cross-evaluation of their members. We also have a strong emphasis on the non-financial motivation of innovative teams.

The comprehensive evaluation of technical leads and specialists, and enhancement of the TOP Technologies project and other programmes also helps improve employee engagement.

In 2018 we extended this initiative to new departments and improved employee participation from 62% to 67% in our core divisions.

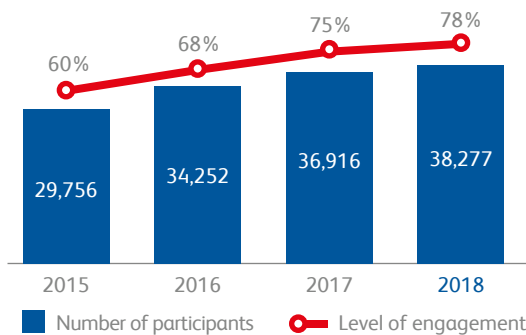
Severstal Pulse Survey

Severstal Pulse is an annual survey we conduct to measure the level of involvement of our employees in the improvement of their productivity and the overall performance of Severstal.

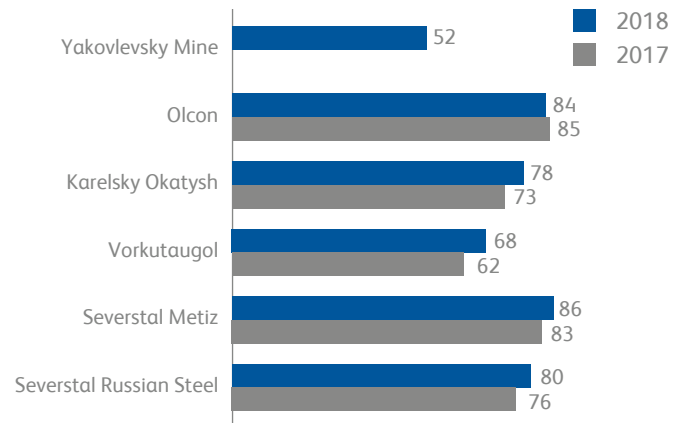
In 2018, approximately 38,000 employees, or 76% of our staff, participated in the survey, compared with 75% in 2017. Employees of Yakovlevskiy Mine participated in the survey for the first time. To ensure the objectivity of our results, we used a third-party service provider who used the AON Hewitt methodology to conduct this survey. Overall, Severstal employee engagement has remained at a stable high level for two years in a row, suggesting that we may have reached the performance level in this area. Engagement increased by 3 p.p. from the previous year and reached 78%. The survey was conducted in the local languages of the regions where assets are located, including Russian, English, Latvian and Polish.

Employee engagement across Severstal increased to 78% in 2018.

Results of Severstal Pulse Survey



Engagement in individual Severstal businesses, %



Apart from resources, processes, working conditions and safety, our employees reflected on the opportunity to use and elevate their strengths, and analysed the impact of issues they are facing on their own productivity.

Approximately 20% of our employees noted that Severstal is not putting enough effort in retaining employees who are capable of achieving ambitious goals, while highly skilled employees spend too much time on assignments far below their level of expertise. Bureaucracy and formalities often get in the way of finding and implementing new innovations. Therefore, to develop the culture of innovation Severstal needs to make a significant shift in how the ideas and proposals of workers are perceived by foremen and shop managers.

The results of this survey are communicated to the executive team of Severstal and are discussed at Board meetings. All businesses receive reports with key findings, and this information is communicated to our employees. Managers review the results of Severstal Pulse survey and team results in focus groups and round table discussions. Then we develop corrective action plans to address the findings and consolidate positive change.

GRI 102-34

Idea Factory and Innovator Support

Idea Factory is an important decentralised employee motivation system that Severstal uses to collect and implement ideas of our employees on business process optimisation, reduction of losses and improvements in quality, safety and workplace environment. All ideas submitted by the employees are filed in the system and reviewed by the Technical Council at least twice per month. Acceptance of new ideas for implementation is rewarded with tokens that programme participants can use to purchase gifts in partner stores or pay for private health insurance programme, wellness centre Rodnik packages or cafeteria lunches.

We present awards to the authors of best proposals generating significant economic value on a quarterly basis. In 2018, authors of 118 ideas received gift certificates. The combined value of awards was 2.4 million roubles

Over 56% of Severstal employees participated in Idea Factory in 2018.

All new technology or organisational solutions generating significant economic, technical or otherwise positive effect are considered innovations. Their authors receive monetary awards after their innovations implemented. The combined value of innovation awards in 2018 was 7.6 million roubles.

Inventors and submitters of innovation proposals receive various honorary titles, such as Best Innovator, Best Young Innovator or Honorary Innovator.

Talent Selection and Promotion System

In matters of employee selection and promotion, Severstal follows the Labour Code of the Russian Federation and certain internal and international documents, including UN Guiding Principles on Business and Human Rights, ILO Convention concerning Discrimination in Respect of Employment and Occupation, and ILO Freedom of Association and Protection of the Right to Organise Convention.

GRI 408-1

We have Recruitment and Onboarding Regulations in place prohibiting discrimination against nationality, race, ethnicity, gender, age, sexual preference, marital or social status, religious views, disability and other characteristics in job postings and during the selection processes. Depending on the level and functional area of the job, the selection process may involve the immediate supervisor, HR representative, internal customers and colleagues of the future employee and other employees. Use of child and forced labour is strictly prohibited in Severstal.

GRI 409-1

There is no discrimination in Severstal, either in recruiting, or in promoting, awarding or providing access to training and other benefits that Company offers to its employees according to its internal social policy.

We use transparent procedures and independent evaluators to ensure a fair selection process. Job openings are published on the corporate web portal accessible to all employees. We give preference to candidates with higher qualifications and zero record of gross violations of internal policies or access rules during the selection process. For skilled work positions, we hire individuals with professional certifications.

In addition to interviews, we use tests and surveys to assess candidates. All managers of Severstal receive basic and advanced training on employee selection and evaluation to ensure they make high-quality and unbiased decisions. The majority of vacancies in Severstal are filled by our Human Resource department without support from recruitment agencies.

Severstal employees have a clear understanding of promotion criteria. We identify potential successors for all levels of the management at HR Committee meetings twice a year.

Employee Performance Evaluation

GRI 404-3

All Severstal workers, managers, engineers and specialists undergo regular performance evaluations. We use three main tools for employee evaluation, which are annual Discussions of Goals, the HR Committee system, and 360-degree feedback. In 2018, we added a new Quick Feedback service to already existing 360-Degree Evaluation system in our corporate portal. This service offers our employees an opportunity to deliver quick feedback to their colleagues and solicit feedback for themselves and their direct reports. Every year, we conduct comprehensive foremen class reviews and assignments, which directly affects their pay.

Annual employee performance and career evaluation system in Severstal

Discussions of Goals

All managers, specialists and workers

- evaluation of last year's goal achievement
- evaluation of behaviour in context of Company values
- setting goals for the next period
- adjustment of personal development plan

participation: 98.8% of all employees including workers

360 degree

All managers, specialists and functional experts

- peer feedback: two strengths and two areas for improvement
- results are used in HR Committees and Discussions of Goals

12,500 participants

HR Committees

Managers

- evaluation of feedback on values and competencies
- performance evaluation
- planning development actions
- inclusion in succession plans

150 meetings, 700 employees evaluated

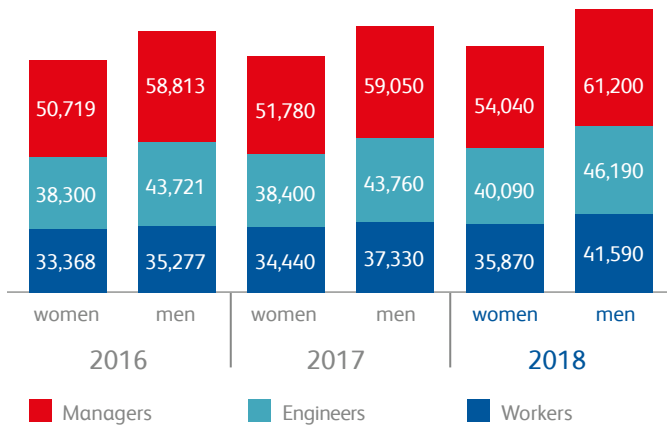
In 2018, the coverage of our management roles by our succession pool increased by 10% and reached 89%.

Compensation

GRI 103 Severstal has a Compensation Policy with standardised compensation rules for all employees. This policy establishes compensation principles, pay structure and controls. Our compensation policy is aligned with our key values and strategic objectives.

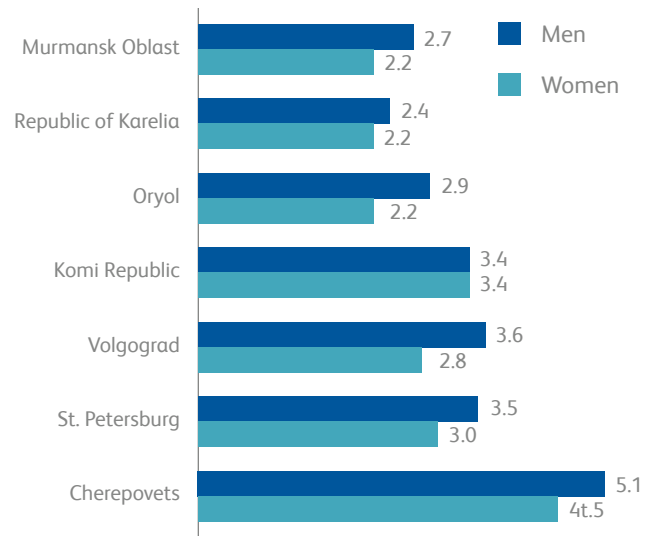
In alignment with international best practice, fixed pay represents approximately 80% of the total compensation of our employees, and variable pay represents the remaining 20%. We determine fixed pay using a standardised corporate job evaluation methodology. We graded all jobs within Severstal and established pay ranges for them.

GRI 405-2 Standard entry-level wages by gender and job family, roubles

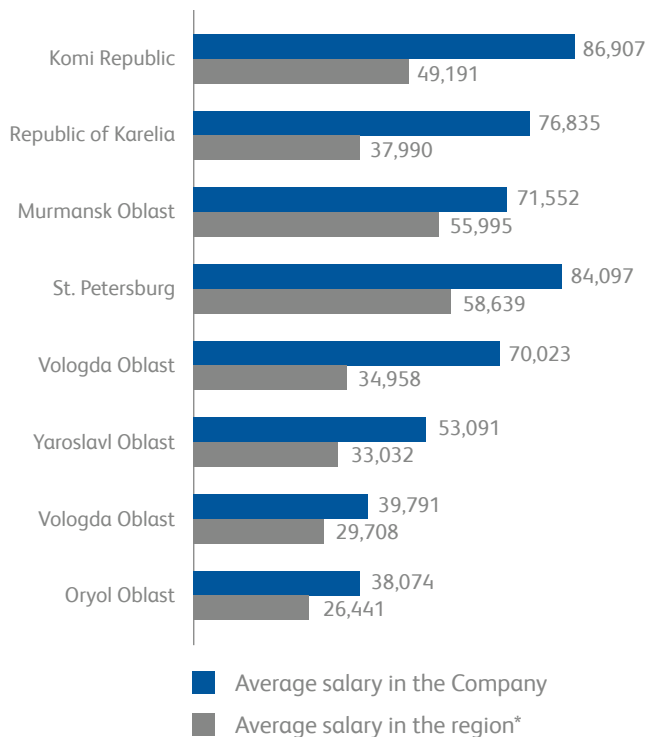


Ratio of standard entry-level work wage to the legal minimum wage in our major regions in 2018

GRI 202-1

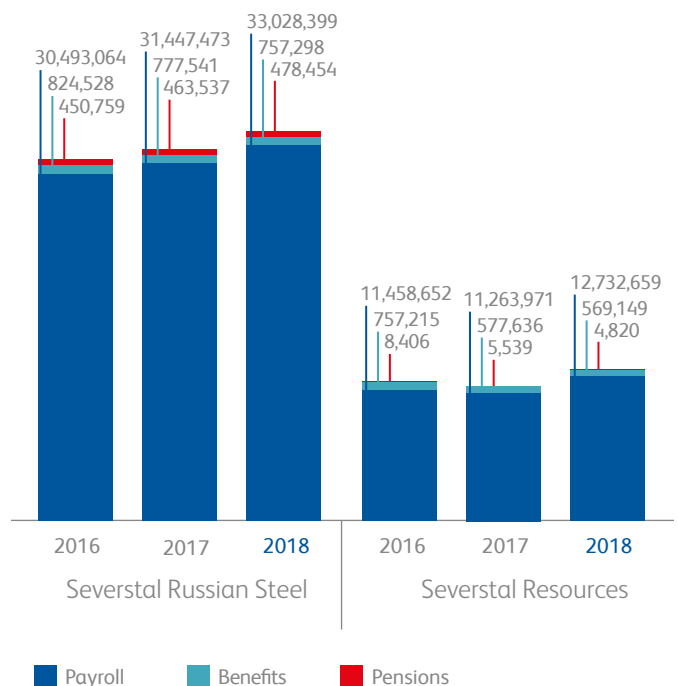


SDG 1 SDG 10 The ratio of average wage in Severstal to the regional average in 2018, roubles



* Source: Russian Federal State Statistics Service

Payroll composition, thousand roubles



Salaries are paid to employees according to schedules set out in collective agreements. Schedules are published in the corporate media.

We also offer monthly (for workers and foremen within our operations) and annual bonuses to motivate our employees. Annual bonuses depend on the achievement of corporate objectives, business plan objectives, employee's annual salary, and their performance evaluation (for managers, specialists and office personnel) or annual contribution evaluation (for workers).

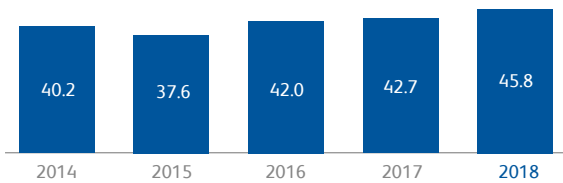
On 1 April 2018 Severstal increased employee salaries. Company management and trade unions negotiated a 3% overall increase in payroll, and each employee got a salary review in line with their personal performance. Severstal follows the pay for results principle where employees who achieved the highest results in the previous year can expect larger salary increases. We have also increased benefits for Company veterans by 2.5%; these include financial aid and early pensions.

In 2018, the average salary at Severstal's manufacturing businesses was higher than regional average, and in our key regions, Vologda Oblast and the Republic of Karelia, it was twice as high as the regional average.

Our standard entry-level worker wage was on average more than three times higher than the legal minimum wage.

In 2018, our employee spending increased by 3 billion roubles from the previous period and reached 47.6 billion roubles. The largest component of our overall employee spending (96%) is our payroll. The rest are benefits and pensions.

Payroll change, billion roubles



Prevention of Corruption and Violation of Laws and Internal Regulations

Severstal has a comprehensive anti-corruption programme focused on practical implementation of provisions of the Anti-Corruption Policy of Severstal and Affiliates. This Policy is aligned with other anti-corruption standards and processes. Its provisions are based on international best practice, including the guiding principles of Transparency International.

The policy focuses on reducing our corruption risks and achieving maximum compliance with Russian and international anti-corruption regulations. This policy regulates activities exposed to high corruption risks. These activities include cooperation with partners, acquisition of corporate securities, establishment of joint ventures, mergers and acquisitions, conflict of interest

evaluation procedures, sponsorships and charities, gifts and entertainment, etc. The new edition of the policy was approved by the Board of Severstal in February 2019³⁵ and published on our website³⁶. In 2013 Severstal joined the Anti-Corruption Charter of Russian Business.

As a part of our comprehensive anti-corruption programme, we developed and adopted the Severstal Employee Code of Conduct, and introduced registration of gifts, sponsorship and charity programmes, and other corporate processes detailing the application of this Policy. The Severstal Code of Business Conduct extends our anti-corruption requirements to our complete supply chain. This effort is coordinated by Risk Management Department of Severstal Management, which is also responsible for annual assessment of the effectiveness of anti-corruption processes.

Severstal has an Anti-Corruption Policy Training Programme and a mandatory biennial online training course for all employees. In 2018, more 11,000 employees received training, compared with 9,000 in 2017.

Severstal has an Ethics Committee, an internal department responding to all submissions related to the violations of Company values, wrongdoings, and violations of behaviour standards by Severstal employees. The Chief Executive personally reviews and approves all decisions of the Ethics Committee. (For further details, please refer to Feedback Channels.)

Zero tolerance for unlawful and unethical behaviour is gradually becoming an integral component of our corporate culture.

The comprehensive culture transformation programme underway in Severstal follows the principle of zero tolerance for corruption and abuse of authority. All Company employees undergo regular anti-corruption training, while top executives and employees having impact on commercial and financial decisions undergo regular anti-corruption checks. This effort brings positive change: there is a radical reduction of the number of employees involved in corruption.

In 2018, 29 employees reported attempted bribery to our business assurance service, compared with 37 in 2017.

Severstal is extending our anti-corruption initiatives and activities to our contractors, motivating them to follow ethical business practices. We terminate our agreements with businesses involved with corruption, and blacklist such businesses.

In 2018, we identified two cases of official forgery (Article 292 of the Criminal Code of the Russian Federation) associated with unlawful administrative prosecution of our employees for acts they did not commit (Karelsky Okatysh). Kostomuksha Municipal Court sentenced the guilty individuals to fines, and the employment of the convicted manager was terminated.

³⁵ Material fact outside the reporting period

³⁶ https://www.severstal.com/files/23362/Severstal_antikorruption_policy_2019_rus.pdf

GRI 102-34

GRI 102-9

GRI 205-2

GRI 205-3

GRI 419-1

SDG 16

GRI 205-1

GRI 103

GRI 102-12

Training and Development System

GRI 404-2

GRI 103

Severstal has a comprehensive employee training and development system covering all functional areas, departments and employee categories from top executives to production workers. The training is based on our corporate training and development regulations, professional education policies of our business units, and other requirements of applicable laws of the Russian Federation.

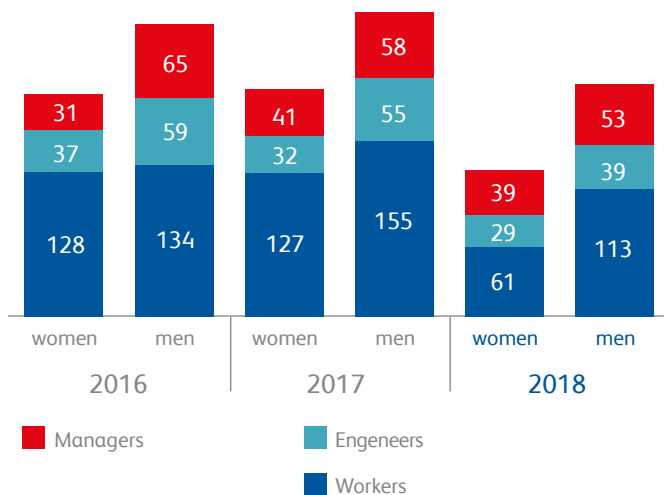
Key areas covered by corporate training programmes:

- Mandatory training and development programmes for all levels of management
- Mandatory health and safety training
- Professional training and cross-training of workers
- Functional training (acquisition of new competencies or upskilling)
- Personal productivity training programmes
- Foreign language courses

Severstal has adopted a mixed training principle (70–20–10), with 70% of employee training effort focused on workplace training, 20% focused on collaborative training (mentoring, feedback and coaching), and 10% focused on training courses (in-class and remote) and self-training. We offer distance learning, group and individual training programmes. In delivery of our training we use department managers and external service providers, including universities, professional development institutions, research organisations, training centres and consultants.

We continue offering a large number and a wide range of employee training. In 2018, we specifically focused on training the employees of our new asset, Yakovlevskiy Mine, in line with our corporate principles and programmes.

Training duration by gender and job category, hours per employee



86% of our employees, including managers, participated in training activities in 2018.

The average length of training programmes was 45.7 hours per employee. After every training course, its students fill in the feedback forms and evaluate course content, the practical applicability of their new knowledge and the quality of teaching.

Employees speak highly of the importance of training in their development. Average satisfaction of our employees with training in 2018 was 9.4 out of 10.

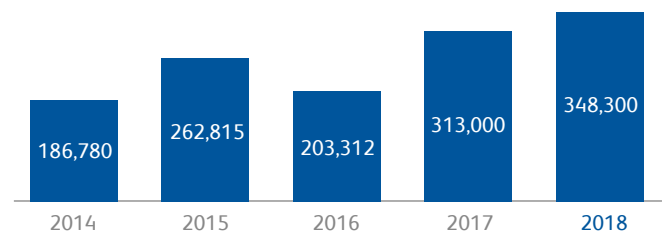
The reduction in duration of training per employee in 2018 from the previous period reflects several factors. Certain classroom programmes were transformed into distance learning to improve training effectiveness. This increased the number of our employees attending distance learning courses from 42.8% to 53.6%. In some cases, training was moved straight to workplaces. We are also now hiring employees with higher skill sets who require less, but more expensive training, which resulted in higher employee onboarding costs.

GRI 404-1

Employee Training Costs

In 2018 our employee training costs increased by 11% compared with the previous reporting period, to 348.3 million roubles. Of this amount, 80% of costs went into management training and 20% went into worker training. Increased training costs reflect the launch of new large-scale management training programmes.

Employee development programme costs, thousand roubles



Management Training Programmes

Achieving the Company objective of becoming the steel company of the future requires constant focus on the development of the management team. Our management training programmes help managers to adjust their behaviour, improve their personal efficiency and develop their leadership skills. We use a variety of training methodologies for the three highest levels of management, including coaching, mentoring and teamwork sessions. Our management programmes help our managers to search for new growth points more actively and inspire their teams to productive work.

Management Training Programmes

Achieve More Together

Shop floor and department managers, senior managers and team managers

- Standards and corporate culture
- HR and team management skills
- Legal aspects of employee relations
- 112 employees trained

Severstal Business Academy

Executive management

- Five training modules developed with feedback and work environment of our managers
- 136 employees trained

Efficient Department Management

Deputy general directors, heads of functions and major lines of business

- Economics, strategy, finance, operating efficiency, problem solving technologies
- Engaging leadership skills
- New approaches to talent management
- 40 employees trained

Severstal Leadership Lab

Top 100

- New strategy, revised leadership model, transformational initiatives
- 187 employees trained

In 2018 Severstal launched the new Severstal Leadership Lab designed to accelerate the implementation of the revised Severstal Business Strategy.

Our training curriculum for production unit directors, plant managers and foremen is based on mandatory programmes ensuring that our employees at each of these levels acquire the right management and leadership skills. These programmes also include the training on employer’s compliance with employee’s labour rights.

GRI 412-2 For example, in 2018 we provided 1,270 hours of training in legal aspects of employee management alone.

a variety of educational material on a range of competencies. Our distance learning system is accessible to every employee anywhere at any time, whenever needed to deliver on their business objectives.

My Education and Development portal contains online courses dedicated to teamwork, public speaking, negotiating and persuading, personal efficiency and organisation, and so forth.

Approximately 5,000 employees use the materials from our online library.

Severstal welcomes the development of language skills. We offer a range of opportunities in this area, and pay half of the cost of a foreign language course if an employee completes it successfully. These skills and knowledge can be useful not only in employee’s current role, but also in future jobs and after retirement.

The share of our employees who received distance training increased in the reporting year from 42.8% to 53.6% of the overall headcount.

Distance Education

In addition to mandatory programmes and additional training for managers, all Severstal employees can choose any training programme available in the catalogue. The catalogue includes



Foreman and Worker Education

Foreman Education

For our new foremen and workers, we have a Foreman Academy programme in place that includes three mandatory and several optional training courses specific to production area and individual student needs.

GRI 412-2

The Foreman Academy programme includes an eight-hour Legal Aspects of Human Relations module. This module offers important knowledge of human rights, including labour rights, and an opportunity to work on practical cases and difficult scenarios. This is a regular module; 159 employees took it in 2018.

The Foreman Academy trained 612 students in 2018.

SDG 10

Worker Education

Severstal consistently works on developing our workers. We rely on both internal resources and regional educational institutions (universities, colleges, other learning facilities) in educating our workers, and we also send our employees for studies to other cities, mostly Moscow and St. Petersburg. Severstal continues deploying modern training tools, including mini simulators, 3D models, animated distance learning courses combining high training quality with minimum work disruption, and other educational tools and programmes.

In 2018, we focused on deep professional training. We work on special-purpose cross-training programmes for our employees. Each job has a skill matrix that our foremen can use to evaluate the skills of every crew member and manage their professional development. Acquiring new skills and expanding their knowledge gives employees an opportunity to get paid more.

More than half of Severstal Russian Steel workers received professional training and improved their skills in 2018. 1,405 employees of Severstal Russian Steel received training in complementary trades.

Air crew leads receive special training on crew leadership.

Severstal has an extensive mentoring system in place that ensures the transfer of expertise from our top experts with many years of service to our young employees.

In 2018, more than 2,300 previously selected and trained mentors participated in onboarding and development of Severstal Russian Steel employees.

Severstal organises professional competitions to support and promote professional development. Cherepovets Steel Mill hosted 51 contests in 44 trades. Similar contests were organised in our other businesses.

Onboarding of Young Employees

SDG 1

GRI 401-2

Severstal has an Engagement Policy for Students, Graduates and Young Professionals. We offer the following benefits to young specialists:

- Signing bonuses
- Subsidised housing
- Reimbursement of relocation expenses (tickets and luggage)
- Reimbursement of travel costs to vacation destination or family (parents, spouse, children) residence once per year within Russia.

We post our career opportunities and advertise our job fairs on Facebook and VK.

Our onboarding and employee development system helps our new employees to integrate in our team and quickly achieve high performance. The Severstal onboarding programme includes professional, business and personal productivity training, as well as language and career development courses. We offer quarterly onboarding workshops for new young employees.

367 young specialists joined Severstal in 2018.

