

Corporate Social Responsibility and Sustainable Development Report


Severstal



2017

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Review by Chairman of PAO Severstal Alexey Mordashov



Dear partners and colleagues:

In 2017, Severstal went beyond retaining its leadership in key financial performance indicators and laid the foundation for our future innovative development.

We completed a series of important investment projects, first and foremost for construction and automotive industries. Ministry of Industry and Trade of the Russian Federation recognized the launch of our third colour-coating line at Cherepovets Steel Mill as the Key Event of 2017 in Russia's Steelmaking. We invested approximately seven billion roubles in this project. We commissioned our Ladle Furnace 2 with unique integrated steel processing capabilities. Overall, we invested 34 billion roubles in the past year.

To great extent, we owe our success to the Business System of Severstal. Technology upgrades, improved performance, reduced manufacturing costs and product quality improvements delivered by the Business System help us additionally generate up to two billion roubles per year.

These achievements were partly made possible by professional operation of our independent, highly skilled Board. Our Board champions the adoption of customer-oriented corporate culture and transparent investor relations.

We believe emerging technologies are the primary driver of our opportunities. Industry experts estimate the potential benefit from the application of tools brought to us by the fourth-generation industrial revolution at US\$115 billion, and Severstal has already made the first steps towards digital transformation. In the reporting year, we launched the largest data lake in the Russian industry. Big data projects will help us improve the efficiency of preventive equipment repairs, optimise the use of materials, improve quality assurance and prevent defects. We plan to sell approximately one third of all our products through Severstal's online store this year. In the short term, we are planning to digitalise all our assets and integrate them into a single ecosystem.

We are building a single culture of continuous improvement and staff development to ensure efficient and sustainable operation of Severstal as well as occupational health and safety. Employee safety remains a top priority for Severstal. We strive to become the best company in Russia by occupational health and safety, and eliminate work-related fatalities. In 2017, we invested 4.4 billion roubles in occupational health and safety initiatives. 10 out of 13 businesses of Severstal Russian Steel had zero injuries in the reporting year. LTIFR reduced significantly across Severstal, to 0.96 compared to 1.77 a year before.

We actively contribute to social and cultural agenda of our regions and continue supporting crucial social programmes. Last year, we invested approximately 2.5 billion roubles in various projects focused on supporting children in hardship, museums of Russian North, the Golden Mask Festival and other cultural projects.

Over the past five years, Severstal worked hard to improve the economy of the regions where our assets are located. Minimising our environmental footprint and rolling out cutting-edge technologies is a critical part of our contribution to sustainable development.

Under the Russia's Year of Ecology initiative in 2017, Severstal signed the Memorandum of Understanding with Russian Ministry of Nature, Rosprirodnadzor and the Government of Vologda Oblast. All activities under the MOU have been completed. In 2017, Severstal invested 2.65 billion roubles on environmental protection, while total environmental investments over the past five years are close to 11 billion roubles.

The concepts of sustainable development are more than just an idea; they are tightly integrated in Severstal's everyday operations. We work towards UN Sustainable Development Goals, and this year, we signed on the UN Global Compact whose principles we agreed to follow.

Alexey Mordashov
Chairman of PAO Severstal



Review by Chief Executive of AO Severstal Management Alexander Shevelev

Without doubt, 2017 was a successful year for Severstal. We achieved all our objectives.



We remained an industry leader by profitability with EBITDA of US\$2.577 billion, and increased our revenue by one third. We exceeded our steel and rolled product production plans, shipped almost 11 million tonnes of products, and took the second spot in the World Steel Dynamics ranking of the most competitive steelmakers worldwide.

While favourable market environment was a significant factor in achieving these positive results, our internal productivity programme was equally important. To a great extent, this achievement is attributable to our 50 thousand employees. We established a motivation and innovation system that rewards every employee for identifying and suggesting opportunities for improvement at their workplace. This effort generates strong return, including financial benefits.

Over the past few years, we have implemented multiple initiatives to become a more customer-centric business. The most important one is our online store that brought the quality of our services to a whole new level. We also achieved serious progress with product quality. We try to anticipate issues with our products and services and respond to all their needs.

The world is changing so quickly that we cannot afford being static. Our strategy focuses on enabling Severstal to adjust to fast changes to the environment while remaining a leader in efficiency. We need new growth drivers, and we believe they will mostly come from innovations. We developed a concept for innovation programme and a set of tools to implement it. Pilot projects are running throughout our manufacturing and business operations, and we are working on approximately 1,300 new ideas.

We offer our employees opportunities for training and development, and care about their health and well-being. We consistently maintain a high standard of social responsibility. Between 2012 and 2016, Severstal invested over 5 billion roubles in social benefits and support programs, including support for mothers and children. New collective agreement signed in 2017 increased minimum monthly pay and financial benefits for almost 24 thousand employees of PAO Severstal.

Environmental conditions in Cherepovets, the location of our core assets, have improved as confirmed by independent expert reports. Since 2005, Cherepovets has been excluded from the list of cities with the highest air pollution. Over the last five years, we completed nine major investment projects in the reduction of atmospheric emissions, including the construction of fugitive emission control system in the converter plant; renovation of gas filtering system at shaft furnace No. 1; and renovation of five gas filtering systems at sinter plant. These projects reduced dust emissions by 32%. Severstal achieved compliance with maximum permissible emission levels across all contaminants.

Occupational health and safety is among our key priorities. We invested approximately 470 million roubles in industrial safety projects in 2018. For the first time in ten years, Severstal had zero work-related fatalities. Despite the 20% reduction in injuries in 2017, this area remains a concern for Severstal. Injuries at some of our mining businesses prevented us from achieving an ambitious target that we set for ourselves in this area.

Our on-site contractors had certain issues as well. We need to establish the culture of zero tolerance against any unsafe behaviours, whether of our employees or of third-party personnel working on our orders.

This area is of particular importance as we build and strengthen our relationships with local entrepreneurs every year. Our purchasing practices support local businesses. In 2017, we purchased 19.9 billion rouble worth of goods and services from Vologda suppliers, which is 4.5 billion roubles more than in the previous period. Excluding raw materials and ferroalloys, suppliers from Vologda Oblast cover 16% of all our purchases. Our support for development of small and medium businesses helps alleviate social issues in Cherepovets. Together with the city, we launched the Agency for Urban Development business incubator.

Cherepovets has more than 20 thousand entrepreneurs who have already created approximately 50 thousand jobs. Severstal is one of the 50 largest taxpayers in Russia. In 2017, our businesses paid approximately 46.2 billion roubles in various budgets and extrabudgetary funds.

Social investments in the regions of our presence remain an important aspect of our work. We make significant contributions to the improvement of municipal infrastructures and development of local facilities, while supporting numerous culture and sport projects and initiatives. Under the Gift to the City project, we've been building playgrounds and stadiums as well as helping with landscaping for the second year in a row. Our Way Home charitable foundation is achieving revolutionary results in such very challenging areas as social orphanhood and juvenile delinquency.

Every year, we reach for more challenging and ambitious goals. Achieving these goals requires joint effort, single corporate culture and alignment of reasonable interests of all stakeholders.

Alexander Shevelev
Chief Executive of AO Severstal
Management



ABOUT SEVERSTAL

Severstal is one of the world's largest vertically integrated steel and mining companies, ranked 31st largest worldwide by World Steel Association*.

Forbes consistently includes Severstal in its Forbes Global 2000 ranking of world's largest publicly traded businesses**. Severstal took 15th spot in its Russia's Top 200 Private Companies ranking***. Severstal climbed two spots to place 11th in RIA Novosti's 2017 ranking of 100 highest-valued Russian publicly traded companies.

With core assets in Russia, Severstal is one of the top four Russian steelmakers together producing 90% of steel in Russia.

Severstal has approximately 50,000 employees. We are a supplier to leading Russian and international energy enterprises, automakers, machinery and construction companies.

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). We are a leader in profitability in general, and Cherepovets Steel Mill (CherMK) is one of the most profitable steelmakers worldwide. Severstal is one of the few steelmakers with almost full self-sufficiency in raw materials for steelmaking — iron ore and coking coal — through vertical integration.

Among our other competitive advantages is efficient cost management that improves Severstal's ability to withstand market fluctuations.

The majority shareholder of Severstal is Alexey Mordashov (77.03%). The remaining capital is split between free float (20.15%) and treasury stock (2.82%).

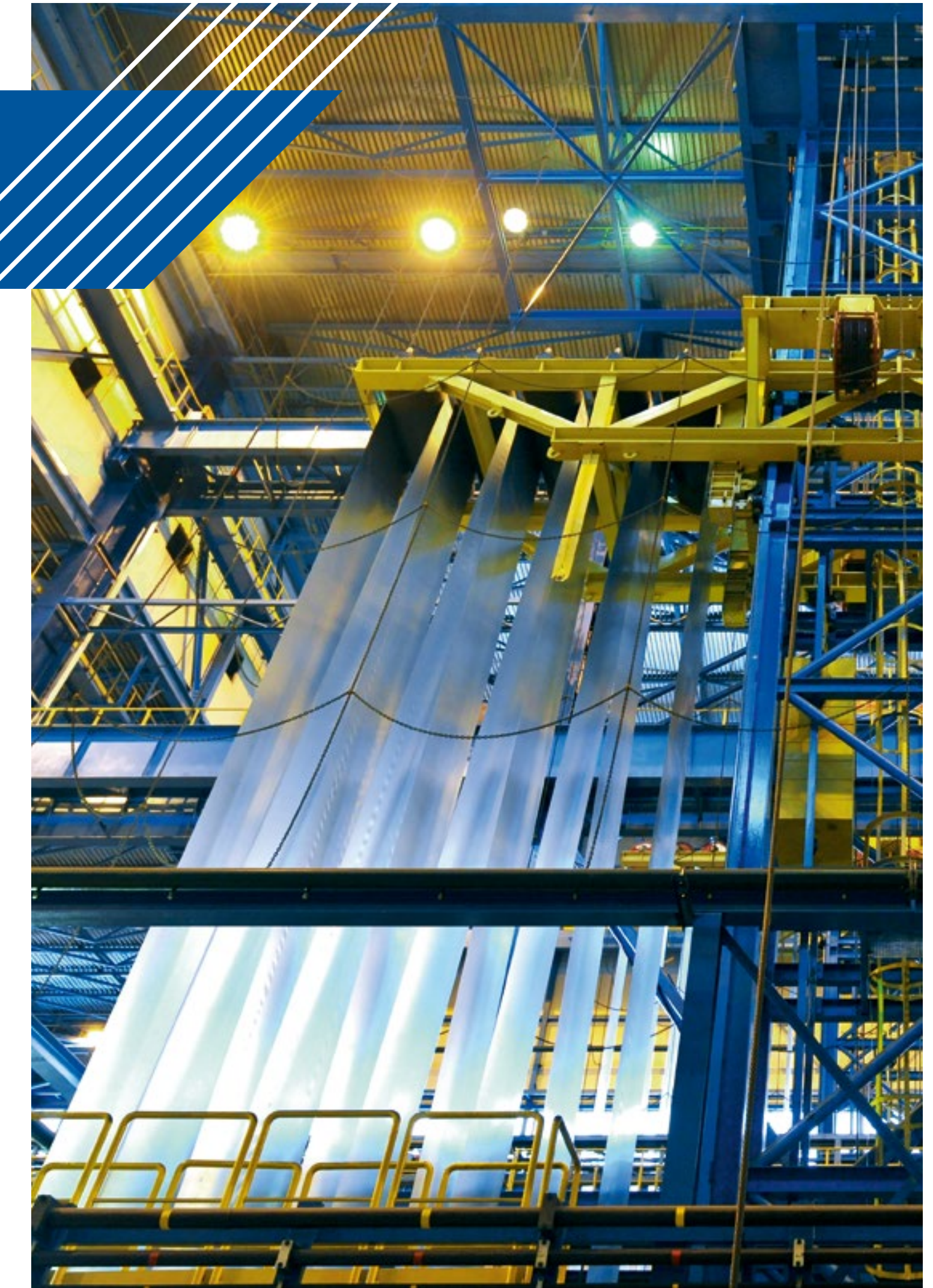
Severstal is listed on the Moscow Exchange (MOEX), and our GDRs are traded on the London Stock Exchange (LSE) and U.S. PORTAL trading system.

* <https://www.worldsteel.org/en/dam/jcr:0474d208-9108-4927-ace8-4ac5445c5df8/World+Steel+in+Figures+2017.pdf>

** <https://www.forbes.com/sites/maggiemcgrath/2017/05/24/the-2017-global-2000-these-are-the-largest-companies-in-russia/#2fb31f3d62af>

*** <http://www.forbes.ru/profile/244796-severstal>

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Map of Severstal Assets



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

Our capabilities and advantages

- High level of vertical integration providing an opportunity to manage complete production chain from mining to steelmaking, processing and sales of steel products
- The lowest cost of steelmaking worldwide with potential for further reduction
- Highly diversified geography and product range
- High share of high-value-added products
- Favourable logistics and proximity to consumers
- Ability to switch quickly between internal and export markets
- Focus on customer service and quality
- Minimum debt and significant free cash flow
- Balanced and well-designed dividend policy
- Skilled employees highly engaged in the attainment of business goals
- Continuous effort to minimise our environmental footprint
- Efficient social investments and investments in human capital helping to maintain social stability in our regions

Key Financial and Operating Results in 2017

49,462 (-1%)

Average number
of employees

7.848 (+33%)

Revenue,
US\$ billion

2.577 (+35%)

EBITDA,
US\$ billion

1.393 (+36%)

Free cash flow,
US\$ billion

591 (+13%)

CAPEX,
US\$ million

11.7 (+1%)

Steel production,
million tonnes

9.2 (-1%)

Hot metal production,
million tonnes

46 (+4%)

Share of high-value-added
products, %

3.3 (-20%)

Coking coal concentrate,
million tonnes

11.1 (+3%)

Iron ore pellets,
million tonnes

4.3 (+5%)

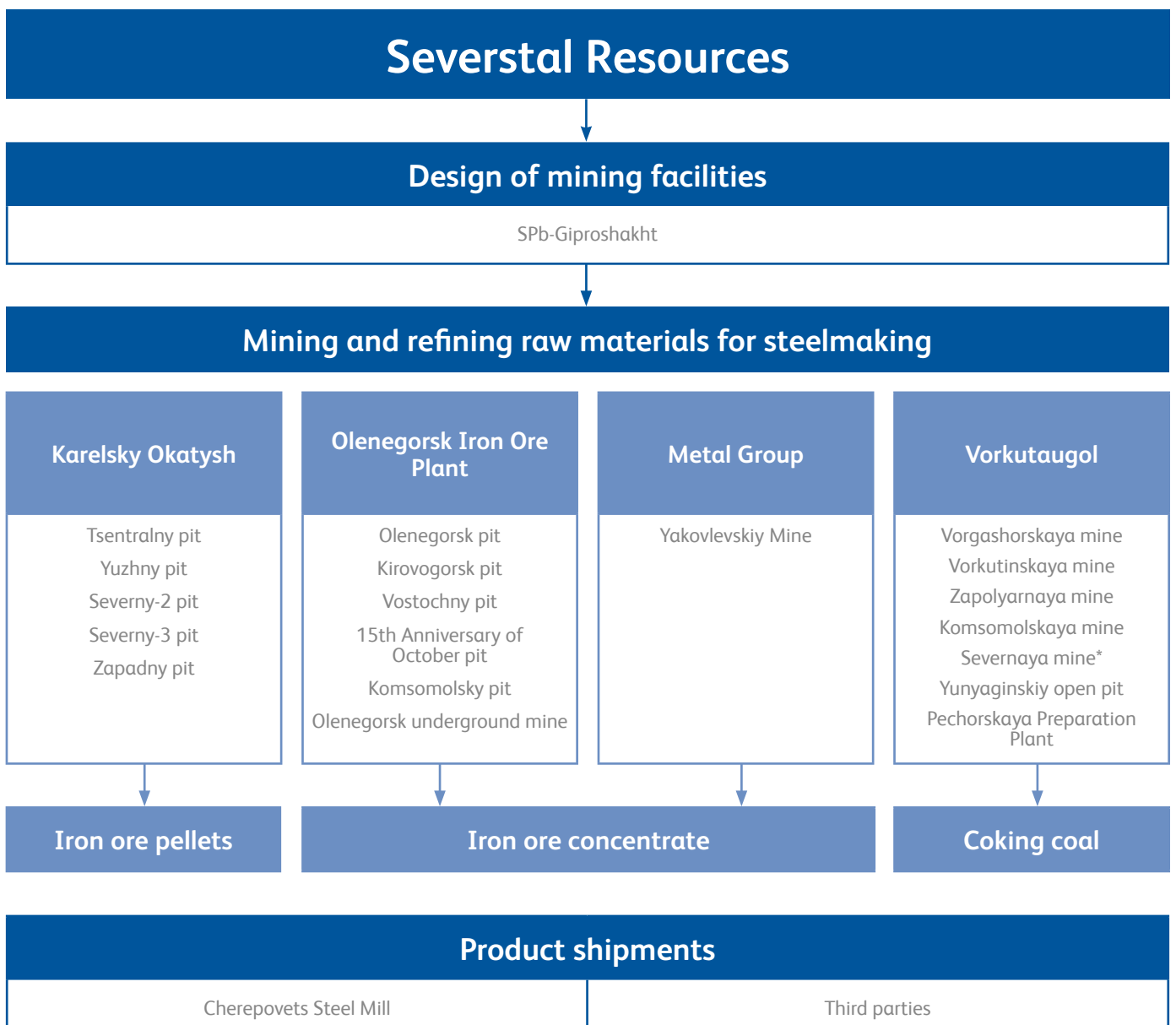
Iron ore concentrate,
million tonnes

Core Businesses and Corporate Structure

Iron Ore and Coking Coal Production

Severstal Resources is one of Russia's largest producers of iron ore and coking coal. Our coal businesses are among Russia's top five coking coal producers, whilst our iron ore businesses are leaders by extraction volume in their respective markets. Severstal Resources

provides nearly all the iron ore and approximately 60% of the hard coking coal needs of Severstal Russian Steel. On top of that, Severstal Resources is a large supplier of raw materials to external clients.



* Mining suspended since February 2016.

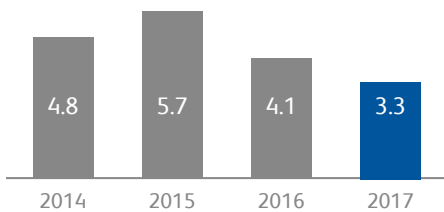
Coal Production

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 the energy and chemical industries. Vorkutaugol has four mines, one quarry and two preparation plants.

Run of mine was 8.6 million tonnes in 2017, compared with 9.6 million tonnes in 2016. This reduction was caused by equipment repositioning in all mines.

Vorkutaugol preparation plants processed 7.5 million tonnes of coal in 2017 (8.9 million tonnes in 2016) producing 5 million tonnes of final product (5.8 million tonnes in 2016). Production of coking coal concentrate was 3.3 million tonnes, a reduction of 19.8% from the previous year. Internal consumption remained level at 3.2 million tonnes.

Sales of coking coal concentrate (Vorkutaugol), million tonnes



Severstal's stance on the use of fossil fuel

The primary business of Severstal is the production of steel and hot metal using traditional technology. Hot metal is produced from iron ore in four blast furnaces of Cherepovets Steel Mill fired by coke and natural gas. This process is extremely energy-consuming and generates significant amounts of CO₂.

One of the key components in hot metal production is coke, a synthetic solid fuel produced by the baking of coking coal concentrate. We produce coke using eight coke batteries. The primary raw material for coke production is Vorkuta coal. Coking coal concentrate represents three fourths of all sales of Vorkutaugol. Steam coal used by power plants and cement factories represents only one fourth of its sales.

There is a global trend for responsible investments driving the transition to a low-carbon green economy. International institutions are reducing their funding of projects involving the production of fossil fuels. Several European banks have discontinued investing in coal production or extending loans to coal-fired plants and coal mines.

Severstal appreciates the concern of the global society regarding the issues associated with climate change and respects the choices of investors following responsible investment practices. However, while power generation and utilities have alternatives to coal, such as natural gas or renewable energy sources, replacing coal in the steelmaking industry would only be possible



with a fundamental technology shift. Non-carbon high-volume steelmaking is not realistic yet, and is globally limited to isolated experimental projects. Therefore, even considering the risk of becoming less attractive for investors and the global trend for rejection of coal-using assets, Severstal would not be able to discontinue the use of coking (and as an integrated business— coal production) for the foreseeable future.

The market demand for steel in Russia is such that the supply of scrap is unable to make a significant contribution, which means that the use of resources is higher than in more developed economies where the demand for steel and the supply of scrap is more in balance.

Blast furnace hot metal production and converter steelmaking are continuously improved, and we can expect significant changes in these technologies in the next several years. This is why Severstal, in its development strategy, considers radical innovations, carefully follows global steelmaking trends and strives to use the best available technologies, so that eventually there is an opportunity to discuss a gradual transition to lower-carbon production.

Iron Ore Production

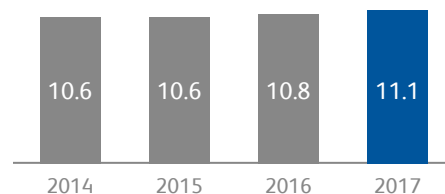
Severstal Resources has two iron ore producers.

Located in Karelia, north-western Russia, Karelsky Okatysh is one of Russia's leading and most advanced iron ore producers. It manufactures approximately one third of all iron ore pellets in Russia.

Karelsky Okatysh mines magnetite quartzite ores and produces high-quality iron ore pellets with 64% to 66% iron content. In 2017, it increased production by 300,000 tonnes year-on-year, to 11.1 million tones.

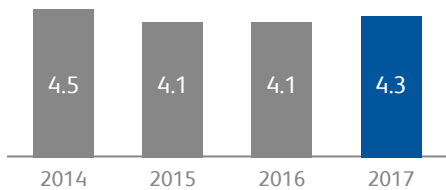
Internal consumption of pellets reduced from 4.9 million tonnes to 4.6 million tonnes in the reporting year.

Sales of iron ore pellets, million tonnes



Located in Murmansk Oblast, Olcon mines magnetite-hematite quartzite ores from five open pits and produces high-quality iron ore concentrate, crushed stone and ferrite strontium powder. In 2017, Olcon started shipping iron ore concentrate with 67% iron content to Cherepovets Steel Mill. Sales of iron ore concentrate increased in 2017 to 4.3 million tonnes, compared with 4.1 million tonnes in 2016. Internal consumption also increased, from 4 million tonnes in the previous reporting period to 4.1 million tonnes in 2017.

Sales of iron ore concentrate, thousand tonnes



In 2017, Severstal reorganised its mining segment and merged the management of its two mining assets. A new division was established in Olenegorsk reporting into Severstal Management office in Kostomuksha. However, AO Olcon and AO Karelsky Okatysh kept their separate legal entities.

The reorganisation affected only the management of production processes, while regional taxation and employee salaries remained the same. Social investments of these assets did not change either.

In 2017, Severstal acquired 100% ownership stake in OOO Metal Group that owns Yakovlevskiy Mine in Yakovlevo, Belgorod Oblast. This is an underground iron ore mine. With 61% iron content, the iron ore does not need processing, and Severstal is planning to increase production volume by more than 50% in



2018. This asset will increase Severstal's self-sufficiency in iron ore (concentrate + pellets) from c. 110% to c. 115%.

In 2017, Severstal Resources continued improving safety across its assets alongside capacity development and ongoing maintenance. The 2018 priorities of Severstal Resources include further investments in production improvements, services and safety.

Steel Production

Severstal Russian Steel is a leading Russian steelmaker with world-class steelmaking assets. Severstal Russian Steel produces high-value-added rolled products, long products for the construction industry, and downstream products. Severstal Russian Steel also produces large diameter pipes and metalware, and has service centres and stamping facilities, manufacturing exposed automotive parts. The division has the highest share of high-value-added products among its domestic peers.

The core asset of Severstal Russian Steel is Cherepovets Steel Mill located in the northwestern part of Russia. The mill has convenient rail access to our mining businesses and direct river access to the Baltic Sea ports. Cherepovets Steel Mill is located at the meeting point of three Russian economic regions, Northern, Northwestern and Central. Its unique location simplifies quick delivery of raw materials to ensure uninterrupted production and equally quick delivery of products to buyers, including industrial customers in Leningrad Oblast and Moscow Oblast. Cherepovets Steel Mill is the second largest steelmaking facility in Russia.

This division also includes Severstal Long Product Mill Balakovo, a next-generation mini mill manufacturing a range of products for the construction industry (Saratov Oblast), Izhora Pipe Mill (ITZ, St. Petersburg Oblast, Kolpino District), Severstal Sheksna Pipe Mill (Severstal TPZ Sheksna, Vologda Oblast), and scrap processing facilities. Severstal Russian Steel also includes a leading metalware producer, Severstal Metiz Group. The Russian businesses of Severstal Metiz are located in Cherepovets (Northwestern Russia), Oryol (Central Russia) and Volgograd (Volga Region). In 2017, we completed the sale of Redaelli Tecna S.p.A. (Italy) and Dneprometiz (Ukraine), previously part of Severstal Metiz. We also renamed two assets: AO Redaelli SSM is now known as AO Severstal Steel Ropes, and OOO Tech Rus as OOO Severstal Lifting Technologies.

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 catalogue is available on our corporate website at <http://chemk.severstal.com/rus/products/byuse/index.phtml>

Severstal Russian Steel

Project and design services

Severstal Project

VNIIMETMASH

Severstal Steel Solutions

Production of steel, rolled products and other steel products

Cherepovets Steel Mill Steelmaking Flat steel and long products	Severstal Long Product Mill Balakovo Scrap recycling into steel products Long products	Severstal SMC Kolpino Semi-finished steel products	Severstal TPZ Sheksna Straight seam electric welded pipes	Izhora Pipe Mill Large diameter pipes
SSM Tyazhmash Machinery products	Severstal Metiz Fasteners (Cherepovets and Oryol)	Gestamp-Severstal-Kaluga Steel products for the automotive industry	Gestamp-Severstal-Vsevolozhsk Steel products and components for automotive applications	Severstal Steel Ropes Wire products and steel ropes

Supporting facilities and service providers

Severstal SMC Vsevolozhsk Steel service centre	Severstal-Gonvarri-Kaluga Steel service centre	Severstal Vtorchermet Scrap purchasing, processing and sales	
Domnaremont Commercial and civil construction and renovation Steelmaking equipment repairs	Severstal Promservice Service centre	Severstal Infocom Information and communication services	Severstal Lifting Technologies Rope service and distribution centre of Severstal Metiz and Severstal Steel Ropes

Sales

Severstal Distribution

Five sales businesses of Severstal 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

Passenger and freight transportation

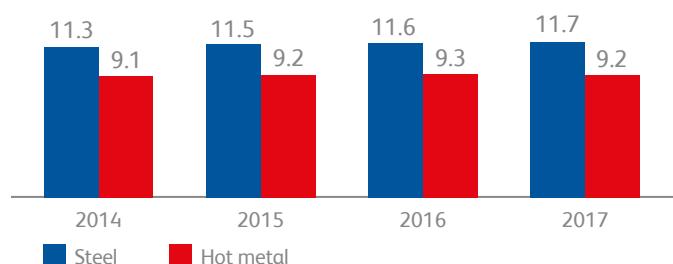
Severstal Air Company

Domestic and international air travel

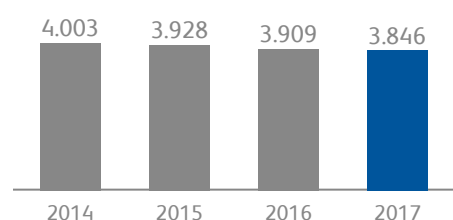
Neva Metal

Shipping and storage of steel products for export

Key production volumes of Severstal Russian Steel, million tonnes



Coke consumption in hot metal production, million tonnes



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. Safety and customer orientation are the core performance evaluation criteria for our transportation service providers. The most significant element of the environmental footprint of our transportation operations is the CO₂ emissions from internal combustion engines.

Severstal was the first Russian steelmaker to roll out SAP Transportation Management (SAP TM) system ensuring maximum transparency of our logistic business processes.