Severstal has a Youth Council that includes representatives of the majority of our businesses. We offer our young employees multiple opportunities to participate in large-scale events every year. These include: The Youth Humour Festival, the Singing Severstal Creative Contest, Tourism, Trade Union and Youth Initiative Festival, Our Time Festival of Innovation and Creativity, trivia contests, Young Metallurgist Family Contest, Meeting of Generations Sports Event, and the Fusion of Generations corporate event. There are regular divisional conferences for young professionals in Cherepovets.

- Approximately 90 company employees with less than two years of experience with Severstal participated in the 6th Young Specialist Conference. They learned the principles of creative thinking and non-standard decision making. Together with Company experts, our young specialists tried to find solutions for practical challenges we are facing in our operations.
- 124 new employees of the flat rolling shops of Cherepovets Steel Mill participated in nine Young Team onboarding training sessions. The new hires completed challenges in a rope course installed in a gym.
- Kolpino industrial site of Severstal Russian Steel hosted an onboarding workshop for new employees. Experienced colleagues discussed a range of topics with the newcomers, including industrial safety requirements and projects, unique aspects of our manufacturing process, career opportunities, as well as sports and youth activities. The workshop was organised by the Young Employees Council.

Severstal Leadership Programme

Severstal Leadership Programme is designed to train future Severstal Leaders from within new graduates and young professionals. Programme participants have an opportunity to get practical experience working with the Business System of Severstal, in operations, finance, purchasing or sales. Within five to seven years, they could join the TOP 100 Severstal executive team.

In 2018, we received 2,200 programme applications from students and graduates of more than 100 universities. We selected and accepted 20 young professionals.

Severstal Women's Club

Severstal Women's Club helps overcome cultural stereotypes about women in the management and supports career development of our female employees through advice, training and the use of best practices. The Club had several meetings in 2018 where participants discussed the development of sustainable careers without negative impact on families, successful women role models, and personal stories of women who have already achieved certain success in the Company. The Head of the Club Agnes Ritter, Technical Director of Severstal, participated in the Women's Leadership Forum on gender diversity and presented Severstal experience in the Women's Club Resources in the Enterprise panel discussion.

SDG 5

Engagement of High School and University Students and Young Professionals

Recruitment of high-potential young talent helps Severstal to satisfy its long-term need for skilled professionals. To build a long-term talent pool, Severstal is trying to trigger the interest of the youth towards the mining and steelmaking industry, making significant investments in education, and works with schools and universities.

Severstal partners on talent development with approximately 20 specialised universities, six vocational schools and several high schools offering specialised Severstal programmes in the cities where we work. Annually, around 300 colleges and university graduates are offered roles within the Company.

Career Orientation for School Students

Support for specialised Severstal programmes proves to be an efficient tool of career orientation in Vorkuta and Cherepovets. This programme is designed for grade 9 to 11 students and prepares them for technology colleges. A special-purpose two-year high school programme in electric power engineering and steelmaking has been running in Cherepovets since 2014. Out of 68 participants, 41 stayed in Cherepovets to study trades.

In Vorkuta, 10th and 11th grade special track students study advanced programmes in physics and mathematics, attend lectures of specialised university professors, and visit Severstal businesses in different cities. During the spring break, Vorkutaugol special track students from School No. 23 went on field trips to Moscow, St. Petersburg and Cherepovets with support from Severstal.

Goals:

- Career orientation
- Improved quality of teaching in industry-specific subjects to motivate high school students to continue education in industry-specific universities and vocational schools

Projects:

- Special-purpose tracks
- Industry-specific subjects
- School competitions
- Youth Perspective Festival

Tours of our businesses and the Steelmaking Museum, which is the core of our career orientation effort, help attract students and youth to technical professions. Severstal works on creating a unified education and development environment to drive the development of the overall primary and secondary educational system.

The Quantorium Children's Technopark became our new educational facility. Here our experts create engaging interactive environments helping students to develop competency in technologies. For further details about our museum and children's technopark, see the Development of Local Community Potential section.

Every year, Severstal offers internships to school and university students during summer break. We help young students to make career choices using their familiar formats, including social networks.

SDG 3

- Cherepovets hosted the sixth season of Severstal World of Trades career orientation contest whose preliminary stages were organised on VK social network. The winners of the online stage competed for the overall victory in the final stage. Our career orientation events also include the World and Severstal trivia contest.
- Vorkuta saw the fifth School – Mine – Chance career orientation festival where students of six schools in Vorkuta and nearby towns learned about the professions of Vorkutaugol employees.
- Our resource businesses organise student tours as well. Yakovlevsky Mine was among more than 20 enterprises and 33 educational institutions that participated in the Trades Parade in Belgorod.

Severstal employees presented our talent identification and development methodologies for the steelmaking industry at the national conference that took place in Sirius educational centre in Sochi. The conference focused on support programmes for gifted children and youth as a part of the science and technology development strategy of the Russian Federation.

Vocational Education

Individual businesses of Severstal are trying to make sure that vocational education is as close to the real workplace environment as possible. The Company has been working with regional departments of education for many years on the training of talent pool for steelmaking and mining industries.



Goals:

- Generate a flow of applicants for worker positions

Projects:

- Targeted vocational education
- Participation of Severstal experts in the education process
- High-volume internships
- Trainer development: Company internships, distance learning
- Participation of students in professional contests organised by Severstal
- Professional Development Centre (Severstal Russian Steel)

Severstal helps to train highly skilled personnel under partner agreements. Our representatives work in municipal coordination councils on development of HR policies and career orientation of local residents. We sign agreements with vocational schools to align their training programmes with practical needs of Severstal businesses. Severstal specialists give the introductory lectures on their trades to the first- and second-year students of Cherepovets Steelmaking College. Grade 9 students of the city high schools also attend these events. Steelmaking College students produce simple parts ordered by Severstal businesses in college labs and learn important skills during their second year of study.

- In 2018 Severstal helped finance the new Metallurgy lab in Cherepovets Steelmaking College.
- Students of our partner colleges participated in the case competition in the design of steelmaking strategy hosted by our partner university.
- Severstal businesses organised open houses for students of our partner educational institutions. Third year students of Vorkuta Mining and Economics College with concentration in mine electric engineering visited Zapolyarnaya Mine of Vorkutaugol. Olenegorsk Iron Ore Plant welcomed the first- and second-year students of the Open Mining and Ore Dressing programmes of Olenegorsk Mining College.
- Olcon executives joined the examination juries of Olenegorsk Mining College. We are building a test site in the college courtyard to help future miners understand the technology chain of concentrate production and learn practical skills in using various equipment.

Universities

The primary objective of Severstal is to ensure that the new graduates have sufficient knowledge, skills and qualifications to meet the latest requirements of Severstal and the industry as a whole. We cooperate with Russia's leading technology and mining universities, including St. Petersburg State University,

MISIS, Moscow State Mining University, Vologda State Technical University, Cherepovets State University and Ivanovo State Power Engineering University among others.

Goals:

- Generate a flow applicants for foremen and key specialist positions (future participants of manager succession plans)

Projects:

- Special-purpose education
- Scholarship programme
- Communication events
- Trainer development
- Business School (Severstal Russian Steel)



Our core partner in talent development is Cherepovets State University (ChSU). Every year, Cherepovets State University and Severstal jointly develop a road map to improve the quality of training of future employees. The road map includes several initiatives focused on improving the quality of student training, developing the faculty, and other aspects.

Severstal also supports several universities including the European University (St. Petersburg), Graduate School of Management (St. Petersburg), St. Petersburg State University of Economics, and Saratov Polytechnic University.

We signed agreements with key universities to extend internships from four to ten weeks. This gives the students the opportunity to study our complete production cycle and the operation of other departments. As a part of our career orientation effort, we offer factory tours to educate the youth about the mining and steelmaking industry and the opportunities it presents. Every year, we organise a two-day Severstal Business School workshop for students.

- In the reporting year, Severstal signed a new cooperation agreement with Cherepovets State University on a three-year plan for joint educational projects. We also launched a new scholarship programme for full-time baccalaureate students with concentration in metallurgy.
- The mining businesses of Severstal launched a new programme to attract young talent to Olenegorsk and Kostomuksha. Karelsky Okatysh and Olcon executives met with MISIS students during the Career Day. We are working on a long-term cooperation programme for Severstal mining assets and MISIS.
- Olcon adopted a Students, Graduate and Young Professional Engagement Policy. This document sets key requirements for young specialists and students who take internships with the Company.
- Vorkutaugol supported the creation of Mine Aerodynamics Laboratory in the Vorkuta branch of Ukhta State Technical University.

2,054 university and college students completed internships in Severstal in 2018. 679 new graduates joined Severstal.

Work Environment

Severstal is committed to offering a decent work environment. Severstal has a Unified Social Standard for offices and shop floors that extends the requirements of building codes and other regulations. Our common and recreational spaces standard programme is 80% to 90% complete in certain areas. Cherepovets Steel Mill renovated more than 500 common and recreational spaces in 2018. Our open areas and industrial sites are subject to stringent requirements. In 2018, Cherepovets Steel Mill embarked on an exterior renovation programme to renew the exterior walls of main buildings and redesign the landscaping.

Severstal employees have access to high-quality food services. Cherepovets has a kitchen factory and 38 food service facilities. More than 9,000 metallurgists visit our corporate canteens every day. Where canteens are not practical, we have dining rooms with vending machines and kitchen equipment.

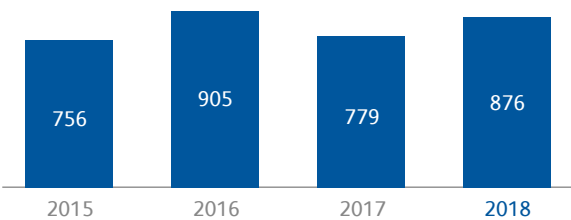
16 bus routes bring our employees to their workplaces at Cherepovets Steel Mill. The mill offers free employee parking with convenient access.

We organise corporate contests for the cleanest social or recreational facility and run employee surveys to understand their satisfaction with such facilities. In 2018, our steel division invested 419 million roubles in the improvement of our social and recreational facilities.

Employee Benefits

The key principles of and approaches to social support of our employees are outlined in collective agreements and other agreements at the level of our individual businesses. All employees of Severstal receive benefits. Our benefit package includes all benefits mandated by applicable laws plus additional means of financial support stipulated by respective collective bargaining agreements (regular and one-time payments). Components and value of benefits packages offered in individual businesses of Severstal may vary depending on industry and region.

Employee benefits, million roubles



Our employee benefits include:

- Collective agreement payments
- Support for company retirees
- Health resort and wellness programmes
- Development of sports and culture
- Social and community projects
- Other projects

Sick leave in 2018 reduced by 2% from 2017 in Severstal Russian Steel.

Our medical stations are funded through private health insurance. The Olcon private health insurance programme includes outpatient and inpatient services, dental coverage as well as rehabilitation and recovery treatments. All employees of our Cherepovets site have health insurance policies in place.

Severstal Resources

Vorkutaugol employees receive high-quality company-paid health care services in Vorkuta, and their workplace injuries are treated in the leading health care institutions of the Komi Republic, Moscow and St. Petersburg. High-quality health care services are available both to miners and their children. 5,054 employees, approximately 82% of the overall number of insured, used health services under the corporate programme in 2018.

The Olcon private health insurance programme includes outpatient and in-patient services, dental coverage as well as rehabilitation and recovery treatments. Health care services were provided in Murmansk, Vologda and St. Petersburg. 450 employees used private health insurance last year.

Karelsky Okatysh offers its employees outpatient care, special wellness programmes for men and women, as well as leg and spine diseases, medical check-ups and vaccinations, dental care and hospital treatments, including surgeries. The Wellness programme of Karelsky Okatysh also supports the maintenance of seven medical stations and an emergency response unit at the industrial site.

Employee Health

Cherepovets Steel Mill works on the Severstal Health integrated programme to improve the availability and quality of health care. The programme focuses on expanding the first aid system, delivering efficient outpatient services using the latest technologies, and preventing diseases.

Severstal Medical Unit at Cherepovets Steel Mill is a state-funded health care institution and one of the leading health care service providers in Northwest Russia. It has 1,535 health care professionals covering the majority of specialist areas. The Medical Unit provides services to more than 46,000 people, which is approximately 18.2% of the adult population of Cherepovets. The medical unit operates 28 medical stations (12 of them open 24x7), two outpatient clinics, one hospital and one maternity clinic. We also have seven dental clinics ensuring Severstal employees have the most convenient access to dental care. Our female employees have access to a unique maternity hospital with an obstetrics and gynaecology clinic. Our maternity hospital follows the latest standards in maternal care.

We offer our employees free tick-borne encephalitis vaccinations, and seasonal flu shots from September till December. Approximately 13,000 Severstal employees in Cherepovets received vaccinations in 2018.

Health Resort Packages for Employees and Their Children

Health resort treatments and wellness programmes are a special component of our health care and disease prevention programmes. Health resorts, recreation centres and summer wellness camps in Anapa, Sochi, North Caucasus, as well as Leningrad, Pskov, Moscow, Yaroslavl and Vologda oblasts have been traditional vacation destinations for our employees for many years. Severstal's Torovo corporate vacation complex is visited by more than 20,000 metallurgists and their family members every year. We offer discounted packages to division employees.

Individual businesses of Severstal Russian Steel invested more than 219.6 million roubles in the 2018 wellness campaign. 9,347 division employees and their children used vacation packages with 90% discount. Certain categories of employees receive free health resort packages for their children.

Employees of Karelsky Okatysh and their children only pay 20% of the package price, and the rest is paid by the private insurance. In 2018, 353 employees purchased health resort packages, and 192 children of our employees visited wellness camps or went on vacations together with their parents under the Family Vacation programme.

SDG 2

SDG 5

SDG 2

GRI 401-2

Rehabilitation and recovery treatments were provided to 100 employees of Olcon. Our private health insurance programme for employee children paid for 58 trips to Vita summer wellness camp in Anapa.

Employees of Vorkutaugol use the North Pearl wellness clinic that specialises in prevention and treatment of miners' professional diseases, including skeletomuscular and respiratory conditions. The wellness centre can serve up to 300 people per month.

Housing Programme

Our employees in St. Petersburg (Kolpino) used the option buy out corporate apartments, with zero-interest seven-year financing and a discount (15%) on a cash deal.

GRI 201-3

Support for Retirees and Veterans

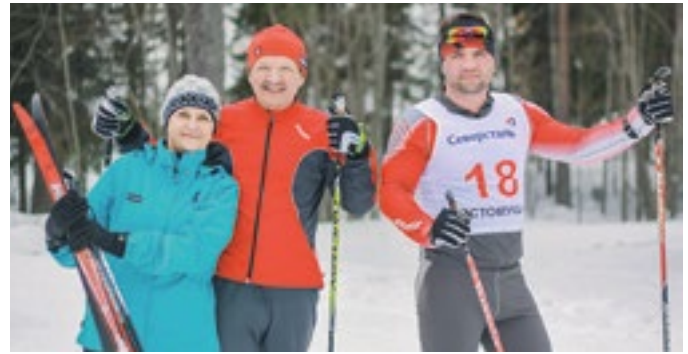
Severstal offers corporate pension plans and retiree benefits. Severstal Russian Steel pays monthly pension benefits to its retirees depending on years of service through Blago charitable foundation.

Our steel division adopted new retirement regulations with standardised calculation formula for the years of service that are used to credit early pension, and also for one-time retirement bonus and monthly supplements for non-working retirees. Laid off employees and employees with medical conditions preventing their employment are now eligible for early pensions as well. The amount of early pension depends on years of service in Severstal (at least 10 years), and these pensions are indexed together with the wages of Severstal employees.

The amount of supplement for non-working retirees depends on the years of service and on whether they have signed up for a personal private pension plan. Non-working retirees receive more than 20 types of support, such as financial and special aid. Severstal Medical Unit provides health care to 7,300 of Severstal's retirees. Under our social benefit programme, we also make one-time payments on anniversaries and special occasions.

Vorkutaugol supports retiring employees with one-time payment of 15% of their monthly salary for every service year in the mining industry. This payment is made when the employee gets entitled to retirement regardless of whether they actually retire or keep working. Karelsky Okatysh also provides retirement benefits.

In 2018, Karelsky Okatysh Alumni Association with more than 3,500 members celebrated its 20th anniversary. Karelsky Okatysh directly supports the creation of recreational clubs for the association. Leaders of recreational clubs receive quarterly benefits from Karelsky Okatysh. Every year, our non-working retirees get Gornyak health resort wellness packages. Our retirees are active participants in many celebrations, sports competitions and culture events taking place in the city.



Severstal invested 443.7 million roubles in social support of its non-working retirees in 2018.

Severstal offers our retired employees a variety of spiritual, intellectual, cultural, sports and wellness opportunities. We create an environment for communication, sharing of life skills and knowledge, and realisation of creative potential. In 2018 approximately 13,000 people participated in sports and culture events that we organised for our retirees.

Family Security and Benefits

GRI 401-2

Support for families is a major component of Severstal social policy. Severstal employees can take maternity leave as soon as they register with a maternity clinic. Severstal pays them their average salary until they get state pregnancy and birth benefits.

Employees on parental leave may work part-time if they wish. In 2018, all employees remained with Severstal after their parental leave. The share of employees who remained with the company after parental leave was 55% among men and 75% among women.

GRI 401-3

We have a variety of family bonuses for employees, with bonus depending on particular business.

Our employees receive the following benefits:

- Employee bonus (for one of the parents) on the birth of a child
- Monthly supplement for employees on parental leave until the child reaches three years of age
- Monthly supplement for employees (one of the parents) who have three or more dependent children under 18, per child
- Monthly supplement for widows (widowers) dependent children under the age of 18, per child (unless they remarry)
- Monthly supplement for guardians of children under 18, per child
- Financial aid or hardship loan for employees in hardship

Our collective bargaining agreements contain provisions for additional days off on important family events. Our employees also have access to the Severstal Corporate Card programme. This programme gives an opportunity to purchase air tickets from Cherepovets to St. Petersburg and Moscow with 50% discount off the actual one-way economy class fare, as well as tickets to Kaliningrad and resort destinations with 5% discount.

Active Lifestyle and Sports

Severstal Russian Steel

In 2018 approximately 43% of Cherepovets Industrial Site employees participated in sports and fitness events. Our employees have access to convenient time slots at the city's sports facilities for their corporate sports activities including trainings in game sports, corporate contests and celebrations. Every year the division organises a Spartakiad in 10 sports. We also organise 12 championships in various game sports.

More than 9,000 employees participated in corporate sports events, Spartakiad and championships of the Russian Steel division.

In addition to core competitions, our employees can attend swimming pool, a variety of water programmes, fitness sessions and gym with 50% discount.

We also organise a series of large sports events over the year, including Severstal Ski Tracks, Crepe Week, Festival of Sports Tourism, Youth and Trade Unions, Metallurgist Family, Autumn Health and Sports Day, and the Annual Sports Celebration. More than 4,500 employees of Cherepovets Industrial Site participated in the sports events of the division.

Our resources division undertakes similar initiatives. Vorkutaugol has several corporate sports halls equipped for various sports. Our employees have access to the Olympus Sports Centre and the volleyball hall of the Miners' Palace of Culture. Vorkuta Mechanical Plant has a mini football stadium on its premises. Every year we host corporate competitions in six sports and family relays for our employees. Our employees also participate in municipal and regional mini football, ice hockey, badminton, table tennis, boxing and volleyball tournaments. Vorkutaugol has children's ice hockey, football and volleyball clubs operating in its gyms, and kids regularly travel to a variety of tournaments.

We also host volleyball, badminton, floorball, mini-football, Sami football fitness and table tennis training sessions in Olcon Sports Centre.

Karelsky Okatysh provides financial support to teams and individual athletes traveling to competitions in Karelia and other regions. Its employees have free access to sports, game and gym rooms in Druzhba Culture and Sports Centre, as well as industrial site gym. We also provide discounted access to Siniranta aquatic complex.

Key Priorities in Corporate Social Responsibility and Sustainable Development. Social component

● Achieved ● In progress ○ Not achieved

2018 objectives	Status
Complete specific mandatory Top 100 – 4,000 management training programmes per schedule	● We updated the format and contents of several programmes, including the Foreman Academy, Achieve More Together and Severstal Business Academy
Design and launch the Severstal Leadership Lab support programme for the new corporate culture and the new business strategy of Severstal	● We conducted two modules of the Severstal Leadership Lab training programme for Top 100 managers
Complete the Efficient Department Management joint programme with Moscow School of Management Skolkovo	● The final module took place in the first quarter of 2018
Research and deploy new training formats: simulators, video training courses, complex skill development simulators, and a training bot	<ul style="list-style-type: none"> ● We developed and piloted SMS training programmes in several business units ● We recorded a series of video trainings on management and communication skills ● We actively use the self-development resources of MIF online library ● Severstal supported the enhancement of English language learning opportunities

2018 objectives

Support further development of marketing and sales professionals: develop a training catalogue for online sales department, establish a new School of Experienced Sales Managers programme

Continue HR development: design and launch the new HR Academy development programme. Continue the Best Practices webinar series

Support for Severstal's innovative culture through the development of competence models for the Technical Development Centre and other functions / employees involved in the innovations process

Support, training and development of Top 100 – 4,000 managers in Vorkutaugol, Karelsky Okatysh and Olcon business units

Training Yakovlevskiy Mine managers and employees in the basics of Severstal's corporate culture and work standards

Development and pilot launch of support systems for high potential employees

Deployment of new feedback formats across the Company (360 Degrees, Quick Feedback)

2019 objectives

Complete mandatory Top 100 – 4,000 management training programmes

Research and deploy new employee training formats

Continue developing HR:

- Develop an HR training course to complement the HR School programme together with Netology
- Develop the HR Academy to help HR business partners to develop HR 3.0 competence

Create a catalogue of professional development events in SAP for CTR employees. Assess the professional competencies of CTR employees in SAP

Develop Metiz professional competency model in various areas

Complete mandatory Top 4,000 training programmes for the management team of Yakovlevskiy Mine

Assess employee competencies in the Talent to Value project and develop additional engagement drivers

Continue training and developing business unit employees, including employees of Vorkutaugol, Karelsky Okatysh and Olcon

Status

- We conducted two multi-stage events for employees with high financial responsibility from the Purchasing Directorate and the Sales Directorate to help them improve their negotiation skills
- Together with Netology, we developed and launched a special training video course on basic negotiation skills available for all employees in our corporate portal
- We developed a training course catalogue to help our e-commerce department employees to improve their professional skills



Senior HR management development programme was postponed to 2019



- We developed competency models for Cherepovets Steel Mill Centres for Technology Research (CTRs). We assessed current competencies and developed personal professional development plans for CTR employees. These activities are currently in progress
- We developed models for energy and steel wire lines of business of Severstal Metiz and evaluated employee competencies in these areas



All planned programmes were delivered in full



Training completed



Based on the results of this pilot programme, we decided to launch the Talent to Value project to determine the key jobs and roles that have the greatest impact on success of our business



New feedback formats including 360 Degrees and Quick Feedback have been deployed



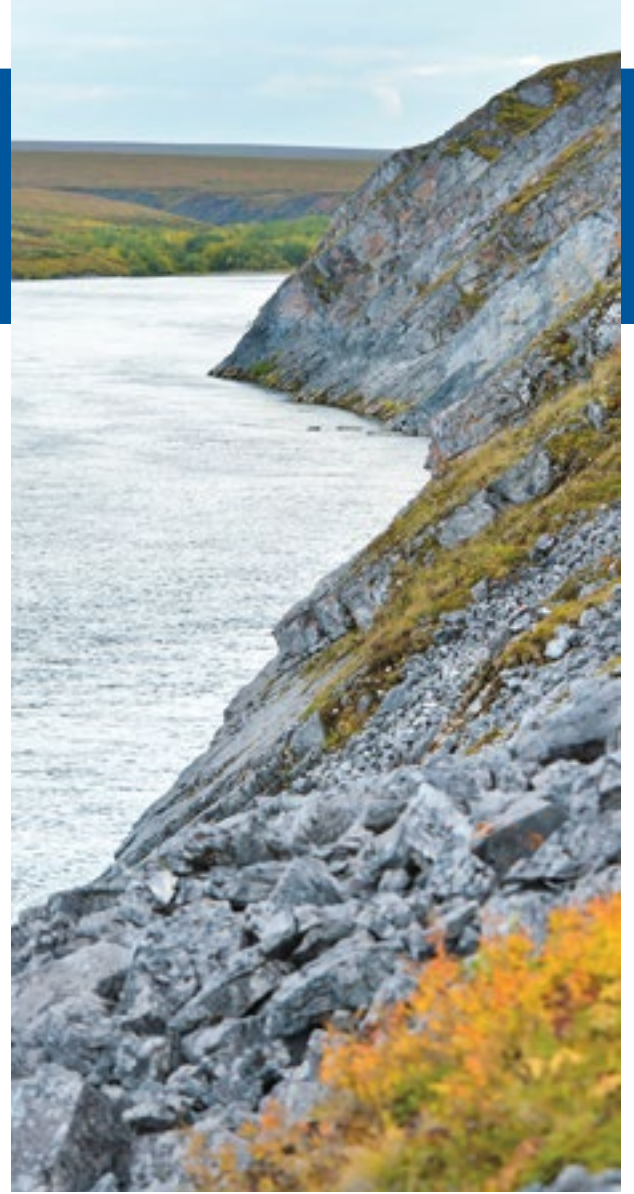
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OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

Occupational Safety

We work hard in involving Company employees in safety matters. Occupational safety is a cornerstone of the Business System of Severstal.

We strive to eliminate workplace fatalities. To achieve this goal, we use international best practices and work methodologies to develop safe behaviours, improve our employee safety training and motivate our employees never to turn a blind eye to safety violations. We want to become the best company in Russia by key safety performance indicators and strive to involve in achieving this goal not only our employees and managers at all levels, but also employees of our contractors who work on-site in Severstal.



Policy and Management

GRI 103

Our strategic decisions in the area of occupational health and industrial safety are made by the Health, Safety and Environmental Committee headed by Independent Director Philip Dayer. For further details, please see the information about this committee and its performance in the 2018 Annual Report, page 52. The implementation of these decisions is the responsibility of the OHS and Environmental Protection Director, heads of business units and heads of respective services. Each of our businesses has an occupational health management system including a risk management system, emergency and disaster recovery plans, an information distribution system for emergencies and lessons learnt, employee training courses meeting the requirements of applicable laws, a corporate distance learning system with training courses, and other components.

Improvement of occupational safety is a key performance indicator for Severstal. Annual compensation of certain executives, including the Chief Executive of Severstal, directly depends on the safety performance of Severstal.

Severstal businesses use a standardised approach to injury and micro injury analysis, and to the handling of violations, and a standardised set of tools to identify hazards and involve employees in safety management.

We also perform comprehensive evaluations of our managers' safety performance, including both reactive and proactive indicators focused on injury prevention, including the audits of accident prevention system, operation of industrial controls, and other aspects.

Results of comprehensive safety assessments along with individual performance affect annual bonuses of certain managers.

Occupational Safety Objectives

GRI 102-34

Severstal's long-term goals in occupational health, industrial safety and environmental protection were approved by the Board in the reporting year. We also require that all our partners comply with stringent occupational health, industrial safety and environmental sustainability standard in their work, and respective provisions are included in the Code of Business Partnership of Severstal and Affiliates.

1. By 2025, reduce LTIFR by 50% compared with 2017 and eliminate workplace fatalities among Severstal employees

2. By 2025, ensure all businesses undergo ISO 45001 certification

Safety Leadership and Culture

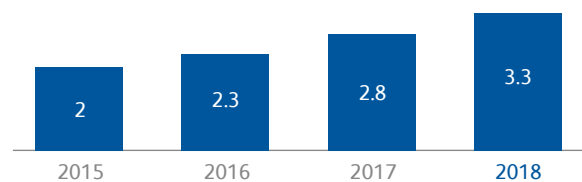
The results of the company-wide Severstal Pulse survey indicate that a growing number of employees understand and share Severstal's safety policy. In 2018, 75% of survey participants believed that safety requirements in their department were justified, understandable and achievable. Moreover, all Severstal businesses scored higher than 70% in this respect. The number of employees receiving safety instructions, if needed, from their immediate managers has increased from 84% to 86% over the year. High marks in the Safety department is the result of consistent transition from oversight to partnership, along with rewarding and supporting safety initiatives.

75% of our employees believe that our safety requirements are justified, understandable and achievable

The Accident Prevention System (APS) audit developed by Severstal Russian Steel became the most powerful and motivating tool in the development of management leadership. As of 2018, this tool is used in all business units of Severstal. APS audit gives us a quantitative assessment of system development and helps manage the occupational safety system efficiently, set clear goals and monitor their achievement. The assessment covers five areas and uses a five-point scale reflecting five levels of system development. In 2018, we added cooperation with contractors as an additional criterion.

Our occupational health auditors evaluated the development of occupational health and industrial safety systems at 283 Company in the reporting period.

Average APS audit scores across Severstal Russian Steel



Effective organisational methodologies helped Severstal Russian Steel to exceed the 2018 target and demonstrate the highest system development. Four shops of this division were the only ones in the Company to complete transition to self-control, minimising external checks. Management teams and employees of these departments demonstrate the level of engagement that we expect from every department of Severstal.

Training

Our occupational health and industrial safety training complies with the requirements of Russian federal laws and use corporate methodologies and occupational safety tools. All our educational events are focused on promoting a culture of safe behaviours based on personal commitment, accountability and active involvement of all Severstal employees in mitigation of health and safety risks.

Number of employees trained in 2018

Occupational health	4,392
Industrial safety	3,326
Occupational health for office personnel (a training course in the corporate distance learning system)	460

In addition to mandatory training required by government regulations, we offer the Safe Behaviour Basics training course. This course is applicable to all employee categories. Led by our OHS experts, this training focuses on developing safe behaviours both at work and at home. Between 2016 and 2018, we trained 13,890 Severstal workers and managers, and approximately 3,000 employees of our contractors.

All Severstal businesses continued assessing and training foremen working in foreman and shop manager roles that they started in the previous reporting period.

By the end of 2018, corporate assessments and trainings in the areas of occupational health and industrial safety covered 100% of our managers.

- Severstal Russian Steel rolled out new annual safety knowledge checks for its employees. Instead of an oral exam, employees can take a computer-based test. This allows them to pass the test in 15 minutes instead of two hours and ensures unbiased marking.
- Vorkutaugol revised its occupational health and safety training programme. An offline mobile application supports 39 courses in industrial, environmental, energy and fire safety, as well as occupational health and emergency readiness.

Identification, Analysis and Elimination of Safety Hazards

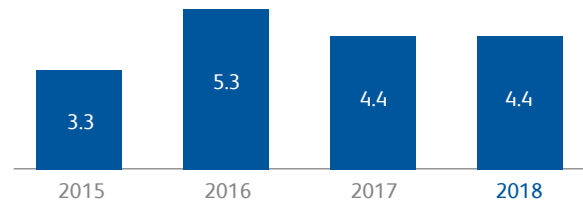
We work with safety hazards by analysing injury rates, including micro injuries, conducting surveys to identify hazardous operations, and utilising our industrial controls.

We have integrated Behavioural Safety Audits, Industrial Process Safety Audits and Problem-Solving Dashboards, into the industrial control system. We use automated software to summarise audit

results, log issues that were unresolved at foreman level, maintain a registry of unsafe actions, as well as plan and track corrective actions.

In 2018 our businesses paid special attention to the quality of micro injury and near miss investigations to ensure we learned lessons and developed preventive action plans.

Spending on occupational health and safety initiatives, billion roubles



Similarly, to the previous reporting period, in 2018 Severstal invested 4.4 billion roubles in occupational health and safety initiatives.

Increasing Staff Involvement in Occupational Safety Matters

All businesses of Severstal have employee feedback monitoring systems in place for safety matters. Information from different sources is stored in a central registry to ensure timely responses to newly identified problems. Everyone can review proposals, and managers can follow up on their implementation.

- As a part of the Safety is a Professional Choice large-scale communication campaign that Severstal launched in 2018, we conducted a corporate competition that will become an



annual event. During preliminary stages of the competition, participants demonstrate their knowledge of OHS and complete creative and practical assignments. The final stage of the competition took place in Cherepovets and saw the KVN teams of Severstal Russian Steel, Severstal Metiz, Vorkutaugol, Olcon and Karelsky Okatysh compete for the main award.

- The metal finishing and shipping shop of the long product plant of Cherepovets Steel Mill organised a Safe Rail Operations Month. It included seven events focused on engaging our employees in safety improvements on the shop floor. Our employees submitted 25 proposals, and we decided to implement 14 of them.
- 30 Vorkutaugol employees who worked without injuries for 25 to 30 years received letters of commendation and special award during the Occupational Health and Safety Month. Zapolyarnaya Mine decided to reward employees who worked safely for 20, 15 or 10 years. Mine management also took a new approach to highlight the importance of safety among employees: those involved in workplace accidents share their stories with their colleagues.

In 2018, Yakovlevskiy Mine become a part of Severstal. We started safety system improvement at Yakovlevskiy Mine with improved personal protective equipment. 206 mine managers received training in our corporate safety methodologies. Our key focus in 2018 was the overhaul of the production control system and identification of hazards through employee surveys. Basic APS audit conducted in December 2018 demonstrated employee engagement and significant progress in leadership skills of the management team.

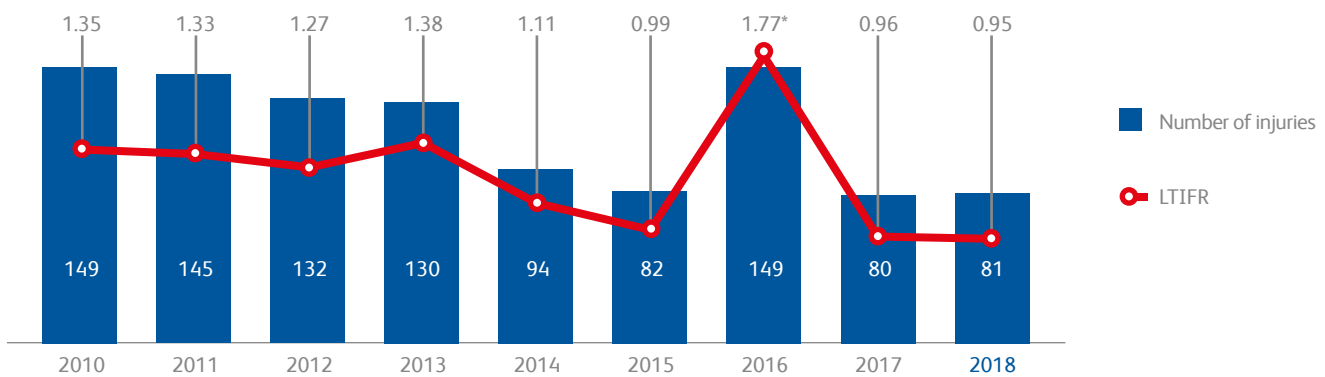
Results of Injury Prevention Initiatives³⁷

GRI 403-2

New safety projects and tools keep reinforcing the culture of safe behaviour among our employees year after year.

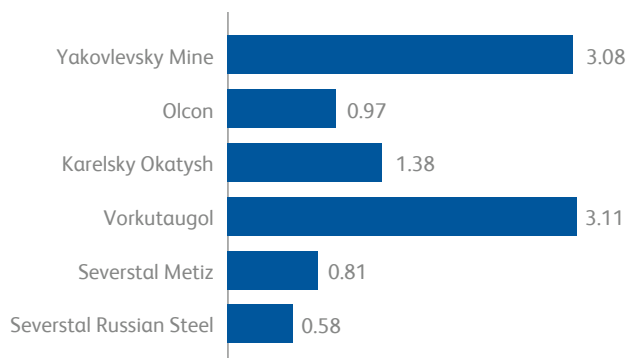
Over the past ten years the number of injuries reduced by a factor of three, while LTIFR fell from 1.84 to 0.95.

LTIFR across Severstal



* 2016: Severnaya Mine Disaster

LTIFR by business unit in 2018



Vorkutaugol and Karelsky Okatysh achieved our injury reduction targets in 2018. Vorkutaugol almost halved the injury rate (from 43 to 25 cases). This result was achieved by implementing a production control system with clear separation of duties and responsibilities, eliminating process redundancies, engaging all managers and conducting performance assessments.

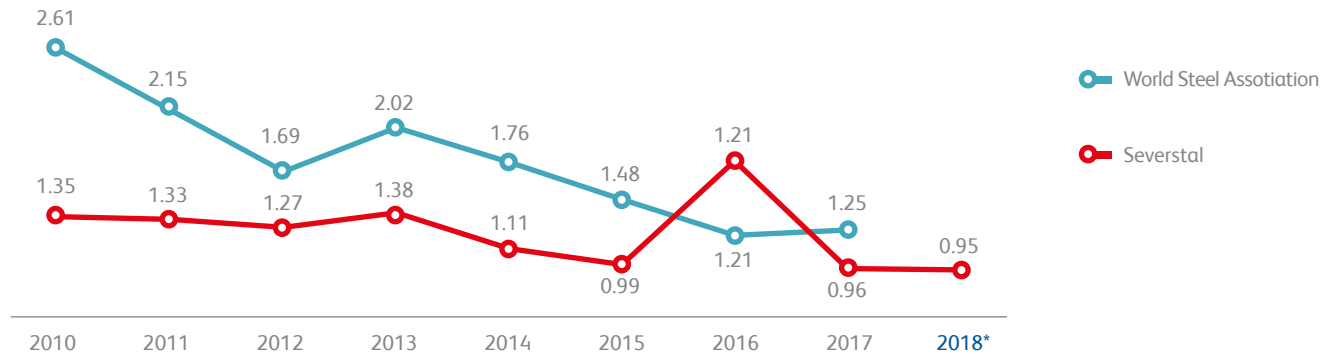
The relatively high injury rate at Yakovlevskiy Mine in 2018 reflects the fact that it only became a part of Severstal in 2018, and the implementation of our corporate safety tools is still underway at this asset. We have completed hazard identification and are now working on eliminating the main causes of injuries. We are rolling out our corporate production control system that uses a range of tools such as Behavioural Safety Audits, Industrial

³⁷ GRI 403-2.

Process Safety Audits and Problem-Solving Dashboards. In 2018 the injury rate at Yakovlevskiy Mine reduced by 16%, to 3.08 from 3.66 in the previous period.

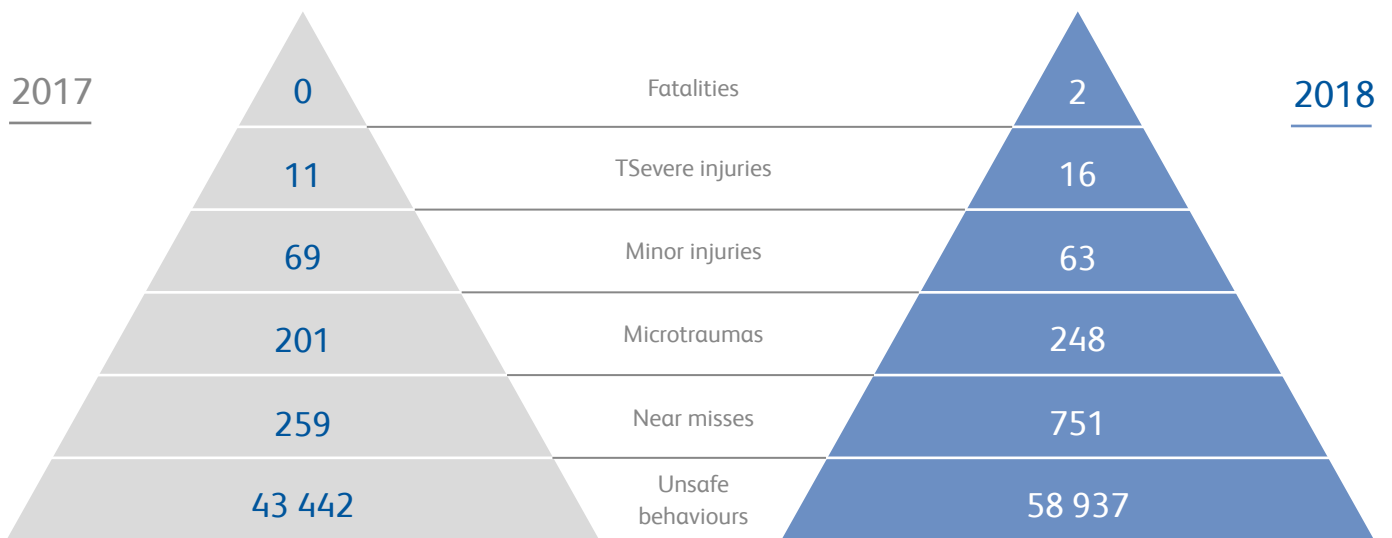
The lowest LTIFR of 0.58 was achieved in Severstal Russian Steel.

LTIFR in Severstal compared with World Steel Association average



* World Steel Association data was not available at the time of preparation of this report

Number of injuries



It is with deep regret that we report fatal injuries at two of our businesses and one fatal injury with a contractor in 2018.

In Severstal Russian Steel, fatal injuries resulted from an employee being in hazardous area during the transportation of a heavy load, and from violation of repair procedures. We took corrective actions to prevent such incidents in future.

In Olcon, the root cause of injury was unsatisfactory equipment safety control by the management. In 2018 Olcon focused on ensuring safety of its equipment, buildings and structures. It conducted comprehensive assessment and used its results to develop a repair and renovation programme until 2020. More than 80% of this programme was completed in 2018. Olcon also started implementing an efficient production control system.

Occupational Morbidity

Vorkutaugol works in an industry with generally high occupational morbidity associated with a hazardous work environment. Nevertheless, in 2018 we were able to reduce the incidence of occupational diseases by 51% from the previous reporting period. The incidence of occupational diseases in Cherepovets Steel Mill, Karelsky Okatysh and Olcon generally stayed flat. Severstal uses a comprehensive set of organisational, sanitary, health care and technology tools to reduce the exposure of our employees to workplace hazards, create comfortable workplaces and reduce the labour intensity of their work.

GRI 403-3

Incidence of occupational diseases

	2013	2014	2015	2016	2017	2018
Cherepovets Steel Mill	9	5	6	9	7	9
Severstal Metiz	0	1	0	0	0	0
Vorkutaugol	179	148	138	176	204*	100
Karelsky Okatysh	10	8	3	13	6	9
Olcon	0	3	3	1	1	1
Severstal Metiz	—	—	—	—	—	2
Yakovlevskiy Mine	—	—	—	—	—	—

* The number of diagnosed occupational diseases increased because the Occupational Disease Centre performed enhanced scheduled medical check-ups of our employees.

Investments in health care and fitness initiatives, million roubles

	2013	2014	2015	2016	2017	2018
Cherepovets Steel Mill	122	106	158	166	191	191
Severstal Metiz	*	*	13	14	15	16
Vorkutaugol	134	143	127	163	127	117
Karelsky Okatysh	78	72	66	47	54	37
Olcon	20	18	20	24	25	28
Yakovlevskiy Mine	—	—	—	—	—	0

* In 2013–2014, Severstal Metiz data was included in the costs of Severstal Russian Steel.

including line managers, chairs of trade union committees and OHS specialists will evaluate the contribution of occupational safety coordinators on quarterly basis. Starting from 2018, we set priority areas for our occupational safety coordinators at joint meetings of department managers and safety coordinators based on existing hazards and key safety priorities of individual departments. In addition to mandatory education in legal safety requirements in special schools required by law, our occupational safety coordinators will take our internal courses on corporate safety methodologies. In 2018 we renewed our safety coordinator team and increased its headcount from 474 in 2017 to 508 in 2018. Team engagement went up from 31% to 33%.

In 2018, 18 occupational safety coordinators of Cherepovets Steel Mill received the GMPR Top Occupational Safety Coordinator award.

Supply Chain Responsibility

All on-site contractors have to comply with Severstal safety requirements.

We set the following objectives for our core contractors for 2018:

- Zero workplace fatalities or severe injuries
- Reduction in injury rates from the previous year
- Number of safety violations per 100 employees lower than in the previous year
- Reduction in the number of employee suspensions due to alcohol intoxication from the previous year
- Zero serious or systematic safety violations

13 contractors achieved these objectives in the reporting year.

In 2018 we organised occupational safety testing for 357 line managers of Cherepovets Steel Mill contractors; of those 152 managers received classroom training due to failing the result of their first test.

In 2018 we introduced a voluntary corporate occupational safety certification for our contractors. Only five contractors out of 20 applicants successfully passed the certification. Successful safety certification means we trust this contractor in matters of occupational safety.

Compared with 2017, injury rates within Severstal Russian Steel contractors reduced by 70%, and within Vorkutaugol contractors — by 73% in the reporting year.

- Seven major contractors of Vorkutaugol started implementing Severstal's corporate occupational safety tools. These include behavioural safety audits, safe behaviour basics training, incident investigation, and more. As the result, Vorkutaugol contractors reduced their injury rates by 73% and had zero workplace fatalities or severe injuries.

Collaboration with Trade Unions on Occupational Safety

We work closely with trade unions on occupational safety matters. Our mutual commitments in this area are a part of our collective bargaining agreements. We develop occupational safety codes, investigate accidents and evaluate professional diseases together with trade unions. Our employees work with occupational safety committees (commissions) and trustees.

Occupational safety committees (commissions) have equal number of employer representatives, trade union representatives and employees.

We perform special assessments of workplace conditions together with trade union representatives. The results of these special assessments in each department are available on our corporate website³⁸.

Cherepovets Steel Mill developed an Evaluation and Motivation Policy for Occupational Safety Coordinators to increase their engagement in safety matters. A special commission

³⁸ <http://chemk.severstal.com/rus/csr/38541/index.phtml>

GRI 403-4

GRI 403-1

- New contractors starting to work at Cherepovets Steel Mill take the introductory safety training before they are admitted to the industrial site. After the training, each employee needs to pass a test to be admitted to work. Our contractors' occupational safety coordinators have an opportunity to take an internship with our steelmaking businesses to improve their knowledge and skills.
- 15 third-party organisations working with Olcon joined the Occupational Safety for Contractors pilot project. While Olcon still keeps a system of fines for our contractors, it decided to

work on engaging their management. We help our contractors with practical aspects and methodology, conduct joint safety audits, and work together on corrective action plans and evaluation of their results. Olcon started the Contractor Hour initiative offering every contractor an opportunity to receive advice on safety matters from the occupational health department of Olcon.

Key Priorities in Corporate Social Responsibility and Sustainable Development. Occupational Safety

● Achieved ● In progress ○ Not achieved

2018 objectives	Status
Further reduction of injury rate	● Reduced by 1% from 2017
LTIFR 0.90	○ LTIFR 0.95
Zero workplace fatalities	○ Two workplace fatalities
Positive trend in APS audits	● Positive trends in Severstal Russian Steel (3.3 points) and Karelsky Okatysh (2.3 points) Severstal Russian Steel and Vorkutaugol achieved their targets
Ensure 100% reach of our corporate knowledge assessment and training system among line managers — at least 3,700 employees	● 3,883 employees trained; 100% reach
Extend these practices to suppliers	● Practice extended to 379 contractors of Severstal Russian Steel
Severstal Russian Steel: roll out corporate certification of contractors	● 20 contractors applied. Five successfully passed certification.
Severstal Russian Steel: increase engagement of OHS coordinators	● Employee engagement increased from 31% to 33%; number of coordinators increased from 474 to 508
Vorkutaugol: roll out Strata integrated safety system	● Four base functions are in pilot operation

2019 objectives

- Further reduce injury rate
- LTIFR 0.84
- Zero workplace fatalities
- Positive trend in APS audits
- Implement a tool to identify and prevent non-manageable hazards utilising a risk-oriented approach
- Develop a plan to certify Severstal Management System for compliance with ISO 45001 international standard by 2025
- Severstal Russian Steel:
 - Expand the certification procedure to a larger number of contractors
 - Increase the engagement of OHS coordinators
 - Implement a new major renovation safety system
 - Implement molten metal incident prevention system



Environmental Protection

Protection of the environment is a key priority for Severstal. In all aspects of our operations, we focus on maintaining a healthy balance between our economic goals and environmental and social responsibility. We take our environmental objectives in consideration in our facility development and upgrade programmes. We continuously develop environmental footprint reduction programmes and involve all our employees in implementation of these programmes.

Policy and Management

GRI 103

The environmental matters of Severstal Russian Steel are the responsibility of our Health, Safety and Environmental Protection Department. Each one of our businesses has one or several experts dedicated to environmental protection. Directors of individual businesses and line managers are also accountable for our performance in this area.

GRI 102-34

Severstal's environmental commitments are integrated in the Corporate Environmental Protection Policy of Severstal and Affiliates³⁹. In 2018 the Board approved a new revision of this policy. The Policy states that environmental protection is a core priority for Severstal embedded in all its production processes, from mining coal and iron ore to producing coke, making hot metal and steel, and manufacturing high-technology products. Severstal is committed to developing our operations in line with this Policy, prevent and minimise its environmental footprint, improve the quality of waste water, conduct voluntary biodiversity monitoring, comply with all applicable laws and require the same from its contractors. To keep improving our environmental policy, Severstal adopted long-term goals until 2025.

Five businesses of Severstal, jointly employing about 65% of our employees, are certified for compliance with ISO 14001:2015 "Environmental Management System. Requirements with Guidance for Use" international standard. This certification is confirmed on annual basis through supervisory audits conducted by international certification organisations. In 2018, Cherepovets Steel Mill, Izhora Pipe Mill and SMC Vsevolozhsk implemented the new revision of ISO 14001:2015 standard. There were no changes in the environmental protection management system in the reporting period.

We take environmental factors in consideration when we plan the expansion of our production. We invite all stakeholders to a public discussion of potential environmental outcomes of our projects.

Employee training in environmental protection is a priority for Severstal. Environmental safety is covered in our employee training programmes. In 2018 we provided environmental protection training to approximately 11,000 employees. More than 3,600 employees took new courses on environmental management system in our online distance learning system alone.

³⁹ <https://www.severstal.com/files/23362/%D0%9F%D0%BE%D0%BB%D0%B8%D1%82%D0%B8%D0%BA%D0%B0%20%D0%BF%D0%BE%20%D0%9E%D0%9E%D0%A1.pdf>

Supply Chain Responsibility

The Report states that through vertical integration, Severstal almost fully controls the environmental footprint of a significant part of its supply chain.

We also expect our suppliers to comply with all environmental laws and regulations, and we include respective provisions in our contracts.

We utilise a consistent approach in managing our suppliers of raw materials, equipment and services. This approach includes several stages such as preliminary qualification, audit, and supplier performance evaluation. Evaluation of environmental aspects, such as ISO 14001 certification, availability of environmental policy, environmental objectives, licenses and permits for the use of natural resources, is a part of every stage of this process. The system we use to monitor the environmental compliance of our suppliers is similar to the system we use to monitor their occupational safety performance.

GRI 308-1

GRI 308-2

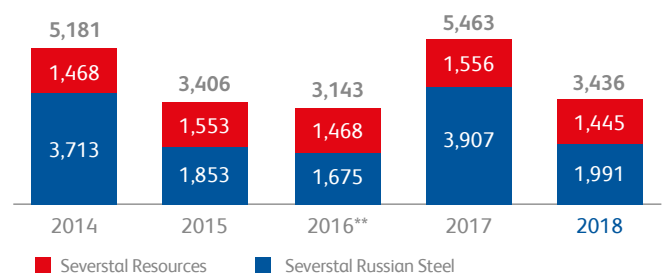
Investments in Environmental Protection Initiatives

SDG 12

In 2018 Severstal reduced environmental protection spending, including operating and capital expenses, from the previous period, to 3.44 billion roubles. This reduction is mostly attributable to Severstal Russian Steel as it completed several major investment projects in 2017, including the construction of the central gas cleaning system for Ladle Furnace No. 2 and the Steel Finisher, the renovation of the blast furnace slag treatment plant, and others.

As the result, the share of investments in atmospheric air protection initiatives reduced more than by a factor of 2.5, from 45% in 2017 to 17.05% in 2018. The shares of water protection and waste management spending in the overall funding increased to 33.43% and 43.92% respectively.