Compared with 2016, our steel production increased slightly in 2017, from 11.6 to 11.7 million tonnes. Production of hot metal decreased from 9.3 to 9.2 million tonnes.

Severstal works consistently to maintain its leading cost position through labour and energy productivity and operational enhancements. We received the Russian nationwide Workforce Productivity 2017 award in the Workforce Productivity: Russia's Regional Leaders 2017 category as the leader in productivity in Vologda Oblast.

Productivity improvement, %

Indicator	2017 vs 2015	2018 vs 2017 (plan)
steel production	2	2
steel products	1	3

We use this system to monitor marine and road transport operations, as well as domestic and international rail deliveries. Multimodal transportation helps reduce costs, accelerate delivery, reduce dry runs and reduce CO₂ emissions. Transition to integrated transportation planning and management helps Severstal to streamline product shipping and the management of lead times for delivery of steel products, including efficient use of vehicles and cost management.

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.

External deliveries by rail in 2017, thousand tonnes

	Inbound		Outbound		Total	
	2016	2017	2016	2017	2016	2017
Severstal	21,307	21,688	8,658	8,779	29,965	30,467
Severstal Long Product Mill Balakovo	433	402	689	724	1,123	1,126
Olcon	0.1	0	124	59	124	59
Vorkutaugol	62	68	2,010	827	2,072	895
Karelsky Okatysh	679	627	6,030	6,527	6,709	7,154

Our document management centre supports automated generation of rail transport paperwork. We implemented paperless document flow with Russian Railways, accelerated routine operations, reduced the amount of fines for unused capacity, and got additional discounts from Russian Railways for larger bulk shipments.

Severstal also uses water transport to deliver steel and slag treatment products, limestone and scrap to Russian and foreign customers. We transport 8% of our products and raw materials by water. 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.

Use of SAP TM for the management of sea cargo and several major organisational changes gave us an opportunity to establish a single point of control over export logistics of Cherepovets Steel Mill, Severstal Export, Neva Metal and other remote ports, and achieve port stock reduction targets.

Road transport only covers 4% 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. Starting from 2013, we only use Euro 5 compliant vehicles with internal combustion engines in our fleet. In 2017, Severstal purchase 20 additional trucks. One of them is a CNG Kamaz truck. All new vehicles meet international standards and have improved emission characteristics.

The new automated system simplified road transportation for our partners as well. Its launch reduced idle times and loading errors, leading to fewer complaints from transportation companies. With the use of online tender bidding on transportation services, Severstal reduced transportation costs by 15% on average.

Fuel consumption by mobile equipment, tonnes

	2013	2014	2015	2016	2017
Severstal Resources					
Gasoline	827	564	384	576	646
Diesel fuel	108,830	101,725	100,761	102,336	107,552
Severstal Russian Steel					
Gasoline	774	403	417	368	358
Diesel fuel	24,460	22,291	17,574	20,834	20,687

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.

In 2017 Severstal Resources increased diesel fuel consumption due to larger production volumes.

We established consistent rules with clear criteria for volumes of work for all our transportation contractors. Fleet dispatch continuously controls and evaluates contractor performance using a GLONASS/GPS monitoring system, with the goal of reducing transportation costs, number of third-party vehicles and CO₂ emissions.

Based in Cherepovets International Airport, Severstal Air Company has one Yak-40 and six Bombardier CRJ-200 aircraft. Severstal Air Company has 266 employees.

In 2017 Severstal Air Company served 15 domestic and two international destinations. It carried 229,000 passengers in the reporting period (203,000 in 2016) on scheduled flights. In 2017, it used 14,545 tonnes of TC-1 jet fuel, compared with 13,800 tonnes in 2016.

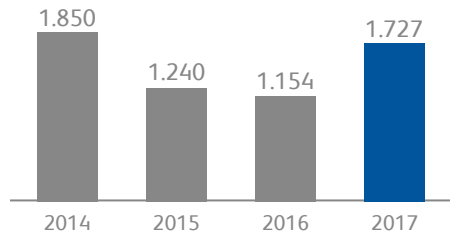


Sales

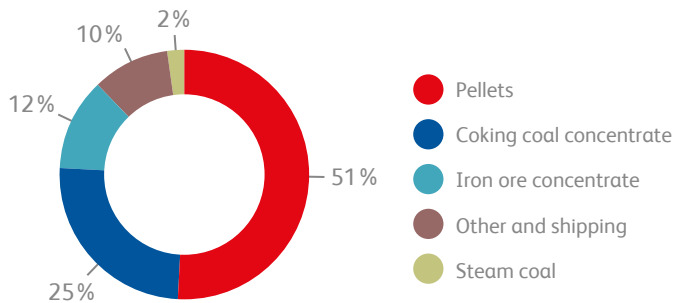
Severstal Resources

The main sales market for Severstal Resources is Russia, which is home to our key steelmaking assets. Severstal Resources sells the majority of its products for internal consumption. Intersegment 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, including the majority of large Russian steelmakers. Russia's share of the consolidated sales of Severstal Resources has increased to 69 % in 2017, compared with 68 % in 2016. Export sales generated 31 % of our revenue.

Revenue of Severstal Resources, US\$ million



Revenue of Severstal Resources by product group in 2017, %

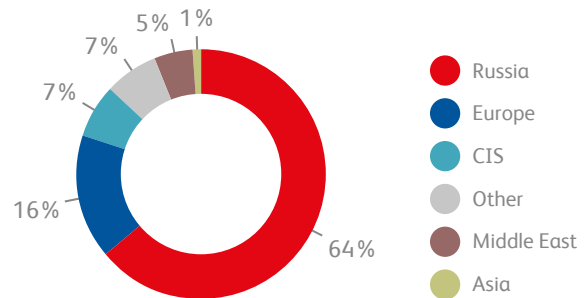


Severstal Russian Steel

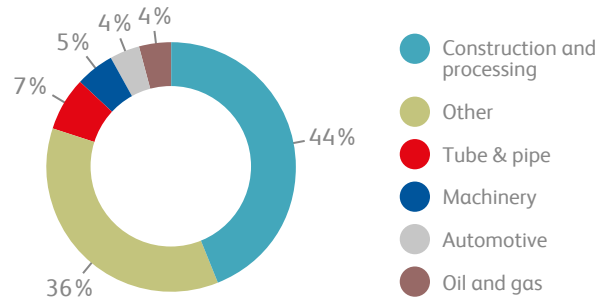
Severstal Russian Steel sells its products directly to end users in the domestic market. Our products are also delivered to regional distributors and end users in Russia and abroad through Severstal Distribution, our in-house distribution network. Severstal Russian Steel sold approximately 16 % of its steel products through Severstal Distribution in the reporting period. Its revenue exceeded US\$1 billion in 2017.

Export sales volumes depend on the Russian economy and the profitability of international market. Russia remains the key market for Severstal. In 2017, the domestic market represented 64 % of divisional sales, compared with 68 % in 2016. The main export market for Severstal Russian Steel is Europe.

Sales of Severstal Russian Steel in 2017 by region, %



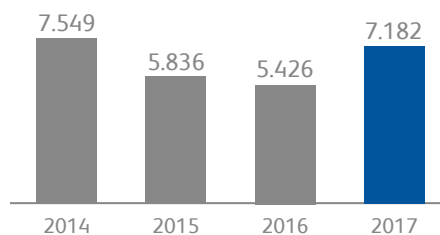
Sales of Severstal Russian Steel in 2017 by industry, %



Increasing the sales of high-value-added products remains our priority. These products represented 46 % of the overall sales of Severstal Russian Steel in the reporting year, compared with 42 % in 2016.

In 2017, sales to construction and processing industries—our largest traditional buyers—reduced by 4%. Lower demand for large diameter pipes due to completion of several major pipelines resulted in a 2% drop in sales to our oil & gas customers. We were able to maintain our position in machinery and tube & pipe industries. Sales to the automotive industry increased by 1%.

Revenue of Severstal Russian Steel, US\$ million



Industry Environment and Corporate Business Strategy

Steelmaking is a core industry of the Russian economy, only second to oil and gas by importance. Steelmaking industry contributes approximately 5% of the national GDP, which makes up over 12% of the whole manufacturing sector and generates over 5% of the overall tax revenue at all levels. 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 660,000 people work in this industry. Experts believe that one job in steelmaking creates up to seven jobs in adjacent industries.

However, steelmaking largely depends on other industries as they generate demand for its products. Rolled steel products are consumed by construction (36%) and tube & pipe (23%) industries, as well as metalware companies (12%), machinery and equipment manufacturers (9%), manufacturers of home appliances (4%), automotive companies (3%) and other businesses.

Availability of rich ore deposits supports full sufficiency of Russian steelmakers in domestic raw materials.

Over the last 15 years, our industry has significantly reduced the wear of fixed assets, developed new steel melting and pouring technologies, expanded the range of products and improved steel product quality.

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 world*. Metals and metal products are the second largest product group in the structure of Russian exports. Our industry brings more than 10% of hard currency export revenue. In 2017, revenue from export sales of Russian metals increased by almost one third, while export sales by volume reduced by 2.0%**.

The Russian Ministry of Economic Development includes Severstal in its list of national backbone enterprises. This list includes 199 major enterprises with significant influence on the national GDP, employment and social stability in Russia. Earnings of these enterprises generate 70% of national GDP.

Severstal in 2017

In 2017 global steel production increased by 5.3% compared with the previous period, reflecting reduction of capacity in China, world's largest steel consumer and producer. All global markets saw an increase in demand. In Russia, GDP growth and recovery of the national economy supported a 5% increase in demand, mostly coming from construction and automotive industries. Russian steel production increased in 2017 by 1.3%.

Favourable pricing and efficiency of business processes along with vertical integration gave Severstal an opportunity to achieve strong financial and operating results. Rising prices helped Severstal to increase our revenue in 2017 by almost one third from the previous period, to US\$7.9 billion, while our free cash flow increased by 36.4%, to US\$ 1.4 billion.

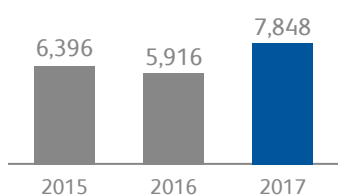
Severstal remained one of the leading steelmakers by profitability, at 34.9% (compared with 32.3% in 2016), with very low level of debt. IFRS net income was US\$1.36 billion, down 16.4% from 2016 (US\$1.62 billion).

While demand for steel grew marginally, domestic sales by volume remained level (6,631,000 tonnes in 2017 vs. 6,628,000 tonnes in 2016). Export of steel products by volume increased by 5.5% in the reporting year, to 4,353,000 tonnes, and represented 40% of the overall sales.

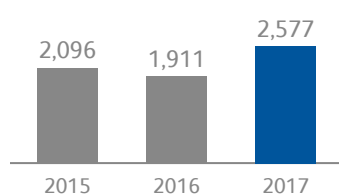
Global market environment remains complex with protective measures in place in several countries. We will keep using all legal measures available to us to protect our interests as we comply with all international trade regulations in selling our products.

In 2017, Moody's upgraded Severstal's credit rating to Baa3/Positive investment grade. Fitch Ratings and Standard&Poor's confirmed Severstal's rating of BBB-/Stable.

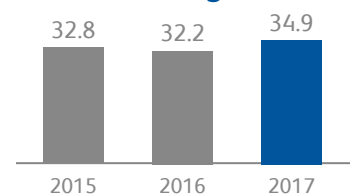
Revenue, US\$ million



EBITDA, US\$ million



EBITDA Margin, %



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

** GRI http://www.customs.ru/index2.php?option=com_content&view=article&id=26258&Itemid=1981

Severstal Strategy and Investment Programme

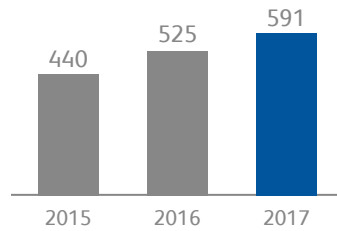
Severstal maintains a prudent approach to capital expenditures and continues selective investments in steelmaking plants and modernisation of treatment facilities. Our medium-term strategic goal is to limit our capital expenditures to US\$1 billion per year.

Our strategy is supported by a prudent approach to investments which is flexible to market conditions. This approach includes:

- Further cost reduction
- Increasing the share of high-value-added products
- Enhancement of customer orientation
- Improving occupational health and safety performance
- Reducing environmental footprint

In 2018, Severstal will focus on hot-end projects to improve product quality and support further operational efficiencies. Our investment programme will increase by 13 %, to 49.5 billion roubles. Two thirds of this amount will be used to finance the development and maintenance of existing Severstal Russian Steel facilities, primarily in Vologda Oblast. Our primary objective at this stage is to upgrade the hot-end stage of the production chain. In 2018, Severstal will launch a long-term programme to upgrade the blast furnace plant at Cherepovets Steel Mill. Three major projects, including reconstruction of two blast furnaces and a coke battery at Cherepovets Steel Mill, will drive the investments up in 2019 and 2020.

CAPEX, US\$ million



One third of the investment programme will be allocated to resources division. Severstal will invest approximately 3.4 billion roubles in digital technologies and IT to improve business processes and client services.

We will invest approximately 470 million roubles in occupational health and safety projects in 2018, and approximately 390 million roubles in environmental protection projects. Severstal finances all investment projects internally.

Steel Production

18 billion roubles	<h4>Development projects</h4> <ul style="list-style-type: none"> • Construction of Shaft Furnace No. 3 • Upgrades of Mill 2000 • Renovation of turbine generator No. 5
14.5 billion roubles	<h4>Maintenance of existing facilities and improvement of industrial safety system</h4>

Mining and processing of raw materials

approx. 17 billion roubles	<h4>Production enhancements</h4> <ul style="list-style-type: none"> • Installation of an integrated safety system in Vorkutaogol mines • Transition of Karelsky Okatysh to closed-loop water system (Stage 2) • Production enhancements at Yakovlevsky Mine • Expansion of mining operations
8.8 billion roubles	<h4>Maintenance of existing facilities</h4>

Direct economic value generated and distributed, US\$ million,*

	2014	2015	2016	2017
Direct economic value generated:				
Revenue	8,337	6,484	5,927	7,894
Economic value distributed: including:				
Operating expenses	(6,587)	(4,612)	(4,293)	(5,612)
Salaries and benefits	(1,380)	(882)	(848)	(985)
Payments to providers of capital	(1,409)	(954)	(1,077)	(1,701)
Payments to governments	(128)	(102)	(211)	(310)
Direct community investments and donations	(56)	(37)	(40)	(40)

* Calculation formula is provided in Appendix 2.

Key Priorities in Corporate Social Responsibility and Sustainable Development

● achieved, ○ in progress, ○ not achieved

2017 objectives

Financial and economic component

Keep costs at some of the lowest levels in the industry using our vertical integration and continuous performance improvement

- 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 orientation, responsible environmental protection and improved performance of manufacturing assets

Our investment programme will be US\$670 million

Maintain net debt to EBITDA ratio at one of the lowest levels in the industry

Continue generating shareholder value through vertical integration and continuous performance improvement

Progress and 2017 highlights

● Our steel cost remains one of the lowest in the industry

- Our EBITDA margin was 32.8% in the reporting year, remaining among the highest numbers in the industry
- Share of high-value-added products was 46% (+4%)

● Our free cash flow was US\$1,395 million

●

○ US\$582 million

● Net debt/EBITDA = 0.4

● We paid out US\$1,530 million in dividends

2018 objectives

Key aspects of Company strategy: continue reducing costs, increase the share of high-value-added products, develop customer orientation

Similar to 2017 objectives

Similar to 2017 objectives

Similar to 2017 objectives

Implement the announced program of blast furnace modernisation with the latest technology at Cherepovets Steel Mill

In 2018, our investment programme will be US\$884 million

Maintain ideal ratio of Net debt to EBITDA

Increase shareholder value and continue paying high dividends

2 BUSINESS AND CORPORATE SOCIAL RESPONSIBILITY

Severstal has a strategic objective to build a high-quality business consistently generating higher profits than the industry average.

For Severstal, Corporate Social Responsibility (CSR) is a critical component of a successful business, and sustainable development is a fundamental priority of our business strategy. We are trying to secure long-term competitive advantages taking market trends, social, economic and environmental factors into account.

Our strategy is still based on our mission to be the leader in value creation. We ensure leadership through innovation, environmental and social responsibility, and governance (ESG)

We discuss long-term market vision and five-year business plans in our annual strategic sessions, while individual investment decisions are made during the discussions of our annual business plans.

Business and Corporate Social Responsibility	20
Management of Sustainable Development in Severstal	23
2030 Agenda for Sustainable Development	25
Severstal Awards in 2017	30



With the challenges that steelmaking and mining industries are facing, value creation needs to be driven through efficiency rather than growth. We are also constantly upgrading our facilities to reduce our environmental footprint, while striving to eliminate workplace injuries.

Customer care is a critical component of our strategy. We keep enhancing our customer orientation 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.

To ensure we fully meet the needs of our customers while being the best steel provider in the market, Severstal works on the following:

- Improving product quality, including a full review of our quality control process
- Expanding our online service system, and simplifying documentation
- Ensuring timely product delivery
- Improving logistics and reducing associated costs
- Pursuing innovations and developing new products, including co-development with consumers (For further details, please refer to Quality Management and Customer Orientation.)

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 a common ground to improve our efficiency. This 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 opinions and expectations into account, and works closely with stakeholders on addressing important social challenges.

The primary tool for the implementation of the corporate CSR 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.

Outside Russia, our key production assets are represented by Severstal Distribution. It includes several international sales companies in Belarus, Latvia, Poland, Switzerland and Ukraine selling mostly products made in Russia. As these companies have no manufacturing operations, they do not have significant impact on the environment, society or local communities. However, our sustainable development policies, and responsibility towards the environment, our people and local communities equally applies to all our foreign assets. The management team of Severstal Distribution supports and develops educational programmes (in cooperation with Riga Technical University), culture (long-time supporter of the Golden Mask in Latvia theatre festival) and social organisations (providing support for veterans).



Management of Sustainable Development in Severstal

Aspects

Responsibility

Documents

Improvements in corporate governance

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> • Financial stability • Social matters • Occupational health, safety and environmental protection • Anti-corruption • Human Rights | <ul style="list-style-type: none"> • Board of Directors • Board Committees • AO Severstal Management Executive Authority • Occupational health, safety and environmental protection departments • Communications and Investor Relations Department • Human Resource Directorate • CSR and Brand Department | <ul style="list-style-type: none"> • Russian Central Bank Code of Corporate Governance • UK Code of Corporate Governance • Code of Corporate Governance • Anti-Corruption Policy • Code of Business Conduct • CSR Policies • UN Global Compact • UN Sustainable Development Goals |
|--|---|---|

Stakeholder Engagement

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> • Shareholders and investors • Employees • Society • Government authorities • Business partners • International organizations • Media | <ul style="list-style-type: none"> • Board of Directors • Remuneration and Nomination Department • CSR and Brand Department • Communications and Investor Relations Department | <ul style="list-style-type: none"> • Code of Corporate Governance • Code of Business Conduct • CSR Policies • Employee Code of Conduct • Social Charter of RSPD • Worldsteel Sustainable Development Policy • UN Global Compact • UN Sustainable Development Goals |
|---|--|--|

Responsible supply chain

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Customer orientation • Product quality control • Planning and fulfilment accuracy • Reduced delivery times • Stock reduction in customer warehouses • Involving responsible suppliers • Safety of all participants | <ul style="list-style-type: none"> • Board of Directors • Health, Safety and Environmental Protection Board Committee • Central Purchasing Department | <ul style="list-style-type: none"> • Code of Business Conduct • Anti-Corruption Policy • Quality Policy • Worldsteel policy • UN Global Compact • UN Sustainable Development Goals |
|--|--|--|

Human Rights

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> • Non-Discrimination • Freedom of association and the right for collective bargaining • Right for occupational safety and healthy work environment • Personal data protection • Anti-corruption • Human Rights | <ul style="list-style-type: none"> • Chief Executive Officer • Ethics Committee • Remuneration and Nomination Department • CSR and Brand Department • Enterprise directors • HR Directors • Managers • Employees | <ul style="list-style-type: none"> • UN Universal Declaration of Human Rights • UN Guiding Principles on Business and Human Rights • Constitution of the Russian Federation • ISO 26000 • Employee Code of Conduct • HR policy • CSR Policies • UN Global Compact • UN Sustainable Development Goals |
|---|--|---|

Aspects

Responsibility

Documents

HR Management

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • Working conditions and remuneration • Training and development • Motivation and promotion • Social support | <ul style="list-style-type: none"> • Board of Directors • Remuneration and Nomination Committee • Board • Chief Executive Officer • HR Department • CSR and Brand Department • Ethics Committee • HR Business Partner of Severstal • Heads of functional departments and individual businesses • Enterprise HR committees | <ul style="list-style-type: none"> • HR policy • Compensation policy • CSR Policies • Employee Code of Conduct • Social and residential standard • Employee training and development regulations and recommendations • Talent selection and onboarding regulations and recommendations • Goal discussions and employee evaluation regulations and recommendations • UN Global Compact • UN Sustainable Development Goals |
|---|---|--|

Environmental protection

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • Reduction of environmental footprint • Reduction of GHG emissions • Protection of water resources • Waste management | <ul style="list-style-type: none"> • Board of Directors • Health, Safety and Environmental Protection Board Committee • Divisional occupational health, safety and environmental protection departments • Heads of individual businesses and line managers • Environmental protection specialists in the individual businesses | <ul style="list-style-type: none"> • Severstal Group Environmental Protection Policy • ISO 14001 • ISO 50001:2011 • UN Global Compact • UN Sustainable Development Goals |
|---|---|---|

Occupational health and industrial safety

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • Safe working environment • Prevention of professional diseases • Staff training • Employee engagement and implementation of best practices • Collaboration with trade unions • Higher supplier responsibility • Emergency readiness | <ul style="list-style-type: none"> • Board of Directors • Health, Safety and Environmental Protection Board Committee • Director of Occupational Health, Safety and Environmental Protection • Heads of businesses • Heads of respective services in the individual businesses • Organization of occupational safety coordinators • Occupational health and safety committees in the individual businesses | <ul style="list-style-type: none"> • Occupational Safety Policy • ISO 14001:2004 • OHSAS 18001:2007 • UN Global Compact • UN Sustainable Development Goals |
|---|---|---|

Energy conservation and energy efficiency

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> • Energy conservation technologies and equipment • Energy management system • Utilization of waste energy • Renovations and upgrades • Reduction of steelmaking energy consumption • Reduction of GHG emissions • Power generation and consumption planning and metering | <ul style="list-style-type: none"> • Board of Directors • Health, Safety and Environmental Protection Board Committee • Chief Power Engineer's Department • Energy Efficiency Centre • Production Planning and Procurement Directorate • BSS Development Centre • Production departments | <ul style="list-style-type: none"> • Energy Efficiency Policy • Comprehensive Energy Conservation Programme • ISO 50001:2011 — Energy Management Systems • UN Global Compact • UN Sustainable Development Goals |
|--|---|--|

Aspects

Responsibility

Documents

Direct community investments and donations

- Social and economic development of our regions
- Employment of local residents
- Small and medium businesses, social entrepreneurship
- Development of tourism in the regions
- Culture and art; preservation of historical and spiritual heritage
- Improving quality of life of Company employees and local communities (mothers and children, vulnerable groups, education, health and sports)
- Corporate volunteering
- Chief Executive Officer
- CSR and Brand Department
- Managing Directors of individual businesses
- Human Resource, Government Relations and Public Relations departments of individual businesses
- CSR Policies
- Corporate External Social Program Management Policy
- Corporate Standard for the Management of Charitable Activities
- ISO 26000
- Code of Business Conduct
- UN Global Compact
- UN Sustainable Development Goals

2030 Agenda for Sustainable Development

Severstal believes that our approaches and commitments towards CSR fully meet the Sustainable Development Goals included in the 2030 Agenda for Sustainable Development. This document was adopted by world leaders at a 2015 UN summit. Even though individual countries are responsible for attainment of these goals, collaboration of all stakeholders, including governments,

communities, business and others, is recognised as an important element of the overall strategy.

Severstal contributes to the implementation of this Agenda in context of our operations*.



* "Goal 14: Conserve and sustainably use the oceans, seas and marine resources" is not applicable to our operations.

UN Sustainable Development Goals in Severstal Operations

Objective

Projects, programs and measures



- Maintain average salaries at Severstal businesses higher than regional averages
Report Section: Compensation
- Support the development of small and medium business (SMB) infrastructure as it drives self-employment
Report Section: Development of Small and Medium Businesses



- Targeted Aid to Veterans: providing hot foods for homebound retired veterans
Report Section: Support for Retirees and Veterans



- Severstal Health integrated programme.
- Financial support for Severstal Medical Unit and healthcare organisations in our regions
- Specialised programmes, including women-specific programmes, regular check-ups and vaccinations
Report Section: Employee Health
- Advocating sports and healthy lifestyle among employees
Report Section: Active Lifestyle and Sports



- Public-private partnership (PPP) on the development of full-scale talent development system in our regions
- Special Severstal tracks in several schools of Vorkuta and Cherepovets
- Steelmaking Museum as Severstal's career orientation tool, and Quantorium Children's Technopark in Cherepovets
- Thousands of college and vocational school students complete their internships at Severstal businesses, and hundreds of graduates get employment in a variety of roles
- Annual Severstal Business School career orientation event for students
- Environmental lessons at schools, environmental competitions and field trips for school students
- Annual employee fundraising event to help set up children from families in hardship for the new school year
- Employee onboarding and development programme
- Support for 20 specialised colleges, six vocational schools and specialised school tracks
Report Section: Engagement of High School and University Students and Young Professionals



- More than one quarter of Severstal employees are women, which is a relatively high ratio for our industry. Women constitute the majority of our engineering staff (61%); 20% of our managers are women
Report Section: Staff Profile
- Preventive Care Clinic for female employees of Cherepovets Steel Mill
Report Section: Employee Health
- Severstal Women's Club offers our female employees' advice, training, development and best practices to help them develop their careers
Report Section: Severstal Women's Club
- Nurse training project for non-working women (Karelsky Okatysh)
Report Section: Social Investments and Social Partnership

Objective

Projects, programs and measures



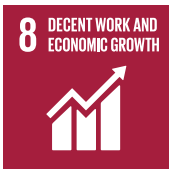
- Environmental Management System of Severstal businesses
- Implementation of closed-loop water systems at Severstal businesses 98.2% of water used by Cherepovets Steel Mill comes from closed-loop systems
- Renovation and rehabilitation of production facilities to reduce their effluents and emissions
- Implementation of a biological waste water treatment technology

Report Section: Effluents and Water Body Protection Initiatives



- Severstal fully complies with the ISO 50001:2011 —Energy management systems standard. Cherepovets Steel Mill has its own energy conservation centre
- We have been steadily increasing the use of our own electricity, and its share reached 78.3% in 2017
- Cogeneration plant Cherepovets Steel Mill provides heat for the mill and for 500 houses in the industrial area of the city. It maintains low electricity prices so that Cherepovets has the lowest electricity rates in the region

Report Section: Power Consumption and Energy Efficiency



- Our investment programme focuses on further reduction of costs and increasing the share of high-value-added products
- We have the highest share of high-value-added products (46%) among our Russian peers
- Agency for Urban Development and Cherepovets Innovation Agency co-founded by Severstal and the city, support a variety of business projects helping renovate local industrial facilities and create new jobs
- Severstal purchases from more than 380 manufacturers in Vologda Oblast and is a large employer in the regional construction industry. Hundreds of local businesses cooperate with our mining businesses as well
- Central Waterfront Tourism and Recreation Area and the Steelmaking Museum supported by Severstal were included in the Federal Special Programme on Development of Domestic and International Tourism

Report Section: Social Investments and Social Partnership

- More than 4,000 new employees join Severstal every year on non-discriminatory conditions

Report Section: Staff Profile

- Providing reliable and safe workplaces for Severstal employees, and demanding compliance with safety requirements from our contractors

Report Section: Occupational Safety

See also comments to Goals 4 and 9



- IT development is becoming a key driver covering all aspects of our business from manufacturing and logistics to overall business management.