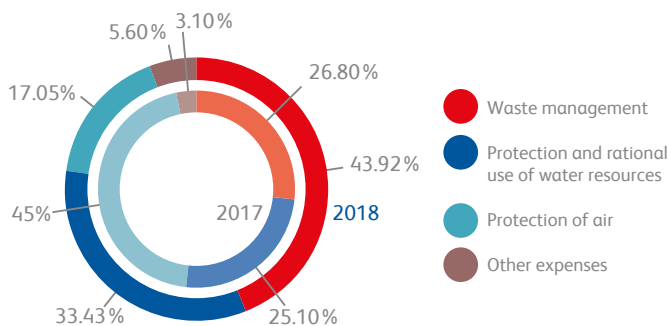
Financing of environmental protection initiatives*, million roubles



* In 2018, Yakovlevskiy Mine became a part of Severstal Resources.

** Starting from 2016, Severstal Resources costs include Belorucheykskoye Mine Authority.

Key areas of environmental protection investments, %



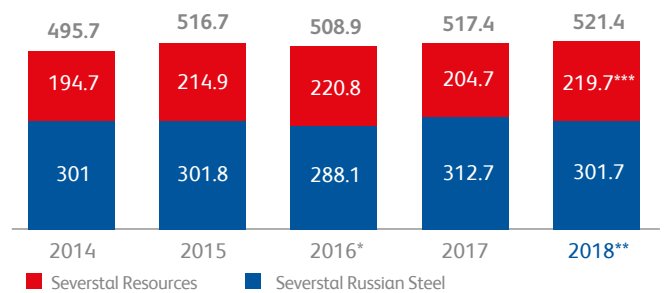
We expect to see the full benefits from our air protection initiatives in the next reporting period as the new and renovated equipment will have been launched and have run for a full year.

Severstal Resources increased its emissions by weight by 7.3% due to increased pellet production by Karelsky Okatysh and higher methane emissions from coal mine ventilation and degassing systems at Vorkutaugol as it increased its coal mining volumes.

Environmental Protection Objectives

Reduce atmospheric emissions of pollutants by 7% from the 2017 level by 2025.

Atmospheric emissions of pollutants, thousand tonnes



GRI 307-1 In 2018, the share of over limit fees in the overall amount of our environmental impact payments reduced from 38% to 31.6%. This reduction reflects lower atmospheric emissions of pollutants from Cherepovets Industrial Site and the reduction in over limit waste storage at Karelsky Okatysh as we doubled our waste management by volume and received increased limits on overburden storage.

Atmospheric Pollution

In 2018, total emissions of atmospheric pollutants across all businesses of Severstal increased marginally (by 0.8%) from 2017. Severstal Russian Steel reduced the emissions by weight (-3.6%) following the renovation of Coke Battery No. 4 (stopped in the second quarter of 2017), decommissioning of the old gas cleaning system at the metal stabilisation and finishing plants 1–3, connection of the new gas cleaning system and reduction of gas flaring.

* Starting from 2016, Belorucheyskoye Mine Authority data is included in Severstal Resources.

** Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

*** The change from the operating results of Severstal Resources published earlier in the amount of 1 thousand tonnes is caused by recalculation.

GRI 305-7 Atmospheric emissions of nitrous oxides, sulphur dioxide and other material pollutants, tonnes

	Severstal Russian Steel			Severstal Resources		
	2016*	2017	2018	2016	2017	2018**
Nitrous oxides	11,895	14,097	12,260	6,867	5,713	5,695
Sulphur dioxide	24,334	27,968	26,407	66,169	60,512	70,122
Volatile organic compounds (VOC)	327	426	444	420	526	495
Particulate matter	18,431	17,800	14,900	10,525	9,730	10,755
Carbon monoxide	231,771	251,007	246,790	3,593	3,639	4,106
Other	1,325	1,430	894	133,220	124,549	128,556
TOTAL	288,084	312,728	301,695	220,794	204,669	219,729

* Starting from 2016, Belorucheyskoye Mine Authority data is included in Severstal Resources.

** Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

In 2018 Severstal Russian Steel increased its VOC emissions marginally due to the inclusion of Severstal Steel Solutions data in its statistics, and the construction and launch of the new Colour Coating Plant 3 at Cherepovets Steel Mill. Between 2019

and 2024, Cherepovets Steel Mill is planning to complete several projects to reduce its pollutant emissions, including VOC emissions, as a part of the Integrated Plan to Reduce Emissions in Cherepovets.

Air Protection Initiatives in 2018

- In 2018 Severstal spent more than 0.6 billion roubles on emission reduction initiatives at Cherepovets Steel Mill, including investment projects and repairs of environmental protection equipment. Starting from 2019, we expect to reduce atmospheric emissions of pollutant almost by 700 tonnes per year following the start-up, adjustment and launch of Coke Battery 4. We expect to reduce our VOC emissions by 3.9%. A new smokeless technology eliminates the emissions of raw coal gas with high concentration of hazardous substances with the use of dust-free coke dispensing unit, modern gas cleaning equipment and an aspiration system with bag and sleeve filters.
- We expect that rehabilitation of steelmaking furnaces of SSM Tyazhmash machinery plant with gas filtering system upgrades will reduce dust concentration in the emissions by a factor of 40.
- We replaced electric filter 7 of the aspiration unit in sinter plant 3 of the coke battery plant at Cherepovets Steel Mill. Residual dust content in off-gas after the electric filter dropped from 100 to 33 mg/m³.
- We renovated unit 7 in steel wire plant 2 of Severstal Metiz. The replacement of pickling bath with an overflow type reduced atmospheric emissions of sulphuric acid vapour.



Reduction of Greenhouse Gas Emissions

GRI 201-2

GRI 305-5

The steelmaking industry produces more than 1.6 billion tonnes of steel per year. 70% of this amount comes from steel smelted from iron ore. This process generates significant CO₂ emissions that constitute 7% to 9% of all emissions worldwide. Our industry will play an important role in the reduction of GHG emissions as indicated the Paris Agreement on Climate Change signed by the Government of Russia in 2016.

In Severstal's 2018 Annual Report the Board recognised climate change as a material matter and outlined some of the issues Severstal faces in rising to the challenge of further reducing its greenhouse gas emissions ("GHG") and making the most of the opportunities that a lower carbon future involves.

GRI 102-34

Governance

Since that report was issued on 4 February 2019, the Board has had a substantive discussion on the issue of climate change. The Health, Safety and Environment Committee is responsible for oversight of management's plans and climate change will be a standing item at every future Health, Safety and Environment Committee. The Audit Committee is responsible for ensuring that the disclosure in Severstal's Annual Report, this report and the climate change aspects of the disclosure made on Severstal's website are consistent with best practice climate change disclosure requirements, such as the Task Force on Climate Related Financial Disclosures.

Alexander Shevelev, the Chief Executive Officer, and Agnes Ritter, who are both members of the Health, Safety and Environment Committee are leading a review of how executive management proposes to address climate change issues in the short and medium term and develop a plan of action to be reviewed initially by the Health, Safety and Environment Committee and subsequently by the Board.

Strategy

Severstal's approach in the short-term is to continue to endeavour to identify opportunities to reduce the carbon intensity of steel production. The newly-announced strategy which means that Severstal's upstream assets that mine raw materials and produce concentrate, pellets, hot metal and steel have a common set of goals will enable the upstream division to have a greater focus on reducing greenhouse gas emissions through all aspects of the steel-making process, an opportunity that is not available to less integrated steel producers.

Over the next few years, Severstal will endeavour to assess in greater detail the potential impact of the above risks and opportunities, including, if possible, outline financial implications and will also assess the impact of legislative action to limit the rise of global warming to two degrees.

Analysis of the risks and opportunities to Severstal’s business, strategy and financial planning.

Risks

Short-term (one to two years)

Legislative and regulatory changes mean that climate change could become a new form of trade barrier. For example, it is possible that the EU, currently Severstal’s largest market, might impose a carbon border tax as a result of lobbying by EU steelmakers

Medium-term (two to five years)

The demand for steel produced directly from iron ore and coking coal reduces as pressure from governments and consumers means that the recycling of steel in electric arc furnaces, particularly with electricity produced by non-carbon sources, is seen as more attractive from an environmental view point

Longer-term (over five years)

Customers demand carbon free or significantly carbon-reduced steel.

Physical risks, such as thawing permafrost, temperature extremes, especially for mining asset in Vorkuta, increased intensity and duration of extreme weather events

Opportunities

Short-term (one to two years)

The increased focus provided by having steel production and the mining assets with a common set of goals should lead to reduced greenhouse gas emissions, as there is a greater ability to “design” iron ore pellets and coking coal in a way that the overall process of steel making is more carbon efficient

Business opportunities are also arising in Russia from an increased demand for renewable energy, such as wind turbine tower production

Medium term (two to five years)

The principal areas producing iron ore and coking coal for the global steel market (Australia and Brazil) are forecast to be much more affected by the weather related aspects of climate change, leading to more regular supply disruption, compared with Severstal’s Russian based production

Longer-term (over five years)

Carbon-capture technology becomes more commercially viable

Risk management

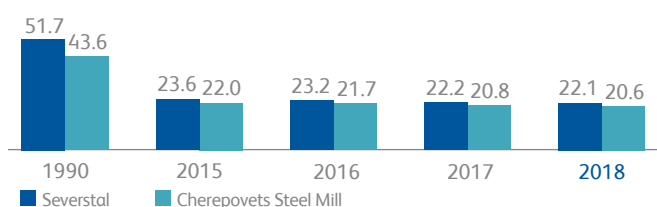
The identification, assessment and management of climate-related risks is integrated in Severstal’s overall risk management process, which is described in Severstal’s Annual Report.

Metrics and targets

All Severstal businesses calculate GHG emissions using the measurement methodology adopted by the Russian Ministry of Natural Resources, the total direct greenhouse gas emissions are set out in the graph below:

GRI 305-1

Direct greenhouse gas emissions⁴⁰, million tonnes



The major part of Severstal’s GHG direct emissions comes from the Cherepovets Steel Mill.

Even though we increased our production volumes in 2018, our GHG emissions reduced by 100,000 tonnes from the previous period, mostly due to reduced gas flaring at Cherepovets Steel Mill.

⁴⁰ Scope 1 of the Greenhouse Gas Protocol.

Severstal continues to reduce GHG emissions through the adoption of new technologies and the retirement of inefficient technologies. The most significant current projects of Severstal are:

- Improvement of steel and hot metal production technologies to reduce lime and dolomite consumption
- Reduction of natural gas consumption in favour of coke and blast furnace gas
- Transition of some power boilers from solid to gaseous fuel (coke and blast furnace gas)

Underground coal mining inevitably produces coalbed methane. Vorkutaugol uses it as a fuel in its boilers at Vorkutinskaya, Komsomolskaya, Zapolyarnaya and Vorgashorskaya mines. Heat produced from burning the methane is used in mine operations to heat and ventilate buildings and site facilities, to supply hot water and to provide a flow of air to the mine. In 2018 we used 77,551.0 thousand cubic metres of methane, reducing our greenhouse gas emissions by 27.3 thousand tonnes of CO₂ equivalent compared to 2017.

In 2018 Severstal confirmed its commitment to join the pilot project of the Worldsteel Association. The SmartSteel Site project will help us conduct a study using the Worldsteel benchmarking system to identify opportunities for CO₂ reduction.

We expect that by participating in this project, Cherepovets Steel Mill will be able to approach the target of 1.85 tonnes of CO₂ per tonne of molten steel, which is consistent with industry best practice. Our current emissions, according to Worldsteel calculations, are 2.1 tonnes of CO₂ per tonne of molten steel (Scope 1–3).

GRI 305-4

SDG 15

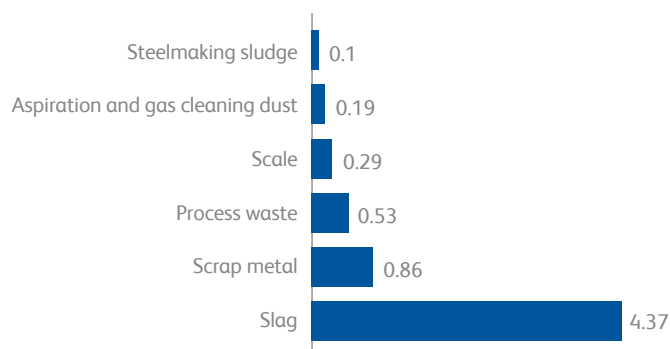
Waste Management

GRI 103

Severstal Resources generates 96% of all waste in Severstal. The majority of this amount (over 95%) is mining waste such as overburden and tailings, that are internationally not considered hazardous waste. They are inert materials not in demand for public use. Some of these materials are used by our own businesses to produce crushed rock, build site causeways, maintain roads and dams.

In 2018, our resource businesses generated marginally more waste (+1.6%) compared with the previous period due to larger volume of mining and stripping operations at Olcon and the addition of Yakovlevskiy Mine to Severstal.

Main types of waste from Cherepovets Steel Mill, million tonnes

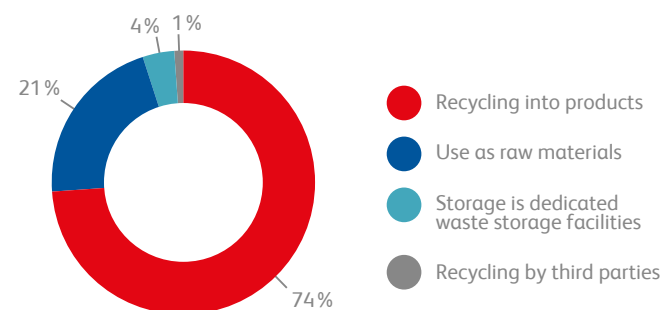


96.6% of waste generated by Severstal Russian Steel is attributable to Cherepovets Steel Mill. Overall amount of waste stayed flat compared to the previous period.

All this waste is processed internally.

We also recycle oil, rolling mill emulsion, office equipment, sludge, tar and other materials. Cherepovets Steel Mill has 15 waste management and neutralisation units. We recycle 100% of steel scrap produced at Cherepovets Steel Mill. The share of scrap in blast furnace charge is 25.87% at Cherepovets Steel Mill and 95% at Severstal Long Product Mill Balakovo.

Waste recycling in production, %*



* Except heavy mining waste

GRI 306-2

Waste management, tonnes

GRI MM3

Type of waste	Severstal Resources		Severstal Russian Steel	
	2017	2018*	2017	2018
Produced, total	189,886,865	193,033,710	7,341,596	7,345,232
including:				
overburden:	157,969,471	160,067,916	—**	—**
tailings	30,991,429	31,609,079	—**	—**
Recycled, total	11,771,664	23,379,775	7,113,873	6,865,008
including:				
in production	11,623,848	23,279,866	7,018,356	6,760,273
by third parties	147,816	99,910	95,517	104,735
Neutralised, total	89	87	30,772	29,755
including:				
in production	1	0	28,484	27,418
by third parties	88	87	2,288	2,337
Stored, total	178,402,380	169,533,565	377,689	271,332
including:				
overburden:	152,323,791	147,975,834	—**	—**
tailings	24,920,467	20,371,511	—**	—**
at our own WSF ***	178,395,902	169,528,412	366,431	260,998
at third party waste storage facilities	6,478	5,153	11,258	10,334
Within established limits	167,415,192	162,441,968	377,656	271,242
Beyond limits	10,987,188	7,091,597	33	4

* From 2018, Yakovlevskiy Mine is a part of Severstal Resources.

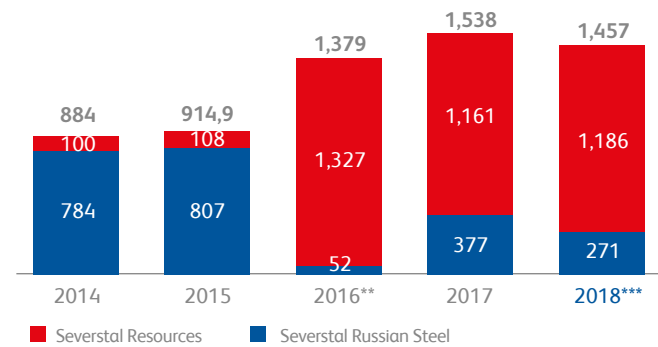
** No waste produced in technology chain

*** Waste storage facility

Hazardous waste by class, %

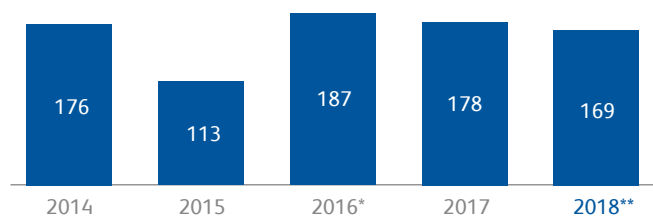
Type of waste	Overall share
Hazardous (Classes 1–3)	0.03
Low Hazard (Class 4)	2.86
Marginal Hazard (Class 5)	97.11

Waste disposal*, thousand tonnes



* Except heavy waste of Severstal Resources (overburden and tailings)
 ** Starting from 2016, Belorucheykskoye Mine Authority data is included in Severstal Resources.
 *** From 2018, Yakovlevskiy Mine is a part of Severstal Resources.

Overburden and tailing disposal, Severstal Resources, million tonnes



* Starting from 2016, Belorucheykskoye Mine Authority data is included in Severstal Resources.
 ** Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

Increased mining volumes at Olcon resulted in higher volume of mining waste, which is classified as marginally hazardous. Overburden was partly processed into crushed rock of our internal use. Waste disposal increased by 17.1%.

GRI 306-4

Severstal did not transport waste internationally in the reporting period. Cherepovets Steel Mill, Olcon and Volgograd Branch of Severstal Steel Ropes transport their waste within the same region of Russia. Hazardous waste is transported by specialised third parties who have appropriate means of transportation and licenses.

Environmental Protection Objectives

By 2025, reduce the waste disposal by weight⁴¹ by 20% compared to 2017

⁴¹ Except heavy waste of Severstal Resources (overburden, tailings, limestone waste).

Waste Reduction and Processing, and Land Rehabilitation Initiatives⁴²

SGD 15

GRI 301-2

- Rutgers Severtar, a joint venture of Severstal and Rutgers, is located on the industrial site of Cherepovets Steel Mill, processes tar, which is a by-product of coke production. It produces high-quality raw materials for the non-ferrous metallurgy and chemical industry, including vacuum pitch, naphthalene and technical oils, and sells them to domestic and international customers. This plant uses state-of-the-art technologies meeting the latest environmental standards.

By 2019, Cherepovets Steel Mill reduced waste disposal by 42% from 2010

- Cherepovets Steel Mill finished the construction of a storage site for zinc bearing steelmaking dust and blast furnace slag. We used more than 156,000 cubic metres of coke battery overburden in construction. We collect wastewater from the industrial site and use it to irrigate dust. Two monitoring bores were drilled to control groundwater quality. We have received all required permits and the new site was listed in the national registry of waste disposal facilities. Operations commenced in April 2019.
- Severstal has always taken the issue of tailings dam seriously and monitors them on a regular basis. There are four tailings facilities within Severstal and none are near human habitation. Following the catastrophic tailing dam failures at Brumadinho and Samarco in Brazil Severstal has disclosed relevant detail of all its tailing dam facilities on its website⁴³.
- By the end of 2019, we are planning to launch a briquetting line for zinc bearing dust from the steelmaking gas cleaning systems of Cherepovets Steel Mill. We expect to process up to 23,000 tonnes of waste per year. Steelmaking dust recycling helps to reduce waste disposed. Ready-to-use briquettes will be used in steelmaking or sold to third parties. We are currently setting up the construction site. Design documents are completed, base engineering approved, and we are scheduling equipment delivery.
- In September 2018, Cherepovets Steel Mill started separate collection of certain production and consumption waste. Paper, cardboard and plastic waste is sent for recycling. We installed special containers serviced by a third party to collect waste at our industrial site, including Torovo Vacation Complex. We sent 92 tonnes of plastic waste and 17 tonnes of paper and cardboard waste for recycling. We sold 109 tonnes of waste that would otherwise go to the storage facility.
- 10 collection containers for used batteries were installed at Cherepovets Industrial Site. We sent 0.5 tonnes of these items for recycling.

GRI 301-3

⁴² Information on the status and approaches to monitoring of our tailing dams is on the company's website at the link: https://www.severstal.com/contant-static/file/26364/ESG_Investor_Presentation_final.pdf

⁴³ https://www.severstal.com/contant-static/file/26364/ESG_Investor_Presentation_final.pdf

- Severstal is rolling out a construction waste recycling technology for Cherepovets Steel Mill waste from demolished facilities. Steel scrap is recycled in steel production, crushed rock is used in road maintenance, landscaping and construction of causeways. This helped us prevent disposal of 13,723 tonnes of waste.
- Karelsky Okatysh increased waste recycling by 96.6% (from 11.4 million tonnes to 22.4 million tonnes). The majority of its waste is overburden, and it is used in construction of internal facilities (roads network for the new open pit).

Overall, Severstal Resources reduced disposal of overburden and tailings by 5%.

GRI MM1

Disturbed to rehabilitated area ratio, hectares

	2015	2016	2017	2018
Disturbed soil area	11,829	11,982	12,034	12,229
Rehabilitated soil area*	1 (20)	1 (20)	1 (20)	0 (20)

* Data provided per requirements for national statistical reporting (Form 2-TP, Rehabilitation) excluding areas that have already been rehabilitated but not yet included in the State Reserve. Actual rehabilitation indicated in parentheses.

- Yunyaginsky Pit did not conduct the technical component of rehabilitation in 2018 as we were mining lower levels. We did not reach our target level by the end of the year, and postponed the rehabilitation to 2019.

All Severstal Resources businesses planned rehabilitation of disturbed areas.

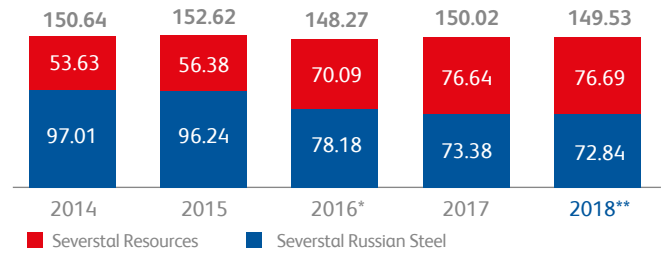
Use of Water Resources

GRI 303-2

Steelmaking and resource divisions of Severstal consume comparable amounts of water. In 2018, our water intake was 149.3 million cubic metres, which is slightly less than in the previous reporting period. Water intake from surface water bodies by our core assets (Cherepovets Steel Mill, Olcon, Severstal Long Product Mill Balakovo) does not have a significant impact on those water bodies. Severstal does not have operations in areas with water shortage. Our assets are located in regions with high water availability (Karelia, Komi, Vologda Oblast, Murmansk Oblast). We do not take water from wetlands protected by the Ramsar Convention.



Total water intake, million cubic metres



* Starting from 2016, Belorucheykskoye Mine Authority data is included in Severstal Resources.

** Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

Severstal Resources

GRI 303-1

The mining businesses of Severstal Resources mostly use water from natural sources (93%), including groundwater, surface water bodies, storm water and meltwater from our land parcels, as well as water supplied by utilities (7%). In 2018 we marginally reduced our water intake from utilities, from 5.21 to 5.13 million cubic metres. Water intake from surface water bodies represented 1.7% of our overall water intake.

Water intake from natural sources stayed almost flat compared with the previous year and was 71.56 million cubic metres. The amount of water from natural sources directly depends on natural factors beyond our control, such as the inflow of water to underground mines and open pits, or the amount of rainfall. These factors largely define the changes in our annual water intake. These sources cover our production needs with a significant surplus, and we discharge this surplus as wastewater to surface water bodies.

Closed loop water systems minimise the use of water from natural sources in our production. Severstal Resources businesses reuse between 8.7% (Vorkuta) and 99.11% (Olcon) of their water. Olcon has a closed-loop water supply that circulates 98% of all water used in concentrate production. A marginal increase in water intake by Severstal Resources reflects the additional water intake of our new asset, Yakovlevskiy Mine.

GRI 303-3

Severstal Russian Steel

GRI 303-1

Severstal Russian Steel takes most of its water from natural sources (88%); the majority of it comes from surface water bodies. Utility water represents 12% in the overall volume.

The majority of process water from natural sources is used by Cherepovets Steel Mill (98%). The impact of water intake by Cherepovets Steel Mill on the water source is negligible at 0.07%. An independent study by Finnish company OUTOTEK confirmed the optimal balance of our water intake and water discharge.

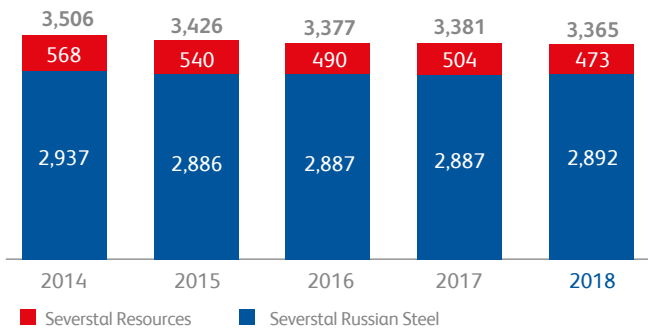
GRI 306-5

Water from natural sources is used to replenish local recycling loops and the integrated water supply system. It constitutes 1.7% of the overall water intake; while the remaining 98.3% is recycled water.

GRI 303-3

Total water intake by Severstal Russian Steel in 2018 remained flat compared with 2017. We used 11.51 million cubic metres of utility water, and 60.8 million cubic metres of water from natural sources.

Total amount of reused water, million cubic metres



Severstal Resources reduced its wastewater discharge in 2018 by 6.9% reflecting a smaller discharge from Karelsky Okatysh. Effluent discharges increased marginally (by 3.6%) from 2017, mostly reflecting the addition of Yakovlevskiy Mine to the division. Compared with our other businesses, Yakovlevskiy Mine produces less wastewater, but with higher pollutant content, and we have developed an action plan to reduce its effluent discharge.

Environmental Protection Objectives

By 2025, reduce effluent discharges to water bodies⁴⁴ beyond maximum permitted amount⁴⁵ by 12% from 2017.