Report Section: About Severstal

- Severstal helps develop municipalities and makes sizable investments in social infrastructures of our regions in order to foster favourable social environments for the implementation of our long-term development strategy
- The Agency for Urban Development co-founded by Severstal is the operator of the Guarantee Fund government programme and provides loan guarantees to entrepreneurs under this programme. The Agency is a leading supporter of small and medium businesses making a significant contribution to the diversification of the regional economy. Support from Severstal helped the City of Cherepovets to get recognition as an area of advanced social and economic development

Report Section: Social Investments and Social Partnership

Objective

Projects, programs and measures

- A series of projects focused on reducing our environmental footprint and ensuring efficient use of natural resources

Report Section: Environmental Protection

- Severstal is the largest developer and supplier of new technologies in our industry; we fund significant research and development effort every year

Report Section: Managing New Opportunities



- Support for the Agency of Urban Development that operates Vologda Regional Centre for Social Innovations. The Centre provides comprehensive support to existing and future social entrepreneurs, and offers a public catalogue of social ideas

Report Section: Social Investments and Social Partnership

- Maintain average salaries at Severstal businesses higher than regional averages
- Employee training and development programmes

Report Sections: Compensation, Training



- Social and economic cooperation agreements with regional and municipal authorities
- Key areas of cooperation: employment of local residents, education and career orientation of youth, healthcare, and prevention of child neglect and social orphanhood, development of municipalities, and support for culture
- Severstal has launched and keeps supporting projects on sustainable social and economic development of its regions, such as the Agency for Urban Development, Cherepovets Investment Agency and Cherepovets Industry Park

Report Section: Social Investments and Social Partnership

See also comments to Goal 8



- A series of projects on improving the efficiency of our use of resources and reducing our environmental footprint
- Equipment and technology upgrades to minimise their impact on health and environment
- Effluents and emissions reduction programme
- Implementation of waterless cooling technology for blast furnace slag
- Coke battery emission reduction programmes
- Application of dust suppressant to tailing pond surfaces
- Automated off-gas sulphur dioxide content monitoring system
- Programmes on reduction of technology impact on the environment, including rehabilitation, cleaning, filling and zoning of land parcels
- Cherepovets Steel Mill is a major supplier of slag products including flush slag, early slag and early unsorted slag. These products are made from the main types of industrial waste, including steelmaking and blast furnace slag. Apart from slag, we process other production and packaging waste

Report Section: Environmental Protection

See also comments to Goals 7, 8 and 13

- This Report discusses rational use of natural resources



- Our GHG reduction initiatives include: discontinuing open hearth process; upgrading hot metal and steel production technologies; reducing the use of natural gas in favour of coke and blast furnace gas; transition of several boilers from solid to gaseous fuel
- All our businesses are rolling out technologies to measure and reduce greenhouse gas emissions

Report Section: Reduction of Greenhouse Gas Emissions

Objective

Projects, programs and measures



- Application of dust suppressant to tailing pond surfaces
- Programmes on reduction of technology impact on the environment, including rehabilitation, cleaning, filling and zoning of land parcels
- Rehabilitation of certain blocks of Yunyaginskiy pit of Vorkutaugol
- Biological rehabilitation of certain sites at Olcon
- We performed a comprehensive evaluation of the impact of Karelsky Okatysh on water ecosystems

Report section: Waste Management



- Severstal has an Ethics Committee responding to all submissions related to the violations of Company values, including corruption
- All our executives as well as sales and production employees undergo regular anti-corruption screening. If the proof is not sufficient for criminal charges, we take disciplinary actions up to termination of employment
- We terminate our agreements with businesses found to be involved with corruption, and blacklist such businesses

Report Section: Prevention of Corruption and Violations of Laws and Internal Regulations



- Our corporate governance standards are consistent with international best practices
- Social and economic cooperation agreements with regional and municipal authorities
- Development of public-private partnership in education (professional employee training system), culture (Museums of Russian North Programme), culture tourism (Central Waterfront Tourism and Recreation Area)
- Severstal partners with authorities on regional sustainable community and culture development projects (Cherepovets Industry Park, Agency for Urban Development, Cherepovets Investment Agency)
- Joint social programme, including those with participation of non-profits (Way Home Programme)

Report Section: Social Investments and Social Partnership

Relevant sections of this Report provide information on our progress with the implementation of our corporate social responsibility and sustainable development strategy. Our decision-making principles, structures and processes are largely compliant with the requirements of the ISO 26000 standard. This standard requires that these principles, structures and processes enable the organisation to develop strategies, goal and objectives reflecting its social responsibilities, to demonstrate responsibility and accountability of the management team, to establish and support an environment and a culture promoting the implementation of social responsibility principles, to eliminate discrimination in recruitment and career development, and to balance the needs of the organisation and its stakeholders.

For Severstal, leadership means being a leader in economic and social value creation with consideration for all stakeholders. Severstal shares the principles of the Social Charter of RSPP and Sustainable Development Policy of the World Steel Association reflecting Russian and international best practices in productive cooperation with the communities. In 2017, Severstal embarked on a journey of joining the UN Global Compact.

As one of 75 largest steelmakers worldwide, Severstal signed the Worldsteel Sustainable Development Charter reconfirming their commitment to the principles of sustainable development of our industry.

Severstal Awards in 2017

- We took the second spot in the World Steel Dynamics ranking of the most competitive steelmakers worldwide. Severstal climbed four spots from the previous reporting period.
- Severstal was one of the winners of the Employee Development award of the Socially Efficient Mining and Metallurgy Business competition organised by AMROS, Miners' and Metallurgical Workers' Union of Russia, and the Metallurgy and Materials Department of the Ministry of Industry and Trade of the Russian Federation.
- Construction solutions and applications of Severstal Steel Solutions received Metal Power awards of the nationwide Steel Structure: Status Quo and Outlook conference.
- Severstal was ranked 11th in the rating of environmental responsibility of Russian mining companies established by World Wildlife Fund (WWF), UN Development Programme, Global Environment Facility and Russian Ministry of Nature. The rating considers the environmental performance of the 33 largest mining companies in Russia.
- Severstal was ranked among the top three Russian companies in investor relations. This rating is based on independent survey of investor community conducted by British agency WeConvene Extel.
- Institutional Investor magazine ranked Severstal second best in investor relations among European mining and steelmaking companies.
- Severstal and the Agency for Urban Development won the Grand Prix of the Inter-Sectoral Partnership on Regional Social nomination of the Russian Business Leaders: Agility and Responsibility 2016 contest by RSPP, and won the Environmental Responsibility nomination of the Russian Business Leaders: Agility and Responsibility—2016 Russian Nationwide Contest organised by RSPP. The Agency for Urban Development programme of Severstal also won the Public Recognition—Award of Awards nomination of the Doing the Right Thing 2017 competition.
- Vorkutaugol received a second-class award in the Contribution to Regional Climate Development nomination for its Use of Coalbed Methane project at the Climate Forum of Russian Cities in Moscow.
- Severstal Distribution received a Letter of Commendation from the Minister of Construction and Regional Development of Murmansk Oblast for supply of steel products for major regional projects.
- Severstal won the Digital Transformation in the Industry nomination at the 16th SAP Forum Moscow.
- The Steelmaking Museum project in Cherepovets received the Investor of the Region award of the Government of Vologda Oblast. Severstal received an honorary badge and a first-class award in the Best Culture, Tourism or Social Investment Project nomination.
- Chairman of Severstal Alexey Mordashov received the national Director of the Year—2017 award. The Director of the Year Award is sponsored by the Association of Independent Directors and RSPP with support of the Moscow Exchange, PwC and Sberbank. Other Board members, including Alexander Auzan, Alun Bowen, Philip Dayer and Vladimir Mau, were included in the non-ranked list of Top 50 Independent Directors. Artem Bobulich, corporate secretary of Severstal, was included in the list of top 25 corporate secretaries.
- Severstal Air Company was named a top 20 employer in civil aviation in 2017. Aviapersonal, Airline Personnel Association and AviaPort Agency prepare this annual rating following a survey of aviation professionals.
- Severstal won the Leading Corporate Donors competition of the Donors Forum, PwC and Vedomosti and received three awards: first place among 52 major enterprises in the overall ranking, first place in preservation and development of culture and art (Museums of Russian North charitable programme), and second place environmental protection (Clean Steelmaking educational project).
- Severstal once again won the People Investor competition of the Association of Russia's Managers in the Healthy Lifestyle nomination with its Severstal Health integrated programme.
- We received the Regional Investor award for our victory in the Best Public-Private Partnership Investment Project nomination. The winners were selected by the jury including representatives of the Government of Vologda Oblast, business community and local residents. Severstal also received the Investor of the Year 2016 award of Saratov Oblast.
- All five innovative solutions of Severstal presented at the 13th International Invention Fair in Seoul received awards and recognition by international delegations. Severstal was awarded the SIIF-2017 Gold Medal for the development of high-strength rebar shapes for high-rise and cast-in-situ projects, and the development of two-layer rolled products. We received a silver award and a special prize from the German Inventor Association for the development of damping steel.
- The Customer Orientation in Repairs project of Severstal Russian Steel Repairs Directorate was recognised as the top project at the 2nd Russian Congress of Performance Leaders. This competition is organised by the Lean Forum—Lean Manufacturing Professionals movement with support from the Russian Ministry of Economic Development.



3

CORPORATE
GOVERNANCE

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

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Standards of Corporate Governance

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

Severstal follows the highest standards of corporate governance and 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 Severstal on 21 October 2015.

Severstal's Code of Corporate Governance builds on the following core principles:

- Protection of the interests of all shareholders
- Unified and well-shaped business structure supported by corporate strategy
- Balanced M&A strategy supported by a qualified majority of Board members

- Reliance on a stable, deep-rooted and incentivised management team
- Industry-leading disclosure practices and transparent corporate reporting
- A solid platform for delivering superior, long-term returns to all our shareholders

We comply with all the 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.

Governing Bodies

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. The General Meeting of Shareholders has competence over the following:

- Approval, modification and amendment of Severstal Charter, and approval of other internal documents governing the operation of Severstal bodies
- Reorganisation and dissolution of Severstal
- Determination of the number of Directors and election of the Board
- Formation of Executive Body of Severstal and its early termination
- Election of the Revision Commission and the approval of the Auditor
- Approval of accounting (financial) statements
- Management of Severstal shares, authorised and issued capital, and payment of dividends
- Approval of major transactions and related party transactions as required by Russian laws
- Decisions on participation in financial and industrial groups, associations and other commercial corporations

- Determination of the regulations for the General Meeting of Shareholders
- Other matters as established by Russian laws and Company Charter

Severstal provides timely notifications to shareholders of the dates of the General Meetings of Shareholders, and on the vote results by publishing announcements on our official website.

The Annual General Meeting of Shareholders 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 and preliminarily approves the Annual Report of the Company according to Russian laws.

On 9 June 2017, the Annual General Meeting of Shareholders elected Board Members, approved the Annual Report and accounting (financial) statements of Severstal for 2016, and rendered decisions on other agenda items.

At Extraordinary Meetings of Shareholders on 15 September and 24 November 2017, Shareholders approved dividend payments for the first six months and the first nine months of 2017 respectively.

Severstal's Board of Directors is responsible for the general management and performance of the company's operations, including the discussion, review and approval of its strategy and

business model, and closely monitoring its financial and business operations both by segment and as a whole.

The Board's principal objective is to run the company in such a manner as to increase shareholder value in the medium and long term. The Board also works closely on short-term financial and operating matters, such as debt and costs.

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.

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.

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, Severstal Charter* (2016) and the Regulations for the Board of Directors (2014)** published on Company website.

Each member of the Board must be a physical person.

The Board consists of ten members, including five Independent Non-Executive Directors, one Non-Executive Director and four Executive Directors. All Board members are men. Severstal has separate roles for the Chairman and the Chief Executive. 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. A balanced board is a critical prerequisite for high-quality decision-making.

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

The Chairman of the Board of Severstal Alexey Mordashov won the Director of the Year 2017 award in the Chairman: Contribution to Development of Corporate Governance nomination. This award is a joint initiative of the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs (RSPP).

Severstal Management is the sole executive authority (Chief Executive) of Severstal. The management company is responsible for all matters of the everyday business management with the exception of those in competence of the General Meeting of Shareholders and the Board.

Executive biographies of individual Directors are available in the Corporate Governance Report section of Severstal's Annual Report 2017***.

* [https://www.severstal.com/files/16495/Устав%20проект%20\(испр.\)%20v2%20\(CLEAN\)%20fnl.pdf](https://www.severstal.com/files/16495/Устав%20проект%20(испр.)%20v2%20(CLEAN)%20fnl.pdf)

** <https://www.severstal.com/files/1604/ПоложениеСД.pdf>

*** См. стр. 44–50 http://www.severstal.com/files/21683/Severstal_AR%202017_Rus.pdf

In 2017, the Board had 18 meetings and reviewed the following key issues:

- Occupational health, safety and environmental protection
- Approval of Severstal Code of Business Conduct, Anti-Corruption Policy and Code of Employee Conduct
- Global market environment
- Reports of the Board Committee Chairmen
- Results of the external assessment of the performance of the Board and its committees in 2016
- Proposals from shareholders for candidates to the Company Board and Internal Audit Commission
- Matters related to the organisation and conduct of the General Meeting of Shareholders
- Recommendations on the amount of dividends to be paid out
- Approval of the Auditor's fee
- Approval of Company financial statements for the full year 2016, first three months of 2017, first six months of 2017 and first 9 months of 2017
- Issues related to the Company's strategic opportunities
- Election of the Chairman of the Board, Senior Independent Director and members of the Board Committees
- Issues related with the company's bonds;
- Approval of Company budget for 2018
- Acquisition and disposal of assets
- Related-party transactions

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 of its evaluation for 2017 in a meeting in February 2018.



Composition of Severstal Board (as of 31 December 2017)

Board Members, Non-Executive Directors



Alexey Mordashov

Chairman of the Board

Member of the Health, Safety and Environmental Protection Committee



Sakari Tamminen

Senior Independent Director

Chairman of the Remuneration and Nomination Committee
Member of the Audit Committee



Alun Bowen

Independent Non-Executive Director

Chairman of the Audit Committee
Member of the Remuneration and Nomination Committee



Philip Dayer

Independent Non-Executive Director

Chairman of the Health, Safety and Environmental Protection Committee
Member of the Remuneration and Nomination Committee



Vladimir Mau

Independent Non-Executive Director

Member of the Audit Committee



Alexander Auzan

Independent Non-Executive Director

Member of the Health, Safety and Environmental Protection Committee

Board Members, Executive Directors



Alexander Shevelev

Executive Director

Member of the Health, Safety and Environmental Protection Committee



Alexey Kulichenko

Executive Director



Vladimir Lukin

Executive Director

Member of the Health, Safety and Environmental Protection Committee



Andrey Mityukov

Executive Director

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 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.

We have 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 Regulations of PAO Severstal. Severstal receives advice and recommendations from the following Board Committees:

Audit Committee

- Monitors risk management processes and control environment in the Company
- Analyses annual reports, quarterly financial statements and auditor's opinions

Remuneration and Nomination Committee

- Engages qualified professionals to manage the Company, and creates the incentives necessary to ensure their successful work for the Company
- Reviews the remuneration and compensation of Senior Executives and Independent Directors

Health, Safety and Environmental Protection Committee

- Helps the Board of Director to ensure the availability of required risk management systems in the areas of occupational health, safety and environment

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.

In 2017, the Audit Committee had four meetings, the Remuneration and Nomination Committee had three meetings, and the Health, Safety and Environmental Committee had three meetings. The Board is constantly focused on the social aspects of corporate strategy and the management of environmental risks. In 2017, Board Committees discussed several matters in the area of sustainable development. These included:

- Financial stability
- Financial statements
- Internal audit results
- Employees
- Long-term incentive plan

- Succession planning
- Executive remuneration structure
- Environmental protection and occupational safety
- Severnaya Mine Disaster
- Divisional industrial safety statistics
- Health, safety and environmental matters
- Environmental compliance

For more information about the activities of Severstal Board Committees and other governing bodies, please refer to the Corporate Governance Report section of Severstal Annual Report 2017, section Board Committees and Reports from their Chairs*.

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.



Severstal Russian Steel includes five product segments whose heads report directly to the divisional Chief Executive. The structure of repair businesses was mirrored to the new segment structure. Current organisational structure of manufacturing segments includes five management levels.

In 2017 Severstal Russian Steel established the Production Planning Directorate. The new directorate is responsible for all communication with customers, from capacity planning to product delivery.

Occupational safety and environmental protection programmes, investment projects, technology expertise and development of new products are now the responsibility of the Technical Directorate.

Occupational Safety and Environmental Protection Department is a part of the Technical Directorate now. The Chief Power Engineer's Department has an Energy Efficiency Centre. Talent management is the responsibility of the Human Resource Directorate, and in addition to that, every production directorate has a Senior HR Manager. Our Corporate Headquarters have a Corporate Communications and Investment Relations Department responsible for external and internal stakeholder communications and headed by the Director of Communications and Government Relations.

* See pages 56–61 http://www.severstal.com/files/21683/Severstal_AR%202017_Rus.pdf

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. (Please refer to

the Engagement section of this Report.) Severstal communicates with local communities via mass media publications, public events, and public reports about production development and corporate environmental and social projects.

In 2016, press services of our businesses published over 675 press releases on operational and social issues.

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.

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.

Risk Management in Severstal

The Board

- Ensures uninterrupted operation of the risk management system and internal controls. Assures shareholders that Severstal has identified key risks and successfully manages them

Audit Committee of the Board

- Monitors the risk management system and internal controls
- Evaluates the most material risks of Severstal and decides on taking actions to manage them

Risk Management Committee

- Promotes communication between functional managers and between the management team and the Board
- Approves the concept of risk management system and internal controls
- Reviews and approves external and internal risk reports

Risk Management and Internal Control Department

- Coordinates risk identification, assessment and mitigation measures
- Accumulates and processes risk assessment data
- Generates consolidated risk reports
- Implements best practices in risk management and internal audit

Internal Audit Department

- Independently evaluates the risk management system and internal controls
- Informs the Audit Committee of the Board of its findings

Occupational Health, Safety and Environmental Protection Department

- Manages environmental risks
- Develops and implements health, safety and environmental protection (HSE) standards and policies
- Monitors compliance with HSE standards
- Conducts communication and training events promoting the understanding of HSE standards by employees, and conscious compliance with them

HR Director

- Works with unions in Company businesses to prevent labour conflicts
- Organises regular commission activities on actual social issues
- Monitors feedback received over our hotline, Ethics Committee, Severstal Pulse survey and other channels

Risk owners

- Identify and mitigate specific risks

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

Anti-corruption measures are discussed in the Prevention of Corruption and Violations of Laws and Internal Regulations section of this Report.

A complete list of risks that Severstal is exposed to is provided in the Risk Management section of the Annual Report 2017*.

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.

Environmental regulations tend to get stricter in Russia and across the world, increasing the risk of additional requirements in the area of environmental footprint, reduction of emissions, removal of pollution, remediation of disturbed land. These and other costs can affect the business, financial position and operating results of Severstal.

Severstal uses Health and Safety Policy and Environmental Protection Policy, a series of programmes in occupational safety and reduction of environmental footprint, and voluntary commitments in the area of corporate social responsibility to manage these risks.

These activities require the use of efficient systems and top international management standards in respective areas, and the commitment of all Severstal employees to improving occupational safety and environmental protection.

Severstal's occupational safety and environmental protection programmes comply with all national and regional laws and regulations. Severstal is committed to productive cooperation with the government and public authorities in development of its strategy and implementation of individual programmes focused on addressing challenges in social development.

We cooperate with Russian federal and regional authorities, and participate in several government committees and business associations. For further details, please refer to the Occupational Safety and Environmental Protection, and Social Projects and Investments sections of this Report.

* https://www.severstal.com/files/21415/Severstal_Annual_report_ENG_2017.pdf

Management of Social Risks

Success of our business depends on good relations with employees. Severstal has a consistent talent management programme focused on supporting the existing productive relationships based on mutual respect. Severstal engages in fair and productive discussions with our employees, respects their freedom of association, and pays significant attention to employee development programmes helping them to realise their full potential.

We offer social support to our employees and develop regional social investment programmes helping us to create good living conditions for our employees and their families, and to attract new talent.

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 actively contributes to social and economic development of our regions, cooperates with local authorities and communities, invests in local quality of life programmes, helps resolve specific social issues and develop regional social potential. This helps us establish a favourable social environment for the operation of our businesses, and ensure their sustainable development. Annual Social Environment Monitoring survey conducted in the regions of our major assets, including Balakovo, Vorkuta, Kostomuksha, Olenegorsk and Cherepovets, became an important source of feedback and evaluation of our contribution to the resolution of regional social issues. This survey includes evaluation of 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. Survey results suggest that local communities have a high regard of Severstal as a modern, high-technology, socially oriented business.

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.

We also use specialised commissions to facilitate our discussions with employees and minimise social risks.

Labour Dispute Commission steps in when an employee, either themselves or through a representative, was not able to resolve a dispute directly with their employer or manager.

Social Insurance Commission oversees the payment of state social insurance benefits and organizes employee and family trips to health resorts.

Special-Purpose Loans and Financial Aid Commission arranges financial support for employees in hardship.

Pension Commission determines employee eligibility for early retirement in cases of staff reductions or for medical reasons.

Moral Damages Determination Commission arranges voluntary payments for moral injuries resulting from workplace accidents and professional diseases.

Residential Commission reviews housing applications of employees and reviews residential lease agreements with employees who need a better place to reside for the duration of their work for the Company.

Special Workplace Evaluation Commission ensures productive communication of all stakeholders during the Special Work Environment Evaluation process, including the matters of guarantees and harmful workplace compensations.

We also conduct regular meetings with union leaders.

For further details about our employee relations, please refer to Stakeholder Engagement, and Employees.

Managing New Opportunities

Innovations and product quality improvements are priority areas for Severstal.

Planning, developing and monitoring the implementation of innovative projects is the responsibility of the Chief Executive of PAO Severstal, who holds quarterly meetings with the Director of Russian Steel Subsidiary, Director of Marketing, Director of Sales, Director of Technical Development and Quality, Director of Investments, and Project Managers. These meetings focus on project progress and challenges, and we make timely decisions on corrective actions and replication of successful experiences with other customers and in other areas.

PAO Severstal is the industry-leading developer and supplier of new technologies. As of 1 January 2018, our intellectual property portfolio included 486 Russian patents.

In 2017, we used 104 of our own inventions in production, and they saved us 137 million roubles.

In 2017, we filed 27 patent applications with Rospatent and received 41 patents.

Innovations in Severstal

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

Severstal participated in international inventor conferences:

- 13th Novoye Vremya International Invention and New Technology Expo (Sevastopol)
- Metal Expo 2017 (Moscow)
- 13th Seoul International Invention Fair (SIIF 2017)

Our inventions received six gold medals, five silver medals and 15 special awards.



PAO Severstal has an annual R&D budget. 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. In 2017, we invested 48.3 million roubles in R&D.

Severstal partners on R&D programmes with the leading universities and industry research organisations, such as St. Petersburg Polytechnic University, MISIS National University of Science and Technology, Cherepovets State University, and Bardin Steelmaking Research Institute. Environmental research is a significant component of our R&D, with 1.3 million roubles of investments in 2017.

Though steelmaking is considered a traditional industry, new technologies create new opportunities, especially in the areas of remote equipment control and management, workforce productivity and stock optimisation.

Information technology also starts to play a bigger role in Severstal.

Formerly a supporting function, IT is becoming a key driver covering all aspects of our business from manufacturing and logistics to overall business management.

Severstal has identified opportunities for development in the following areas:

- Industrial Internet of things and predictive analytics
- Big data
- Automation and robotisation
- Management of multimodal product and raw material transportation
- E-commerce

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

In 2017, Severstal retained Oracle as a strategic partner on existing and future production IT projects. Our long-term cooperation projects will generate maximum value from best practices and cutting-edge technologies of Oracle Database Enterprise Edition in all production assets of Severstal.

In the reporting year, we decided to create the industry-largest hybrid data lake to support our digital strategy and ensure long-term acceleration of our competitive edge. An array of technology data collected at Company businesses will be processed and used to deliver deep analytics, machine learning and artificial intelligence projects.

We continue rolling out predictive analytics at our steelmaking facilities. Big data collected by various sensors helps forecast steel quality in near real time. Cherepovets Steel Mill launched a predictive model to prevent failures at Hot-Rolling Mill 2000. This is the first preventive repair model rolled out under Severstal's digital strategy.

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 was the first Russian steelmaker to roll out SAP Transportation Management (SAP TM) system ensuring maximum automation transparency of our transportation business processes.

Severstal partners with Sberbank on the practical application of blockchain technology. The parties tested a full cycle of an international letter of credit blockchain transaction for a steel shipment contract with a client of Severstal located in Belarus.

Severstal participates in two Federal Special Purpose Programmes funded by the Russian Ministry of Education and Science and focused on development of materials with new properties.

We conduct research and development activities on request and with participation of our major corporate customers. For example, a 2015-2020 R&D cooperation programme of Severstal and Gazprom covers joint research and development for new types of rolled products and pipes, including insulated cold-resistant pipes for aggressive environments designed to handle ultra-high pressures.

We think of new technologies as new opportunities, but also potential sources of risk, and we study their application with appropriate precautions.

Severstal organises Innovation Days to inform production departments and functional directorates about new technologies and technological solutions offered by foreign equipment manufacturers. In 2017, we hosted such an event with WISDRI Engineering & Research Incorporation Ltd.

We actively support national and international standardisation programmes.

Our Expert Network in 2017

Severstal experts actively contribute to the development of new technologies. Cherepovets Steel Mill implemented an innovation standard to support technical creativity among all employees. Its employees can get bonuses up to 250,000 roubles for innovative ideas.

To make the best use of our intellectual resources, we are building an expert network in four areas, Transportation, Energy, Repairs and Coal Mines.

The Severstal expert network helps identify successful technology innovations at individual sites or in individual units, and replicate them across all Company subsidiaries.

- In 2017, representatives of Severstal's energy expert network visited Yakovlevskiy Mine. Upon the visit, they proposed eight initiatives to improve the efficiency of power management and reduce costs.
- Representatives of Severstal's expert network conducted a technology audit of the crushing and processing lines at Olcon.
- Per recommendations of expert network participants, special requirements for the quality of manual tools used in the service shop were imposed to reduce injuries. Only professional equipment is now sold in the stores in our industrial sites.

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. Our quality policy includes our commitment to meet the requirements of ISO 9001, IATF 16949 and STO Gazprom 9001 standards and establishes the foundation for goal-setting in the area of quality and continuous improvement of our quality management system. Severstal Quality Declaration and the text of our policy are available on our corporate website*.

The Quality management system of Severstal (QMS) meets international quality requirements and received approvals of independent certification authorities. Our QMS also meets all requirements of one of our key customers, Gazprom. 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.

Severstal Russian Steel

The general approach of Severstal in quality management has been applied to Severstal Russian Steel subsidiaries. All of them now have multi-stage quality control. The components of this system ensure high product quality at various production steps through the following:

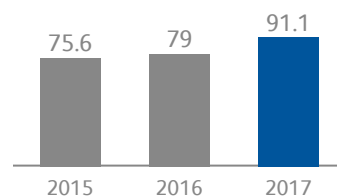
- Compliance with technology requirements
- Full quality control
- Consistent monitoring of all processes
- Appropriate equipment maintenance
- Availability of all required tools

In the previous reporting period, we reorganised the technical directorate of Severstal Russian Steel to increase the focus on our end-to-end product manufacturing technology and close cooperation with manufacturing technologists.

In 2017 we continued improving our quality control processes.

- In some areas, we expanded the operation of the technical arbitration team of the Quality Control Department. It included identifying issues with product certification, preventing shipments of non-compliant products, evaluating shift-to-shift quality changes, selective audit of finished products, audit of potentially non-compliant products, and employee training.
- We established the Continuous Quality Control (CQC) team responsible for centralised ongoing quality recording, including measurement and tracking of a various indicators including the most important one, First Time Through (FTT).
- We developed a SharePoint application simplifying steel quality audit. The new application supports all file formats, including pictures of defects, and allows attaching files to documents.
- Severstal started upgrading automated defect detection systems to improve the operations of Rolling Mill 2, Pickle Shop 3 and Coating Shop 2 of the Flat Product Plant. This is only one of several initiatives we are taking to improve the quality of our automotive sheet and expand product range.
- Another investment project includes delivery and installation of four quality control systems for slitting lines of the Flat Product Plant. New equipment will automatically detect all defects with at least 95% accuracy.

First Time Through (FTT), %**



* <http://chermk.severstal.com/rus/customers/products/document1215.phtml>

** Metal finishing shops No. 1 and 2, Bent shapes plant, cold mill, pipe mill, long product mill and converter steel of TPZ Sheksna and Balakovo Long Product Mill.

Our product quality initiatives in steelmaking are not limited to standard tests performed by Quality Control Departments. The main plants of Cherepovets Steel Mill perform technology audits that include four levels of quality control.



If shortcomings are identified during an audit, the auditor and accountable employee take corrective actions together, and the employee receives feedback on the identified shortcoming. Information about the number of audits, shortcomings, corrective actions, their time frames and status are provided to the Director of Steel and/or their Managers of Expertise and Operations on a daily basis.

In 2017 Severstal Business System Development Centre kept working on the Internal Quality Culture and Customer Orientation project in the flat-rolled shops of Cherepovets Steel Mill. Key segments of Cherepovets Steel Mill achieved significant improvement in quality indicators and a fundamentally higher FTT yield. This resulted in reduction of quality losses and increased customer loyalty. Over the year, we established a system focused on improving technology discipline and quality of work related to product certification. The key effort in this area was directed at the engagement of employees in quality matters.

We evaluate our products for compliance with quality standards and perform type certifications.

- In 2017, Severstal received new certificates of compliance with LVS 191–2012 and LST-NE-10080 standards permitting the sale of rebar in various diameters to Latvia and Lithuania. Balakovo Long Product Mill received DIN certificate of compliance with German product safety requirements in 2017.
- An inspection audit performed by Lloyd's Register EMEA confirmed the compliance of our product labeling with requirements of EC Regulation 305:2011 and existing product certificate.
- Severstal has successfully passed a supervisory audit of its DD12 steel manufacturing process for Benteler Automotive confirming that our products meet the requirements of VDA 6.3 standard.
- Severstal reconfirmed the certification of the Marine Register of the Russian Federation for production of F500W shipbuilding steel plates for marine vessels and floating rigs. The Register also certified Teci Rus steel cables.
- Severstal was the first major Russian steelmaker to start the conversion of quality certificates in electronic format with digital signatures. Flat Product Plant of Cherepovets Steel Mill

switched to digital signatures altogether. Transition to electronic document management in other production departments will significantly reduce our costs associated with printing, mailing and storage of paper documents. Our customers can validate the authenticity of our product quality certificates online on the official website of Severstal.

Results of continuous product monitoring suggest that the content of dangerous and hazardous substances in our rolled products meets all the requirements of Directive EC 2011/65/EU, meaning our products are safe for use in all applications from machinery to white goods.

The central laboratory of Severstal continuously reconfirms the quality of its tests. In 2017, we passed the competence check in the INTERGAZCERT voluntary certification system. Our laboratories successfully passed eight types of comparative tests together with Russian and international providers.

Severstal has a centralised diagnostics service that monitors the quality of refractory materials we purchase, metal semi-finished products and iron powder. As a result, now we are able to evaluate materials faster and with lower costs.

2017 Results

All tracks achieved ambitious FTT targets.

- In 2017, we achieved our basic objective for the “Non-compliant products + Defective products + Complaints” performance indicator. With the target of 1.574%, our actual result was 1.506%.
- We reduced product rejection rates due to scabs, non-metallic impurities in converter steel, and mechanical damage for flat roll shop No. 2 and the number of justified customer complaints for flat roll shops 2 and 1. Compared with 2016, overall rejection increased due to changes in the measurement criteria in 2017 and adjustment of targets for packed orders.

Severstal Long Product Mill Balakovo has a quality control system in place to screen raw materials for steelmaking (scrap metal, ferroalloys, lime, coal, etc.) All raw materials pass laboratory tests to confirm their quality and compliance with technology

requirements. Product acceptance and certification are performed by shift personnel. Quality Control Supervisors personally oversee changes in product grades, product finishing, sorting and warehouse operations. Finished rebar products and shapes pass all tests mandated by applicable standards and ship with quality certificates confirming their compliance with GOST requirements.

Multi-stage quality control systems ensuring highest possible product quality are also in place at Izhora Pipe Mill and Severstal TPZ Sheksna. Our products for the domestic market are certified for compliance with the voluntary GOST R standard, while our export products are certified with organisations approved by our customers.

All key materials used in pipe production (rolled steel, welding and coating materials) undergo acceptance tests. We monitor all technology parameters of all core machines during the whole pipe manufacturing and coating process. There is a steel monitoring system in place that allows monitoring these parameters and production process in real time.

During pipe production we perform multi-stage non-destructive tests of core metal and weld seams as well as visual and instrumental geometry tests of pipes and coatings. Each product receives a quality certificate upon all tests. Products of Severstal TPZ Sheksna are in steady demand in Russia and other countries. This facility works at capacity due to the wide product range and strong customer orientation. It continuously expands its range with new products required by specific customers. In 2017, the plant started manufacturing two new product types, piles and welded profiles for automotive applications.

Severstal TPZ Sheksna rolled out a product monitoring system that tracks all products at all stages of production and keeps collected data for at least five years. High product quality is achieved thanks to modern equipment, high-quality materials and highly skilled employees.

In 2017, it successfully passed a recertification audit by Lloyd's Register and reconfirmed its entitlement to manufacture products with CE marking*. Every year, certain products get approvals and certificates of the Marine Register of the Russian Federation. Round tubes and derivative products are certified for compliance with GOST R standards.

Plans for 2018

The following product quality improvement initiatives are planned for 2018:

- Launch Eyeron automated certification system at Flat Roll Shop No. 2 for real-time monitoring of almost all technology parameters in production of every product
- Complete a technology stabilisation projects with support from Severstal Business System experts in flat roll plant, steelmaking plant, long product plant and transportation department.
- Deploy special-purpose MES** systems at the Coating Plant 2 and EAF Plant.

* CE stands for Conformité Européenne — European Conformance

** Manufacturing Execution System

- Connect pipe plant and coating shop No. 3 to the integrated planning system of the Flat Roll Shop No. 1
- Speed up order turnaround from smelting to shipping along all tracks
- Continue systematic analysis and resolution of root causes of the main defects in production of flat-rolled products, steel defects in pipe steel shop, and mechanical damage in flat-rolled shop
- Ensure at least 100 % achievement of target product quality negotiated with clients
- Ensure continuous improvement of internal quality discipline, reduce FTT rejections by 25 %
- Maintain positive trend in the use of 8D methodology to address customer issues***, and scale this methodology
- In 2018–2019, TPZ Sheksna is planning to purchase and install automated pile manufacturing equipment, as well as automated pipe and profile packing line that would use synthetic composite materials for basic protection from passivation.

Severstal Resources

Vorkutaugol has a multi-stage quality control system. At the preliminary stage, Quality Control specialists take samples of rock mined by every mining facility. Once the rock arrives at preparation plant, ash analysers are used to measure its quality. Concentrate samples are taken every three hours during the preparation process. At the final stage, samples are taken automatically when the final product is loaded into rail cars. All samples are submitted for testing to the coal laboratory of the Preparation Plant. Finally, customers perform their own analysis of coal concentrate when they receive our products, and the results of this analysis are also submitted to the Quality Control Department of Vorkutaugol.

Karelsky Okatysh has a comprehensive quality control system covering everything from planning to product shipping. All products shipped to customers undergo certification. When customers receive iron ore pellets, they can compare their properties with documented values during acceptance.

Key indicators are tracked at all stages of the Olcon manufacturing process including compliance with shipment schedule, iron and water content, and their variations within a week. We use and improve a new production process to make pellets with higher iron content. We analyse actual data and identify causes of variations on a weekly basis. Since concentrate quality depends heavily on the quality of iron ore delivered to the plant, we have established a cross-functional team that monitors raw material quality. This team includes representatives of quality control department, project office and transport authority, as well as geologists and coal preparation experts.

*** Customer-oriented quality and safety problem management methodology consisting of eight steps

Customer Care

Severstal strives to satisfy the needs of our customers to the fullest extent and to be the best seller of steel products. In 2017 we kept our customer orientation 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

Evaluating customer satisfaction

We conduct quarterly customer surveys on product quality, shipping discipline and service quality. Customer surveys suggest that in 2017 Severstal was able to improve performance and achieve significant differentiation from its competition in terms of quality, most importantly due to innovative products, as well as level of service and technology support.

In 2017 satisfaction with our product quality was 84 % (83.5 % in 2016), while satisfaction with our shipment discipline was 72.1 % (70.3 % in 2016). Satisfaction with all types of services was 82 % (80 % a year before).

Key consumers of Severstal products

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.

The largest consumer of steel structures is the construction industry. In 2017 Severstal Steel Solutions launched a completely new level of service. When a customer places an order for a complete steel frame building, the company delivers a turnkey package including design, manufacturing and delivery of steel

structures, their installation and assembly, and the final handover of complete building. Customers can also use an additional communications channel—a mobile application that allows getting quick information about the cost of standard buildings, new products and services.

As a part of our European sales development effort, we received certificates of compliance with national standards of Latvia, Lithuania, Finland, Germany, Sweden and Slovakia, so that we can sell more rebars to European countries in 2018.

Manufacturers of home appliances use Severstal's cold-rolled steel to make refrigerator cabinets and doors, gas and electric ranges, enamel cookware and plumbing products. Pickled hot-rolled steel is used to produce compressor and engine blocks, whose internals are also made of Cherepovets electrical steel. Cherepovets steel is used by well-known brands such as Atlant, Gefest, Ariston, Darina, Flame and Beko.

- In 2017, Severstal shipped over 100,000 tonnes of steel products to manufacturers of household appliances and packaging materials.
- Severstal launched a new colour-coating line in the newly built Colour Coating Plant No. 3. Added capacity will help Severstal significantly increase our share in the colour coated product market and expand our product range for the construction industry and the manufacturers of home appliances.

Severstal is a leading producer of automotive products including cold-rolled and hot-rolled pickled steel, over 50 types of hot-dip galvanised automotive plates, as well as a number of unique products such as cold-rolled high-strength steel, heat-strengthening steel, and other products.

- In 2017, Cherepovets Steel Mill shipped up to 70,000 tonnes of steel products to KAMAZ. Together with our customer, we keep working on replacing products that were imported previously, including side members and reinforcements.



- Starting from early 2017, we have been shipping Cherepovets steel products to GM Uzbekistan for their Ravon lineup.
- Severstal is the main Russian supplier of Volkswagen Group Rus.

Severstal also works with manufacturers of tower cranes, excavators and dump trucks. The Big Three construction equipment manufacturers, Caterpillar, Komatsu and Hitachi, as well as Liebherr and Kraneks, chose Severstal as their main supplier to their Russian plants.

Severstal is one of the largest Russian suppliers of large-diameter pipes used in oil & gas mining, transportation and processing. Our key customers, Gazprom, Transneft and Rosneft, generate stable demand for these products.

- In 2017, as a part of joint Severstal and Gazprom R&D programme, Izhora Pipe Mill started shipping large diameter pipes with special specifications for use in pipelines passing through tectonic zones. The first production batch was shipped for use in the Power of Siberia pipeline.

In 2017 we did the following to keep improving our customer orientation:

- Customer interaction with demonstration of solutions for issues
- Implementation of comprehensive certification rules meeting customer requirements
- Automated product certification project in individual shops
- 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 significant improvement of the two key indicators of customer orientation in our steelmaking, FTT and OTIF (On Time In Full).

Online Store

In 2017, we launched an Internet store offering more than 5,000 Severstal products. Use of the newest e-commerce platform and active involvement of our customers in the development of Severstal Online Store helped us develop attractive interface, offer a wide range of functions and ensure fast and convenient experience.

Now any corporate customer or prospect can get a cost estimate including additional services and delivery, place a production order or purchase product in stock in the distribution network, and choose a delivery option. Users can log in to their online accounts to track orders, generate reports, download documents, monitor payments and provide feedback.

Approximately 2,200 orders are placed through the online store every month. Over the year, the store sold approximately 1 million tonnes of steel products.

In 2018, we will expand the store by connecting all branches of Severstal Distribution to it and offering an opportunity to place orders for industry-specific products in addition to generic product range.

Stakeholder Engagement

Principles and Forms of Engagement

Being a reliable partner for our stakeholders is a part of Severstal's social responsibility. Severstal communicates and engages with stakeholders on the basis of mutual respect, business partnership and delivery on commitments. 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.

Severstal is committed to:

- Being the leader in value creation, and continuously working on improving product and service quality for our customers and partners

- Maintaining favourable working conditions, high occupational safety and competitive remuneration while supporting their professional development
- Achieving a high return on investment for our shareholders
- Meeting all legal requirements and partnering with the government on the matters of sustainable development, and contributing to social and economic development of regions where we work
- Improving environmental aspects of our production facilities and conserving resources

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 consider the following groups our key stakeholders:

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

When we define the key groups of Severstal stakeholders, we consider which organisations and individuals are affected the most by Severstal operations and which of them can be reasonably expected to be able to influence our ability to implement our strategies and achieve our objectives, and also consider mutual interests.

Key principles of stakeholder engagement are established in several corporate documents. These included: 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, Quality Policy, and the Dividend Policy.

Severstal works with our stakeholders in Russia at 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, ensuring our transparency and availability of corporate management for communication and cooperation with investors. We strive to make regular dividend payments to shareholders. Severstal is fully compliant with applicable laws protecting interests of shareholders and investors. Our General Meeting preparation and management process ensures that all shareholders have an opportunity to review all necessary data and to speak up. The competence of the General Meeting of Shareholders is established by Severstal Charter and applicable Russian laws, and the procedure of its organisation and conduct is defined in the General Shareholder Meeting Regulations. Shareholders of Severstal are entitled to:

- Participate in the management of Severstal
- Participate in General Meetings of Shareholders and vote on all matters within their remit and authority
- Receive dividends from Severstal, provided that such decision is approved by the General Meeting of Shareholders
- Receive a part of Severstal's assets in the event of its liquidation

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 Revision Commission, and for the role of the Sole Executive Body.

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 2017, he indirectly controlled 77.03% of shares of PAO Severstal. 20.15% of shares are publicly traded on Moscow and London stock exchanges. The remaining 2.82% are treasury stock. The Board of Severstal plays the key role in the development of corporate strategy and monitors the implementation of shareholder decisions.

The Dividend Policy of PAO Severstal adopted in October 2014 includes a provision that Severstal will pay dividends of at least 50% of its net profit for the reporting period as long as certain debt ratio requirements are met*.

For the four quarters of 2017, Severstal paid 110.05 roubles of dividends per share.

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 investors.

We are one of the first 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 directly to experts to ask their questions. In 2017 this event took place in London. Severstal executives talked about what we do and what we achieved in operating performance improvement, about our financial position and about what we are planning to do to maintain a stable position in our market.

According to Centre for Corporate Information Disclosure, www.e-disclosure.ru, we published almost 149 notices of material facts in 2017. 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 throughout the year.

* On 16 April 2018 the Board of Directors adopted a new dividend policy prescribing the payment of dividend equal to 100% of free cash flow for the full year.

Business Partners and Consumers

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. Severstal Code of Business Partnership defines the key principles of partnership, responsibilities of Severstal and our expectations from our partners. The Code includes provisions for business ethics and zero tolerance for corruption, as well as social responsibility requirements for our supply chain: Severstal suppliers are expected to meet certain industrial and environmental safety requirements and comply with the Anti-Corruption Policy.

Customer relations

We work with our partners transparently and professionally. At the same time, we expect from our partners that they demonstrate zero tolerance for corruption, comply with workplace safety and environmental protection standards while they work on Severstal premises, and make their employees who work with Severstal aware of the Severstal Code of Business Partnership.

Severstal sells our products to more than 80 countries all over the world. Our customers include some of the largest Russian and global enterprises.

Severstal has a customer relations management system that includes:

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

Our 49 key customers generate almost 80% of Severstal's profit. We signed agreements on controlled parameters and unique requirements with every one of them. If there's an issue, the client gets assigned a cross-functional team including production and technology expert, customer care specialists and representatives of sales directorate. The objective of this team is to adjust our internal processes to meet the actual customer needs. For example, our construction industry customers need steady volumes, so we schedule their orders to be ready to ship on particular dates and give customers an opportunity to manage them. Automotive customers need just-in-time shipments, so their conveyors don't stop.

In the reporting year, together with several clients we identified key causes of defects in Severstal's steel products, and developed recommendations for their elimination.

In a scheduled coordination meeting, representatives of Severstal and ChelPipe summarised the results of 2017 and decided to extend the joint R&D program. We will partner on

the development of corrosion resistant rolled products from new types of steel that would be used to produce stamped and welded pipeline components.

In the first quarter of 2017, representatives of 50 Russian construction companies joined a conference organised by Severstal. We presented our new products and services, including online sales products.

Strong intellectual and technological portfolio gives us an opportunity to find quick solutions to complex research and development challenges and implement innovative projects per requirements of our key customers. In May, Severstal joined a meeting on the results and outlook of Gazprom partnerships with Russian steelmaking and machinery enterprises hosted by Power Machines.

Severstal conducts customer satisfaction surveys on a regular basis. Our clients appreciate our flexibility, informational support and quality of our employee services. Customers still perceive Severstal as a customer-oriented supplier trying to meet customer expectations and helping them to solve their problems. The results of customer survey are provided in the Customer Orientation section.

In September 2017, Severstal Metiz organised a Responsible Construction infrastructure conference for approximately 60 of our dealers and customers. The conference included presentations by Severstal Metiz, construction and project management companies, a discussion club, and a visit to St. Petersburg infrastructure assets built with our products.

In December, top sellers of Severstal branded products had a meeting in Cherepovets. Cherepovets Steel Mill welcomed 22 employees of our dealers from eight Russian cities that achieved top results in the promotion of Steel Velvet and Steel Cashmere products.

We have a multifunction Central Service Centre in Yaroslavl that is responsible for all transactional operations. The Central Service Centre hosts customer interaction services, including employee call centre and hotline, call centre for internal and external customers, and support for self-service functions. This also includes HR administration, treasury and financial accounting of all Severstal businesses. We are planning to make our transparent business process outsourcing services available to third parties.

The Central Service 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 Company businesses.

We use a new approach to quality problems arising during our customers' storage or processing of steel products. We assign priorities to quality complaints according to their urgency for our customers. We use the 8D methodology to address critical, high-cost, repetitive problems (failures to meet specifications and defects). This methodology ensures problem resolution within 90 days.

Thanks to our new "triples" of Sales / Customer Technical Support Service / Customer Service Support Service we are able help our clients better and faster.

Cooperation with Suppliers

In 2017 Severstal had 6,892 suppliers. The majority of our purchases are iron ore (16%), coking coal (14%) and scrap metal (12%). 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.

Purchases of main raw materials

Raw material	Volume
Coking coal	5.9
Iron ore products	13
Steel Scrap	2.9

A large expense item is the purchase of transportation services from third parties (11%). 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.

All Severstal businesses use automated Electronic Trading System to manage supplier relationships. It supports supplier selection and evaluation process, as well as paperless exchange of orders and product shipment / service completion notifications between Severstal and its supplier. Suppliers need to register in the system and get qualified to participate in the online purchasing process.



Severstal develops mutually beneficial relationships with our suppliers and tries to build strategic partnerships in order to work closer with them and sign long-term contracts. We are improving our purchasing system to ensure timely supply of goods and optimise our stock.

To involve regional small and medium businesses in online purchasing, Cherepovets Agency for Urban Development together with Severstal offers training courses on the use of the online trading platform in Cherepovets and Vologda.

From our suppliers, we expect support with the launches of new solutions and alternative products to help us reduce costs.

We audit the quality management systems of our partners to improve the expertise of our suppliers. Our workgroup includes quality control and procurement specialists, and Quality Management System auditors. We use audit results to prepare a report with recommendations for quality improvements for both suppliers and buyers upon the conclusion of the audit.

Employee Communications

Internal communications system

Our internal communications system ensures that we maintain an ongoing discussion with our employees. This system creates a single information space, helps us to develop a unified corporate culture, and gets our employees involved in our corporate changes. The development of our internal communications system is governed by the Key Provisions and Standards of Internal Communications at Severstal.

Our principal communications medium is our 16-page corporate newspaper Severstal with combined print of 23 thousand copies. Approximately 90% of our employees read the newspaper, and over half of them use it as the preferred source of company news. We have redesigned and restructured the online version of Severstal newspaper to make it easier to use and read.

The audience of our Severstal News TV programme is 69% of our employees. In addition to that, 60% 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 app that includes Severstal newspaper, Severstal News TV programme, and the portal newscast.

Our new information distribution and feedback channels for our employees and local communities include our official pages on Facebook and VK. Our internal communications specialists actively represent Severstal in the professional and expert community. They spoke at the RUSSIAN HR-COMMUNICATION WEEK conference, 12th Internal Communications for Business National Forum 2017 and 8th Russian Growth Factory Conference 2017, and attended workgroup meetings of the Association of Russian Corporate Media.

Unified internal media communications system of Severstal

Face to Face Channel:

- conferences (including video)
- employee meetings
- shift meetings

Corporate media:

- print media:**
 - Severstal newspaper in the Russian language
 - information stands
- online media:**
 - Severstal News TV Programme
 - online version of Severstal newspaper
 - online newsletter
 - phone app
 - newsfeed on the internal corporate portal

Visual tools:

- posters, banners, billboards
- indoor and vehicle design
- booklets, leaflets etc.

Feedback channels:

- hotlines, email account, portal;
- SMS centre
- Manager Q&A system
- internal research
- Ethics Committee

Feedback Channels

Severstal has a comprehensive feedback system that uses several communications channels. We use Issue Rosters and SMS Centres in individual departments and businesses to address current issues and problems experienced by our employees. Registered employees can send their questions in SMS messages to the project office, where they are sorted and forwarded to the responsible people. Answers to the questions are published in the corporate newspaper. Thousands of submissions are handled through these channels every year. Severstal has a centralized 24x7 hotline. Employees can make their submissions over phone, email or our corporate web portal. Anonymity is guaranteed. Our employees also can contact the hotline by sending a free SMS to a 4-digit short code. All submissions are logged into a unified database, and a responsible person and a due date are assigned to every submission.

In 2017 we received 544 submissions, compared with 643 in 2016. Of those, 19% were related to HR issues (compensation, bonuses and other payments), 13% were related to health and safety, and 6% were related to social and general issues.

We were able to help 94% of the overall number of people who contacted our hotline, compared with 87% in 2016.

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 2017, the Committee reviewed 45 employee submissions. Of those, 41% were partially or fully corroborated, and we took administrative actions. The majority of our employees trust corporate feedback channels.

In addition to feedback channels between employees and their managers and an inter-departmental knowledge exchange system, our corporate communications system includes direct communication channels. In 2017 Severstal Chairman Alexey Mordashov hosted a traditional video conference with Severstal employees. More than 1,500 employees on 24 Severstal sites participated. The conference focused around the financial position of Severstal, safety, product quality, customer orientation, employee development, and innovations.

Alexey Mordashov established the annual meeting of the Council of New Managers in Cherepovets. It includes managers (Shop Floor Managers and above) appointed within the past six months. In 2017, this meeting had 26 participants from Cherepovets, Vorkuta, Kolpino, Vsevolozhsk, Minsk, Moscow and Balakovo. Together with Chairman of the Board and top executives of Severstal, they discussed their ideas on safety, employee development, marketing, customer relationships, expenses and production costs.

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 strategy, and to identify the most important issues (for further details, please refer to Goals and Engagement).

Survey results are communicated to all heads of businesses and large departments.

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 the management.

Survey results are reviewed in departmental focus groups where employees share their ideas and discuss potential solutions. Then we use the proposals that we received to develop corrective action plans.

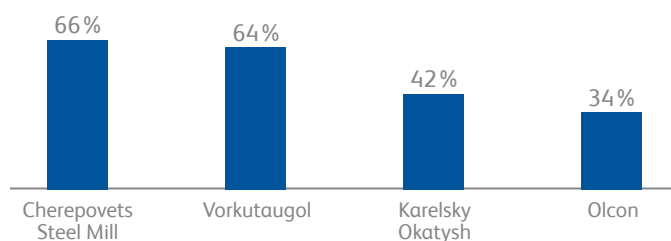
Collaboration with trade unions

Severstal develops 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 strategic development of our businesses, and also our key partners in delivery of social and labour security to our employees. Between 34% and 66% of Severstal employees 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.

In 2017, Severstal had an agreement in place with AMROS and GMPR on amendments and additions to the Industry Tariff Agreement for the Mining Sector for 2017-2019. In the end of 2017, some provisions of this agreement were revised. For example, between 2018 and 2019 the minimum salary for industry employees in core job families should reach at least 1.7 times the regional minimum for employable individuals, and for employees in non-core job families—at least 1.4 times the minimum. Employers maintain the purchasing power of salaries, and index salaries to offset inflation.

Trade union involvement at the core businesses of Severstal in 2017



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 exception of Severstal Management whose employees are fewer than 2% of the overall workforce. Tariff commissions established by joint organisations of employers and trade unions conduct continuous monitoring of compliance with federal industry agreements and industry agreements. Its findings are summarised twice a year. At the level

of individual businesses, compliance is also monitored by joint commissions of employer and trade 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.

We discuss the following topics at the meetings with union leaders:

- Performance of collective agreements
- Recreation for children, health resort treatments for employees (distribution of packages)
- Organising events planned together with business unit 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.

In December 2017, representatives of Severstal employees signed a new collective agreement for 2018–2020. This agreement covers almost 24,000 employees. According to the new document, minimum wage needs to be at least twice the living minimum established for the employable population in the respective region of Russia. Severstal also increased the amount of one-time support payments. Benefits for employees returning from military service was doubled from 5,000 to 10,000 roubles. Maternity grant was increased to 3,000 roubles, and monthly benefits for widowers and widows with children, legal guardians and donors who donated blood at least three times per year were increased as well.

In 2017 Vorkutaugol and representatives of miners' trade unions signed a new collective agreement for 2017–2019. The overwhelming majority of agreement provisions remained in full force and effect, and some were expanded. For example, Vorkuta miners will have access to Black Sea health resorts during winter. The vacation travel allowance for Vorkutaugol employees and their family members, including spouses, has been increased by almost 10%. Vorkutaugol's collective agreement includes provisions for annual salary indexation, and significantly expands basic benefits for miners prescribed by the federal agreement on the mining industry.

Severstal Projects signed a new collective agreement enhancing employee benefits:

- Families with three or more children under 18 will be entitled to free health resort packages for every child
- Employees returning to work after military service receive one-time support payment of 5 thousand roubles

- Under certain conditions, pregnant women can get personal time off with average monthly pay
- If an employee dies from a general health condition while at work, a special commission may approve a special one-time support payment.

In 2017 we also negotiated the terms of the new collective agreement at Cherepovets plant of Severstal Metiz.

In April 2017 TPZ Sheksna won the regional Collective Bargaining Agreement as the Foundation of Employee Social and Labor Rights contest in the Best Collective Bargaining Agreements in the Non-Government-Funded Organizations with up to 200 Employees nomination. Its collective agreement includes provisions for free health resort packages for employees and their children, as well as improved work environment. More than 800,000 thousand roubles per year are allocated to benefits for large families, single mothers and other special employee categories. Severstal Long Product Mill Balakovo was a runner-up in a similar competition.

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 during the termination of employment at a near-retirement age (two years before retirement) in case of 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.

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. All employees of the core production chain of Severstal have switched to a new 12-hour schedule that reduces commute time and gives employees an opportunity to spend more time with their families.

We agreed with Vorgashorskaya employees in Vorkuta to change their schedule starting from June 2017, so now they work three on, one off shifts, with shift duration reduced from eight to six hours. Previous shift system was considered inefficient as employees were getting exhausted and losing motivation. Employee productivity and engagement was going down. Reduced shift duration will also help the miners to assess risks in hazardous environment more accurately due to higher focus.

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 discusses the steelmaking environment with the federal government and hopes for support from the government in development of national consumers. We also discuss tariff policies and protection of Severstal interests in domestic and foreign markets in the light of Russia's WTO and Eurasian Economic Union membership.

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.

Comprehensive agreements on social and economic partnerships with regional authorities

Severstal is committed to strategic partnership with regions and cities where we work. We sign social and economic partnership agreements in all regions where our businesses are located.