Cherepovets Industrial Site produces 99% of the overall effluent discharges from Severstal Russian Steel. In 2018 the overall amount of wastewater discharges in the division, and from Cherepovets Industrial Site in particular, reduced by 6%. Effluent discharges reduced proportionately to the amount of discharged wastewater. This result reflects the completion of set-up and adjustment of zinc bearing waste from the coke battery plant, and several technology initiatives at Severstal Metiz.

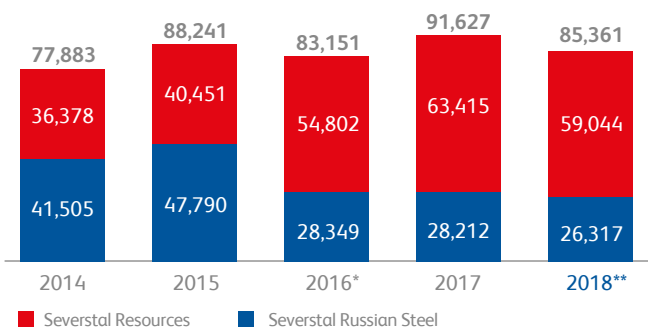
GRI 103

SDG 6

GRI 306-1

Effluents and Water Body Protection Initiatives

Water discharge, thousand cubic metres



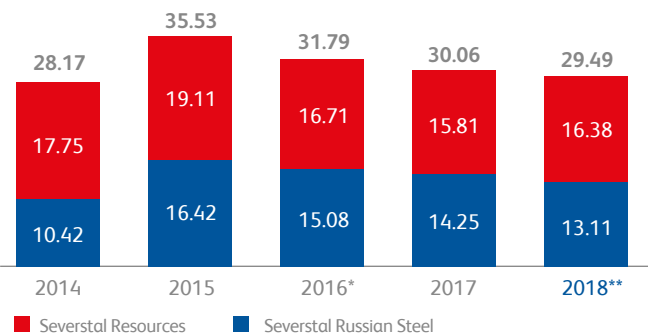
* Starting from 2016, Belorucheykskoye Mine Authority data is included in Severstal Resources.

** Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

Water protection initiatives in 2018

- We established 480 biofilter plants using 20 types of vegetation in the sediment dam of the Kirovogradsky open pit at Olcon as a part of our biological pit water treatment initiative. We use local hardy species that show excellent results in absorbing pollutants from water, including carex, comarum palustre, caltha and typha that grow well in the Extreme North. In 2018, we expanded biofilter plant area in the lower dam and for the first-time used moss cages — plastic mesh cylinders with submersible plants that actively absorb nitrogen compounds. As a result, nitrate concentration reduced by 43%, and ammonia dropped by 92%.
- Cherepovets Steel Mill completed start-up and adjustment of an upgraded blast furnace slag treatment line. This renovation helped reduce concentration of pollutants in waste water discharged from Outlet 3. All waste water coming from gas cleaning systems of blast furnaces will be treated, and 66% of treated water will be recycled.

Wastewater discharge in water bodies, thousand tonnes



* Starting from 2016, Belorucheykskoye Mine Authority data is included in Severstal Resources.

** Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

⁴⁴ Ammonium cation, nitrites, manganese, copper, nickel, sulfates, fluorides, zinc, oil products, iron

⁴⁵ Maximum Permissible Limit (MPL) is the maximum weight of pollutant that is allowed for discharge into a water body, which, if met, allows maintaining the quality of the environment required by the Federal Law of the Russian Federation on Environmental Protection dated 10.01.2002 No. 7-FZ.

Biodiversity

GRI 304-2

Papanin Institute of the Biology of Inland Waters has been monitoring the biodiversity of Sheksna reach of the Rybinsk reservoir and Koshta river between 2014 and 2018. The largest source of pollution for these water bodies is the Cherepovets industrial area that is home to several chemical and metallurgy plants including Cherepovets Steel Mill.

GRI 304-3

Research results indicate that between 2014 and 2018, the biodiversity of phytoplankton, zooplankton and macrozoobenthos, as well as the basins of Sheksna Reach of Rybinsk Reservoir and Koshta River are relatively stable, and their mix of species is typical for freshwater bodies and courses in the areas of Russia with moderate climate. Trophic status, biotic

index of biodiversity, toxicity and pollution over the research period all showed positive trends with improvement in the condition of hydrobiont animals as a result of the the quality of their environment.

Starting from 2019, we will conduct biodiversity monitoring around our assets (Cherepovets Steel Mill) to improve the accuracy of our environmental assessments of water bodies.

- White-tailed eagles have been nesting on premises of Cherepovets Steel Mill for approximately 10 years. Listed in the Red Data Book of the Russian Federation, these birds are a unique biological indicator as they only reproduce in favourable environmental conditions.
- Olcon employees released almost 3,000 young salmon in the Umba River in Tersky District of Murmansk Oblast.

Key Priorities in Corporate Social Responsibility and Sustainable Development. Environmental component

● Achieved ◎ In progress ○ Not achieved

Business	Objectives	Status
Atmospheric air protection		
Cherepovets Steel Mill	Construction and installation activities for the rehabilitation of steelmaking furnaces of SSM Tyazhmash with gas filtering system upgrades	◎
	Renovation of Unit 7 in Steel Wire Plant 2	●
Severstal Metiz	Continued production technology adjustments. Discontinuation of sodium nitrate process. Removal of the source of nitrous oxide emissions and reduction of atmospheric emissions of nitrous oxide by 1,282 tonnes of NO ₂ equivalent	◎
Karelsky Okatysh	Implement the programme for reduction of atmospheric sulphur dioxide emissions	◎
	Upgrade of the Dry Magnetic Separation System Reduction of sulphur content in ore	◎
Protection and rational use of water resources		
Cherepovets Steel Mill	Start-up and adjustment of renovated blast furnace slag treatment line	●
	Contractor selection and project design for the construction of final wastewater treatment system for Outlet 3	●
	Continued selection and adaptation of plants for the research project on the use of vegetation to finish the treatment of water discharged from Outlet No. 3 to Koshta River	◎
	Modernisation of Rybinsk Reservoir biological waste water treatment facility for Torovo recreation centre and Rodnik health resort	●
Severstal Distribution	Launch the upgraded treatment facility no. 2	●
Severstal Metiz	Continued production technology adjustments Discontinuation of sodium nitrate process Reduce annual discharge of nitrates by 12,103 tonnes and nitrites by 1,879 tonnes	◎
	Repair storm water piping to eliminate storm water from spilling into the environment	●
	Major overhaul of crystallisers 1, 2, 3 and 4; restoration of coating using chemical protection to eliminate acidic discharges into storm water piping	●
	Repair the pickling solution piping of Long Product Mill 2 to eliminate acidic discharges into storm water piping	●
	Repair the drainage system of the Pumping Station 1 to eliminate acidic discharges into storm water piping	●

Business	Objectives	Status
Oryol Steel Plant	Renovate the fire and drinking water piping between floor shops to eliminate spills; stage 1	●
	Replace the acid piping to eliminate environmental pollution	●
Vorkutaugol	Improve the efficiency of existing treatment systems at Vorkutinskaya Mine	◎
Olcon	Deploy bioremediation technology to treat nitrous pollutants in quarry waters	◎
	Install new sludge pipes and water conduits to eliminate wastewater discharge in water bodies	◎
Karelsky Okatysh	Analyse tailing pond water intake from drainage area and its impact on wastewater discharge parameters Evaluate opportunities for reduction of wastewater discharges to Lake Okunevoe	●
	Find the ideal mix of reagents for tailing thickening to improve the quality of treated water used in technology processes	●
Yakovlevskiy Mine	Research pit water treatment possibilities and develop the treatment process	◎
	Build waste water and drainage treatment facilities by the pit	◎

Waste management, soil protection and rehabilitation

Cherepovets Steel Mill	Develop project documentation for the new waste storage facility of Cherepovets Steel Mill	●
	Complete state expertise and receive building permit for steelmaking and blast furnace waste storage facility	●
	Transfer of PCB ⁴⁵ -containing capacitors and transformers to a specialised treatment organisation	◎
	Process reinforced concrete waste with extraction of scrap and production of assorted crushed stones	◎
	Build a briquetting line for zinc bearing waste	◎
Severstal Metiz	Replace mercury bulbs with LED light sources to reduce the amount of Class 1 hazardous waste	◎
Vorkutaugol	Continue rehabilitation of Yunyaginsky pit	○
Karelsky Okatysh	Complete the construction of pyrolytic waste treatment station	○
	Full decontamination of Class 3-4 hazardous waste	◎
Yakovlevskiy Mine	Replace mercury bulbs with LED light sources to reduce the amount of Class 1 hazardous waste	◎

2019 and short-term objectives

Business	Objectives
Cherepovets Steel Mill	Complete the renovation of steelmaking furnaces at the Machinery Plant of SSM Tyazhmash with gas filtering system upgrades, start-up and adjustment
	Replace electric filter No. 1 in the aspiration unit of sinter plant 3 of the coke battery plant
Severstal Metiz	Continued production technology adjustments Discontinuation of sodium nitrate process Removal of the source of nitrous oxide emissions and reduction of atmospheric emissions of nitrous oxide by 1,292 tonnes of NO ₂ equivalent

⁴⁵ Polychlorinated biphenyls

Business	Objectives
Karelsky Okatysh	Implement the programme for reduction of atmospheric sulphur dioxide emissions <ul style="list-style-type: none"> • Develop the design of a pilot unit • Design the automated control system for the pilot unit (to be completed in 2023)
	Upgrade of the Dry Magnetic Separation System Launch the magnetic induction system to monitor ore quality (reduce sulphur content in ore)

Protection and rational use of water resources

Cherepovets Steel Mill	Develop project documentation and choose the final treatment technology for the treatment of wastewater at outlet 3
	Continue selection and adaptation of plants for the research project on the use of vegetation to finish the treatment of water discharged from Outlet No. 3 to Koshta River; develop a pilot biological plant using existing landscape features
Severstal Metiz	Monitor the biodiversity of Koshta River around Severstal assets (Cherepovets Industrial Site)
	Continue production technology changes. Discontinue the use of sodium nitrate process: build a new unit (with thermal wire processing in liquid lead) to replace Units 11 and 12 (with thermal processing in potassium sodium nitrate) at Steel Wire Plant 2 Reduce annual discharge of nitrates by 12,103 tonnes and nitrites by 1,879 tonnes
Oryol Steel Plant	Renovate the fire and drinking water piping between floor shops; stage 2
Vorkutaugol	Build a closed loop water system connecting surface outlets 2 and 3, and discontinue river water intake (2019–2024)
Olcon	Complete the projects to improve the efficiency of existing treatment systems at Vorkutinskaya Mine (to be completed in 2021)
	Complete the deployment of bioremediation technology to treat nitrous pollutants in quarry waters Install new sludge pipes and water conduits to eliminate wastewater discharge in water bodies
Karelsky Okatysh	Use the ideal mix of two reagents for tailing thickening to improve the quality of treated water used in technology processes
	Reduce wastewater discharges to Lake Okunevoe. Design the tailing pond development project. Reduce pollutant discharges to tailing ponds by 90%. Reduce effluent discharges to Lake Okunevoye to 50% of the maximum permitted limit for fishing reservoirs by 2028
Yakovlevskiy Mine	Research pit water treatment possibilities and develop the treatment process <ul style="list-style-type: none"> • Choose the treatment process • Evaluate the opportunity to use macrophytes Implement the selected treatment process (2020–2024)
	Complete the construction of waste water and drainage treatment facilities by the pit
	Build the sediment dam waste water (pit water) intake system to use pit water in technology process: develop the infill material to fill the mined space (2019–2020) Repair the industrial storm water and waste water treatment system and build a discharge system for this water (2019–2021)

Waste management, soil protection and rehabilitation

Cherepovets Steel Mill	Complete the third phase of public hearings and the state expertise of project documentation for the new waste storage facility of Cherepovets Steel Mill
	Launch the storage facility for steelmaking waste and zinc-containing blast furnace slag
	Transfer PCB-containing capacitors and transformers to a specialised treatment organisation (to be completed in 2024)
	Process reinforced concrete waste with extraction of scrap and production of assorted crushed stones: continue the project
	Build a briquetting line for zinc bearing waste: receive the equipment, complete the construction and proceed to start-up and adjustment

Business	Objectives
Severstal Metiz	Replace mercury bulbs with LED light sources in service rooms to reduce the amount of Class 1 hazardous waste (to be completed in 2022)
Vorkutaugol	Continue rehabilitation of Yunyaginsky pit; complete the technology phase of rehabilitation
Karelsky Okatysh	Completion of a pyrolytic waste treatment station. Partial decontamination and utilisation of Class 3–4 hazardous waste (use of waste in production) Full decontamination of Class 3–4 hazardous waste (continuous)
Yakovlevskiy Mine	Complete the replacement of mercury bulbs with LED light sources to reduce the amount of Class 1 hazardous waste

Power Consumption and Energy Efficiency

SDG 7

Management of Energy Efficiency

GRI 103 By reducing power consumption every year, Severstal makes a real contribution to better use and conservation of energy resources while reducing our environmental footprint. Severstal has been working on a Comprehensive Energy Conservation Programme since 2000. All our businesses adopted the Energy Conservation Policy in 2003⁴⁷.

All production departments of Cherepovets Steel Mill and Centre for BSS Development also participate in energy efficiency initiatives. Dedicated cross-functional teams coordinate the activities of individual directorates in this area. Severstal fully complies with the ISO 50001:2011 — Energy management systems standard.

In 2018, the Chief Power Engineer Department of Severstal established the Centre for Technology Research to improve the efficiency of innovations, search for new, non-standard solutions for improvement of technology processes in the energy sector, and continuously generate and develop new ideas. We used new tools such as agile methodology to improve energy efficiency in the reporting year.

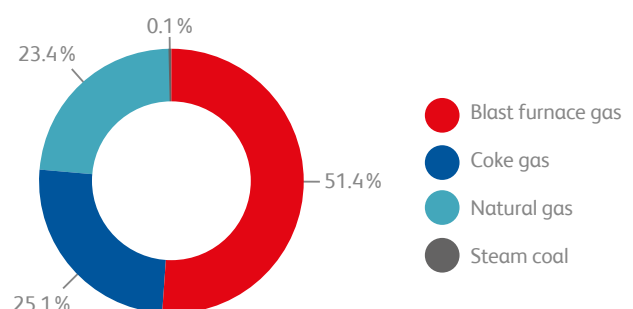
We put significant effort in employee engagement. We reward employees who meet KPI targets in power consumption and offer bonuses for innovative ideas and practical steps submitted through our Idea Factory. We also offer non-financial rewards such as business trips to world-leading companies, diplomas, letters of commendation from various management levels, honorary titles and many more.

2018 Highlights

Cherepovets Steel Mill

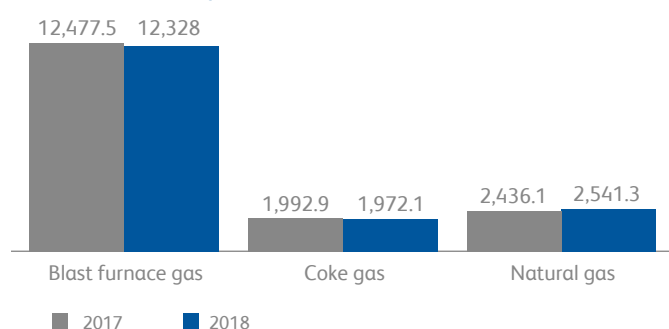
The largest power generation units of Cherepovets Steel Mill are TPP-SS (Thermal Power Plant & Steam Blowing Station) and TPP-PS-2 (Thermal Power Plant & Power Blowing Station). In 2018 they produced 93.7 percent of all power generation from internal sources. These facilities also provide the majority of electricity and all heat required by Cherepovets Steel Mill and 80% of industrial consumers in the city. These power plants use a mix of fuels.

Fuel mix in 2018, %



⁴⁷ https://www.severstal.com/files/23362/energy_rus.pdf

Fuel consumption, million cubic metres



Increased consumption of natural gas in 2018 (+4.3%) was caused by higher production volumes and increased power generation at TPP-PS. The consumption of coke gas reduced (-1%) due to renovation of coke battery 4. Blast furnace gas consumption also reduced (-1.2%), reflecting lower production of hot metal and lower output of blast furnace gas.

Efficient utilisation of blast furnace gas in power plants helped us to reduce gas flaring to 1.04% of the overall blast furnace gas, compared with 2.56% in 2016.

In 2018 Cherepovets Steel Mill increased the production of its own electricity to 4,565.8 million kWh, which is 2.8% more than in the previous reporting period.

This improvement is due to a series of Cherepovets Steel Mill repair and investment projects focused on improving the productivity and efficiency of the main generation equipment, and also to the use of new repair technologies speeding up the repairs.

We also utilise our own non-compressor gas recovery turbines, and turbine generators at our coke quenching plant. Our waste heat recovery plants produced 288.1 million kWh of electricity in 2018.

We plan on further development of internal power generation, especially with regard to converter gas utilisation. We are evaluating an opportunity to burn converter gas in existing TPP-SS boilers with an installation of additional gas holder to reduce natural gas consumption. We are currently working on project documents.

We are planning to increase internal power generation at Cherepovets Steel Mill by 5%. On 1 December 2018 we started the renovation of Turbine Generator 5 at TPP-SS. Under our agreement with Power Machines, TPP-SS Turbine Generator 5 will be upgraded to increase its capacity by 25 MW. The upgrades will be completed on the operating unit without interruption of power supply.

We also get electricity from third parties via 24 overhead lines, 18 of which are the property of Vologda Power Backbone of the Centre, and six are the property of Vologda Energy branch of IDGC North-West.

In 2018 total power consumption of Cherepovets Industrial Site increased to 5,864.4 million kWh compared with 5,670.3 million kWh in 2017 (+3.4%). The increase in power consumption mostly reflects higher production of rolled products, launch of new facilities (ladle furnace No. 2 in the steelmaking plant, colour coating plant No. 3) and the operation of additional equipment in the basic oxygen plant — the highest energy consumer of the mill. The share of internally generated power in the overall consumption remained almost flat at 77.9% (compared with 78.3% a year before).

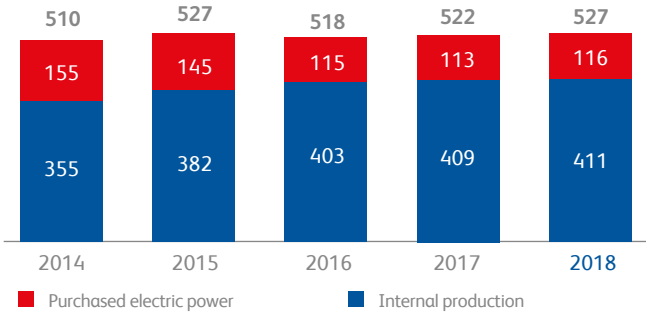
GRI 302-1

Power generation and consumption by Cherepovets Steel Mill, thousand kWh

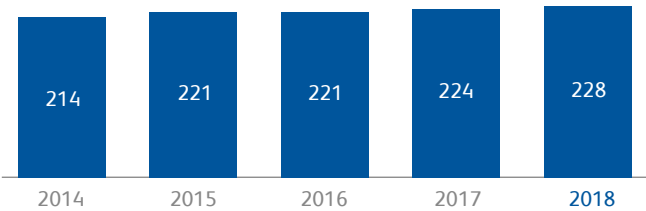
	2015	2016	2017	2018
Total consumption, including	6,166,370	6,077,806	6,096,821	6,280,738
External sources	2,018,372	1,686,531	1,655,118	1,714,917
Internal production including	4,147,998	4,391,275	4,441,703	4,565,820
TPP-SS	2,361,336	2,602,942	2,623,499	2,661,744
TPP-PS	1,477,480	1,456,400	1,509,456	1,616,004
GNCT	187,637	199,477	191,765	158,274
TSC	121,545	132,455	116,983	129,798
Use in shops	5,649,626	5,574,273	5,610,497	5,809,378
Process consumption	5,716,107	5,641,968	5,666,700	5,860,781
Losses	66,480	67,695	56,203	51,403
Sales to third parties	447,268	432,650	426,542	416,376
Non-process consumption	2,995	3,188	3,579	3,582

GRI 302-3

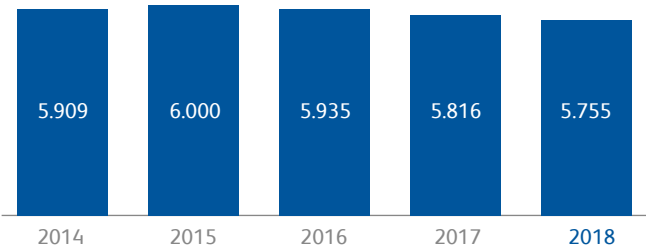
Specific power consumption, kWh per tonne of steel



Natural gas consumption, cubic metres per tonne of steel



Specific energy consumption, Gcal per tonne of steel



Following the growth of general consumption in 2018, specific power consumption also increased (+1%) compared to the previous period.

Specific natural gas consumption per tonne of steel increased in 2018 by 1.8% compared with 2017. This increase reflects higher consumption of natural gas at TPP-SS and TPP-PS to produce electricity, lower output of coke gas (we started the renovation of coke battery 4 in May 2017), increased output of flat rolled plant No. 2 and changes in raw materials mix in blast furnace production.

Specific energy consumption reduced by 1% from 2017, to 5.755 Gcal per tonne of steel. This change reflects higher steel output, change in fuel mix at TPP-SS, lesser gas flaring, and changes in blast furnace charge preparation process. Monitoring this data helps us evaluate energy consumption trends both within Severstal and industry wide.

- In 2018, Severstal and SAP Digital Business Services jointly developed an application for smart power supply. This prototype uses mathematical algorithms and machine learning to detect anomalies and send notifications to responsible users. This helps us quickly identify issues, promptly see anomalies in power consumption and reduce electricity costs. Severstal evaluates the options to launch a full-scale solution deployment project and is planning to develop analytical monitoring to ensure efficient use of energy resources.

Severstal Long Product Mill Balakovo

Severstal Long Product Mill Balakovo does not have its own power generation facilities. Main power is delivered over two overhead lines by Volga branch of FGC UES. There also are three underground backup power lines from Balakovo TPP-4. The mill also powers the railroad crossing with two 0.4 kW power lines of Russian Railways. The mill also uses natural gas in its fuel mix.



GRI 305-3

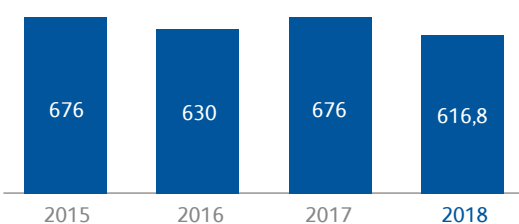
GRI 302-1

Power consumption of Severstal Long Product Mill Balakovo, thousand kWh

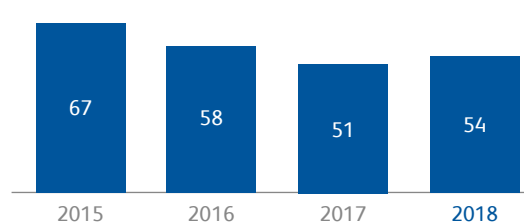
	2015	2016	2017	2018
Total consumption, including	431,756	488,657	507,828	551,822
External sources	431,756	488,657	507,828	551,822
FGC UES	430,029	487,672	507,446	551,773
TPP-4	1,713	964	359	26
Russian Railways	14	21	23	23
Use in shops	369,548	423,676	449,871	492,839
Process consumption	375,290	433,721	455,484	497,938
Losses	5,742	10,045	5,613	5,099
Sales to third parties	56,466	54,937	52,344	53,884
Non-process consumption	—	—	—	—

GRI 302-3

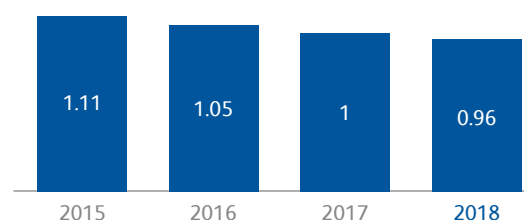
Specific power consumption, kWh per tonne of steel



Natural gas consumption, cubic metres per tonne of steel



Specific energy consumption, Gcal per tonne of steel



GRI 302-1

Power consumption of core mining assets, thousand kWh

	2015	2016	2017	2018
Vorkutaugol				
Total consumption	546,728.8	536,799.4	519,410	533,477.4
Including External sources	546,728.8	536,799.4	519,410	533,477.4
Olcon				
Total consumption	391,191.95	388,629.94	391,975.01	426,554.53
Including External sources	391,191.95	388,629.94	391,975.01	426,554.53
Karelsky Okatysh				
Total consumption including	1,596,831	1,592,631	1,626,482	1,604,139
Including External sources	1,596,831	1,590,554	1,620,999	1,598,155
Internal generation	0	2,077	5,483	5,984

GRI 302-4

We have also completed a variety of energy efficiency and energy conservation projects in our other businesses.

- Karelsky Okatysh started developing Zarechnoye turf pit. It will start using turf in mini boilers located at the industrial site. We are also renovating the main boiler facility to switch boilers to solid fuel. Use of turf as fuel reduces consumption of fuel oil and helps reduce atmospheric emissions of pollutants as well.
- Izhora pipe mill completed several energy efficiency projects. We installed an automatic heat distribution system in the large-diameter pipe shop. We automated the record keeping for energy resources, including automatic collection of data on the use of natural gas, process and drinking water from all equipment and devices.
- Severstal Metz replaced more than 6,000 ceiling lighting fixtures with LED equivalents. Lighting power consumption reduced by 75% (more than 15,000 MWh per year), improved working conditions (illuminance above standard), and reduced costs associated with repair and disposal of mercury lamps.

- The annual power conservation programme of Vorkutaugol generated 25% reduction in power grid maintenance in 2018.

Key Priorities in Corporate Social Responsibility and Sustainable Development

Our primary objective in energy conservation is to reduce steelmaking energy consumption to 5.55 Gcal/tonne by 2026 by means of the energy conservation programme.