In 2017 we extended the following agreements:

Cooperation agreement between Vorkutaugol and the City

The largest employer in the city, Vorkutaugol makes an annual contributions to municipal social and economic programmes focused on education, medicine, culture, physical education and sports, and municipal development. Our 2017 agreement includes 20 million roubles of funding, mostly for municipal development.

Cooperation agreement between Severstal Long Product

Mill Balakovo and the Government of Saratov Oblast Per this agreement, regional government will support the economic interests of the mill outside the region, support the delivery of health, safety and environmental projects, and help attract highly skilled managerial and professional talent to the mill.

Severstal Long Product Mill Balakovo, as a responsible employer, commits to ensuring timely salary payments to its employees, protecting their benefits prescribed by Russian laws, and continue implementing CSR programs of Severstal Group.

In 2017, we kept working on our part of the agreement on strategic partnership of Severstal and PhosAgro in the development of social and economic potential of businesses in their joint regions, including Vologda, Murmansk, Leningrad and Saratov oblasts.

Cooperation with authorities on environmental protection

As a part of agenda dedicated to the Year of Ecology 2017 in Russia, Severstal Management, Ministry of Natural Resources and the Environment of the Russian Federation, Federal Service for Environmental Control and Vologda Oblast Government signed a four-way agreement — On joint effort on bringing public attention to what we do to address environmental issues in Russia. Under this agreement, Severstal agreed to complete a major investment programme at the steelmaking plant of Cherepovets Steel Mill. Construction of central gas cleaning system for Ladle Furnace 2 and Steel Finisher is a crucial component of this environmental project.

During an official tour of large industrial companies in Cherepovets, Head of Rosprirodnadzor visited Cherepovets Steel Mill and inspected the central gas cleaning system built according to international best practices.

Participation of Severstal managers and industry professionals as experts in preparation of legislative acts and government resolutions on development of mining and steelmaking industry, international trade and social environment.

Our representatives work in several 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 and 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

Severstal maintains 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 multifaceted cooperation focused on addressing specific social issues and developing the inherent potential of the regions. We support local communities in the matters of employment, career orientation, youth policy, health care, investments in social infrastructure, support for culture and sport, and financial aid to vulnerable population. Severstal makes significant investments in development of small and medium businesses and social entrepreneurs, contributing to regional social and economic development and improving local quality of life.

Agency for Urban Development and Cherepovets Investment Agency established under the public-private partnership

programme with the City of Cherepovets drive the development of the city. Favourable environment for businesses and investors are the key to diversifying the economy of mono-towns. These organisations work on a variety of initiatives to support, create and develop businesses, help deliver business projects of all sizes by providing them services they need, engaging resources of municipal, regional and federal state support programs, and employing efficient tools of business collaboration, international partnership, competency development, and development of investor communities.

The Way Home programme on comprehensive prevention of social orphanhood and child neglect delivered by the Way Home Foundation has been successfully developing over the last few years. Social services and employment authorities, health care organisations, educational institutions, law enforcement agencies and non-profits contribute to this programme. (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 of Vologda Oblast districts.

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.

We consider the opinions of all stakeholders on all projects with potential impact on local communities. 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 such as RSPP, CCI of Russia, Business Russia or NP Market Council.

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

International and Russian business forums and associations, and public-private partnership organisations:

- Russian Steel Steelmaker Association, Member of the Supervisory Council

- World Steel Association headquartered in Brussels (Belgium), Chairman (from October 2012 to October 2013), Deputy Chairman (since October 2013)
- 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.
- Investment Council under the Patronage of the Chairman of State Duma, Council Member.
- Trade as a Driver of Economic Growth 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
- Association of Russia's Managers
- Donor Forum
- Association of Russia's Directors

Culture and Arts Organisations:

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

Cooperation with Educational and Scientific Institutions

Cooperation with specialised universities and research institutions including St. Petersburg Polytechnic University, MISIS National University of Science and Technology, St. Petersburg State Mining Institute, 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 resources of 20 laboratories and more than 150 scientists involved with those science and education centres.

We partner with scientific institutions under Federal Special Purpose Programs. This collaboration helps them to secure state financial support of their R&D initiatives while PAO Severstal allows them to use results of surveys using mutually beneficial license agreements. For example, Severstal in cooperation with MISIS National University of Science and Technology in compliance with Government Decree No. 218 has been working on a comprehensive project to develop Severcor, a new type of anti-corrosion, cold-resistant rolled steel for oil pipelines.

In close partnership with Bardin Steelmaking Research Institute, we developed and produced at our Kolpino site a new type of hot-rolled strip for pipelines crossing active tectonic zones.

Participation in international industry initiatives

In 2001, Severstal became a member of the World Steel Association representing 161 steel producers from 60 different countries, including nine out of ten world largest steelmakers, as well as national and regional steel industry associations and steel research institutions. We actively support all initiatives of the association, participate in its most important committees and in joint projects.

At the 51st international Worldsteel conference in Brussels in 2017, Chairman of Severstal Alexey Mordashov was re-elected to the Executive Committee of the World Steel Association. The mandate of the new Executive Committee of Worldsteel is valid until October 2018.

Our representatives work actively with the Russian Steel Steelmaker Association. The Association unites major Russian steelmakers and actively collaborates with government authorities providing input for their decision making, and setting rules and standards for Russian steelmakers to improve working conditions for mining and steelmaking enterprises and the Association members. Our representatives work in all Association commissions and chair the Information and Analytics Commission.

- Alexey Mordashov, Chairman of Severstal, Deputy President and Head of RSPP Committee on Trade and Customs Policy, Integration and WTO, made several presentations:
 - At the international RSPP forum, Integration in Greater Eurasia: Risks and Opportunities, during the Week of Russian Business
 - At Gaidar Forum 2017, Russia and the World: Choosing Priorities
 - Three sessions of St. Petersburg International Economic Forum 2017
 - Northern Dimension international forum in St. Petersburg
 - Customs for Business and State plenary session of the Customs Service 2017 international trade fair
- Regional branch of RSPP held a field session on the development of Vologda machinery industry at the industrial site of Cherepovets Steel Mill. Session participants visited SSM Tyazhmash machinery plant and other facilities located at the industrial site.

- Severstal and Cherepovets State University held the 3rd Science and Technology Progress in Steelmaking 2017 international conference with over 150 participants from Russia, France, Italy and Sweden.
- Chief Financial Officer of Severstal Management Alexey Kulichenko participated in Russia—Germany: Digital Economy and Industry 4.0 panel session of the world's largest Hannover Messe industry fair in Hanover. Session participants discussed Russian and German markets of digital economy.
- At the 3rd International SAP Mining and Metals Summit, Reinventing Productivity in Mining and Metals Using Digital, Severstal presented its online store as a key component of customer relationships.
- Severstal participated in annual SAP Forum and demonstrated its online store on SAP Hybris platform and the Central Service Centre of Severstal. Severstal speakers discussed the digital transformation of the Company and several completed projects.
- Severstal Steel Solutions participated in Worldsteel conference on steel construction in Germany.
- Together with Moscow Exchange and the Association of Russia's Managers, Severstal organised the Responsible Investing in Russia: Experience and Outlook round table. This event was attended by CSR experts, largest Russian enterprises and investment funds.
- Vladimir Zaluzhsky, Head of Communications and Investor Relations, and Natalia Poppel, Head of Corporate Social Responsibility and Brand Department, presented Severstal experience at the 6th UN Forum on Business and Human Rights. The Forum is a global platform for annual discussion of results and experience exchange on UN Guiding Principles on Business and Human Rights. The main topic of the 2017 Forum was realising access to effective remedy.
- Severstal demonstrated our practices in responsible supply chain management at the Responsible Purchasing and Supply Chain—Opportunities and Challenges for Businesses round table at the Russia Today international information agency. Event participants discussed challenges with and approaches to responsibility in supply chain, and reviewed Russian and international best practices in building and defining it.
- Severstal presented our experience in regional development at the 2nd Regional Social Innovations Forum in Krasnogorsk. Representatives of 85 federal subjects of Russia met at this event to discuss their experience with the most successful social projects.
- Severstal supported the research conference on the World Water Day in Cherepovets. Our representatives discussed Severstal's environmental protection initiatives and offered a tour of Cherepovets Steel Mill to demonstrate our water protection facilities.
- Oleg Saraev, Head of Environmental Protection Service of Severstal Russian Steel, participated in a round table on the issues with the adoption of public reporting among large Russian enterprises. Leaders in social reporting discussed their experience and approaches to information disclosure, especially in environmental matters.
- Head of Severstal CSR and Brand Department Natalia Poppel participated in the 4th annual Emerging Markets 2017 research conference of the Graduate School of Management of St. Petersburg State University and presented Severstal's experience in responsible management of supply chain from CSR perspective. At the Day of Social Entrepreneurship, Natalia Poppel presented some of our projects, including School of Social Entrepreneurship of the Agency for Urban Development, and the Way Home joint programme of Severstal and Cherepovets State University.

Key Priorities in Corporate Social Responsibility and Sustainable Development

2017 objectives	Progress and 2017 highlights	2018 objectives
<p>Quality of governance</p> <p>Use the Business System of Severstal to achieve ambitious revenue and profitability objectives to secure solid industry leadership</p>	<p>● Overachieved objectives on key business indicators thanks to the following:</p> <p>a) Development projects</p> <ul style="list-style-type: none"> Improving customer orientation culture and internal quality Implementing individual sales proposals for 49 key customers <p>b) Deployment of modern management tools and technologies</p> <ul style="list-style-type: none"> Digital transformation Process and product innovations Agile* <p>c) Focusing employees on priority areas with Hoshin planning</p>	<p>Consistently outperforming competitors and maintaining industry leadership by key performance indicators with the following:</p> <p>a) Implementing state-of-the-art management practices and solutions:</p> <ul style="list-style-type: none"> Enhancement of Hoshin Kanri** strategy development methodology in achieving the EBITDA objective Creation of innovation centres Leadership in speed of change <p>b) Completing new projects:</p> <ul style="list-style-type: none"> Development of supply chain Achievement of TSR objective*** in sales and comprehensive customer services concept Improvement of investing process
<p>Introduce a unified corporate objective for top executives</p>	<p>● We have a unified objective, Operating cash flow, with targets depending on previous results</p>	<p>Transition of all Company employees to unified corporate objective with targets depending on previous results</p>
<p>Cascade objectives from Chief Executive to workers through objective matrices</p>	<p>● Corporate objective achieved We achieved ambitious targets on eight corporate objectives, including the unified corporate objective of Severstal—Operating cash flow.</p>	<ul style="list-style-type: none"> 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
<p>Set objectives on stock levels of finished, semi-finished and unfinished products and assets for production directors, repair directors, and heads of production planning, logistic and sales support departments.</p>	<p>● Inventory objectives overachieved at the most ambitious level</p>	<p>Transition of individual Company businesses to unified structure of annual objectives</p>

* Managing projects using agile methodology

** A method for strategic goal setting in the Company

*** Total shareholder return

4 EMPLOYEES

Our employees are our core asset. Their involvement in delivery of our corporate strategy, expertise and accountability define our ability to compete in the long term.

Severstal is committed to maintaining an attractive work environment helping our employees to achieve successful results and professional development, and offers social benefit programmes. Severstal believes that the expertise of our people is a critical competitive advantage helping us to secure and maintain our business leadership.

The primary objective of our human resources policy is to ensure economic efficiency of all human resource areas by taking into account everything that affects employee motivation and achievement of their full potential.

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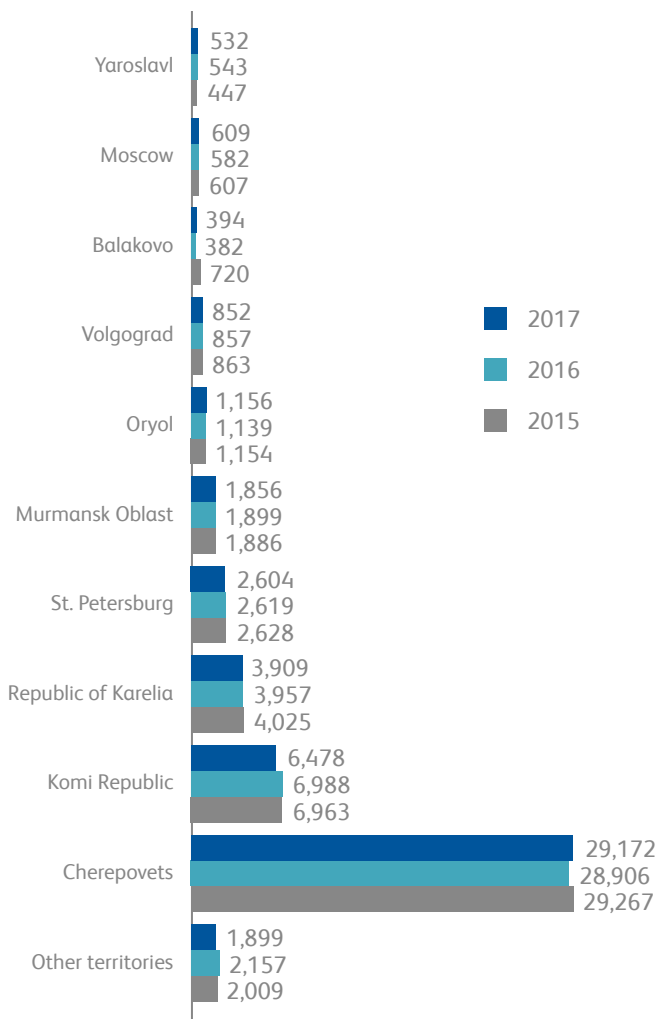
Staff Profile

In 2017, the average headcount of Severstal reduced by 1%, to 49,462 employees. Divisional distribution of our employees remained the same. The majority of employees (75%) worked in Severstal Russian Steel. Geographically, most employees (59%) worked in Cherepovets where we have our core manufacturing facilities. Our second largest region by the number of employees is the Komi Republic (13%).

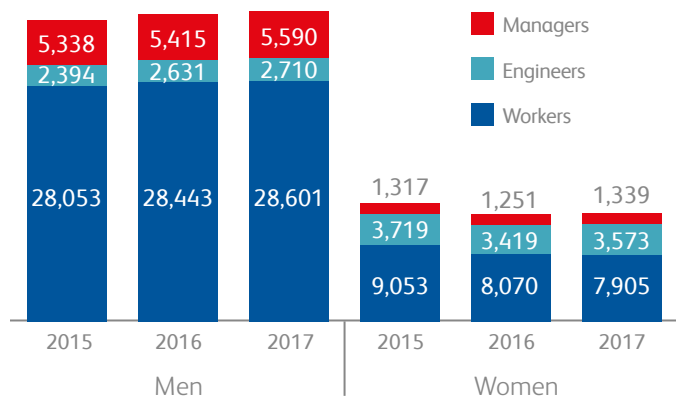
At the end of 2017, the share of workers in our overall headcount was the same as at the end of the previous reporting period, at 73%, while the share of managers was approximately 14%, and the share of specialists and office workers was approximately 13%. This breakdown did not change significantly from 2016.

The share of women among our employees decreased slightly, to 26% at the end of the year, which is still a rather high number for our industry.

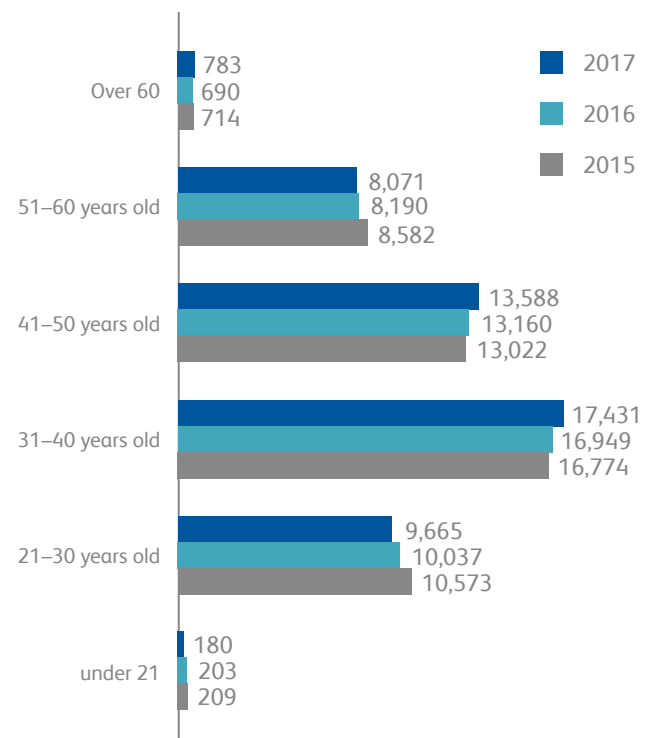
Average staff headcount by region



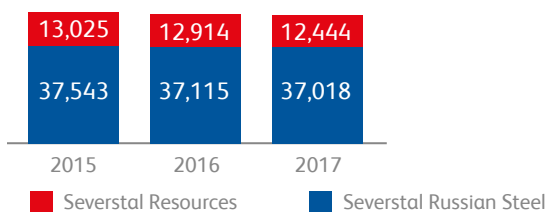
Staff composition by category and gender at the end of the year



Staff composition by age at the end of 2017



Average staff headcount by division



The share of women in the management remained at 2016 level of 19%. Women still constitute the majority of our engineers and technology specialists (57% versus 43%). Three quarters (78%) of our workers are male, which is common for the mining and steelmaking industry.

20% of our employees belong to the youngest age group (under 30). 35% of our employees are between 31 and 40, the age group that combines high expertise with good physical shape. The breakdown of our staff by age group is almost the same as in the previous reporting period, and the average age is now 39.9 years, compared with 39.8 in 2016.

We hired 4,070 new employees (8% of the overall headcount), including 3,039 men and 1,031 women, in the reporting period. Slightly more than half of the new employees are under 30 years of age.

Severstal HR Directorate collects and analyses staff attrition data on a quarterly basis. We define undesirable attrition as turnover for preventable reasons. Our attrition rate in 2017 has reduced to 3.3% of the overall headcount, compared with 3.5% in 2016 and 4.6% in 2015.

We streamline our overall headcount every year to ensure high efficiency of our business processes, Ensuring that our staff changes do not affect the safety and quality of our technology processes.

There were no significant staff reductions in Severstal in 2017.

For the most part, staff reduction was attributable to natural attrition. Other factors included outsourcing of unskilled jobs, implementation of organisational efficiency initiatives, and changes in organisational structures.

Severstal does not use employee leasing services. However, we outsource some of our functions by starting to purchase them from third parties. In these circumstances, Severstal employees who used to perform functions that are being outsourced are often employed by the outsourcing service providers. We outsourced accounting, employee compensation, HR administration and training.

Policy and Management

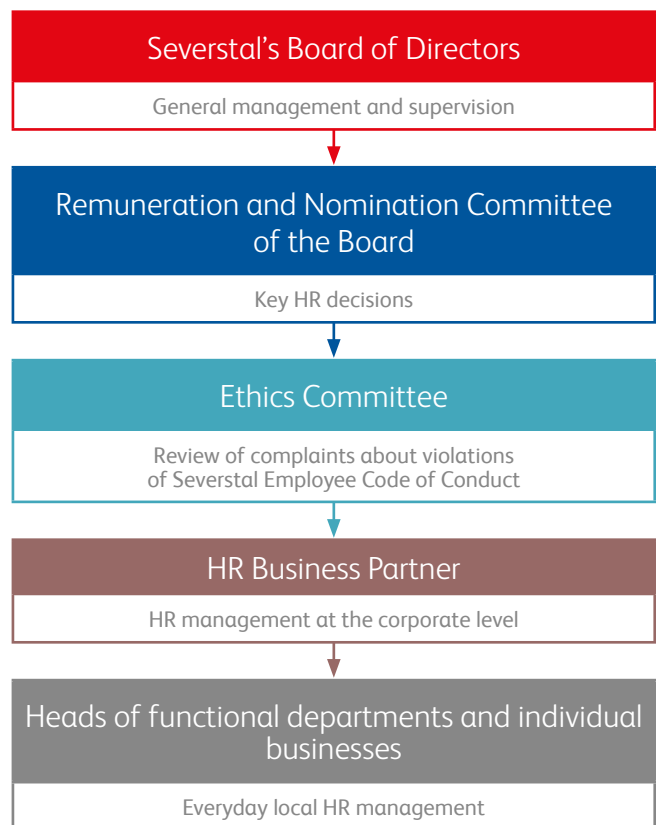
Our Human Resource Policy is integrated in the Business System of Severstal and focused on achieving economic efficiency in four HR areas:

- Professional development
- Employee engagement
- Improvement of work environment
- Improvement of employee motivation

Our HR policies are reflected in our corporate regulations and methodologies, such as 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.

Severstal is committed to supporting the culture of cooperation, mutual respect and strong expertise while following fair and transparent practices.

Our HR management reports to the executive office of Severstal. 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.



2017 results

In 2017, our HR department had the following priorities:

- Continued development of engaging leadership culture by:
 - Supporting goal-setting and motivation system, and reinforcing 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, including the development of professional competencies in technology development and quality departments
- Finding and implementing best practices to improve corporate governance, organisational structure and cost reduction.
- Improving the efficiency of the HR function (such as simplifying, automating and streamlining processes), identifying and implementing international best practices in HR
- Improving HR customer orientation with a focus on proactivity

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 2017. (For further details, please refer to the Stakeholder Pulse section of this report.)

In 2017, we kept improving the organisational efficiency of our HR function through HR process automation and standardisation, removal of redundant functions, and development of self-service functionality and information systems.

We significantly customized and enhanced the interface of SAP Career and Succession Management, and automated management potential evaluation module that helps us identify, assess and develop future managers.

Severstal actively develops distance learning. We automated management of secondments to improve the efficiency of HR processes and reduce the number of paper documents.

In 2017, we saw further development of the Comprehensive Production Manager Evaluation project. This project focuses on improving the productivity and engagement of our employees through individual and team ratings and communications. We built individual rankings for 1,533 employees.

Motivation and Compensation

Goals and Engagement

We kept focusing our HR activities on the promotion of Severstal values and strategic objectives, including customer orientation, safe labour, business sustainability, employee engagement, and employee attitudes to their jobs, Severstal and each other.

The efficiency of our goal-setting system directly affects employee motivation. Our existing reward system motivates our employees to achieve higher results while developing their engagement. We have completed one of our priority projects for team-based KPI setting, and now our service and technology specialists work together on common goals.

Further employee engagement is stimulated by the implementation of comprehensive management evaluation and the Professional Competition initiative.

In 2017 we extended this initiative to new departments and improved employee participation from 57 % to 62 % 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 improvement of their productivity and the overall performance of Severstal.

In April, our corporate centre hosted a round table on the research of employee engagement in production companies. This event was attended by representatives of United Metallurgical Company, EVRAZ, Rosatom, Gazprom Neft, Nordgold, Power Machines, SVEZA and Severstal. Event participants discussed approaches to engagement research, and shared their experience in the development of survey result processing systems.

In 2017, approximately 75 % of our employees participated in the survey, compared with 70 % in 2016. To ensure the objectivity of our results, we used a third-party service provider who used AON Hewitt methodology to conduct this survey. Survey results indicated a 7 pp improvement in employee engagement, from 68 % in 2016 to 75 % in 2017.

Employee engagement across Severstal increased to 75 % in 2017.

Severstal scored higher than average for Russian manufacturing industry (66 %) and across global steelmakers and mining companies (62 %). In 2016-2017, Severstal reduced the gap across

all engagement indicators, and today all our measurable elements of engagement are higher than in global steelmaking community.

Employee engagement increased due to satisfaction with issues that have been addressed in all Severstal businesses: appreciation, employee value, career opportunities, salaries and benefits.

Like last year, highest scores went to performance management (78%), top management, satisfaction with results and work content (overall satisfaction was 76%). Employees also gave high scores to customer orientation (78%) and safety (84%) in Severstal. Resources (61%) and salaries (49%) remain relatively low, although they also show some growth.

The results of this survey were communicated to the executive team of Severstal and were discussed at a Board meeting. All businesses have received reports with key findings of the survey, for the review by the management and HR teams. During conferences, workshops and webinars all levels of management (from foremen to directors) discussed how to read and analyse reports, and how to deliver key results to the team. We developed a reminder with step-by-step instructions for foremen and site leaders.

After that, we compiled lists of issues whose resolution was likely to contribute to employee engagement to the highest extent. We used a new approach to corrective actions and compiling of the issues lists, including departmental round tables with the management, foremen and workers, and focus groups with employees of different levels and areas of specialisation. After that, every department developed a corrective action plan. All plans were reviewed and approved by Severstal executives.

Karelsky Okatysh ran the Day in the Shop project to improve employee engagement. 46 managers teamed up with workers for one day. They observed their work, and noted positives and issues in checklists. Overall, the managers identified 51 issues that will be resolved.

Idea Factory and Innovator Support

Idea Factory is an important employee motivation system that Severstal uses to collect and implement ideas of our employees on business process optimisation, quality improvement, reduction of losses, safety improvements and improvements of 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 exchange for gifts in partner stores or entry certificates to the Steelmaking Museum, or to pay for private health insurance programme, wellness centre Rodnik packages or canteen lunches.

2017 results

Over 80% of Severstal employees participated in Idea Factory in 2017.

Cherepovets Steel Mill presents monthly awards to the authors of best proposals generating significant economic value. In 2017, authors of 132 ideas received gift certificates. Combined value of awards was 2.6 million roubles

Technical and organisational solutions that are new for the business and generate economic or other (technological, etc.) value are considered innovation proposals. Their authors receive monetary awards after their innovations implemented. Combined value of innovation awards in 2017 was 7.7 million roubles.

Non-financial motivation is an important part of our total rewards as well. 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 the matters of employee selection and promotion, Severstal follows the Labour Code of the Russian Federation and certain 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.

Our goal is to attract top talent aligned with our corporate values. To achieve this goal, we use best practices in recruitment and onboarding relying on the latest IT solutions.

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, selection process may involve immediate supervisor, HR representative, internal customers and colleagues of the future employee, and other employees. Use of child and forced labor is strictly prohibited in Severstal.

We use transparent hiring procedures and a large number of independent evaluators to ensure a fair and open selection process. Job openings are published on 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.

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.

In addition to interviews, we use tests and surveys to assess internal and external 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.

A well-developed HR environment gives Severstal employees a clear picture of promotion criteria. We identify potential successors for all levels of the management at HR Committee meetings twice a year. In 2017, we had around 4,000 participants in our HR committees, and we discussed approximately 7,000 employees. This effort resulted in increased number of internal promotions, suggesting that our succession planning becomes more efficient.

Employee Performance Evaluation

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.

Employee performance and career evaluation system in Severstal

- Managers
- Specialists
- Workers

Discussions of Goals

- evaluation of last year's goal achievement
- evaluation of employee's adherence to company values
- development of future goals
- adjustment of personal development plan

- Managers
- Specialists

360 degree

- getting feedback on corporate value and competency model

- Managers

HR Committees

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

Discussions of Goals

Every year, our managers at all levels meet with their subordinates to discuss their goals. In these meetings, they discuss employee's previous year's performance, and develop and agree on their plans and goals for the current year. Discussions of goals are the source of feedback that the managers use to plan their actions and work on goal attainment and development of every individual employee. For an employee, it is an opportunity to plan their development in present and future rules.

Discussions of goals cover 100% of Severstal's Russian business unit employees. The overwhelming majority of the workers, managers, specialists and office workers think of their annual discussion with the manager as an inspiring and motivating event.

360 degree feedback

All managers, from the Chief Executive to site managers, participate in the 360-degree feedback programme every year, as well as specialists and functional experts, although they do that in a simplified format. The participants are required to evaluate their colleagues using a special scale and also to identify what exactly in their behaviours does not align with company values, and to comment specific cases of such behaviours or provide positive examples.

Summarised 360-degree feedback is taken into account in the development of personal development plans and at

HR Committee meetings where the teams jointly agree on the results of performance evaluation results and future cooperation with a particular employee, including their participation in succession plans.

Feedback on values and competencies is used in discussions of goals.