Plans for 2019

Business	Objectives
Cherepovets Steel Mill	<ul style="list-style-type: none"> • Conservation of 75 million cubic metres of natural gas • Conservation of 82 million kWh of purchased electricity
Vorkutaugol	<ul style="list-style-type: none"> • Combined savings on energy resources was 30 million roubles
Olcon	<ul style="list-style-type: none"> • Heating costs reduced by 5% to 8% per year through the reduction of losses in the heating grid and replacement of steam pipes • Power costs reduced by up to 2% following the decommissioning of inefficient equipment (oil-filled transformers) • Water and steam costs reduced by 10% to 15% following the installation of metering equipment
Karelsky Okatysh	<ul style="list-style-type: none"> • In-house generation increased 3.5 times to 20,698 thousand kWh



6

SOCIAL PROJECTS AND INVESTMENTS

Severstal is committed to fostering a favourable social environment in the regions of our assets as a part of our long-term development strategy. We are making a positive contribution to the sustainable development of these regions by creating new jobs, paying taxes and improving the quality of life of our employees and their families. In addition to that, we make significant investments in social infrastructure of cities where our assets are located.

We focus our social programmes on elevating the potential of local communities by developing small and medium businesses and social entrepreneurs. We actively participate in resolving pressing social issues, help preserve cultural heritage and develop culture, and support education, fitness and sport.

Severstal uses best practices in social responsibility and follows domestic and international initiatives, including the 2030 UN Sustainable Development Agenda, trying to extend them along our whole value chain.



External Social Programmes of Severstal: Policy and Management

GRI 103 We select the key areas of our social investments in alignment with the needs and expectations of our stakeholders, first and foremost the government and the general public. We develop multi-party partnership infrastructure and work closely with government authorities and non-governmental organisations.

Our corporate policy on the management of external social programmes is included in several documents published in the Corporate Social Responsibility — Our Vision section of our website. These include:

- Corporate Social Responsibility Policy of PAO Severstal
- Corporate Policy on the Management of Internal and External Social Programmes of PAO Severstal
- Corporate Standard for the Management of Sponsorships and Charitable Activities of PAO Severstal

These documents establish a consistent approach to the management of external social programmes for all Severstal businesses. At the same time, we consider regional differences in our social collaboration programmes. We extend successful social practices to all our regions and other regions of Russia as well.

SDG 11 The key areas of social and economic cooperation, principles of cooperation and commitments of stakeholders are included in the agreements between Severstal, regional authorities and several municipalities. We cooperate in many areas including the employment of local residents, education and career orientation of youth, health care, prevention of child neglect and social orphanhood, and support and development of culture, education and sports.

SDG 17 Objectives and formats of our long-term partnerships with educational, cultural, sports and non-governmental organisations are defined in our charitable support and sponsorship agreements.

A responsible approach to the environment, care for people and efficient collaboration with local communities also apply to our foreign assets, the majority of which are subsidiaries of Severstal Distribution. In Latvia, Severstal partners in education with Riga Technical University, supports culture events (tours of Golden Mask Festival participants, Russia Day concert), and veteran associations.

Management of External Social Programmes in PAO Severstal



Contribution to Sustainable Development of Severstal Regions

GRI 203-1
GRI 203-2
GRI 102-9
GRI 103

Diversification of the local economy is the key objective in our regions with multiple mono-towns. Collaboration of small, medium and large businesses becomes an efficient driver of development. Our corporate social responsibility reflects in our contribution to the development of support infrastructure for

small and medium businesses, social entrepreneurs and investor organisations. We establish fundamental partnerships to work in this area. Severstal is trying to streamline the cooperation between the government, communities, businesses and media in our regions.

Import substitution plays an increasingly important role as a performance improvement tool. Other things being equal, we choose domestic suppliers and purchase from local producers and service providers.

To establish a responsible supply chain, we give our preference to businesses meeting our safety and quality requirements, complying with labour and environmental protection laws and sharing our values (for further details, please refer to the Supply Chain Responsibility section of this Report). This cooperation supports the sustainability of small and medium businesses, which in turn makes the overall regional economy more sustainable.

GRI 204-1 2018 Highlights

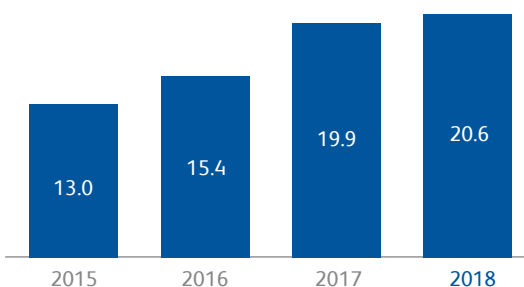
Successful efforts by Severstal and its local partners has a huge impact on the social and economic environment in our regions. All key subsidiaries of Severstal are members of a consolidated taxpayer group and regularly pays taxes.

In 2018, Severstal Russian Steel and Severstal Resources divisions paid approximately 61 billion roubles in various budgets and extrabudgetary funds, including the following:

- Taxes – approximately 48 billion roubles
- Mandatory non-tax payments – approximately 385.73 million roubles
- Payments to extrabudgetary funds – approximately 12.62 billion roubles

As the majority of Severstal assets with the largest headcount and production facilities are located in Vologda Oblast, this is where we pay the largest portion of our taxes. In 2018, we paid 18.7 billion roubles of taxes to the consolidated budget of Vologda Oblast (10.59 billion roubles in 2017), including 890 million roubles paid to the budget of Cherepovets.

Severstal's Purchases from Local Suppliers in Volodga Oblast, billion roubles



A major investment programme at Cherepovets Steel Mill, spanning across almost all production units, resulted in larger purchases of transportation services, equipment and spare parts, as well as construction and repair services. In 2018 Severstal purchased 20.6 billion roubles worth of goods and services, or 18% of our overall purchases, from Vologda Oblast suppliers, an increase of 750 million roubles from the previous reporting period when this share was 16%. In Cherepovets, we partnered on major projects with Koksokhimmontazh, KHM-2, Chermetekologia and several other businesses.

Vorkutaugol is also based in a mono-town where one out of every eight residents is our employee. We help creating new jobs in the city. In 2018 our coal miners cooperated with 75 contractor organisations. For the majority of our suppliers, close cooperation with Vorkutaugol is a guarantee of their stability.

Compared with 2017 when Olcon purchased goods and services from 115 regional businesses, in 2018 we purchased from 132. Most often, regional contractors helped us service certain types of equipment, make spare parts and install new machines.

Karelsky Okatysh is a major employer and taxpayer in Kostomuksha. In 2018, it paid more than 2.1 billion roubles of taxes to the budget of the Republic of Karelia, which is twice as much as a year ago. Karelsky Okatysh helps protect jobs in the city. In 2018, Karelsky Okatysh purchased 2 billion roubles worth of products and services from 116 regional SMB contractors.

The development of a turf pit for Karelsky Okatysh that we started in Kostomuksha in 2018 will help create additional jobs. The transition of the Karelsky Okatysh boiler unit, which provides heat to the whole city, to solid fuel will benefit both Karelsky Okatysh and Kostomuksha residents. Current heat prices for local residents reflect the high cost of fuel oil. As boilers switch to turf over the next three to four years, local residents will pay less for heat.

Our Yakovlevskiy Mine's development strategy includes more than a five-fold increase in ore mining, which will help improve the regional social and economic environment. In 2018 and 2019, Severstal will allocate 47 million roubles to charitable projects in Belgorod Oblast. Our tax payments to budgets at all levels will increase approximately five-fold. By 2023, we will need to almost double mine headcount, and to achieve this goal, Severstal partners with Yakovlevskiy Polytechnic College.

Development of Regional Potential

SDG 8

SDG 11

Creating High-Growth Areas

Cherepovets adopted the Cherepovets Growth and Development 2035 strategy. Severstal participated in the design and expert assessment of this document. The new strategy focuses on creating the environment to improve investment potential, attract investors and meet their needs.

The joint efforts of Oblast administration, Monotown Development Fund, Russian Ministry of Economic Development and Severstal resulted in Cherepovets receiving in 2017 the status of High-Growth Area for the next 10 years.

Cherepovets was ranked 8th in the rating of Russia's Top 10 cities by quality of life compiled by the Financial University under the Government of Russian Federation.

SDG 9

Cherepovets Industry Park

SDG 17

Severstal and the City of Cherepovets established the Cherepovets Investment Agency Non-Profit Organisation in 2010 to support a favourable business environment and attract investment in priority areas of municipal development.

Cherepovets Industry Park is a strategic development project of the investment agency. Resident businesses receive preferential tax treatment and have access to non-competitive leases. Cherepovets Industry Park already has nine resident businesses. At the end of 2018, the first resident business, a fibrolite wall panel factory, started operation. The industry park has already created 100 jobs and attracted 3.55 billion roubles of investments.

Steelmaking Centre and Children's Technology Park

To promote cultural and industrial tourism to Cherepovets, which is a strategic area of development for the city, Severstal together with Rostourism, the Government of Vologda Oblast, City of Cherepovets and the Investment Agency is developing the Central Waterfront Tourism and Recreation Area. One of the key facilities in this area is the Steelmaking Centre built with Severstal's support. This museum centre tells the exciting story of steel in the region and offers a detailed presentation of 21st century steelmaking and its state-of-the-art technology.

One of the core objectives of the museum centre is career orientation and the promotion of professional trades among the young generation. The Steelmaking Centre has already become a popular destination for industrial tourists in Cherepovets. In 2018, it had more than 10,000 visitors and hosted approximately 500 cultural, education and career orientation events.

As a participant in public-private partnership initiatives, Severstal assisted in the creation of the Quantorium children's technopark — a new high-technology educational institution for children and youth focused on the latest research and technology. It currently has more than 1,600 children students. Severstal supported the creation of an interactive display on acoustics, mechanics, hydrodynamics and optics.

Development of Small and Medium Businesses and Social Entrepreneurs

SDG 1

In the regions whose economy is driven by a single major enterprise, one manifestation of corporate social responsibility is the support for development of small and medium businesses.

Severstal is interested in long-term, mutually beneficial relationships with regional suppliers that are located near our facilities, have an opportunity to study our needs in great detail, and are able to show flexibility and respond faster to our needs. In addition to purchasing their goods and services, Severstal tries to support the growth of small and medium entrepreneurs. Severstal works through specialised institutions to achieve this goal.

In 1999, municipal authorities together with Severstal established the Agency for Urban Development non-profit partnership in Cherepovets. The Agency offers comprehensive support to new and existing entrepreneurs at all stages from the creation of a business idea to its implementation. The Agency is the primary driver of public-private partnership programmes.

Programmes and Key Results of Cherepovets Agency for Urban Development in 2018

Area Events	Key results
Business education	
Developing entrepreneurial skills and teaching local residents who are interested in establishing their own businesses	41 educational event, 746 trainees
Cooperation with local authorities	
Public-private partnership initiatives including the Coordination Council, meetings with the mayor, their deputies, etc.	32 events, 357 participants
Support for development of new sales markets	
Development of the Electronic Business Cooperation project, networking events, and business partnership events, including those focused on international partnerships (business missions, meetings), etc.	20 events, 170 participants Major enterprises purchased 12 billion roubles worth of products and services from 1,500 local SMB suppliers

Area Events

Key results

Social Innovations Centre

Support for establishing and developing social entrepreneurs, including informational and counselling support

Nine events, 248 participants

Informational support for SMBs and promotion of entrepreneurship

Development and distribution of SMB press releases, web site support, identification and support for top entrepreneurs, media support for entrepreneurial projects, etc.

410 events, 552 participants

Business networking

Organisation and management of forums, conferences and round tables

Two events, 437 participants

Key events: International Industry Forum; Entrepreneur Mom Round Table, Social Entrepreneur Forum

Resource and Methodology Centre

Organisation and management of educational and business events in the regions with Severstal assets

Nine events, 121 participants

Educational and business events in Kostomuksha; Entrepreneur School in Vorkuta

Business Consulting

Business and support programme counselling and advice

More than 5,000 counselling sessions

Guarantee Centre

Provision of guarantees on entrepreneur loans

16 new guarantees provided for the total amount of 106.6 million roubles. The overall guaranteed amount reached 260.6 million roubles

In 2018, the Agency for Urban Development helped create 95 new businesses, create 251 new jobs and preserve 143 existing jobs in Cherepovets.



Social Investments and Social Partnership

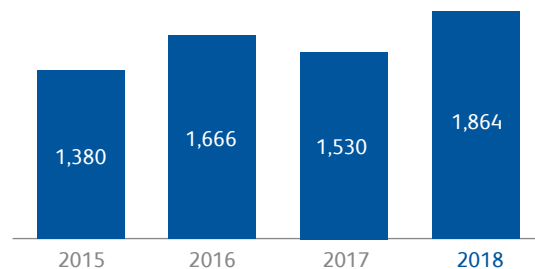
Severstal focuses social investments on improving the quality of life of local residents in the regions where our assets are located. We invest in the development of local communities, education and culture, prevention of child neglect, mothers and children, veterans, health care and sport. We spend significant funds on construction and operation of infrastructure facilities, and landscaping cities and towns in our regions.

Severstal works with regional and municipal authorities and consistently develops relationships with other stakeholders.

We use traditional charitable activities and strive to follow Russian and international best practices; we ask the leading experts to measure the impact of our activities on local communities.

Apart from Severstal employees and their families, other local residents also benefit from comprehensive Severstal Health programme. Severstal provides financial support to Severstal Medical Unit and Children's Hospital in Cherepovets and our other locations.

Charitable expenses, million roubles



Our charitable expenses include the following:

- Free labour / services
- Financial and material support to organisations and foundations
- Participation in non-profit and self-regulating organisations
- Other projects

In Cherepovets, we support steelmaking industry veterans, vulnerable communities, people with disabilities and low-income residents through Blago Charitable Foundation (since 1999) and I. A. Milyutin Charitable Foundation (since 1999).

Vorkutaugol and Vorkuta municipal administrations have been signing social and economic partnership agreements since 2010. Over this period, our mining asset invested approximately 180 million roubles in development of social environment and quality of life projects for the residents of the Extreme North. In 2018, Vorkutaugol spent 20 million roubles on landscaping projects and supported major municipal public events: Polar

Games Spartakiad for Indigenous People of Russian North, Vorkuta Anniversary and New Year 2019 celebrations. Apart from that, Vorkutaugol invests more than 75 million roubles per year in the maintenance of the two largest social venue in the Extreme North: the Miners' Palace of Culture and the Olympus Sports Centre.

Vorkuta, where Severstal has operations, is home to several indigenous communities (Komi, Nenets and Khanty). Severstal respects the rights of indigenous people and provides ongoing support to events focused on preservation of ethnic heritage and development of regional cultural potential. Severstal is a partner of the North Celebration in Vorkuta (Deer Breeder Day).

Every year, 90,000 guests attend shows, concerts, sports clubs and other events at Druzhba Culture and Sports Centre supported by Karelsky Okatysh every year. Olcon also sponsors social venues of Olenegorsk, including a health resort, a dormitory, a sports centre and the Palace of Culture.

Landscaping Programmes and 2018 Highlights

Cherepovets:

- Renovation of light and music fountain with 80 million roubles of support from Severstal
- New park on Bardin Street open under the Gift to the City project
- 17 lighting towers installed on Metallurgist Street in the Industrial District
- We purchased a new ultrasound diagnostics unit worth more than 5 million roubles for Rodnik Wellness Centre
- Renovation of New Year lighting in the Molodezhi Square by the Metallurgist Palace (approximately 5 million roubles) and construction of the New Year entertainment area in Galsky Estate with New Year lighting, Finnish sled tracks, wooden slide, picture area and a live seven-metre-high Christmas tree

Kostomuksha:

- New X-Ray machine purchased for Inter-District Hospital No. 1
- 167 lighting towers with lights installed over a 6-kilometre section of the road from Kostomuksha to Karelsky Okatysh. Both our employees and local residents use this road
- Municipal New Year lighting purchased together with municipal administration and local entrepreneurs; 160 LED consoles installed. Karelsky Okatysh funded the renovation of New Year lights on the main city square

Olenegorsk:

- Olcon actively participates in the projects of the Building a Pleasant City programme. In 2018, Olcon participated in joint funding of the renovation of Unknown Soldier memorial

- Renovation of the entrance area of the Children's Outpatient Clinic

Vorkuta:

- We are preparing to build the Santa Barbara Chapel in Vorkuta in memory of miners lost to Vorkuta mine disasters. Severstal invested 5 million roubles in this initiative in 2018
- We are building a museum for Vorkuta Drama Theatre whose history started in the GULAG era

Way Home: Social Partnership for Children

Severstal's programmes for families and children are among our most successful social initiatives. Chairman of Severstal Alexey Mordashov personally oversees our initiatives in this area. The programmes are coordinated by the Way Home Charitable Foundation established by Severstal in 2005.

In 2018, Way Home programme supported more than 40 important social projects focused on prevention of child neglect and juvenile delinquency in Cherepovets and other cities where our assets are located.

The success of this programme is driven by outstanding expertise of its coordinators and is a great demonstration of successful four-way partnership between the state, businesses, the society and the media. Municipal administrations, young offender and youth rights commissions, juvenile delinquency sections of police departments, custody authorities, social institutions, businesses and non-profits efficiently work together on these initiatives. Consistent effort of psychologists, family support specialists, lawyers, home support workers and social workers, together with the use of modern recovery and mediation technologies, generates significant social benefits.

Highlights of Way Home Programme in 2018:

More than 16,000 people

received some form of support (emergency psychological, legal, social, humanitarian or financial)

2,313 children (including 1,923 in Cherepovets)

stayed in their biological families

1,315 minors

(including 515 in Cherepovets)

reduced delinquency risk

1,240 families

established safe conditions for minors

44 adopted children

in foster families are no longer under risk of another rejection

11 apartments

of vulnerable families with children were renovated by volunteers

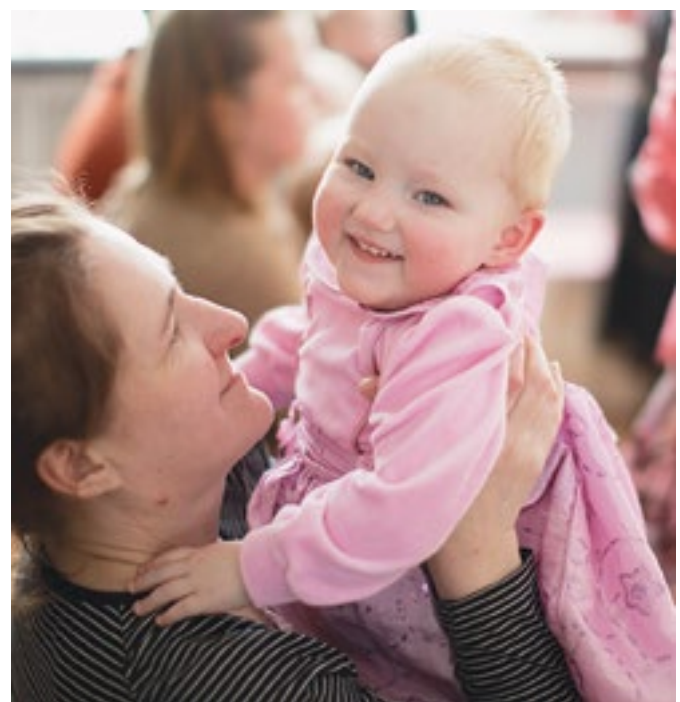
Social technologies used in the programmes of Way Home Charitable Foundation received recognition in the professional community. The Foundation consistently wins Russian nationwide grant competitions. In 2018, President's Grant Foundation funded two large projects, Variant Care for Children Under three and Healthy Family for a Child. We presented our experience in working with families affected by alcohol addictions that we accumulated through the Way Home programme to professional communities in 21 regions of Russia. Our model was implemented in eight regions of Russia. This project resulted in the creation of an inter-regional professional association whose members use similar principles and approaches in their work.

In June 2018, Severstal and the President's Grant Foundation hosted a nationwide conference, Experience and Role of Non-Profits in Addressing Child Neglect. 120 non-profit recipients of the President's Foundation grants from 42 regions of Russia participated in the conference. Non-profit specialists discussed the new forms of support for families with children and presented their expertise and best practices.

Cherepovets Children — Way to Success Programme

In 2018, Severstal continued working on the Cherepovets Children — Way to Success programme focused on support and development of gifted and talented school students. Programme participants include representatives of research and education communities, local organisations and municipal authorities.

A Supervisory Council was established to identify the key directions of the programme, address strategic issues and monitor programme delivery. The Council includes representatives of government authorities, Severstal, secondary and vocational educational institutions, universities of Cherepovets, the Steelmaking Museum and Quantorium.



Over the year, Russia's leading teachers and methodologists ran a series of master classes for gifted students and secondary school teachers, and organised the Professional Immersion high-intensity workshop. More than 200 children and 150 teachers participated in this programme.

Gifted children submitted 44 research projects to the Cherepovets: Trajectory of the Future contest. 35 contest winners and 10 teachers from Cherepovets participated in three autumn tracks in chemistry, biology and physics and math. Five teachers received professional training in Sirius Educational Centre.

Integration of science and social studies is an important element of the programme. For example, Russian Centre for Museum Education and Children's Art of the Russian Museum, and the

experts of Museums of Russian North programme organised unique educational projects to widen the overall perspective and promote artistic and creative development of children.

In 2018, Severstal supported the creation of a physics laboratory equipped with the latest equipment in Cherepovets Palace of Children's and Youth Creative Arts. Biology and physics laboratories offer educational courses for gifted children. The laboratory hosted classes, workshops and master classes for 1,634 students and 101 teachers in 2018.

Support for Culture

Support for culture and arts is a priority area of charitable activities for Severstal. Severstal has been supporting the leading Russian national institutions, including Bolshoi Theatre, Mariinsky Theatre, State Tretyakov Gallery, Pushkin Museum of Fine Arts, Russian Museum, the State Historical Museum, Jewish Museum and Tolerance Centre, as well as regional organisations, such as Radishchev Arts Museum (Saratov) or Cherepovets Museum Association, for many years. Severstal representatives, including our Chairman and other executives, sit on the Boards of Trustees of many cultural organisations.

In 2018, Severstal presented our culture support projects at 35 Russian and international public events, conferences and round tables. Severstal Corporate Centre alone supported more than 100 culture and arts events in 17 regions of Russia.



Golden Mask Theatre Festival

Severstal has been a traditional sponsor of Golden Mask, the largest Russian theatre festival featuring the most prominent Russian performances, for many years. Our support gives the residents of Cherepovets, Kostomuksha, Petrozavodsk, Riga and several other Latvian cities an opportunity to enjoy the best Russian theatre performances that gather full houses in Moscow.

In 2018, the Cherepovets section of the festival saw the Oldest Son performance by St. Petersburg Masterskaya Theatre of Grigory Kozlov based on the play by Alexander Vampilov; and the Swedish Match and Beware of Elves! performances by the State Theatre of Nations under the direction of Evgeny Mironov.

Petrozavodsk saw the Christmas Comes but Once a Year by Mossovet Theatre, and Shukshin Stories by Theatre of Nations with Evgeny Mironov and Chulpan Khamatova as leading actors. In Kostomuksha, Mossovet Theatre performed its Christmas Comes but Once a Year with Evgeny Steblou as the leading actor in Druzhba Culture and Sports Centre.

In 2018, Severstal supported the traditional tour of the Golden Mask Festival to Latvia (Riga, Ventspils and Liepāja). The festival featured performances that won the awards of the Russian national Golden Mask jury and the Golden Masks Latvia jury.

Museums of Russian North Programme

The Museums of the Russian North is a major culture programme of Severstal focused on supporting the development of museums in northern Russia. This programme includes the main grant competition among leaders in museum tourism, the project laboratory offering contestants skills and knowledge needed to develop their applications, and the travel grant competition offering museum professionals a chance to get funded to attend professional events to develop their professional skills.

The competition runs among federal and municipal arts museums and galleries, and other museums with art collections in Russia's 12 northern regions including four regions in the Extreme North where Severstal has assets.

The expert council of the competition includes historians, arts experts and museum professionals. The jury composed of representatives of Karelia, Komi, Vologda and Murmansk regional administrations selects winners from the shortlist created by experts. Overall budget of the Museums of Russian North programme in 2018 was 7 million roubles.

2018 Programme Highlights

In 2018 the competition focused on supporting the most efficient museum projects in the area of regional culture tourism. The competition had 34 applications from 10 northern regions of Russia. Six projects received support upon the competition. In October, we organised the Made in Museum project laboratory in Vyatskoye Historical and Cultural Complex. It welcomed 29 museum specialists from among the grant competition semi-finalists, as well as culture and tourism experts. Event participants studied modern project delivery technologies, discussed potential collaboration models for regional museums and tourism organisations, and challenges with the quality of museum and tourism products and services. A travel grant competition gave 42 museum employees an opportunity to visit major museum conferences in Russia; 10 employees attended a special training programme on rehabilitation of people with disabilities using museum tools in accessible museum environment in Rehacomp Institute of Professional Rehabilitation and Training of the All-Russia Society for the Blind (Moscow).

Style of Steel Children's Art Competition

One of our goals in support and promotion of cultural projects is making children interested in technical and project-oriented thinking and creative arts. To achieve this, Severstal organises the Style of Steel annual workshop and competition of children's and youth art projects in Cherepovets.

The 2018 competition was dedicated to the 60th anniversary of the first smelting of steel in Martin furnace of Cherepovets Steel Mill. Cherepovets administration, the Media Centre, TUI Russia, the Steelmaking Centre and the Culture and Children Charitable Foundation helped organise this event.

The first of the three competition stages focused on the research of items made from steel or cast iron in natural environment. During the second stage, contestants joined master classes. Then at the third stage, they submitted their stories — the Biographies of Iron Objects. Winners of the first and second spots received travel certificates from TUI Russia, and third spot winners received memorabilia.

Live Planet in Colours and Numbers Project

Live Planet in Colours and Numbers is our joint project with the Russian Museum focused on artistic and creative development of children in the North-Western region of Russia.

In March, leading museum experts, teachers, high school and university students from Vorkuta joined a special workshop in Vorkuta Museum and Expo Centre. We organised various lectures and master classes for high school students, museum employees, as well as social studies and science teachers. Throughout the year, project coordinators from the Russian Museum in St. Petersburg and Vorkuta residents could communicate through the Hello Museum! online educational portal providing free access to an online database of educational and pedagogical materials on Russian visual arts. In the second half of 2018 we organised project events in Olenegorsk and Petrozavodsk.



Corporate Volunteering

Severstal actively involves our employees in the delivery of corporate charitable programmes. Corporate volunteering is a foundational component of our social responsibility. Our employees help both planning and delivering a variety of charitable activities and projects. Volunteering gives them the sense of participation in Severstal's corporate responsibility and builds brand loyalty.

Volunteering also helps develop personal potential of our employees, build team skills and get to know their peers better.

Severstal runs a wide range of charitable activities in our regions. Our employees help us support orphans, people with disabilities, elderly citizens, etc. These events include marathons, auctions, Christmas fairs, lotteries and master classes. Our employees have an opportunity to nominate their own social projects and provide pro bono professional advice within their competencies.

Key Corporate Volunteering Events in 2018

- A trip to Children's Cerebral Palsy Rehabilitation Centre: 20 employees organised creative contests, socialised with children and their parents, and planted flowers in the garden (Moscow).



- 60 employees participated in the Office Donor Day (Moscow).
- Ready to School initiative: Severstal employees purchased 40 school backpacks for children in Borovsk Social Centre and personally gave them to kids. A similar event was organised in Vorkuta where 30 first grade students received backpacks with school stationery (Moscow, Vorkuta).
- Charitable Christmas fair in the office. Fundraising for various charitable foundations (Moscow).
- Annual fundraising for children supported by Way Home programme: we help purchase food bank and personal hygiene items for the International Children's Day, school stationery for 1st September, and books for the Library Day. We purchased more than 100 New Year presents under the Present for Every Kid programme, including 83 presents in Vorkuta (regions where our assets are located).
- In 2019, we celebrate the fifth anniversary of the Hockey Without Borders project. Approximately 45 supporters with disabilities participated in the project over this period. We organised 10 open training sessions with Severstal Hockey Club players, and three creative contests.
- We are working on the Mentors programme in Cherepovets to commemorate the Decade of Childhood in Russia. Employees of Severstal Russian Steel arrange master classes for abandoned children. We had six such meetings in 2018. In 2019, our Youth Council will take over the coordination of this project.
- Starting from 2018, Leader youth organisation works in Druzhba Culture and Sports Centre supported by Karelsky Okatysh. Earlier it had its office in a municipal building. Today this organisation includes 34 grade 9 to 11 students organising recreation for youth and other citizens, volunteer at municipal events (ice show, theatre and literature reception, municipal Christmas tree, New Year ball for high school students, etc.). In 2019, Leader will participate in the International Children's Day, Metallurgist Day, graduation ball and other important events in the city.
- Karelsky Okatysh supported the hosting of the TRIM Active Working Youth forum in Kostomuksha. One of the topics of the forum was volunteering. Forum participants included employees of Karelsky Okatysh, railway employees, teachers, employees of cultural organisations and entrepreneurs.
- In 2018 Olcon employees organised 21 volunteering events, most of which took place in the Social Rehabilitation of Youth section of Olenegorsk Social Services Centre working on There Always is Choice project. Other employees of Olcon and our contractors join major events organised by Olcon Youth Council. These projects include Ready to School charitable initiatives, waste paper collection for recycling from local residents, and the Present for Every Child New Year event. Olcon employees participate in Saturday volunteering days and organise environmental events themselves.

Employee Participation in Environmental Initiatives and Collaboration with Communities on Environmental Matters

Severstal works closely with a wide range of stakeholders on various elements of environmental protection, and contributes to multiple environmental initiatives of business communities and professional associations, including international industry-specific initiatives. Severstal employees organise traditional open environmental lessons at schools, both linked to regular events (such as the Environmental Knowledge Day in April, or the World Environment Day) or special initiatives. We also hold regular meetings on environmental protection with the students of Cherepovets State University. Twice a year we organise open days and tours of environmental protection facilities of Severstal's Cherepovets Industrial Site for different communities. In 2018 we arranged 12 tours for 250 local residents including representatives of Cherepovets community organisations, members of Youth Parliament, teachers, tour guides and others.

Severstal actively involves employees in environmental protection initiatives, including volunteering events. Our businesses run annual volunteer events, including facility cleaning, waste removal from river banks, and municipal landscaping.

2018 Highlights

- We printed the Environmental Innovations of Severstal at Cherepovets Steel Mill flyer to provide information to local residents. Severstal provided organisational and informational support for the Environment — Safety — Life municipal flyer competition.
- We organised a bi-weekly Eco Time environmental show with the Russian Radio. There were 21 shows in 2018.
- We created two informational videos in the What is That? series to dispel some of the myths around the atmospheric emissions from Cherepovets Steel Mill.
- During the 2018 Environmental Protection Day, we planted more than 450 trees and shrubs and 72 thousand flowers, and removed more than 300 tonnes of waste in Cherepovets and at our industrial site.
- We hosted the Eco Bird creative team competition for children in Cherepovets.
- Karelsky Okatysh supported the Clean Games environmental quest in Kostomuksha on the World Clean-up Day. Within one hour, 23 teams collected 3,700 kilograms of waste in the city. Olcon partnered with Clean Games in Olenegorsk.
- Vorkutaugol employees joined the Do It! environmental event on the World Clean-up Day. Volunteers removed dry leaves, grass, shrubs and waste from the park near the city administration and the monument to the discoverer of Pechora Coal Basin Alexander Chernov. Employees of Vorgashorskaya Mine cleaned up mine bus stops in a nearby town.
- Vorkutaugol employees have been actively participating in the River Band regional initiative and cleaning up river banks for many years. In 2018, our miners decided to clean up the spoil banks as well. Vorkuta Transport Authority, Vorkuta Mechanical Plant, Vorkutinskaya and Komsomolskaya mines, Pechorskaya Preparation Plant and municipal authorities joined the new initiative as well.



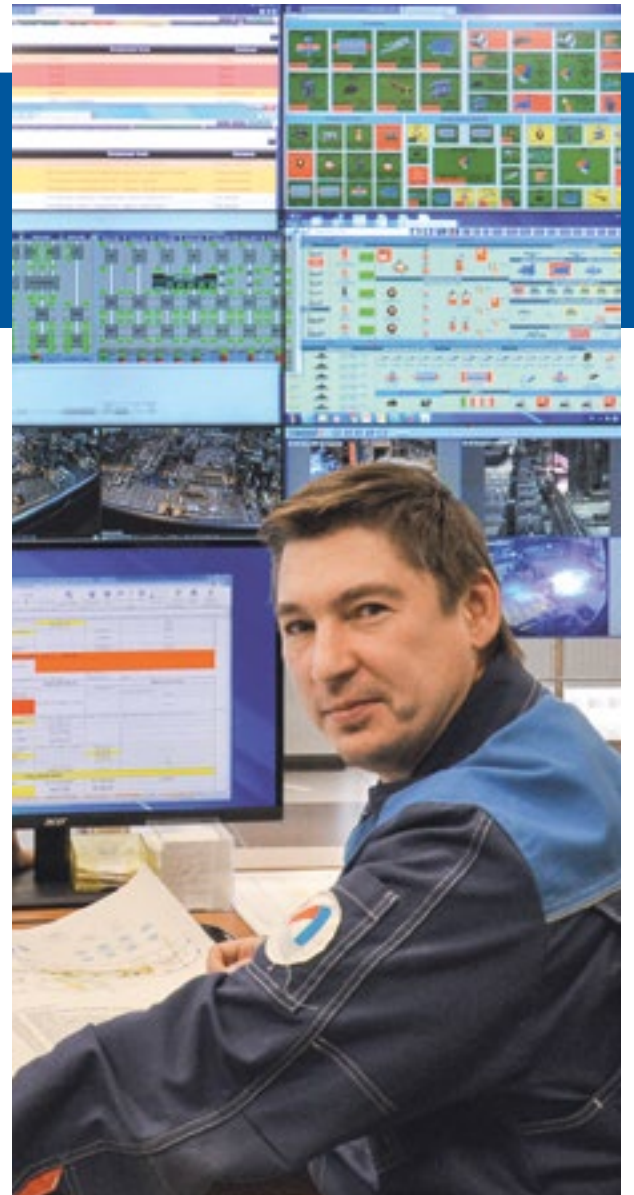
ABOUT THIS REPORT

GRI 102-52 This document is the Corporate Social Responsibility and Sustainable Development Report of PAO Severstal and its subsidiaries and affiliates ("Severstal", "Company") for the year 2018. Severstal has been publishing this report on an annual basis since 2010.

The Report provides information about the strategy and mission of Severstal, about key events and performance results, about the guiding principles of Severstal's initiatives in the areas of corporate social responsibility and sustainable development, about Severstal's impact on the economy, society and the environment, and about its stakeholder engagement.

This Report also provides short-term and long-term goals and key objectives in the key areas. This report complies with GRI 2016 Standard, option Core, with Mining & Metals Sector Supplement. We also considered the recommendations of the Russian Union of Industrialists and Entrepreneurs (RSPP) on the use of indicators, and the recommendations of RSPP Council for Non-Financial Reporting that we received upon the public affirmation of our previous report. GRI 102-54

This document uses data collected with our corporate reporting system, including the information received from individual departments in response to requests based on the aforementioned GRI Standard, as well as Basic Performance Indicators developed by RSPP. In preparation of this document, Severstal followed our understanding of CSR, which is consistent with the provisions of the ISO 26000 — Guidance on Social Responsibility international standard that links corporate social responsibility with the contribution of these corporations to sustainable development of the society. This report covers all major aspects of corporate social responsibility as defined in this standard. The index of information on individual aspects of CSR according to ISO 26000 guidelines is provided in Appendix 1. The Report also provides information on Severstal's contribution to the UN Sustainable Development Goals.



Approach Used to Evaluate the Significance of Individual Topics for Inclusion in this Report

This Report covers issues that are significant for subsidiaries, stakeholders and the general public.

To define the contents of this Report in accordance with GRI Standard, we evaluated the significance of the key topics and issues that should be reflected in the Report. We conducted a survey of both internal (employees of Severstal) and external stakeholders. We received 39 survey responses, including 22 responses from local communities, non-profits, business partners, investor community, government authorities and local administrations.

We also received 17 survey responses from employees of key departments of Severstal involved in sustainable development. The respondents used the survey to evaluate the significance of each aspect on a scale from one to ten. They considered the most complete list provided in the GRI Standard. We calculated an average score for each material aspect and respondent category, and determined the final score for each aspect. We used survey results to rank the aspects and build the materiality matrix. Aspects with final scores over eight were highlighted as the most material ones. Aspects with final scores between 7 and 8 were considered less material. Aspects with final scores under seven were considered immaterial.

We also analysed the following sources to identify material aspects for our stakeholders:

- Requests for information and reporting of the World Steel Association (Worldsteel)
- Requests for information from rating agencies and financial institutions
- Federal, local and corporate media publications, including the Severstal newspaper
- Employee feedback and results of employee satisfaction surveys
- Letters from non-profit organisations and local communities in our regions
- Materials from events where social projects of Severstal were discussed

To understand the materiality of these aspects, our workgroup considered their materiality for Severstal, our key stakeholders, social context and business responsibilities, including responsibilities listed in international and Russian documents such as UN Global Compact, Worldsteel Policy on Sustainable Development, and the Social Charter of RSPP. Based on this analysis, our workgroup approved the following list of aspects for inclusion in the report.

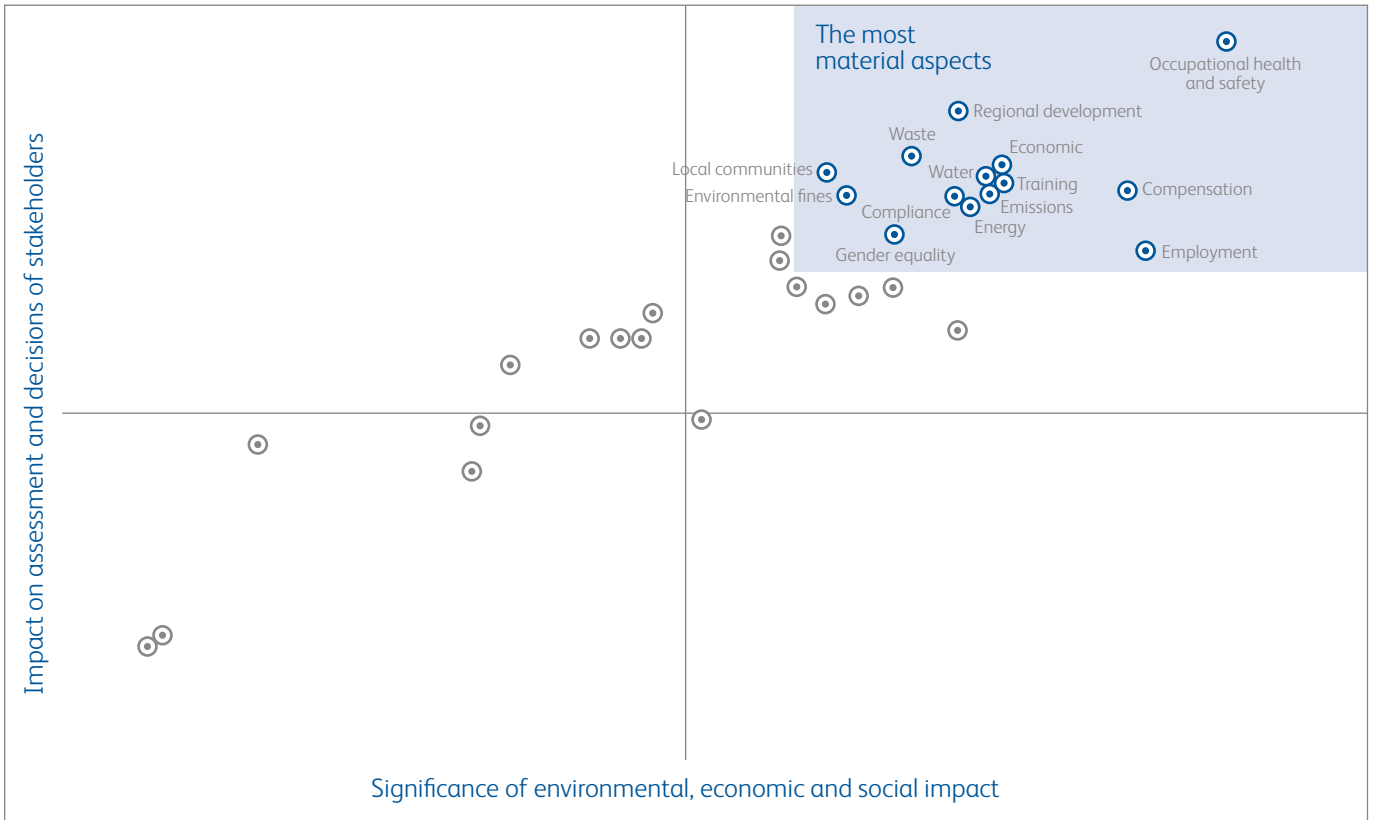
The most material aspects

- Occupational health and safety
- Employee compensation (by region) relative to the market
- Investments in transportation and social infrastructure, and indirect impact on the economic development of our regions
- Employment
- Financial performance
- Employee education and training
- Use of water resources
- Atmospheric emissions, including greenhouse gases
- Effluents and waste, including waste reuse and recycling
- Compliance with laws and regulations
- Power consumption and energy efficiency
- Impact on local communities, including cooperation and development programmes
- Compliance with environmental protection laws
- Equal management opportunity and equal remuneration for women and men

Less material aspects

- Protection of human rights in context of safety measures taken at Company facilities
- Informing employees of material changes in Company operations
- Use of raw materials
- Non-discrimination of employees and consumers
- Land use and impact on biodiversity
- Anti-corruption
- Customer Privacy Personal data protection
- Assessment of human rights compliance in the Company, including employee training
- Purchasing, including purchasing from local suppliers
- Product marketing and labelling
- Freedom of association and collective bargaining
- Assessment of environmental aspects of supplier operations

Materiality Matrix



Disclosures of material aspects in this Report provide a detailed account of management approaches and performance indicators. Severstal also decided to provide disclosure on a number of less material aspects and topics recommended by the workgroup.

Description of the Information

GRI 102-50 This report contains data for the calendar year 2018, mostly with comparative data for several years. Information beyond the reporting period is also provided where deemed important. This report outlines financial and operating results using consolidated data of PAO Severstal. This report was compiled using management reports and audited financial statements.

GRI 102-49 Details of social activities and labour relations, as well as environmental protection data, were accumulated and organised using a corporate information system and data queries defined according to GRI guidelines. The boundaries of materials aspects did not change from the previous reporting period. The Report offers an overview of management approaches and all the most significant types of Company impact. Material aspect boundaries within Severstal are defined in Appendix 3.

The set of financial performance indicators used in the report matches the scope of financial statements. The list of the most significant subsidiaries, associates and joint ventures of the Company included in the scope of financial statements is provided in the Annual Report⁴⁸.

⁴⁸ 2018 Annual Report, page 112

Other indicators of sustainable development, including those pertaining to our environmental performance, mostly cover the companies listed in Appendix 3. Several indicators in this Report are provided for individual divisions of Severstal. Starting from 2018, Yakovlevskiy Mine is a part of Severstal Resources.

Material aspects beyond Severstal include occupational safety, and contractor compliance with environmental regulations. Details are available in the Supply Chain Responsibility section.

The anti-corruption aspect as applicable to our contractors is disclosed in the Business Partners and the Prevention of Corruption and Violations of Laws and Internal Regulations sections. Our disclosures on these topics mostly provide information on our actual management systems with unit-specific examples. The structure of this Report is very similar to the previous Report.

There were no significant changes in the Scope or Aspect Boundaries in 2018 compared with the previous reporting periods. List of data sources for the Direct Economic Value Generated and Distributed table is provided in the appendix to this report.

GRI 102-49 Due to structural changes in 2016, statistical data for Belorucheykoye Ore Mine is included in Severstal Resources, as indicated in footnotes to tables. Some indicators have been recalculated for greater precision. This Report contains no other significant redefinitions or restatements of data for the previous periods as published in earlier reports.

GRI 102-48 To ensure authenticity of data in the Report, we use standardised data collection and consolidation procedures and double checked data with responsible departments. Data passes internal consistency checks, and its completeness and accuracy are verified at the level of individual contributing departments, and at the level of the functional departments of Severstal divisions and the General Directorate.

References are provided for all external data. Medium-term and long-term plans indicated in the report are forward-looking statements. They are subject to a large number of factors many of which are beyond Severstal control and could cause actual results to differ materially.

Since 2011, Severstal has been submitting these Reports for public affirmation to RSPP Council for Non-Financial Reporting. This Report has undergone the public affirmation procedure as well. The Council's opinion is provided in Appendix 4 to this Report. Severstal does not host face-to-face stakeholder engagement events.

For further details about the topics covered in this Report, and to submit your feedback on this publication or suggestions on future improvement of Severstal's non-financial reporting, please contact our Corporate Headquarters: PAO Severstal, 127299 Russia, Moscow, Clara Zetkin 2, phone: +7 (495) 926 77 66, ext. 6459 (CSR and Brand Department, PAO Severstal).

Registered office of PAO Severstal: Mira 30, Cherepovets, Vologda Oblast, Russia, 162608

GRI 102-53

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GRI 102-3

Appendices

GRI 102-55

Appendix 1

Index of Standard Disclosures in this Report with Reconciliation to GRI Standards, RSPP Key Performance Indicators and ISO 26000 Guidelines

Level of disclosure: Fully disclosed ● Partially disclosed ⊙ Not disclosed ○ Significant area ■

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	
General Standard Disclosures			
1. Organisational Profile			
102-1	Name of the organisation	Page 6	●
102-2	Activities, brands, products and services	Pages 11, 13	●
102-3	Location of headquarters	Page 104	●
102-4	Location of operations	Page 8	●
102-5	Ownership and legal form	Page 6	●
102-6	Markets served	Page 14	●
102-7	Scale of the organisation	Page 6	●
102-8	Information on employees and other workers	Page 6 RSPP 3.1.1 RSPP 3.1.4 ISO 26000 Responsible Labour Practices	●

**Standard disclosures of GRI
with Mining & Metals Sector Supplement****Location in the report / comment / reconciliation
with ISO 26000 guidelines / reconciliation with
RSPP key performance indicators**

102-9	Supply Chain	Pages 14, 26, 53, 90 ISO 26000 Fair Business Practices	●
102-10	Significant changes to the organisation and its supply chain	Page 11	●
102-11	Precautionary principle or approach	Page 42 ISO 26000 Environmental Protection	●
102-12	External initiatives	Pages 25, 31, 53 RSPP 1.1 ISO 26000 Organisational Governance	●
102-13	Memberships of associations	Page 31	●
2. Strategy			
102-14	Statement from senior decision-maker	Pages 2, 4	●
102-15	Key impacts, risks, and opportunities	Pages 40, 41 See also, 2018 Severstal Annual Report, page 24	●
3. Ethics and Integrity			
102-16	Values, principles, standards, and norms of behaviour	Page 25	●
102-17	Mechanisms for advice and concerns about ethics	Page 28	●
4. Corporate Governance			
102-18	Governance structure	Page 38	●
102-19	Delegating authority	Page 20	●
102-20	Executive-level responsibility for economic, environmental, and social topics	Pages 20, 22, 38	●
102-21	Consulting stakeholders on economic, environmental, and social topics	Page 25	●
102-22	Composition of the highest governance body and its committees	Page 39 2018 Annual Report, pages 36-41 RSPP 3.1.12	●
102-23	Chair of the highest governance body	Page 39 2018 Annual Report, pages 36-41	●
102-24	Nominating and selecting the highest governance body	RSPP 3.1.12 Severstal Charter, page 10	●
102-25	Conflicts of interest	Page 39	●
102-26	Role of highest governance body in setting purpose, values, and strategy	Page 38 2018 Annual Report, pages 36-41	●
102-27	Collective knowledge of highest governance body	Regular development of memoranda for Severstal executives on economic, environmental and social topics	●
102-28	Evaluating the highest governance body's performance	Page 39 2018 Annual Report, page 45	●

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	
102–29	Identifying and managing economic, environmental, and social impacts	2018 Annual Report, pages 36–41	●
102–30	Effectiveness of risk management processes	Page 40	●
102–31	Review of economic, environmental, and social topics	Page 38 2018 Annual Report, page 44	●
102–32	Highest governance body's role in sustainability reporting	Page 38 An independent non-executive director, Chairman of the Audit Committee, and Remuneration and Nomination Committee Member reviews the report at the time of its preparation	●
102–33	Communicating critical concerns	Page 49 RSPP 3.1.12	●
102–34	Nature and total number of critical concerns	Pages 50, 53, 66, 72, 74	●
102–35	Remuneration policies	Page 39 2018 Annual Report, pages 51–52	●
102–36	Process for determining remuneration	Page 39 2018 Annual Report, pages 51–52	●
102–37	Stakeholders' involvement in remuneration	Page 39	●
102–38	Annual total compensation ratio	Not disclosed due to personal data protection considerations	○
102–39	Percentage increase in annual total compensation ratio	Not disclosed due to personal data protection considerations	○
5. Stakeholder Engagement		ISO 26000 Fair Business Practices	
102–40	List of stakeholder groups	Page 26	●
102–41	Collective bargaining agreements	Page 29	●
102–42	Identifying and selecting stakeholders	Page 25	●
102–43	Approach to stakeholder engagement	Page 25	●
102–44	Key topics and concerns raised	Pages 25, 28, 29, 31	●
6. Reporting Practice			
102–45	Entities included in the consolidated financial statements	Pages 114 2018 Annual Report, page 112	●
102–46	Defining report content and topic Boundaries	Page 102	●
102–47	List of material topics	Page 102	●
102–48	Restatements of information	Page 104	●
102–49	Changes in reporting	Pages 103, 104	●
102–50	Reporting period	Page 103	●
102–51	Date of most recent report	Third quarter of 2018	●
102–52	Reporting cycle	Page 100	●
102–53	Contact point for questions regarding the report	Page 104	●

**Standard disclosures of GRI
with Mining & Metals Sector Supplement**

		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	
102–54	Claims of reporting in accordance with the GRI Standards	Page 100	●
102–55	GRI Content Index	Page 104	●
102–56	External assurance	Page 104	●

Economic

201	Financial performance		
103	Management approach	Pages 38–45	●
201–1	Direct economic value generated and distributed	Page 18 RSPP 1.2, 1.3, 1.4, 1.6, 1.7	●
201–2	Financial implications and other risks and opportunities due to climate change	Page 74	●
201–3	Defined benefit plan obligations and other retirement plans	Page 61 2018 Annual Report, page 83 RSPP 1.8	●
201–4	Financial assistance received from the government	There were no significant payments from the government	●
202	Market presence	ISO 26000 Responsible Labour Practices	
103	Management approach	Page 52	●
202–1	Ratios of standard entry level wage by gender compared to local minimum wage	Page 52	●
202–2	Proportion of senior management hired from the local community	In this context, our senior management includes Chief Executive, his Deputies, and Directors of Business Units, and while local communities are thought to comprise all Russian citizens. Almost 100% of senior management are hired from the local communities.	●
203	Indirect economic impacts	ISO 26000 Community Involvement and Development	
103	Management approach	Page 90	●
203–1	Infrastructure investments and services supported	Page 90	●
203–2	Significant indirect economic impacts	Page 90	●
MM8	Number (and percentage) of company operating sites where artisanal and small-scale mining (ASM) takes place on, or adjacent to, the site; the associated risks and the actions taken to manage and mitigate these risks	Artisanal or small-scale mining not present	●
204	Procurement Practices	ISO 26000 Fair Business Practices	
204–1	Proportion of spending on local suppliers	Page 90	●
205	Anti-corruption	ISO 26000 Fair Business Practices	
205–1	Operations assessed for risks related to corruption	Pages 27, 53	●
205–2	Communication and training about anti-corruption policies and procedures	Page 53	●
205–3	Confirmed incidents of corruption and actions taken	Page 53	●