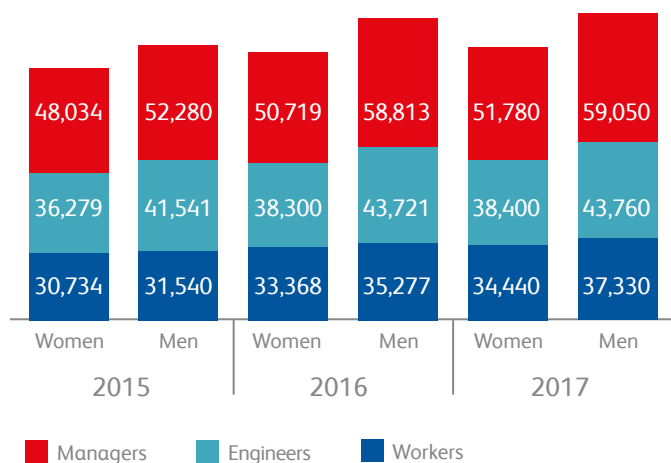
Approximately 12,500 employees received 360-degree feedback and participated in discussions of goals.

More than 500 employees at all levels had an opportunity to participate in the Assessment and Development Centre procedure and Second Opinion assessment interviews used to identify high-potential managers and specialists and to create their career development plans, including their future appointments.

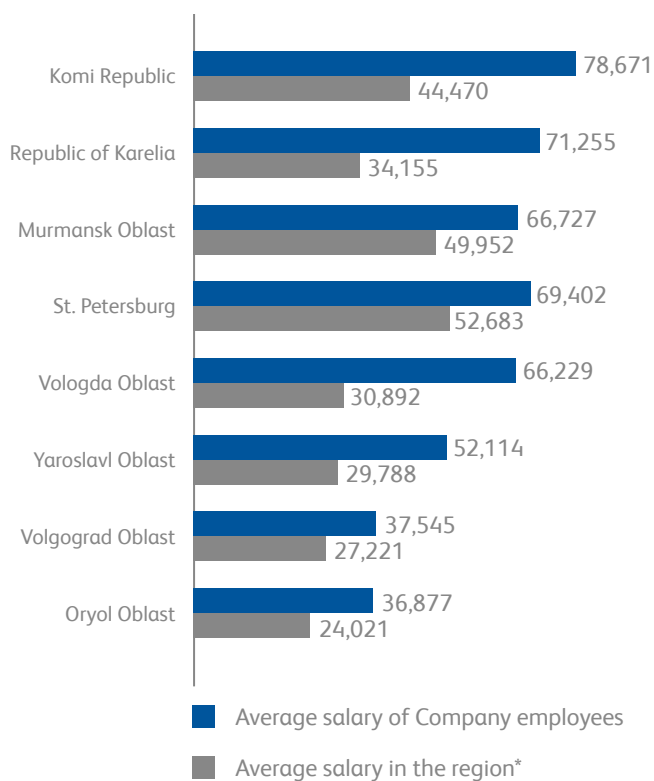
Comprehensive foreman class assignments are reviewed every year. Foremen who demonstrated strong results and achieved first or second levels receive monthly premium until the next assessment. Their core salary is also increased if it is lower than median or the upper third of the grading range. In 2017, we approved a comprehensive evaluation methodology for shop managers, and in 2018 we will perform the first evaluation based on the previous year's results. The goals of comprehensive assessment of line managers are to create additional motivation for personal competences development, to increase efficiency and effectiveness of subordinates, to discover and appreciate extraordinary workers and to detect areas of improvement for the managers.



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



The ratio of average wage in Severstal to the regional average in 2017, roubles



* Source: Russian Federal State Statistics Service

Compensation

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.

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

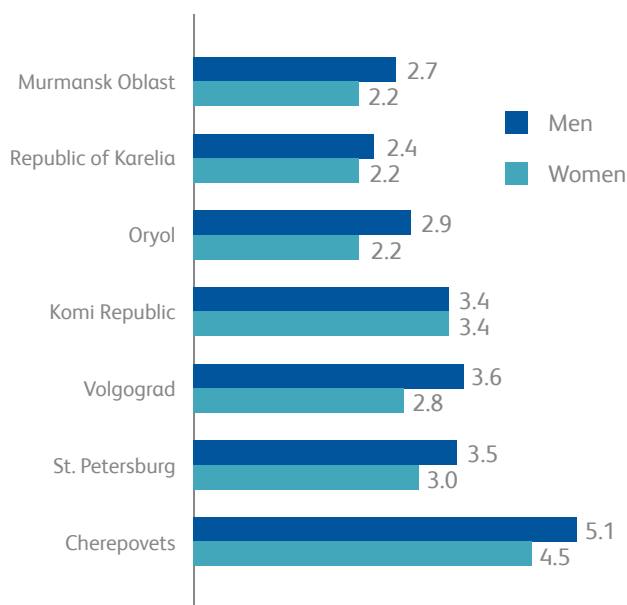
Salaries are paid to employees according to schedules set in collective agreements. Schedules are published in corporate media.

2017 results

On 1 April 2017 Severstal increased employee salaries. Company management and trade unions negotiated a 5% increase in payroll, of those 4.5% were allocated to 2016 performance reviews and 0.5% to salary equalization. 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 5%; these include financial aid and early pensions.

In 2017, 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.

Ratio of standard entry-level work wage to the legal minimum wage in our major regions in 2017



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

We also offer monthly (for workers and foremen within our operations) and annual bonuses to motivate our employees to achieve their objectives. We also have annual bonus targets (a percentage of annual salary) for various job levels. 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).

We took the following actions in the course of implementation of Severstal Compensation Policy in 2017:

- Continued unifying our approaches to salary reviews and bonuses, while ensuring consistency of payments and introducing best motivation and benefits practices across our subsidiaries
- Within our innovations project, we developed and tested new approaches to goal setting and motivation of project teams
- Continued working on staff motivation projects with consideration for development of personal competences in the Russian Steel Repairs segment and other departments
- Developed the Expert Career Ladder motivation project for quality problem solvers and participants of expert community
- Continued implementation of measures to improve employees’ awareness of Severstal’s remuneration and reward system, including comparison with regional and industry competitors

Salary increases and annual bonuses in the Company are automated in the Compensation Management system.

In 2017, our payroll was approximately 44.5 billion roubles, an increase over the previous year. Salaries are the largest component of our payroll, with 96 % share in the steelmaking division and 95 % share in the mining division. The rest are benefits and pensions.

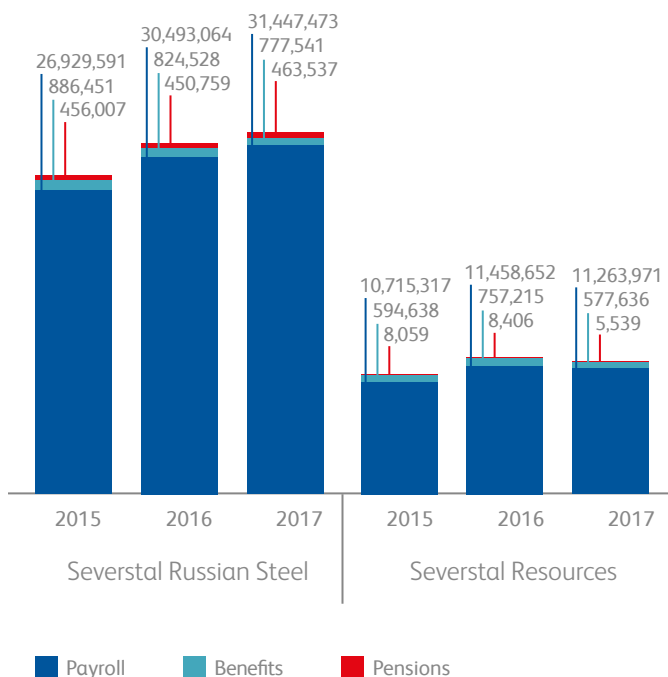
Prevention of Corruption and Violations of Laws and Internal Regulations

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 the international best practices, including the guiding principles of Transparency International.

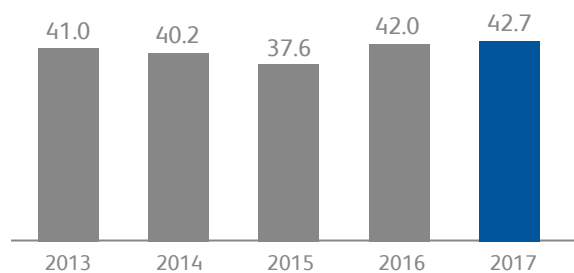
The policy focuses on reducing our corruption risks and achieving maximum compliance with Russian and international anti-corruption regulations. This policy regulates activities exposed to high corruption risks. These activities include cooperation with partners, acquisition of corporate securities, establishment of joint ventures, mergers and acquisitions, conflict of interest evaluation procedures, sponsorships and charities, gifts and entertainment, etc. The new edition of policy was approved by the Board of Severstal in April 2017 and is published on our website.

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

Payroll composition, thousand roubles



Payroll change, billion roubles*



* In 2015, our headcount reduced by 5 %. We paid annual bonus in December 2014, and this also affected our payroll trend in the reporting period

Severstal has an Anti-Corruption Policy Training Programme and a mandatory biennial online training course for all employees. In 2016, more than 9,000 employees received training. The next training is scheduled for the first quarter of 2018.

Managers at all levels pay close attention to conducting business in accordance with universally accepted standards of business ethics and do not tolerate any forms of bribery and corruption from employees of Severstal or our contractors. Chairman of the Board Alexey Mordashov actively supports the Ethics Committee, an internal body of Severstal responding to all submissions related to the violations of Company values, wrongdoings, and violations of behaviour standards by Severstal employees. 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.

In 2011, Severstal launched a comprehensive cultural transformation program based on zero tolerance for corruption and violation. From this moment, 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 programme gives impressive results. If at the initial stage up to 70% of employees participating in purchasing and sales were in some form involved in violations, later this number was steadily reducing and went lower than 5% in 2017. It is important to note that the positive trend in business ethics in Severstal continues despite external

pressures in the area of corruption. Our research indicates that on average every second employee of Severstal working in commerce is offered a bribe over the course of the year. In the overwhelming majority of cases, employees decline these offers, but far from everyone reports this to their manager or authorities. In 2017, 37 employees reported attempts of bribe to our business assurance service. A year earlier, we received 23 reports from our employees. The most common scenario is suppliers offering our employees payments for the lobbying of their interests. Employees in purchasing, sales and project delivery who are in direct contact with suppliers or customers are exposed to the highest risk. This is why we are extending our anti-corruption initiatives and activities to our contractors, motivating them to follow ethical business practices as a basis for sustainable development.

In 2013 Severstal joined the Anti-Corruption Charter of Russian Business.

In 2017, we identified two cases where our employees gave bribes to officials for falsifying the results of medical checks, two cases when bribes were given to employees of our purchasing department, and 15 cases when bribes were given to lecturers of the Talent Development Centre of Vorkutaugol.

There were 11 criminal investigations of bribery in 2017. If there is not enough proof for criminal charges, we take disciplinary actions up to termination of employment. We terminate our agreements with businesses involved with corruption, and blacklist such businesses.

Training and Development System



Highly skilled talent is the key driver of our corporate strategy. We have a comprehensive employee training and development system in place. Our development programmes span across all functions and departments, and everyone from top executives to factory workers receives training. 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 our 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 (workshops, conferences, competence and skill development programmes in specific functional areas)
- Personal productivity training programs
- 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.

2017 results

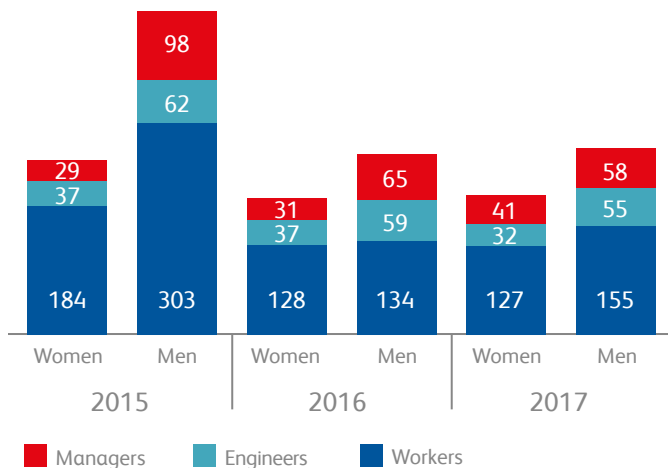
In 2017 we launched new training programmes for managers and employees, and started rolling out the latest training methodologies and tools.

Compared with the previous period, in 2017 the share of our employees, including managers, participating in training programmes increased from 84.6% to 98.2%.

The average length of training programmes was 46.2 hours per employee, which is consistent with best practice.

Our course trainers are department managers and external service providers, including universities, professional development institutions, research organisations, training centres and consultants.

Training duration by gender and job category, hours



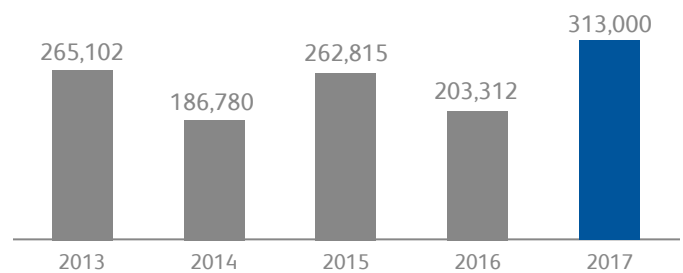
Average satisfaction of our employees with training in 2017 was 9.6 out of 10.

We use feedback forms filled in upon the completion of every course to get to know employees' opinion of the content and value of training programmes, the practical applicability of the newly acquired knowledge, the relevance of the training tools we use and the quality of training. Our employees regularly receive feedback from their managers and HR managers throughout the year. Our internal Function Assessment research programme helps us evaluate quality of training and employee awareness.

Employee Training Costs

In 2017 our employee training costs increased by 35% from the previous reporting period, to 313 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 major management training programmes, beginning of evaluation of management reserve, and the launch of the new Severstal Leadership Programme.

Divisional employee training programme costs, thousand roubles



Management Training Programmes

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 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.

Mandatory programmes for the management cover human rights and, in particular, employer's compliance with employee rights. For example, in 2017 there were 1,200 hours of training in legal aspects of employee management alone.

Achieve More Together Programme

The Achieve More Together programme is the first level of mandatory management education for shop and department managers, senior managers and team leaders. They study Severstal standards, approaches and culture, acquire systematic team leading knowledge and skills, and exchange their expertise.

The Legal Aspects of Human Relations module is a part of the Achieve More Together programme as well.

In 2017, 178 managers received training. In 2018, 115 employees will be trained. Upon the completion of the Achieve More Together programme, our managers have an opportunity to continue their education in Severstal Business Academy.

Severstal Business Academy

Severstal Business Academy provides the second level of training. Five modules of the Business Academy are based on specific suggestions and operating environment of our managers, and they were developed with professors of Russian and international business schools. These modules offer:

- Advanced development of knowledge and skills in the areas of team leadership and department management as a business
- Development of management perspective
- Approaches, practices, knowledge and information at the level of international standards
- Expertise exchange and replication of best practices within the Company

In 2017, 380 employees received training under this programme.

Efficient Department Management Programme

Our Efficient Department Management Programme is developed together with Moscow School of Management Skolkovo. It is designed for deputy chief executives, leaders of functions and large areas, and offers them deeper knowledge of economy, finance, production efficiency and problem solving technology, and to help them develop engaging leadership skills and new approaches to staff management. In 2017, 45 department managers of Severstgroup companies were the first students of this programme.

In addition to mandatory programmes and additional training for managers, all Severstal employees can choose any training programme from the catalogue. These programmes focus on various competencies such as business analysis, personal efficiency, leadership, etc. Our employees also have access to online library and other sources of information via My Learning and Development portal.

Career Restart Programme

In August 2017 Severstal launched its new Career Restart programme, which aims to identify and develop employees with particularly high potential. A special focus of this programme is to identify, select and evaluate management reserve at all levels. Every employee may announce their desire to progress to the next level of their career. Upon multi-step assessment of their competencies, the employee either becomes a part of management reserve or receives proposal on their individual development. In 2017 we received 2,224 programme applications, and most of them came from production segment employees. Upon assessment, approximately one out of every three candidates was recommended for management reserve, and 6% received the status of HiPo (High Potential) employees.

Distance Education

Our distance learning system is accessible to all employee everywhere at any time, whenever needed to deliver on their business objectives. Distance learning allows reusing training courses without additional costs and reduces the cost of mass education. Online courses are dedicated to teamwork, public speaking, negotiating and persuading, personal efficiency and organisation, and so forth. In the reporting period, 42.8% of our employees received training through the distance education system.

In 2017 utilisation of distance learning programmes increased 150% compared with the previous year.

Increased engagement is the result of the update of My Education and Development distance learning portal, launch of the online library accessible to approximately 5,000 employees, and development and deployment of new online courses, mini simulators, online video training and other educational tools and initiatives.

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. In 2017, we continued experimenting with language learning methods and formats, such as English Club, presentation training with native speakers, and a regular newsletter about English. These skills and knowledge can be useful not only in employee's current role, but also in future jobs and after retirement.

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 one optional module specific to production area and individual student needs.

The Foreman Academy program 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; 190 employees took it in 2017.

In 2017 we developed a new Engaged Team module that was offered to almost every foreman in Severstal.

Foreman Academy had 2,403 students in 2017.

Worker Education

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. Key training areas:

- Cross-training
- Professional development within existing jobs
- Training in the use of new equipment
- Training in production processes
- Process control system training
- Safety training
- Certification training

We continuously deploy modern training tools, including animated video courses combining high training quality with minimum work disruption.

More than half of Severstal Russian Steel workers received professional training and improved their skills in 2017.

Severstal has targeted cross-training programmes in place. Acquiring new skills and expanding their knowledge gives employees an opportunity to get paid more.

In 2017, 2,169 employees of Severstal Russian Steel received training in a second trade in 189 different programmes.

Crew leads receive special training on crew leadership. In 2017, we trained 493 employees under this programme.

Each job has a skill matrix that our foremen can use to evaluate the skills of every crew member and manage their professional development.

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 2017, 3,000 previously selected and trained mentors participated in onboarding and development of Severstal Russian Steel employees.

Our trainers use Professional Development Folders for a variety of skills and trade to improve training quality.

Severstal organises professional competitions to support and promote professional development. Cherepovets Steel Mill hosted 21 contests in 17 trades. Similar contests were organised in our other businesses. In 2017, we also organised three corporate competitions with participants from nearly every Severstal business.

Severstal Leadership Programme

We have a unique Severstal Leadership Programme. The purpose of this program is training new graduates and young professionals to become future Severstal leaders. Program participants have an opportunity to get practical experience working with the Business System of Severstal, in operations, finance, purchasing or sales for two years, with the goal of becoming TOP 100 Severstal executives within five-seven years. In 2017 we received 1,566 applications for

the second and the third streams of the programme from more than 100 universities worldwide. We selected and accepted 22 young professionals with high leadership potential.

In the end of 2017, we performed an assessment of participants of the first and second streams of Leadership Program in Cherepovets. They presented projects with positive impact on their own development and Severstal in general.

Severstal Women's Club

In September 2017, we established Severstal Women's Club. It offers our female employees advice, training, development and best practices to help them develop their careers and overcome the women in management stereotypes.

A project team develops key areas of club development using existing statistical data and quality interviews with different levels of management. Our employees will then share success stories, and work in different tracks to define specific event agendas. The first conference of the Women's Club is scheduled for March 2018.

Onboarding of Young Employees

We have the Engagement Policy for Students, Graduates and Young Professionals in place. 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 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.

There are regular divisional conferences for young professionals in Cherepovets. New employees need to pass a selection process to attend these conferences. We take into consideration their performance, contributions to the Idea Factory, and participation in corporate social and sports events. Severstal organises an annual Young Professional contest.

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.

2017 results

In 2017 we established a Youth Council in Vorkutaugol to help young miners realise their potential. The Council will initially focus on team building and volunteering projects. Vorkutaugol also hosts the I'm a Mentor ceremony for new employees.

Management team of Izhora Pipe Mill met with the representatives of young employees of Severstal's Kolpino site. At the meeting, they discussed the agenda of young employee

council for 2017 and the development of young employee policy in Kolpino. Also in Kolpino, we hosted an onboarding workshop getting our employees familiar with our culture and values, and discussing career opportunities and the youth movement with them.

Olcon Youth Council participated in the regional #51FM youth forum with more than one hundred representatives of youth movements from the whole region. The forum agenda included discussions, master classes and presentations by guest experts on a variety of aspects of youth policy. Olcon Youth Council won in the regional Youth Recognition 2016 competition of Murmansk Oblast youth and children's clubs and teams.

At the end of the year, subsidiaries of Severstal Russian Steel organise initiation events for young steelmakers. Starting from 2017, the Cherepovets site of Severstal Metiz hosts informal initiation events for young employees. At these events, managers speak with new employees about Severstal's strategy and culture, large projects that use our products, as well as safety rules, professional development and additional training opportunities. The event ends with a visit to the Steelmaking Museum.

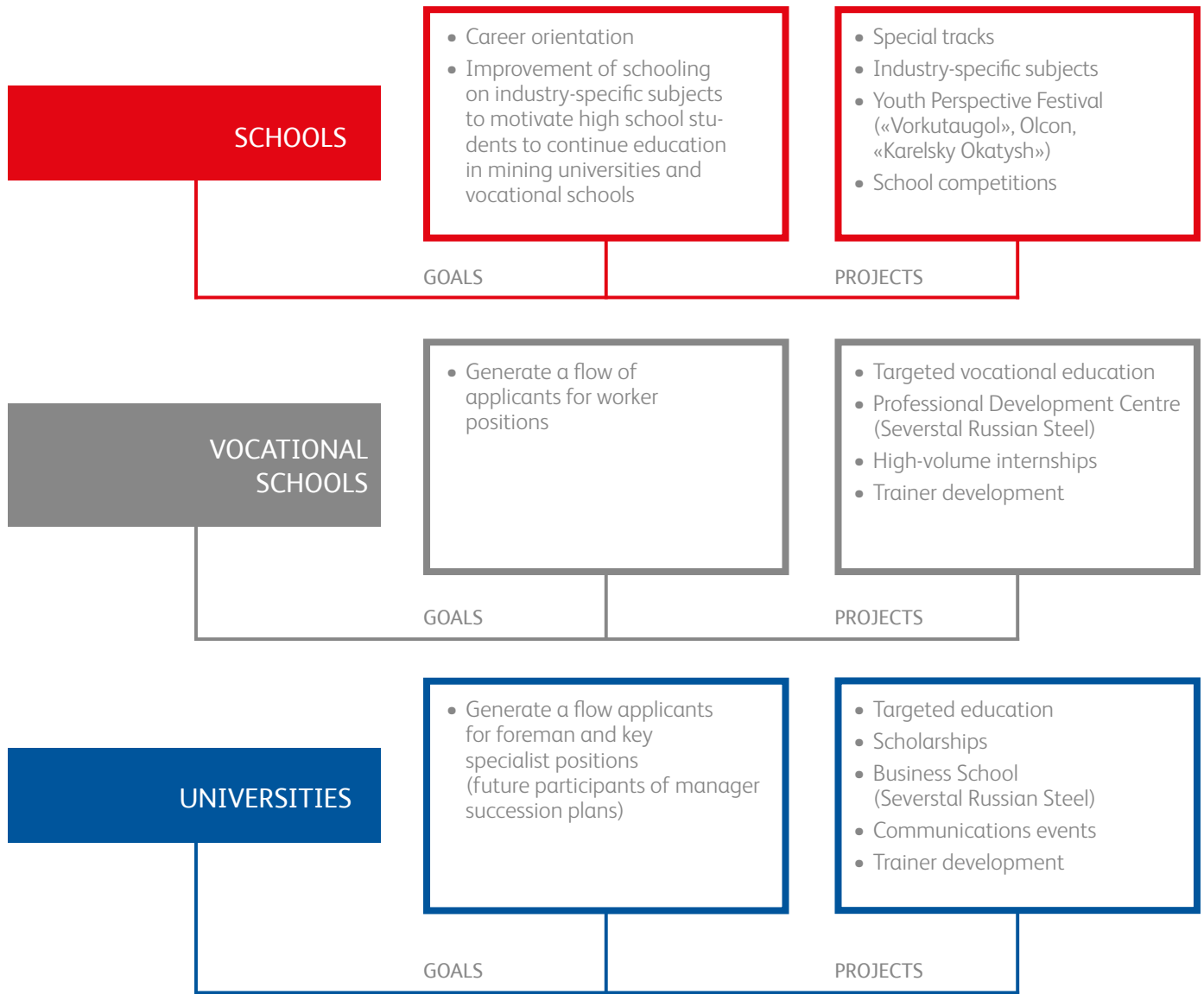
The second youth conference in pipe making in Kolpino was an interactive game. New employees of Izhora Pipe Mill went through initiation into becoming young metallurgists.

Engagement of High School and University Students and Young Professionals



Recruitment of high-potential young talents helps Severstal to satisfy our 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, makes 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 has proven to be an efficient tool of career orientation in Vorkuta and Cherepovets. This program is designed for grade 9 to 11 students and prepares them for technology colleges.

We have specialised two-year high school programmes, in electric power engineering and steelmaking, running in Cherepovets. These courses are taught by specialised university professors. Students can take optional career orientation sessions taught by Severstal employees in specialised laboratories of Cherepovets State University. Graduates of engineering classes have an advantage during the admission should they choose to apply to respective departments of Cherepovets State University.

In September 2017, the School of future engineers vocational training programme was launched within our school track in Cherepovets. A number of school field trips to the Company's divisions have taken place since October.

In Vorkuta, 10th and 11th grade special track students study advanced programmes in physics and mathematics, attend lectures of specialized university professors, and visit Severstal businesses in different cities. After high school, students can enter a selection of schools at St. Petersburg Mining University.

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.

Quantorium Children's Technopark opened in Cherepovets in September 2017 is our new educational project. Our experts create engaging interactive environments helping students to develop

competency in technologies. Severstal specialists developed 25 hands-on cases for school students based on real production tasks of Severstal employees. Work on these cases helps school students develop competencies that will prove useful in future. Our experts mentor both school students and Quantorium lecturers. They host open sessions and master classes, some of them taking place at our production site. (For further details about our museum and children's technopark, see the Development of Local Community Potential section.)

We help young students to make career choices using their familiar formats, including social networks and the Internet. Our career orientation events include the Severstal World of Trades contest and the World and Severstal trivia contest.

Our resource businesses are organising student tours as well. Starting from 2014, we host the School—Mine—Chance career orientation festival in Vorkuta introducing school students to professions of Vorkutaugol employees.

Karelsky Okatysh partners with Stalker Centre and the city on career orientation of city students.

Olcon participated in Russian nationwide Week without Turnstiles event. For five days, Olenegorsk Iron Ore Plant welcomed 130 school students from five tour groups. Managers of key shops told school children about the technology chain, key Olcon professions, and safety requirements. Guests visited Olcon's oldest Olenegorsk pit and the new concentrate drying station, and had a chance to take a look at our mining fleet at the technology vehicle repair station.

Vocational Education

Severstal Russian Steel

Severstal has been working with the government and education department of Vologda Oblast on developing talent pool for the steelmaking industry. In August 2017, Severstal signed another three party agreement on talent development with Vologda Oblast.

Key areas of focus in development of vocational education

Career orientation events for students

Teacher internships in Severstal subsidiaries for professional competence development, as well as distance learning programmes for teachers

Participation of Severstal experts in the education process

Workplace training arrangements for students with experienced mentors

Coordination of trade-specific professional modules in the educational programmes with Severstal experts

Participation of students in professional contests organised by Severstal

- Severstal specialists give the introductory lectures on their trades for first and second year students of Cherepovets Steelmaking College. Grade 9 students of the city high schools also attend these events. In 2017 Severstal helped fund the new Electric Drive laboratory in the college.
- The machinery shop of Domnaremont organised training at Cherepovets Steelmaking College and Cherepovets Technology College students in three competencies for the regional WorldSkills Russia welding technology contest co-sponsored by Severstal that took place in November 2017 in Vologda.
- Severstal Metiz signed a professional student training agreement with Cherepovets Technology College. College students complete their internships at Cherepovets site of Severstal Metiz every year.
- Experts of Severstal Long Product Mill Balakovo spoke at the 5th municipal science festival that took place on 18 November 2017 in Balakovo Branch of the National Nuclear Research University MEPhi. One and half thousand school and university students together with representatives of industry and business communities of Balakovo District participated in the festival. At the festival, Severstal presented our manufacturing technology, key shops, equipment and product range.