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	
206	Anti-competitive Behaviour	ISO 26000 Fair Business Practices	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practice	None	●
Environmental			
301	Materials		
301-1	Materials used by weight or volume	Page 11	●
301-2	Recycled input materials used	Page 77	●
301-3	Reclaimed products and their packaging materials	Page 77	●
302	Energy	ISO 26000 Environmental Protection	
103	Management approach	Page 83	●
302-1	Energy consumption within the organisation	Pages 84, 86 RSPP 2.2	●
302-2	Energy consumption outside of the organisation	Energy consumption outside of the organisation is not measured due to the large number of partners.	○
302-3	Energy intensity	Pages 85, 86 RSPP 2.2.1	●
302-4	Reduction of energy consumption	Page 87 RSPP 2.2.1	●
302-5	Reductions in energy requirements of products and services	Pages 85-86	●
303	Water	ISO 26000 Environmental Protection	
103	Management approach	Page 78	●
303-1	Water withdrawal by source	Page 78 RSPP 2.3	●
303-2	Water sources significantly affected by withdrawal of water	Page 78 RSPP 2.3	●
303-3	Water recycled and reused	Page 78 RSPP 2.4	●
304	Biodiversity	ISO 26000 Environmental Protection	
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Our businesses do not operate in environmentally sensitive areas, including protected areas, Ramsarsky Grounds, and World Heritage sites. Karelsky Okatysh is adjacent to Kostomuksha Natural Reserve See MM2	●
304-2	Significant impacts of activities, products, and services on biodiversity	Page 80 There is no significant impact of water effluents from our core assets on water bodies	⊙
304-3	Habitats protected or restored	Page 80	⊙

**Standard disclosures of GRI
with Mining & Metals Sector Supplement**
**Location in the report / comment / reconciliation
with ISO 26000 guidelines / reconciliation with
RSPP key performance indicators**

MM2	The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place	A site owned by AO Severstal Distribution and located in Cherepovets District (Dmitrovo Village Authority, Vaskovo hamlet, Momotskoye forestry) is identified as a protected area. Permitted use of land parcel: hunting grounds	●
305	Emissions	ISO 26000 Environmental Protection	
103	Management approach	Page 74	●
305-1	Direct (Scope 1) GHG emissions	Page 75	●
305-2	Energy indirect (Scope 2) GHG emissions	Not measured because we do not receive the required CO ₂ emission coefficients from power generating companies	○
305-3	Other indirect (Scope 3) GHG emissions	Greenhouse gas emissions are not measured due to the large number of partners	○
305-4	GHG emissions intensity	Page 75 We are working on defining the scope of GHG emission measurements for our resources subsidiaries that we would use to calculate the emissions for final products (molten steel). The Reduction of Greenhouse Gas Emissions section provides emission data for Cherepovets Steel Mill.	⊙
305-5	Reduction of GHG emissions	Pages 74-75	⊙
305-6	Emissions of ozone-depleting substances (ODS)	None	●
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Page 73 RSPP 2.6	●
306	Effluents and waste	ISO 26000 Environmental Protection	
103	Management approach	Pages 76, 79	●
306-1	Water discharge by quality and destination	Page 79 RSPP 2.7, 2.7.2	●
306-2	Waste by type and disposal method	Page 76 RSPP 2.8.	●
306-3	Significant spills	None in 2018 RSPP 2.9.	●
306-4	Transport of hazardous waste	There is no cross-border waste transportation. See also: page 77	●
306-5	Water bodies affected by water discharges and/or runoff	Page 78	⊙
MM1	Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated	Page 78	●
MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks	Page 76	●
307	Environmental Compliance	ISO 26000 Environmental Protection ISO 26000 Fair Business Practices	
103	Management approach	Pages 72-73	●
307-1	Non-compliance with environmental laws and regulations	Page 73	●

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	
308	Supplier Environmental Assessment	Supplier environment assessments are currently not well developed in Russia. Severstal is planning to carry out an analysis of its key suppliers and establish the feasibility of carrying out environmental assessments for its major suppliers.	
308-1	New suppliers that were screened using environmental criteria	Page 72 We are currently conducting technical audits of our suppliers to determine the availability of ISO 14001 certifications. We are planning to increase the range of environmental assessment criteria as we deploy the new supplier assessment system in SAP	⊙
308-2	Negative environmental impacts in the supply chain and actions taken	Page 72	●

Social

401	Employment	ISO 26000 Responsible Labour Practices	
103	Management approach	Page 49	●
401-1	New employee hires and employee turnover	Page 49 RSPP 3.1.2, 3.1.3	●
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Pages 56, 60, 61	●
401-3	Parental leave	Page 61	●
402	Labour/Management Relations	ISO 26000 Responsible Labour Practices	
402-1	Minimum notice periods regarding operational changes	Page 29	●
403	Occupational Health and Safety	ISO 26000 Responsible Labour Practices	
103	Management approach	Page 66	●
403-1	Workers representation in formal joint management-worker health and safety committees	Page 70	●
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of workplace fatalities	Page 68 RSPP 3.1.5, 3.1.6, 3.1.7, 3.1.8	●
403-3	Workers with high incidence or high risk of diseases related to their occupation	Page 69	●
403-4	Health and safety topics covered in formal agreements with trade unions	Page 70	●
404	Training and Education	ISO 26000 Responsible Labour Practices	
103	Management approach	Page 54	●
404-1	Average hours of training per year per employee	Page 54 RSPP 3.1.10	●
404-2	Programmes for upgrading employee skills and transition assistance programmes	Page 54	●

**Standard disclosures of GRI
with Mining & Metals Sector Supplement****Location in the report / comment / reconciliation
with ISO 26000 guidelines / reconciliation with
RSPP key performance indicators**

404-3	Percentage of employees receiving regular performance and career development reviews	Page 51	●
405	Diversity and Equal Opportunity	ISO 26000 Responsible Labour Practices ISO 26000 Human Rights	
405-1	Diversity of governance bodies and employees	Pages 38, 48	●
405-2	Ratio of basic salary and remuneration of women to men	Page 52	●
406	Non-Discrimination	ISO 26000 Human Rights	
406-1	Incidents of discrimination and corrective actions taken	None	●
407	Freedom of Association and Collective Bargaining	ISO 26000 Human Rights ISO 26000 Responsible Labour Practices	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Page 29 RSPP 3.2.1	●
MM4	Number of strikes and lock-outs exceeding one week's duration, by country	Page 30	●
408	Child Labour	ISO 26000 Human Rights	
408-1	Operations and suppliers at significant risk for incidents of child labour	Page 51 Since the use of child labour is impossible in our production, this aspect is not considered to be material	●
409	Forced or Compulsory Labour	ISO 26000 Human Rights	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	None See also: page 51	●
410	Security Practices	ISO 26000 Human Rights	
410-1	Security personnel trained in human rights policies or procedures	All employees are familiarised with internal instructions and Severstal Access and Facility Control Policy	●
411	Rights of Indigenous Peoples	ISO 26000 Human Rights	
411-1	Incidents of violations involving rights of indigenous peoples	None RSPP 3.2.3	●
MM5	Total number of operations taking place in or adjacent to indigenous peoples' territories, and number and percentage of operations or sites where there are formal agreements with indigenous peoples' communities	Page 94	●
MM6	Number and description of significant disputes relating to land use, customary rights of local communities and indigenous peoples	There were no disputes relating to land use	●
MM7	The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and indigenous peoples, and the outcomes	Page 31	●
412	Human Rights Assessment	ISO 26000 Human Rights	
412-1	Operations that have been subject to human rights reviews or impact assessments	Page 29 A question on potential human rights violations is included in the Severstal Pulse annual survey covering almost every business unit of Severstal	●

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	
412-2	Employee training on human rights policies or procedures	Pages 55, 56	●
413	Local Communities	ISO 26000 Community Involvement and Development	
103	Management approach	Page 90	●
413-1	Operations with local community engagement, impact assessments, and development programmes	Page 94 RSPP 3.3.3	●
413-2	Operations with significant actual and potential negative impacts on local communities	Page 40 RSPP 3.3.3	●
MM9	Sites where resettlements took place, the number of households resettled in each, and how their livelihoods were affected in the process	None	●
MM10	Number and percentage of operations with closure plans	None	●
415	Public Policy	ISO 26000 Fair Business Practices	
415-1	Political contributions	None in 2018	●
416	Customer Health and Safety	ISO 26000 Consumer Issues	
416-1	Assessment of the health and safety impacts of product and service categories	Severstal products and services themselves do not have any negative health or safety effects	●
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	None	●
417	Marketing and Labelling	ISO 26000 Consumer Issues	
417-1	Requirements for product and service information and labelling	Page 43	●
417-2	Incidents of non-compliance concerning product and service information and labelling	None	●
417-3	Incidents of non-compliance concerning marketing communications	None	●
418	Customer Privacy		
418-1	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None	●
419	Socioeconomic Compliance	ISO 26000 Fair Business Practices	
103	Management approach	Page 53	●
419-1	Non-compliance with laws and regulations in the social and economic area	Page 53 There were no significant cases of Severstal's non-compliance with laws and regulations in the social and economic area	●

Appendix 2

Comments to the calculation of direct economic value generated and distributed

Sources: Consolidated financial statements of PAO Severstal and its subsidiaries for years ending 31 December 2017, 2016 and 2015 and Consolidated financial statements of PAO Severstal and its subsidiaries for years ending 31 December 2018, 2017 and 2016

Line	Comment
Revenue	
• Net sales	Consolidated income statements, Line: Revenue
• Cash flow from financial activities	Note: Financing income and costs /Net financing costs, Lines: Interest income, Dividend income
• Gain on disposal of assets	Consolidated income statements, Line: Loss on disposal of property, plant and equipment and intangible assets
Operating expenses	
• Cash payments to third parties	Consolidated income statement, Lines: Cost of sales, General and administrative expenses, Selling costs, Share of profits / (losses) of associates and joint ventures, Other net operating (expenses) / income / Other net operating income Operating expenses include employee salaries and benefits
Salaries and benefits	
• Payroll	Note: Payroll costs, except Cost of post-employment benefits
• Total amount of payments	Note: Payroll costs, Line: Cost of post-employment benefits
Payments to providers of capital	
• Dividend payments to all shareholder categories	Consolidated statements of changes in equity, Line: Dividends
• Interest payable to creditors	Note: Financing income and costs /Net financing costs, Line: Dividend expense
Payments to governments	
• All taxes	Note: Income tax, Lines: Current tax, Income tax adjustments for previous periods recognised in the reporting period Consolidated income statements, Line: Other taxes and contributions
Direct community investments and donations	
• Infrastructure investments	Note: Net other non-operating (expenses) / income / Net other non-operating income / (expenses), Lines: Social expenses, Charitable donations, Depreciation of infrastructure assets
• Direct community investments and donations	

Appendix 3

GRI 102-45 Material aspect boundaries

	Cherepovets Steel Mill and Cherepovets Industrial Site	PAO Severstal, Belorucheykoye Mine Authority	OOO Severstal TPZ Sheksna	ZAO Izhora Pipe Mill	ZAO Severstal Long Product Mill Balakovo	AO Severstal-SMC-Vsevolozhsk	ZAO Neva Metal	OOO Severstal Vtorchermet	OOO Severstal Airlines	AO Severstal Distribution	AO Severstal Steel Solutions	OOO Severstal Metz	OOO Oryol Steel Plant	AO Severstal Steel Ropes, Volgograd Branch	AO Vorkutaugol	AO Olcon	AO Karelsky Okatysh	AO Yakovlevsky Mine
Health and safety	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compensation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Regional development	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Employment	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial performance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Training and education	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Water Resources	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Emissions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Effluents and waste	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compliance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Power consumption and energy efficiency	✓				✓										✓	✓	✓	
Local Communities	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓
Environmental compliance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Gender equality	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Appendix 4

Opinion of RSPP Council on Non-Financial Reporting on the 2018 Corporate Social Responsibility and Sustainable Development Report of PAO Severstal Submitted for Public Affirmation

The Council on Non-Financial Reporting (“Council”) of the Russian Union of Industrialists and Entrepreneurs (“RSPP”) established by the Bureau of RSPP Executive Team (Resolution of 28.06.2007) has reviewed the 2018 Corporate Social Responsibility and Sustainable Development Report (“Report”) of PAO Severstal (the “Company”) at request of Severstal.

The Company requested the RSPP Council to conduct the public affirmation of its report. The Council provides an opinion on completeness and significance of the information about Severstal performance presented in the report in the context of the Social Charter of RSPP and its responsible business practices, UN Global Compact, as well as Russian and international social responsibility standards.

Council Members reviewed the Report submitted by Severstal between 14 and 25 April 2019 and prepared this Opinion according to the Public Affirmation Regulations for Corporate Non-Financial Reporting adopted by the Council.

Council Members possess the required competencies in corporate social responsibility, sustainable development and non-financial reporting, and comply with the business ethics requirements of independence and impartiality of their evaluations, and express their personal expert opinions as opposed to the opinions of organisations they represent.

This Report was evaluated using the following information completeness and significance criteria:

Information is deemed significant if it reflects the activities of the Company on the implementation of responsible business practices recognised by the Social Charter of RSPP.

Information is deemed complete if the Company provides a comprehensive picture of its activities in the Report, including its values and baseline strategic objectives, governance systems and structures, achievements and key results, and stakeholder engagement system.

Use of international reporting systems by the Company is taken in consideration during the public affirmation of the Report. However, certifying compliance of the Report with the international reporting guidelines is outside the scope of this Opinion.

Responsibility for the information and statements provided in the Report remains with the Company. Accuracy of factual data in the Report is outside the scope of public affirmation.

This Opinion was prepared for PAO Severstal. It is entitled to use this Opinion in its original form in its internal corporate communications and external communications with stakeholders.

Findings

Upon the analysis of this Report and information publicly available on the official corporate website of the Company, and group discussion of the results of independent Report assessments performed by individual Members of RSPP Council for Non-Financial Reporting, the Council affirms the following:

An independent review of the Report and the information published on the official Company website allows the conclusion that the 2018 Corporate Social Responsibility and Sustainable Development Report of Severstal provides significant information on the key areas of responsible business practices consistent with the principles of the Social Charter of RSPP, offering a sufficiently complete disclosure of the management of these areas.

Recommendations of RSPP Council upon the public affirmation of Severstal's report for the year 2017 are partially reflected in the 2018 Report. Specifically, the Report relates specific areas of Severstal's operations to UN Sustainable Development Goals, includes additional comments to the quantitative measures and their trends including, but not limited to environmental performance, energy consumption and energy conservation.

The 2018 Report contains significant information covering the following aspects of responsible business practices:

Economic Freedom and Responsibility

The Report provides an overview of the market, the description of business strategy and the information on the financial position and operating results for 2018. The Report contains the following tables: "Key Priorities in Corporate Social Responsibility and Sustainable Development: Financial and Economic Aspects" and "Key Financial and Operating Results in 2018". The Report indicates that in the management of social responsibility and sustainable development, Severstal focuses on leadership in economic and social value creation based on stakeholder needs. The Report presents the new Severstal vision and development strategy that includes an innovative transformation of the Company together with delivery of its marketing strategy, customer orientation programme and performance improvement projects that take into account industrial safety, social aspects and the environment. The Report indicates that in 2018, the Board approved the long-term goals of Severstal in occupational health, industrial safety and environmental protection. The Report mentions that Severstal joined the UN Global Compact in 2018 and provides pictographs relating the activities of Severstal to the UN Sustainable Development Goals included in the 2030 Agenda for Sustainable Development. The Report mentions a comprehensive anti-corruption program focused on practical implementation of provisions of the Anti-Corruption Policy of Severstal and Affiliates. The Report indicates that in 2018, Severstal for the second time was included in the FTSE4Good Index Series due to its high CSR performance. Severstal provided data on emissions affecting the climate change to CDP, received the Quality Mark of the Institutional Shareholder Services (ISS) for high performance in corporate governance, and was named one of the leaders in RSPP Responsibility and Transparency and Sustainable Development Vector indices.

Business Partnerships

The Report provides information on the partnerships between Severstal and its shareholders, investors, employees, government authorities, customers, consumers, suppliers, contractors, local communities and general public. The Corporate Governance and Stakeholder Engagement sections of the Report provide evidence of Severstal's compliance with Russian and international corporate governance standards and the leading responsible business practices. In 2018, Severstal published 168 notices of material facts and reports of its shareholder engagement activities and events for investors and analysts. The People section of the Report provides significant information about the employees, people policies and people management in Severstal, including motivation and compensation, employee training and development, social support, and Severstal events for high school and university students and young professionals. The Report provides information about supplier management across all Severstal businesses through an automated Online Trading System that supports supplier selection and evaluation process, as well as paperless exchange of orders and product shipment / service completion notifications between Severstal and its supplier. The Report also provides information about the partner information portal where Severstal publishes

information on its R&D tenders and priority areas of cooperation. The Report indicates that Severstal signs agreements with customers on controlled parameters and unique requirements, and provides information on the activities of a cross-disciplinary team should any issues with a client arise. The Report provides information on Severstal's complaint management process for defective products, compensation payments and development of action plans to eliminate the root causes of complaints. The Report provides information on the representation of GMPR (Miners' and Metallurgical Workers' Union of Russia), Rosugleprof (Russian Independent Union of Coal Workers) and NPG (Independent Miner Union) trade unions, which represent the employees of Severstal's core businesses and have collective agreements in place with employers, in Severstal businesses. The Report provides information on the activities of Severstal under the policy of our strategic partnerships with the regions and cities of our presence, including the signing of new agreements (5 agreements in 2018) on social and economic partnerships with local authorities, under which the local authorities commit to supporting Severstal's business interests, while Severstal commits to investing in regional social and economic development, creating stable jobs for local residents and working on projects to improve the environment and ensure occupational health and industrial safety. The Report provides information on Severstal's partnerships with local businesses and non-governmental organisations, as well as scientific, cultural and educational institutions.

Human Rights

The Report indicates that in the matters of employee selection and promotion, Severstal follows the Labour Code of the Russian Federation and certain internal and international documents, including the UN Guiding Principles on Business and Human Rights, the ILO Convention concerning Discrimination in Respect of Employment and Occupation, and the ILO Freedom of Association and Protection of the Right to Organise Convention. Severstal mentions that it has Recruitment and Onboarding Regulations in place prohibiting discrimination against nationality, race, ethnicity, gender, age, sexual preference, marital or social status, religious views, disability and other characteristics in job postings and during the selection processes. The Report indicates that the use of child and forced labour is strictly prohibited in Severstal. The Working Conditions section of the Report indicates that Severstal has a unified standard in place for shared use and recreational facilities in its administrative and manufacturing facilities, realisation of employee rights for adequate nutrition and transportation to and from workplace, and increased availability and quality of health care services, including the development of an efficient first aid system for outpatient care and disease prevention, including treatments at health resorts and other wellness initiatives. The Report indicates, that together with long-term goals, the Board has adopted the Human Rights Policy defining the approaches and principles Severstal shall follow in protecting, supporting and developing human rights. The Index of Standard Disclosures in this Report with Reconciliation to GRI Standards, RSPP Key Performance Indicators and ISO 26000 Guidelines included in the report provides information on Severstal's compliance with human rights, including the confirmation of zero cases of discrimination, corrective actions taken, freedom of association and collective bargaining, prohibition of child labour, zero disputes on land use or

customary indigenous rights, evaluation of compliance with human rights protection requirements and impact in the area of human rights, as well as management training on human rights policies and procedures.

Environmental Protection

The Environmental Protection section of the Report contains information about the 2018 revision of the Environmental Protection Policy of Severstal and Affiliates. The Report indicates that four businesses of Severstal, jointly employing 63% of the Company's overall headcount, are certified for compliance with ISO 14001:2015 "Environmental Management System. Requirements with Guidance for Use" international standard. This certification is confirmed on annual basis through supervisory audits conducted by international certification organisations. The Report states that through vertical integration, Severstal almost fully controls the environmental footprint of a significant part of its supply chain. The Report indicates that Severstal reduced environmental protection spending from the previous reporting period due to the completion of several major investment projects in 2017. The Report offers an overview of the main investments in environmental protection initiatives in 2017 and 2018, including atmospheric air protection, protection and responsible use of water resources, and waste management. The Report provides information about energy consumption and energy efficiency in 2017 and 2018.

Development of Local Communities

The Report presents the key areas of social and economic cooperation, principles of cooperation and commitments of stakeholders included in the agreements between Severstal, regional authorities and certain municipalities in several areas, including the creation of local jobs, education and career orientation of youth, health care, prevention of child neglect, support for and development of culture, education and sport. The Report indicates that the objectives and formats of our long-term partnerships with educational, cultural, sports and non-governmental organisations are defined in our charitable support and sponsorship agreements. The Report contains the Contribution to Sustainable Development of Severstal Regions section that outlines the scope of social responsibility of Severstal, including the development of support infrastructure for small and medium businesses, social entrepreneurs and investor organisations, support for import substitution by purchasing domestic goods and services and selecting the suppliers of goods and services among local businesses. The Report discusses the participation of Severstal in the operation of Cherepovets Industry Park, the Steelmaking Centre and Children's Technopark, as well as development of small and medium businesses. The Report provides an overview of spending on charitable activities, including a municipal landscaping programme and the operation of the Way Home charitable foundation established by Severstal in 2005 to help prevent child neglect and juvenile delinquency. The Report indicates that in 2018, Severstal continued working on the Cherepovets Children - Way to Success programme focused on support and development of gifted and talented school students. The Report provides an overview of support for culture and arts as a priority area of charitable activities for Severstal, and lists the main

corporate volunteering events that took place in 2018. Severstal offers corporate pension plans and retiree benefits, including monthly pension benefits depending on years of service with the Company and disbursed through Blago Charitable Foundation, and social guarantees and benefits for employee families.

Conclusion

The Report contains information about the strategy and mission of Severstal, about key events and performance results, about the guiding principles of Severstal's initiatives in the areas of corporate social responsibility and sustainable development, about Severstal's impact on the economy, society and the environment, and about its stakeholder engagement.

The Report also provides short-term and long-term goals and key objectives in the key areas. The Report complies with GRI 2016 Standard, option Core, with Mining & Metals Sector Supplement. The Report indicates that, according to GRI Standard, Severstal evaluated the significance of the key topics and issues through a survey it conducted among the key internal and external stakeholders, including Company employees and representatives of local communities, non-governmental organisations, business partners, investor communities, national and local authorities.

Severstal considered the recommendations of the Russian Union of Industrialists and Entrepreneurs (RSPP) on the use of indicators, and the recommendations of RSPP Council for Non-Financial Reporting that Severstal received upon the public affirmation of the previous Report.

In preparation of this document, Severstal followed its understanding of corporate social responsibility, which is consistent with the provisions of the ISO 26000 "Guidance on Social Responsibility" international standard that links corporate social responsibility of corporations with their contribution to sustainable development of the society. The Report covers all key topics of social responsibility included in the standard, as reflected in Appendix 1.

The Report contains pictographs indicating specific data on Severstal's impact on the UN Sustainable Development Goals.

Recommendations

Recognising the strengths of this Report, the Council would like to note certain aspects of information significance and completeness that are important for shareholders and are recommended for consideration in future reporting cycles.

The Council suggests that its recommendations provided upon the analysis of previous Severstal reports would still be useful for future reporting periods.

To validate the progress of Severstal in the management of corporate social responsibility (CSR) and sustainable development (SD) and the upgrades in Russian and international ratings and exchange indices of the Company, it is recommended that the non-financial reports provide the results of comparative analysis (benchmarking) of Severstal's CSR and SD performance against comparable Russian and international businesses, including the members of the World Steel Association.

To improve the quality of non-financial reports and citation index of Severstal, it is recommended that the non-financial reports provide information on how Severstal follows the SDG Compass of the UN Global Compact and World Business Council for Sustainable Development (WBCSD), and the SDG Industry Matrix of the UN Global Compact and KPMG.

Considering that Severstal joined the UN Global Compact and declared its compliance with the UN Sustainable Development Goals (SDG), it is recommended that the non-financial reports of Severstal provide greater coverage of its CSR and SD performance and SDG contribution at the level of individual businesses, including the coverage of its impact on sustainable business practices of its business partners.

Considering the global growth of socially responsible investments and the evaluation of associated risks by investors and creditors, and to improve the trust of stakeholders and the reputation of Severstal, it is recommended that the non-financial reports of the Company provide (1) the justification of the lack of face-to-face stakeholder events to discuss CSR, SD and SDG topics from within the globally accepted responsible business practices, (2) the opinions of the representatives of every group of Severstal stakeholders on Severstal's performance in the area of CSR, SD or SDG that is most relevant for that individual group, and (3) comparable annual data on the social impact of Severstal's social investments, including its impact on the development of social infrastructure, creation of jobs, development of economic demand and prosperity of local communities.

To validate the high quality of corporate governance stated in the Report, including the anti-corruption compliance, it is recommended that Severstal's non-financial reports include the information on internal audit and/or the audit of spending on charitable activities and the efficiency of these activities, including the spending of charitable funds by their operators and beneficiaries.

Considering that the Report contains a significant number of sections containing exclusively descriptive and declarative information, and according to the international generally accepted disclosure practices, it is recommended that every section of the report provide measurable performance data over a minimum period of three years.

To improve the informational impact of Severstal's non-financial reports, it is recommended that (1) non-financial reports in PDF format, including those published on Company website, contain internal hyperlinks, including those to and from the Table of Contents, (2) non-financial reports be published on Company pages in social media, and (3) non-financial reports be published on Company website in a modern interactive format.

RSPP Council for Non-Financial Reporting gives a positive opinion on this Report, supports Severstal's commitment to responsible business principles, notes consistent development of its reporting process, and hereby confirms that the 2018 Corporate Social Responsibility and Sustainable Development Report of Severstal has successfully received public affirmation.

RSPP Council for Non-Financial Reporting



Российский союз промышленников и предпринимателей

СВИДЕТЕЛЬСТВО

об общественном заверении
корпоративного нефинансового отчета

**Отчет о корпоративной социальной ответственности
и устойчивости развития
ПАО «Северсталь»
за 2018 год**

**прошел общественное заверение в Совете РСПП
по нефинансовой отчетности**

Развернутое заключение Совета РСПП об общественном заверении отчета о корпоративной социальной ответственности и устойчивости развития ПАО «Северсталь» за 2018 год направлено в Компанию, которая может публиковать его без каких-либо изменений и использовать как для внутрикорпоративных целей, так и в целях коммуникаций с заинтересованными сторонами.

Регистрационный номер 135.01.019.03.18

Президент РСПП



Москва, 2019

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