Severstal Resources

Individual businesses of Severstal are trying to make sure that vocational education is as close to the real workplace environment as possible. Karelsky Okatysh has representatives in the Coordination Council on HR Policy and Citizen Career Orientation of the City of Kostomuksha. Kostomuksha Polytechnic College offers open pit mining engineer and mining fleet repair technician training programmes.

At the request of Karelsky Okatysh and with support from the regional ministry of education, the college now teaches mineral processing technology. Karelsky Okatysh organises professional skill competitions for college students where they can compete with their peers from Olenegorsk. The Ministry and Karelsky Okatysh are planning to keep developing this educational institution.

Representatives of the Ministry of Education and Science of Murmansk Oblast visited Olcon's industrial site to discuss cooperation with Olenegorsk Mining College. In 2017, Olenegorsk Iron Ore Plant was one of the first businesses to sign an agreement on dual (field oriented) education with partners working together on development high-quality talent.

In 2017, Olcon organised the largest career orientation event for students of Olenegorsk Mining College, Youth Perspective, for the tenth time. Olenegorsk hosted the Your Track on Earth forum to celebrate the Year of the Environment. Approximately 30 college students participated in the forum. They visited the industrial site of Olenegorsk Iron Ore Plant and participated in environmental training. Representatives of Olcon discussed its environmental programmes with forum participants.

Vorkutaugol offers internship opportunities for the students of Vorkuta Polytechnic College and Vorkuta College of Mining and Economics, hosts open days, arranges tours of its facilities,

organises multiple mining trade festivals such as School-Mine-Chance and PROFest, purchases equipment for educational institutions, and does much more.

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 but not limited to St. Petersburg State University, MISIS National University of Science and Technology, Moscow State Mining University, Vologda State University, Cherepovets State University, Ivanovo State Power Engineering University.

Our core partner in talent development is Cherepovets State University (ChSU). Cherepovets State University and Severstal jointly developed a roadmap to improve the quality of training of future employees. The roadmap includes several initiatives focused on improving the quality of student training, developing the faculty, and other aspects. Cherepovets Steel Mill and Severstal Metiz signed agreements with ChSU offering annual internship opportunities to its students.

“We compete for top talent just like all other businesses in our country; we are looking for talented students and help schools, build a continuous education system and partner with universities. However, today we need to consider a complete overhaul of our talent development system. We are facing a challenge of continuous retraining, and we think it is possible to create a business that would help people in their development throughout their lifetime.”

Alexey Mordashov

Presentation at a sessions of St. Petersburg International Economic Forum 2017

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 agreed with the universities to extend internships from four to ten weeks. This helps future specialists to get a deeper understanding of their own site as well as the whole technology process and peer functions. 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 Severstal Business School, a two-day workshop camp for students, to help them improve their personal efficiency a critical skill for success in every business and function.

2017 results

- Representatives of the Business Assurance Service (BAS) of Severstal Russian Steel participated in round tables with the students of economic security organised by Cherepovets Steel Mill. Director of Business Assurance, Severstal Russian Steel, was appointed the head of the state attestation commission, and BAS specialists together with university professors adjusted the coursework to bring it closer to real-world business needs. We also offered students a two-week regular internship and a month-long graduation internship programmes.
- In Spring 2017, we arranged an internship in Technology Development and Quality Directorate of Severstal Russian Steel for the students of Cherepovets State University, MISIS, St. Petersburg State University and Bauman Moscow State Technical University.
- In December 2017, Severstal and Cherepovets State University participated in the final round of the Metal Cup 2017 international steelmaking technology strategy contest

in St. Petersburg. Students had a chance to test their skills and knowledge on a case highlighting issues in blast furnace production. Severstal offered winners an internship opportunity.

- In November 2017, Severstal partnered with Cup MISIS Case organised by MISIS and invited final round participants to intern or apply for jobs in Severstal.

Approximately 1,900 students of various colleges and vocational schools completed internships in Severstal in 2017. Approximately 600 new graduates became our employees.

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.

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.

In 2017, our steel division invested 444 million roubles in the improvement of our social and recreational facilities.

Vorkutaugol purchased six comfortable NEFAZ buses for employees of all departments. Vorkutaugol requested a custom configuration with additional heaters and air conditioners.

We have stringent requirements in place for the condition of our open areas and industrial sites. We organise corporate contests for the cleanest social or recreational facility and run employee surveys to understand their satisfaction with such 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

	2017	2016	2015
Benefits, including			
• Collective agreement payments			
• Support for company veterans			
• Health resort and wellness programmes	779	905	756
• Development of sports and culture			
• Social and community projects			
• Other projects			

Employee Health

Severstal Russian Steel

Employee health is a priority item on our social agenda. 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 1,622 health care professionals covering the majority of specialist areas. It serves more than 47,000 people, which is approximately 18.3% of the adult population of Cherepovets. The medical unit operates 26 medical stations (11 of them open 24x7), two outpatient clinics, one hospital and one maternity clinic. We also have 12 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. Vaccines are available for Severstal Russian Steel employees, retirees and healthcare professionals. Our private health insurance programme pays for vaccines with support from the federal budget.

Starting from 2000, Severstal offers vaccinations that significantly reduce the incidence of flu and cold. Approximately 12,000 Severstal employees in Cherepovets received vaccinations in 2017.

Overall incidence of diseases among our employees decreased by 4.4% in 2017.

Our medical stations are financed through private health insurance. 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.

In 2017, the amount of funding of our private health insurance programme was 303 million roubles. Our steelmakers can also purchase private health insurance to extend their coverage. Additional services included in extended coverage are provided by Severstal Medical Unit. Policy holders can enjoy discounts on all paid services. Employees of Cherepovets Steel Mill can also pay for their health insurance policies with tokens they receive for improvement proposals submitted under the Idea Factory programme.

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. Over 5,025 employees—approximately 78.5% of the overall number of insured—used health services under the corporate programme last year.

Olcon private health insurance programme includes outpatient and inpatient services, dental coverage as well as rehabilitation and recovery treatments. Health care services were provided in Murmansk, Vologda and St. Petersburg. Approximately 400 employees used our 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 private health insurance programme of Karelsky Okatysh also supports the maintenance of four medical stations and an emergency response unit at the industrial site.

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 thousand metallurgists and their family members every year. We offer discounted packages to division employees.

Individual businesses of Severstal Russian Steel invested more than 200 million roubles in 2017 wellness campaign. 9175 division employees and their children used vacation packages with 90% discount. The following categories of children are entitled to free health resort packages:

- Children from large (three or more children under 18)
- Orphans and children in foster families of Severstal employees or retirees
- Children whose parents died or suffered disabling injuries while on duty at Severstal

In 2017, Torovo branch of Rodnik health resort had 5,889 guests; 52.2% of them were Severstal employees and retirees, and individuals receiving support from the Blago Charitable Foundation.

Employees of Karelsky Okatysh and their children only pay 20% of the package price, and the rest is paid by private insurance. In 2017, 388 employees purchased health resort packages, and 186 children of our employees visited wellness camps or went on vacations together with their parents under the Family Vacation programme.

Rehabilitation and recovery treatments were provided to 100 employees of Olcon. Our private health insurance programme for employee children paid for 56 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

In 2017 Karelsky Okatysh invited 122 employees to its housing programme and invested 6.9 million roubles in it. This money was used to offset mortgage interest.

Our employees in St. Petersburg (Kolpino) and Balakovo are entitled to buy out their corporate apartments, with either zero-interest 7-year financing or a discount (15% for Kolpino; 10% for Balakovo) on a cash deal. In 2017 Severstal employees purchased 155 apartments in Kolpino and 26 apartments in Balakovo on corporate deals.

Support for Retirees and Veterans

Severstal offers corporate pension plans and retiree benefits. Starting from 1986, Severstal Russian Steel has been offering monthly pension benefit to company retirees, with additional pension of 955 to 1,810 roubles per year depending on years of service. These amounts are indexed annually. Payments are made through the Blago Charitable Foundation.

Our steel division adopted new retirement regulations with standardised calculation formula for the years of service that is 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 healthcare services to 7,300 Severstal veterans. Under our social benefit programme, we also make one-time payments of 200 to 2,000 roubles on anniversaries and special occasions.

As a part of our Targeted Aid to Veterans charitable project, in 2017 we provided hot meals to 218 retirees in need who stay at home due to health conditions. Volunteer veterans made a huge contribution to this effort.

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 entitlement for retirement regardless of whether they actually retire or keep working. Karelsky Okatysh also provides retirement benefits.

Severstal invested 431 million roubles in social support of its non-working retirees in 2017.

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 2017 we identified leaders and centres of social activities among Severstal veterans.

In 2017 approximately 12,000 people participated in sports and culture events that we organised for veterans. These included:

- Veteran Spartakiad of PAO Severstal in Cherepovets
- GTO fitness tests
- Nordic walking festival
- Health celebrations
- Veteran tourism festivals
- Water aerobics and swimming pool sessions
- Wrap-Up of Sports Year in Yubileiny Sports Centre
- Senior Citizen Day commemorative concerts
- Golden Age and Day of Sorrow and Remembrance events
- 30th Anniversary of Severstal Veteran Council concert
- Metallurgist Day interactive show in the Ice Palace

The number of veterans visiting our Veteran club increased 1.5x (more than 50 groups and 900 individuals). We offer free admission to our gym (more than 500 veterans) and support badminton and volleyball clubs (more than 100 people). We also offer free swimming pool passes to the veterans, a variety of tournaments, championships, wellness days and sports events.

Family Security and Benefits

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 the state pregnancy and birth benefits. Severstal invested 38 million roubles in this area in 2017.

Employees on parental leave may work part-time if they wish. In 2017, all employees remained with Severstal after their parental leave. The share of employees who remained with the company after parental leave was 43 % among men and 63 % among women.

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

Employee benefits, roubles

Type and schedule	Amount
Employee bonus (one of the parents) on the birth of a child	2,000–15,000
Monthly supplement for employees on parental leave until the child reaches three years of age	500–4,000
Monthly supplement for employees (one of the parents) who have three or more dependent children under 18, per child	500–1,000
Monthly supplement for widows (widowers) dependent children under the age of 18, per child (unless they remarry)	300–850
Monthly supplement for guardians of children under 18, per child	300–850
Financial aid or hardship loan for employees in hardship	3,000 and up

Our collective bargaining agreements contain provisions for additional days off on important family events:

- On 1 September for parents of first-graders
- On the day of son's departure to military service
- On the birth of a child (to the father)
- On the wedding of an employee or their children
- On a special anniversary
- On the death of a close relative

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 a 50 % discount off the actual one-way economy class fare, as well as tickets to Kaliningrad and resort destinations with a 5 % discount.

Active Lifestyle and Sports

Severstal Russian Steel

Popular sports events are traditionally one of the most efficient healthy lifestyle promotion and team building tools in the Severstal Russian Steel division. 47 % of our employees in Cherepovets and other locations of Severstal Russian Steel practice regular fitness exercises and sports training.

Our employees have access to convenient time slots at the city's sports facilities for their corporate sports activities including trainings in nine sports, contests, competitions and other sports events. This format gives us an opportunity to involve as many employees as possible in wellness and sports activities.

Apart from participating in sports events, our employees can purchase swimming pool tickets with 30–50 % discounts, participate in skating sessions, purchase water aerobic and fitness programmes and gym membership at half price. More than 7,000 steelmakers and their family members hike and ski our Health Trail in summer and winter.

We organise major sports events for our employees every year, including Severstal Ready! season opening as well as Crepe Week, Autumn Health and Sports Day, and the Sports Year Wrap-Up.

The Steel Energy programme developed in Severstal Russian Steel received Sport and Russia Award and was named Russia's Best Corporate Sports, Wellness and Healthy Lifestyle Programme.

2017 results

Structural changes in Severstal, management activity and continuous promotion of healthy life style resulted in a 4 % increase in involvement of division employees in wellness activities. Our shop teams organised approximately 230 competitions and sports events in the reporting year.

Under this programme, we delivered the following projects in 2017 with approximately 14,000 participants:

- Big Sports: a competition in 12 sports and championships in 13 sports
- Festival of sports tourism, trade unions and youth initiatives
- Russian GTO fitness standard testing
- Severstal Ski Tracks divisional skiing competition.

In 2017, 2,606 employees of Severstal Russian Steel participated in our Spartakiad. 39 employees were awarded a GTO gold badge. Spartakiad included competitions in 23 sports. 38 families participated in the Steelmaker Family corporate competition. The event concluded with a grand finale in Yubileiny Sports Centre.

Severstal Resources

Vorkutaugol has several corporate sports halls equipped for various sports. Our employees have access to 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.

The administration of Karelsky Okatysh provides transportation and funding to support employee trips to regional sports competitions in Karelia. Its employees have free access to sports, game and gym rooms in Druzhba Culture and Sports Centre, as well as industrial site gym and Siniranta swimming pool.

2017 results

- In 2017, Olcon employees and city residents made 4,787 visits to the Sports Centre. We organised Olcon championships in badminton, basketball, volleyball, cross-country skiing, mini football, swimming, table tennis, as well as summer and winter Spartakiads. 428 Olcon employees and family members participated in these events. We organised three family sports events in the reporting year (No Swimming Beyond Buoys, May Holidays, Children and Parents), with more than 67 employees and family members, and approximately 70 children participating in them.
- In 2017 Karelsky Okatysh hosted a traditional Spartakiad in 15 sports, a veteran ice hockey tournament, the Severstal Triathlon event, the Autumn Challenge trail running event, the 3rd Teräskontie 2017 — Steel Bear 2017 extreme running event, and Yury Foka International Table Tennis Memorial. Company employees participated in GTO fitness tests. We also organised the inaugural swamp football tournament.



Key Priorities in Corporate Social Responsibility and Sustainable Development

2017 objectives	Progress and 2017 highlights	2018 objectives
Social component		
Adopt a unified Compensation Policy across all Severstal businesses.	<ul style="list-style-type: none"> We adopted compensation, goal setting and organisational design policies 	
Implement mandatory corporate training programmes with updated formats and content	<ul style="list-style-type: none"> We updated the format and contents of several corporate programmes, including the Foreman Academy, Achieve More Together (two tracks) and Severstal Business Academy 	<p>Complete specified mandatory Top 100–4000 management training programmes per schedule</p> <p>We designed and launched a support programme for the launch of Severstal's new business strategy and new corporate culture, Achieve More Together 2.0 (working title)</p>
Launch the new Efficient Department Management program for Severgroup top management succession	<ul style="list-style-type: none"> Programme designed and launched for Top 100 managers and reserve 	Complete the Efficient Department Management Programme
Develop and launch the new Customer Orientation module in the Foreman School, as well as special programmes for foremen and their successors.	<ul style="list-style-type: none"> Module developed. We are reconfirming its relevance considering change in priorities 	
Continue working on training efficiency programs, including launch and development of new practical training simulators and an online library	<ul style="list-style-type: none"> Online library launched and actively used by company employees We designed and deployed three skill simulators 	Research and deployment of new training formats and forms: simulators, video training courses, complex skill development simulators, training bot
Establish a professional development system for Sales Directorate employees and support their development	<ul style="list-style-type: none"> We created a sales manager competence development catalogue, organised third-party internships for sales director, and adjusted our Sales Executive Academy programme 	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 developing the HR function, design HR competencies and development programmes for employees at all levels	<ul style="list-style-type: none"> We started the design of HR Academy development programme for senior human resource managers 	Continue HR development: design and launch the new HR Academy development programme. Continue the Best Practices webinar series
Use professional development events to support new initiatives such as expert networks, innovation support groups, etc.	<ul style="list-style-type: none"> We organised conferences and work group sessions at requests of the members of internal expert network 	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
		<ul style="list-style-type: none"> 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 format across the whole company (360 Degrees, Quick Feedback).

5 OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION

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Occupational Safety

Occupational safety is a priority value of Severstal and a critical component of our Business System. Our strategic goal is to use global best practices in occupational safety to completely eliminate work-related fatalities and to become the best Russian company as measured by key safety indicators.

Policy and Management

Strategic decisions in the area of occupational health and industrial safety are the responsibility of the Occupational Safety and Environmental Protection Committee headed by an Independent Director. The implementation of these decisions are the responsibility of 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.

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 use Accident Prevention System (APS) audits to evaluate occupational health and safety systems across our businesses.

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

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

Our Occupational Safety Objectives are as Follows:

- Improve our existing culture by consistent use of efficient safety tools
- Become the leading Russian company by LTIFR (underground and open pit mining and steelmaking), and a top company worldwide by LTIFR in the longer term

The Occupational Safety and Environmental Protection Committee of the Board established the following objectives for 2017:

- Find, adjust and implement leadership motivation tools for line managers

- Improve training of safety experts
- Introduce stricter penalties for violation of basic safety rules
- Take measures to eliminate hazards

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 2017, 79% of survey participants (10% more than a year before) believe that safety requirements in their department are justified, understandable and achievable. Moreover, all Severstal businesses scored higher than 70% in this respect. Our managers more frequently lead by example and discuss the validity of safety rules with their teams. The number of employees receiving safety instructions, if needed, from their immediate managers has increased from 78% to 84%. High marks in the safety is the result of many years of consistent transition from oversight and partnership, along with rewarding and supporting safety initiatives.

79% of our employees believe that our safety requirements are justified, understandable and achievable.

APS audits have become the most powerful and motivating tool in the development of management leadership. This tool gives an opportunity to conduct comprehensive evaluation of our safety system, identify areas for improvement and provide recommendations. The assessment covers five areas (Leadership, Risk Assessment and Visualization, Training and Instructing, Industry Controls, Managing Violations) and uses a five-point scale reflecting five levels of system development.

In 2017 Health, Safety and Environmental Protection Department of Severstal Russian Steel assessed the development of occupational health and safety systems in more than 180 departments of Severstal Russian Steel.

Approximately 58% of our departments scored 2.6 to 2.8 on a five-point scale, which is the basic goal for the audit. Almost 30% of our shops achieved ambitious goal of three points, confirming steady development of our occupational health system.

Severstal Russian Steel organised a competition for best practice in occupational safety. Shop managers submitted 90 completed initiatives to the competition, and three of them were rolled out across all our businesses in 2018.

Training

Our occupational health and industrial safety training comply 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 behaviour based

on personal commitment, accountability and active involvement of all Severstal employees in mitigation of health and safety risks.

- In 2017 all Severstal businesses evaluated how well their line managers knew safety regulations. Department managers took various situational tests. Those who did not pass received additional training and then retook the test. We will continue this practice in 2018.
- In 2017 we continued rolling out the Safe Behaviour Basics corporate course for all job families. Led by our OHS experts, these trainings focus on prevention of behavioural mistakes causing 90% of all workplace and household injuries. By the end of the reporting year, 9,000 Severstal employees and managers had completed this training.
- In the reporting year, Cherepovets Steel Mill organised special training in occupational health and safety for 1,477 employees and in industrial safety for 1,621 employees. Occupational Health for Office Personnel training course in the corporate distance education system was taken by 474 employees.
- We keep running hands-on training sessions for our employees. Our managers are expected to ensure maximum employee engagement. We structured these training courses as conversations with a significant number of visual learning aids.
- In 2017, Severstal Russian Steel ran the Basic Occupational Health and Safety for Management training programme for new foremen and acting foremen. This programme reviews the overall safety environment in the division, corporate safety methodologies and accident investigation procedures. We trained 240 employees under this programme in the reporting year. We will continue training in 2018.
- All employees of Karelsky Okatysh, CTA and Korpanga who were away from their duties for one month or longer receive post-vacation safety training. New training format includes five modules focused on safe behaviour.

Identifying Employees Who are Prone to Risk and Introducing Stricter Penalties for Safety Violations

All Severstal businesses follow standardised violation management policies. If an employee commits five or more safety violations over a year, they will need to be reviewed by department manager, and all violations of core safety rules result in mandatory disciplinary actions. Serious safety violations are reviewed by OHS committees who consider all circumstances of employee's dangerous actions. We use psychological testing to identify employees prone to risk.

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 its 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 2017 all our businesses started recording and investigating micro injuries and near misses.

In 2017 Severstal had zero injuries resulting from failures to use PPE, unfit equipment, or unfit tools and devices.



Severstal Russian Steel was able to eliminate the following hazards: “lifting equipment”, “night time” and “0 to 5 years of experience”. This was partly achieved through active employee training and engagement, and the operation of 24x7 surveillance team.

Over the last ten years, over one quarter of all recorded injuries happened at pedestrian pathways, and in response we launched a special programme to minimise this hazard. The first stage of the programme that took place in 2017 included repairs of areas with the highest risk of employee falls. We invested 22.8 million roubles in this area and will continue working on this programme in 2018.

- Severstal makes educational videos with reconstructions of accidents leading to fatalities and major injuries and regularly using them during employee training. These videos make it easy to see what happened and help employees understand the causes of accidents better.
- In 2017 Vorkutaugol organised several large-scale events on prevention of injuries from collapsing rock in mines. We designed memos for underground mining employees, introduced weekly newsletters with information on the causes and circumstances of typical accidents resulting from collapsing rock, and many other topics. We were able to achieve a small reduction in the number of injuries from this hazard. Safety measures in our mining operations helped us significantly reduce the “travel on mining sites” hazard.
- To eliminate the hazard of hand injuries for mechanics and electricians, Karelsky Okatysh organised a special training class with hands-on practice in the use of mechanical and electrical equipment.

In 2017 Severstal invested 4.4 billion roubles in occupational health and safety initiatives (compared with 5.3 and 3.3 billion roubles in 2016 and 2015 respectively).

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.

Severstal launched the Safety is a Professional Choice communication campaign that includes safety banners and souvenirs awarded to employees who did not do any safety violations throughout the year. Safety is a Professional Choice is also the name of an important corporate competition whose participants demonstrate their knowledge of OHS and complete creative and hands-on assignments. In 2017 employees of Severstal Russian Steel worked on the “ideal walkway to workplace” project, designed slides for a hands-on presentation of fall prevention skills, and painted posters on zero tolerance for work under the influence of alcohol. KVN teams of Severstal Russian Steel, Vorkutaugol, Olcon, Karelsky Okatysh and Severstal Metiz contested the grand prix at the final stage of the competition in Cherepovets.

- More than 500 employees of Severstal Russian Steel participated in the Defeat the Hazard! competition to identify previously unknown hazards and find the best solution to eliminate them.
- In 2017, Severstal Russian Steel launched the Safety Relay project. The objective of this project is to identify specific safety bottlenecks, define and deploy innovative safety tools, and share best practices with other departments.
- 115 miners of Vorkutaugol as well as crew leads, foremen, mechanics and section leads received awards between 10 and 25 thousand roubles in the Work Without Injuries competition.
- Employees of Karelsky Okatysh submitted more than 800 poems to the I Care for My Hands competition. Under the guidance of the Youth Council of Karelsky Okatysh, young employees painted posters on prevention of hand injuries.



Results of injury prevention initiatives

New safety projects and tools keep reinforcing the culture of safe behaviour among our employees year after year. This is confirmed by statistical data: number of injuries reduced from 242 in 2008 to 80 in 2017, while LTIFR* reduced from 1.84 to 0.96 over the same period.

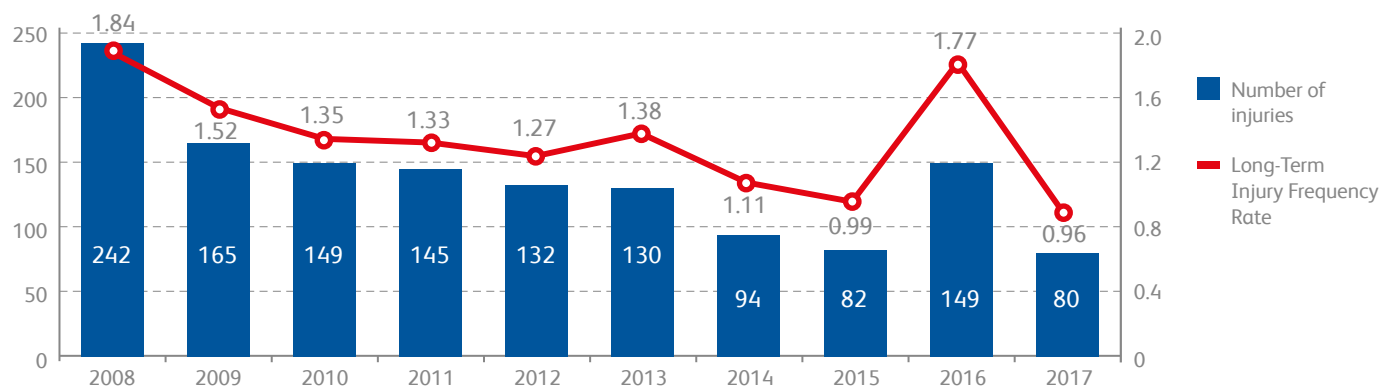
In 2017, Severstal Russian Steel and Severstal Resources achieved their injury reduction targets. LTIFR across Severstal was 0.96. The lowest LTIFR of 0.30 was achieved in Severstal Russian Steel. The injury rate has reduced by 24% over the past five years.

In 2017, 10 out of 13 businesses of Severstal Russian Steel had zero injuries.

The most frequent causes of injuries in the reporting period were inadequate organisation of work by the managers, and violations of safety rules by and recklessness of employees.

There were no fatal injuries among the Company's employees.

LTIFR across Severstal



Number of injuries

		Fatalities		Major		Minor		Total	
		2016	2017	2016	2017	2016	2017	2016	2017
Total including:	Employees	33	0	11	11	105	69	149	80
	Contractors	2	3	4	3	15	27	21	33
Severstal Russian Steel	Employees	2	0	5	2	22	14	29	16
	Contractors	2	2	2	2	6	16	10	20
Severstal Metiz	Employees	0	0	1	1	13	8	14	9
	Contractors	0	1	0	0	1	1	1	2
Karelsky Okatysh	Employees	0	0	0	1	6	6	6	7
	Contractors	0	0	0	0	3	0	3	0
Olcon	Employees	0	0	1	2	2	3	3	5
	Contractors	0	0	0	0	2	0	2	0
Vorkutaugol	Employees	31	0	4	5	62	38	97	43
	Contractors	0	0	2	1	3	10	5	11

* LTIFR — Lost time injury frequency rate

Major organisational and technology initiatives to improve workplace safety in 2017

Initiative	Result
Cherepovets Steel Mill	
<ul style="list-style-type: none"> • Ensure safety of walkways • Repair of existing and installation of new protective guards • Conveyor replacement • Repair of existing and installation of new equipment service areas • Camera installation 	<ul style="list-style-type: none"> • Further reduction of walking injuries among employees • Reduction of injury hazard during the operation of equipment • Improvement of equipment reliability • Reduction of risk • Closer oversight of dangerous actions of employees
Severstal Metiz	
<ul style="list-style-type: none"> • Design and deployment of electronic keystore 	<ul style="list-style-type: none"> • Prevent use of equipment by unauthorised employees • Significant reduction of time required to issue keytags
Karelsky Okatysh	
<ul style="list-style-type: none"> • Transition of 56 cranes to remote control and installation of frequency-controlled motors 	<ul style="list-style-type: none"> • Reduction of high-rise work hazard for crane operators • Elimination of employee exposure to production hazards
Olcon	
<ul style="list-style-type: none"> • Installation of additional guards (300 m) and new conveyors at the crushing and processing plant • Installation of a pre-start alarm along the building of sludge pumping station 1A 	<ul style="list-style-type: none"> • Reduction of work hazard (preventing employees from being in hazardous area of operational equipment) • Notifying employees of equipment start-up (when shore discharge is started). Reduction of work hazard (preventing employees from being in hazardous area of starting equipment)
Vorkutaugol	
<ul style="list-style-type: none"> • Installation of explosion-proofing systems and controls at mine entrances • Establishing the rules for movement and installation of methane sensors in the mines • Installation of Strata safety system 	<ul style="list-style-type: none"> • Containment of methane and coal dust explosions in mines • Elimination of human errors and unauthorised movement of sensors in mines • Continuous monitoring of air quality, dust and gas explosion protection, locations of all miners with 20 m accuracy, underground wireless communications, etc.



Occupational Morbidity

Incidence of professional diseases in Cherepovets Steel Mill and Karelsky Okatysh reduced in 2017 compared with 2016.

Vorkutaugol works in an industry with generally high occupational morbidity. An increase in incidence numbers reflects the completion of enhanced check-ups in 2017 at the Professional Disease Centre that allowed us to diagnose miners' health conditions at the very early stages.

Incidence of professional diseases

	2013	2014	2015	2016	2017
Vorkutaugol	213	148	138	176	277
Karelsky Okatysh	10	8	3	13	6
Cherepovets Steel Mill	9	5	6	15	11
Olcon	0	3	3	1	1
Severstal Metiz	0	1	0	0	0

Investments in healthcare and wellness, million roubles

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

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

Severstal uses a comprehensive set of organisational, sanitary, health care and technology tools to prevent occupational morbidity.

Key organisational and technology initiatives to reduce occupational morbidity in 2017

Initiative	Result
Cherepovets Steel Mill	
<ul style="list-style-type: none"> • Sound proofing of cabins 	<ul style="list-style-type: none"> • Prevention of professional diseases (hearing loss) among employees
<ul style="list-style-type: none"> • Renovation of conveyors in the sinter plant No. 3 of the coke battery plant 	<ul style="list-style-type: none"> • Reduction of heavy handling (reduction of time when an employee is in an uncomfortable position)
<ul style="list-style-type: none"> • Repair of crane tracks in section 2 of the bent shapes shop of the flat rolled production unit 	<ul style="list-style-type: none"> • Reduce overall vibration of crane operator workplaces
Vorkutaugol	
<ul style="list-style-type: none"> • Purchase of diesel mine locomotive with hydraulic lifts (4 pcs), as well as diesel (4 pcs) and air (2 pcs) switches 	<ul style="list-style-type: none"> • Reduction of professional morbidity resulting from heavy handling (more than half of all cases) • Reduction of manual material delivery to operation sites
Karelsky Okatysh	
<ul style="list-style-type: none"> • Renovation of crushing shop aspiration system 	<ul style="list-style-type: none"> • Reduction of exposure to workplace hazards
<ul style="list-style-type: none"> • Transition from radioactive isotope systems to microwave equipment in iron ore concentrate and pellet production 	<ul style="list-style-type: none"> • Elimination of employee exposure to ionising radiation
Olcon	
<ul style="list-style-type: none"> • Eight mining excavators equipped with air conditioners 	<ul style="list-style-type: none"> • Providing comfortable workplaces for excavator operators
<ul style="list-style-type: none"> • Partial renovation of roof ventilation in the transportation department 	<ul style="list-style-type: none"> • Reduction of workplace air pollution during welding
<ul style="list-style-type: none"> • Installation of Drager X-am 2500 gas monitors in the underground mine 	<ul style="list-style-type: none"> • Continuous monitoring of combustible gas and vapour, oxygen, carbon monoxide and sulphur dioxide

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 website*.

Severstal Russian Steel

Cherepovets Steel Mill has an occupational safety coordinator organisation. There were 474 safety coordinators in 2017. In 2017, our trade union committee together with corporate executive team approved the Evaluation and Motivation Policy for Occupational Safety Coordinators to improve their engagement in safety matters. According to this policy, a special commission including line managers, chairs of trade union committees and OHS specialists will evaluate the contribution of occupational safety coordinators on quarterly basis. The results of this evaluation will be the basis for their bonuses. 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 2017, five Occupational Safety Coordinators of Severstal won the second round of the Best Occupational Safety Coordinator in the Vologda Oblast Council of GMPR competition.

Severstal Resources

Vorkutaugol develops on annual comprehensive plans to improve work environment, safety, and health and wellness initiatives. Management team together with trade unions monitor the results at individual department level. Overall results are summarised on a quarterly basis in the joint meetings of company management and trade union organisations. Based on these results, they make joint resolutions that have to be fulfilled in a specified time.

Key initiatives in emergency readiness

Severstal Russian Steel

- Severstal Russian Steel division has contracts in place with several professional emergency management services. We established a training centre for our gas emergency response team.

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

- We conducted over 1.5 emergency drills in our individual businesses. Together with EMERCOM Directorate for Vologda Oblast, we performed a joint comprehensive training on prevention and management of emergencies at hydro facilities of Severstal.
- We completed the renovation of fire stations.
- We approved the 2017-2019 social and communal support programme for firefighting and rescue teams working on fire safety of our facilities.
- We purchased an AC-8-70 fire truck and utilise it in fire station 2.
- Rehabilitation of civil defense facilities is underway.
- Russian Minister of Emergency Situations awarded commemorative medals to our Head of Occupational Health, Safety and Environmental Protection Department and two other employees for their personal contribution to development and enhancement of civil defence, emergency readiness and fire safety.

Severstal Metiz

- Emergency equipment was replaced across all businesses.
- Together with EMERCOM and Cherepovets Emergency Centre, we organised training in prevention of and recovery from emergencies at our acid storage facility.
- We organised a volunteer fire brigade. Employee training has been conducted.

Vorkutaugol

- In 2017, Vorkutaugol conducted 20 fire evacuation drills at its facilities.
- The Training plan included 23 large-scale training activities, including 11 drills at our coal preparation plants.
- We trained and certified 164 members of Vorkutaugol supporting rescue teams. 546 Vorkutaugol team members participated in training at a special Komsomolskaya mine test site.

Karelsky Okatysh

- Together with EMERCOM Karelia, we conducted joint training in the management of oil spillage in the oil product warehouse of the production support shop, a vehicle fire in our bus garage, and a mining truck fire in the repair station.
- We equipped conveyor drives of the ore preparation plant with an automated fire suppression system.

Supply Chain Responsibility

All onsite contractors have to comply with Severstal safety requirements. Our divisions developed and implemented this approach, and regularly check contractor compliance in this area.

All new contractors have to pass a documentary inspection of their compliance with government regulations before they get access to our industrial site. The following aspects are evaluated during the inspection:

- Organisation of medical check-ups (preventive and regular)
- Organisation of HSE management and employee training
- Organisation of employee training in safe behaviours
- Availability of personal protective equipment

Despite all our effort in improving the safety practices of our contractors, there were two fatal accidents with contractor employees on our sites in 2017.

In 2017, HSE specialists of Severstal Russian Steel trained 420 employees of our contractor organisations in our occupational health and safety methodology.

Improvement of our cooperation with contractors on occupational health, safety, workplace injuries, and compliance with regulatory and corporate requirements was discussed at a round table with the management teams of our contractors and the Chief Executive of Severstal Russian Steel.

In 2017, 55 of our contractors rolled out basic safety tools used in Severstal Russian Steel, such as identification of hazards, unified approach to violations, micro injury analysis, hazard visualisation, live training and behavioural safety audits. These contractors received the Core Contractor status and exemption from fines for violations.

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

- Zero fatalities
- Injury rates same or lower than in the previous year
- Number of alcohol-related suspensions of contractor employees suspensions same or lower than in the previous year
- At least 100 points scored in the audit
- Completion of a full scope of priority assignments

Only 10 contractors achieved these objectives in 2017.

In 2017 Severstal Metiz organised the first meeting with representatives of 62 resident companies in Cherepovets. Apart from our production departments, we have Vologda small and medium businesses working in machinery, metallurgy, equipment maintenance and services, and other areas at the industrial site of Severstal Metiz.

The meeting was dedicated to the discussion of onsite collaboration, including compliance of resident businesses with HSE regulations, access policies, vehicle traffic policies and other

regulations. This approach generated strong results in Oryol Industrial Park at Oryol branch of Severstal Metiz, and we decided to replicate it to our other assets.

Vorkutaugol also wanted to improve its approach to cooperation with contractors. In 2017, we agreed with our largest contractors, including OOO SAK, on the need to use certain tools to improve occupational safety, such as including behavioural safety audits or violation / non-compliance inspections. In 2018 these contractors will start studying and applying our corporate safety tools.

One of the forms of our cooperation with suppliers of raw materials, equipment and services is the audit of their compliance with ISO 14001 standard. Our supplier evaluation forms include sections on environmental protection and footprint, such as ISO 14001 certification, availability of environmental policy, environmental objectives, licenses and permits for the use of natural resources, etc.

We select our partners very carefully when we sign any agreements, including agreements on waste removal and processing. Availability of permits for the management of specified types of waste is a mandatory condition for all partner agreements. Verification of contractor's practical ability to deliver on their contractual commitments is also mandatory for all our agreements.



Key Priorities in Corporate Social Responsibility and Sustainable Development

2017 objectives	Progress and 2017 highlights	2018 objectives
Occupational Health and Safety		
Further reduction of injury rate	● Reduce injury rate by 46% compared with 2016	Similar to 2017 objectives
LTIFR 0.92	● LTIFR 0.96	LTIFR 0.90
Zero work-related fatalities	● No work-related fatalities	Similar to 2017 objectives
		<ul style="list-style-type: none"> • Positive trend in APS audits • Ensure 100% reach of our corporate knowledge assessment and training system among line managers — at least 3,700 people Extend these practices to suppliers • Severstal Russian Steel: roll out corporate certification of contractors • Severstal Russian Steel: increase engagement of OHS coordinators • Vorkutaugol: install Strata comprehensive safety system (air and gas monitoring, dust and gas explosion protection, miner location, etc.)

Environmental Protection

The environmental initiatives of Severstal follow the concept that stronger environmental performance helps to improve quality of life and also makes Severstal more competitive. We take our environmental objectives into account in our facility development and upgrade programmes. We continuously develop environmental footprint reduction programmes and involve all our employees in the implementation of these programmes.

Policy and Management

Our environmental protection commitments are detailed in the Corporate Environmental Protection Policy of Severstal*.

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.

Five Severstal businesses have certified their environmental management systems for compliance with international standards and Russian environmental legislation. In 2018, Severstal is planning to adjust our environmental management to the new

edition of ISO 14001: Environmental management systems— General guidelines on implementation.

Key areas of our environmental responsibility:

- Preventing environmental contamination, and actively working to reduce greenhouse gas emissions
- Optimising the use of energy and natural resources
- Managing waste efficiently

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.

Vertical integration gives Russian assets of Severstal an opportunity to cover the full production cycle from ore mining to long product manufacturing, including scrap processing. Consequently, Severstal almost fully controls the environmental footprint of its supply chain.

We also expect our suppliers to comply with all environmental laws and regulations, and we include them in our contracts. The system we use to monitor the environmental compliance of our suppliers

* <http://www.severstal.com/files/9103/oos.pdf>

is similar to the system we use to monitor their OHS performance. There were no changes in the environmental protection management system in the reporting period.

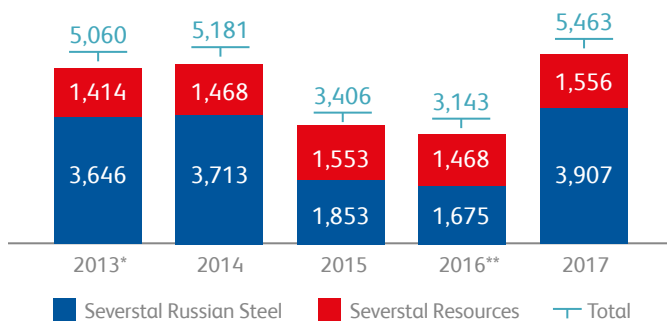
Employee training in environmental protection remains a priority for us. Environmental safety is covered in our employee training programmes. In 2017 we provided environmental protection training to more than 5,400 employees.

Investments in Environmental Protection Initiatives

In 2017 Severstal significantly increased the funding of environmental initiatives, including both current expenses and investments, to the total of 5.46 billion roubles. Compared with 2015–2016, this increase reflects the development of large investment projects at Cherepovets Steel Mill to reduce its emissions and effluents. The share of emission reduction projects in the overall funding increased almost four-fold, from 11.7% in 2016 to 45% in the reporting year. The share of water protection and waste management in the overall funding was 25.1% and 26.8% respectively.

In 2017 we increased our environmental protection spending by 73.8%.

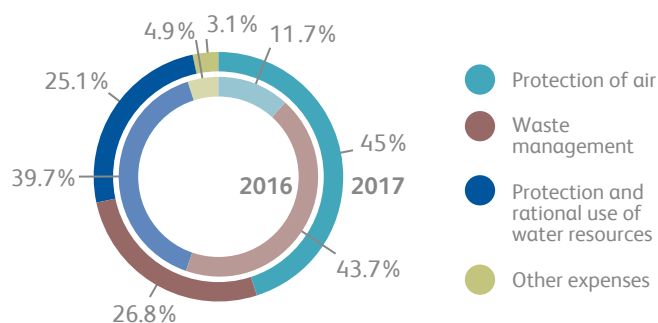
Financing of environmental protection initiatives*, million roubles



* 2013 data includes PBS Coals. This asset was sold in 2014.

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

Key areas of environmental protection investments, %

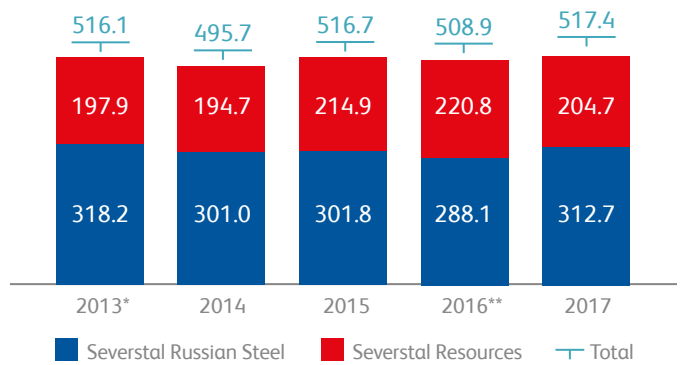


In 2017, the share of over limit fees in the overall amount of environmental impact payments was 38%.

Atmospheric Pollution

In 2017, total emissions of atmospheric pollutants across all businesses of Severstal increased marginally (by 1.7%) from 2016. Emissions of Severstal Russian Steel increased by 8.5% by weight reflecting higher coke consumption in agglomerate production, and higher agglomerate and converter steel production volumes. Emissions of Severstal Resources reduced by 7.3% by weight. This reduction reflects lower sulphur dioxide emissions achieved through initiatives at Karelsky Okatysh and reduced dusting of Olcon spoil banks due to weather conditions (higher annual precipitation).

Atmospheric emissions of pollutants, thousand tonnes



* 2013 data includes PBS Coals. This asset was sold in 2014.

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

Atmospheric emissions of nitrous oxides, sulfur dioxide and other material pollutants, tonnes

	Severstal Russian Steel		Severstal Resources	
	2016*	2017	2016	2017
Nitrous oxides	11,895	14,097	6,867	5,713
Sulphur dioxide	24,334	27,968	66,169	60,512
Volatile organic compounds	327	426	420	526
Particulate matter	18,431	17,800	10,525	9,730
Carbon monoxide	231,771	251,007	3,593	3,639
Other	1,325	1,430	133,220	124,549
TOTAL	288,084	312,728	220,794	204,669

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

Air Protection Initiatives in 2017

Severstal Resources

Olcon

- Construction of a new concentrate dryer helped Olcon to reduce atmospheric emissions by 227 tonnes per year (for the same amount of dry concentrate). The latest equipment uses dry separation and does not generate sulphuric acid emissions. We installed bag filters with 99.85% solids filtration efficiency.
- We continued the application of dust suppressant to tailing ponds to reduce dusting in high winds. With the same purpose, we seeded our spoil banks with special plants with strong root systems. In 2017 we applied chemical suppressant to 16 hectares of dusting tailing pond surfaces and completed biological rehabilitation of one hectare.

Karelsky Okatysh

- A comprehensive programme for the reduction of sulphur dioxide emissions in the concentrate and pellet production plant is scheduled for completion in 2023.
- At least once per week, we monitor noise and emissions at every checkpoint of the protective perimeter. Monitoring data suggests full compliance with maximum permitted levels of emissions and noise.

Vorkutaugol

- In the summer of 2017, we took measures to prevent spontaneous ignitions in our spoil banks, including the formation of flat banks by layering them with fire-retardant material and packing them with heavy trucks. We worked on eliminating fires at spoil bank 2 and an adjacent connector road to Vorkutinskaya mine.

Severstal Russian Steel

Cherepovets Steel Mill

- We launched the new central gas cleaning system of Ladle Furnace 2 and Steel Finisher. The design of this system uses international best practices allowing us to reduce dust concentration in off-gases to less than 10 mg/m³ in the pipe and make our work environment safer. Ladle Furnace 2 is one of the largest investment projects of Severstal.
- We continue working on replacement of one out of 12 electric filters of the aspiration unit in sinter plant of Cherepovets Steel Mill. New electric filters will improve equipment reliability and reduce dust emissions.

Oryol Steel Plant

- The reconstruction of the balanced ventilation system at the pickle line of steel wire plant 2 decreased the number of stationary sources of air pollutants and reduced the overall emissions of sulphuric acid aerosols by 0.199 tonnes compared with 2016.

Severstal Metiz

- Steel wire plant 1 launched a modern muselet* line with a dust filter. This project reduced our emissions of zinc oxide.
- We equipped the pickling and phosphating line in the calibration plant with a new forced air ventilation system with an acid vapour filter. This project reduced our acid vapour emissions.

Reduction of Greenhouse Gas Emissions

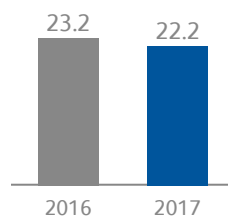
Reduction of greenhouse gas emissions is an important item on our corporate agenda. We understand the depth and magnitude of the threat of climate change. The activities and actions by companies and governments over the last few years have meant that we are rapidly moving to a lower carbon intensity world. Severstal recognised this many years ago and has been endeavouring to reduce its greenhouse gas emissions for some time.

We reduced GHG emissions through adoption of new and retirement of inefficient technologies. The most significant projects of Severstal are as follows:

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

Starting from 2016, all our businesses have been implementing the GHG emission measurement methodology adopted by the Russian Ministry of Natural Resources.

Direct greenhouse gas emissions, million tonnes



Our total amount of direct GHG emissions in 2017 was 22.2 million tonnes.

In 2017, we reduced GHG emissions by 4.3%. This reduction reflects the following:

- Change in the volume of flare gas, and the volume of coal, lime and dolomite purchased by Cherepovets Steel Mill
- Lower methane output from coal mine ventilation and degassing systems, along with increased gas utilisation by Vorkutaugol compared to the previous period

* A wire cage that fits over the cork of a bottle.

- Launch of the new concentrate drying station at Olcon, reducing fuel oil consumption and consequently GHG emissions.

We are an integrated business and hence are in control of almost all the greenhouse gas emissions in our processes. This gives us an opportunity to assess the opportunities to reduce GHG emissions and control our emissions at all stages of our production processes. Less integrated companies need to purchase iron ore and coking coal from mines where they are not responsible for emissions, transport raw materials over long distances, and purchase electricity which has been produced by thermal coal powered stations. All these factors increase their carbon footprint.

In 2018 we will continue analysing our mining, processing and steel product manufacturing operations. We are also planning to disclose more details on our GHG emissions and will try to

demonstrate Severstal's responsibility for greenhouse gases along the whole value chain in our report.

Waste management

Severstal Resources generates 96% of all waste in Severstal. The largest groups of waste are overburden and tailings. In 2017 Severstal Resources produced slightly more waste (1% increase) due to higher volume of mining in Karelsky Okatysh.

Cherepovets Steel Mill is the main driver of waste management in Severstal Russian Steel, and its operating results led to an 8% increase in the overall amount of waste compared with the previous year.

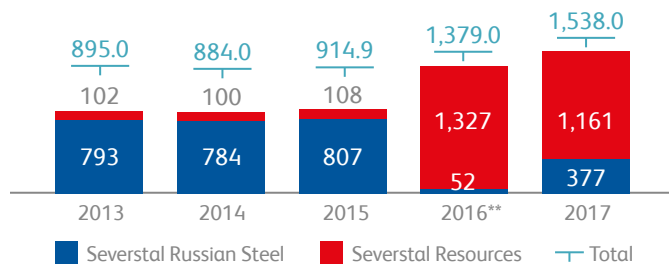
Waste management, tonnes

Indicator	Severstal Resources				Severstal Russian Steel			
	2014	2015	2016*	2017	2014	2015	2016*	2017
Total waste produced including:	184,601,941.5	178,043,303	185,081,223	189,886,865	8,477,434.1	8,340,966	6,803,002	7,341,596
overburden	148,981,471	147,432,422	153,789,012	157,969,471	900,219.7	508,554	—**	—
tailings	30,702,835.5	30,492,034	30,239,809	30,991,429	—	—	—	—
Amount of waste recycled								
in production	3,243,215.6	45,878,971	17,132,020	11,623,848	6,317,482	6,519,036	6,401,582	7,018,356
Amount of waste neutralised								
in production	0.5	0.5	0.5	0.76	104,869.9	112,717.7	33,523	28,484
Amount of waste stored on site including:	181,346,962.3	112,864,810	186,698,952	178,395,902	1,532,192.7	1,142,138	38,965	366,431
within permitted limits	181,346,962.3	104,980,619	177,712,414	167,408,714	1,531,120.5	1,142,138	38,965	366,431
beyond permitted limits	0	7,884,191	8,986,538	10,987,188	1,072.2	0	0	0
including:								
overburden	147,742,447.6	93,299,596	159,803,640	152,323,791	748,558.7	335,549	—	—
tailings	28,701,635.1	19,462,645	25,577,530	24,920,467	—	—	—	—
Amount of waste transferred to third-party waste management facilities including:	29,103.1	87,576	163,822	157,244	428,807.7	303,586	91,460	109,063
for utilisation	23,510.2	81,858	154,592	147,816	408,218.2	283,436	74,664	95,517
for neutralisation	134.8	371	69	88	1,520.2	3,699	3,243	2,288
for storage	0	0	2,776	2,862	0	870	935	1,089
for burial :								
of those stored and buried:	5,458.1	5,347	6,384	6,478	19,069.3	15,581	8,375	10,169
within permitted limits	5,446.6	5,347	6,384	6,478	18,975.7	15,701	9,068	11,225
beyond permitted limits	11.5	0	0	0	93.6	750	242	33

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

** No waste produced in technology chain.

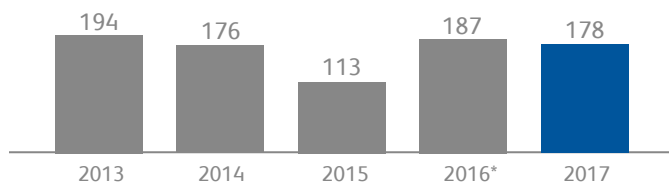
Waste disposal*, thousand tonnes



* Except heavy waste of Severstal Resources (overburden and tailings)

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

Overburden and tailing disposal, Severstal Resources, million tonnes



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

Olcon did not use overburden to fill the artificial cavities of Olenegorsk pit in the reporting year. As a result, we reduced internal recycling of Class 5 hazardous mining waste. We also shipped our overburden to a third party that will use it in crushed stone production.

Karelsky Okatysh reduced the disposal of overburden and tailings as we increased their use in construction of our internal infrastructure, including roads, railways and the dry magnetic separation system.

Overall, we reduced the volume of stored overburden by 6.5% across the division.

Waste Transportation

Business	Comment
Cherepovets Steel Mill	There was no international transportation
Vorkutaugol	Does not transport waste
Olcon	Class 1-4 hazardous waste transported 1,092.8 t
	of those using our own transport 544.4 t
	using contractor transport 548.4 t
	Does not transport waste internationally
Karelsky Okatysh	Does not transport hazardous waste
Severstal Metiz	There was no international transportation
Volgograd Branch Severstal Steel Ropes	Waste transportation is managed by contractor; 827.6 tonnes of waste transport to waste management facility in 2017
Oroyl Steel Plant	There was no international transportation

Waste Reduction and Processing, and Land Rehabilitation Initiatives in 2017

Disturbed to rehabilitated area ratio, hectares

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

Severstal Resources

- Vorkutaugol rehabilitates 20 hectares of disturbed land every year per the feasibility study of the Yunyaginsky pit development. In the reporting period, it has also reclaimed a total of 200,000 square metres (including 40,000 square metres at the Eastern Edge and Eastern Yunyaginsky Trough, 100,000 square metres at the Northern flank, and 60,000 square metres at the Eastern flank). These areas were cleaned up, filled and zoned. Reclaimed land will be transferred to Vorkuta municipal administration for inclusion in the State Reserve after the completion of mining at Yunyaginsky pit, which is expected in 2023–2025. It will be protected until then.
- Vorkutaugol processes some of its mineral sludge at Pechorskaya Preparation Plant. 46,392 tonnes of sludge were processed in 2017.
- In August 2017, our employees and school interns planted 4,000 young pines at Olcon tailing pond. These trees will bring environmental benefit by reducing dusting in high winds. We planted young pines in Olenegorsk pit in the past, and they are doing well. We are also planting lyme grass at our tailing pond for the same purpose.

Severstal Russian Steel

Cherepovets Steel Mill

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

Cherepovets Steel Mill reduced the amount of waste in the waste storage facilities by 58% over the past 10 years.

- Cherepovets Steel Mill is a major supplier of slag products including flush slag, early slag and early unsorted slag. These products are made from the main types of industrial waste, including steelmaking and blast furnace slag. In 2017 we processed 4.5 million tonnes.
- Apart from slag, Cherepovets Steel Mill processes other process waste, oil, rolling mill emulsion, oiled scale, sludge and tar. In 2017 we processed 350,000 tonnes of process waste, 97,000 tonnes of emulsion and 27,000 tonnes of oiled scale, recycled 616 tonnes of oil and 30.5 tonnes of office equipment.
- We keep working on reducing the amount of waste stored in landfill. Today we sell waste to waste processing companies. In 2017, we transferred:
 - Wood clippings (slabs, pallets)—12,295 tonnes
 - Conveyor belts—274 tonnes
 - Swarf—136 tonnes
 - Polyethylene and plastic waste—71 tonnes
 - Cardboard waste—8 tonnes

Volgograd Branch of Severstal Steel Ropes

- We poured concrete in the scrap storage area of our steel rope warehouse and general warehouse to comply with sanitation regulations.

Oryol Steel Plant

- We implemented a series of initiatives to separate wood, paper and cardboard from the remaining waste and send them for recycling.

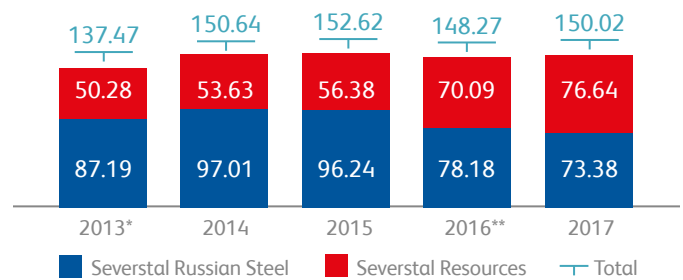
Severstal Metiz

- We started separating packaging waste and sending it to recycling. This helped us reduce the weight of packaging waste stored at landfills. In 2017, we recycled 60% of wood packaging waste, 15% of polyethylene packaging waste, and 32% of paper and cardboard packaging waste.

Use of Water Resources

In 2017, our water intake was 150.02 million cubic metres, which is 1% more than in the previous reporting period. Water use by our core steelmaking and mining facilities (Cherepovets Steel Mill, Olcon, Severstal Long Product Mill Balakovo) does not have a significant impact on water sources.

Total water consumption, million cubic metres

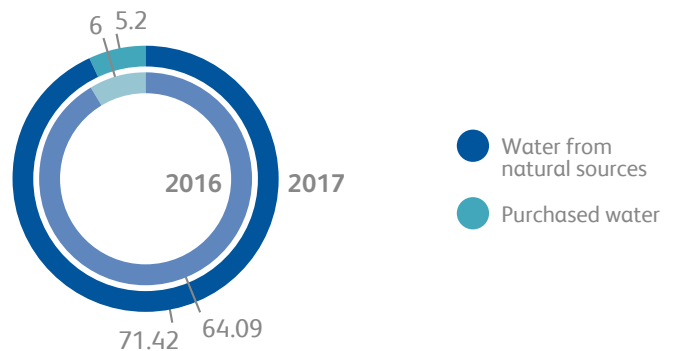


* Severstal Resource data for 2013 includes PBS Coals. This asset was sold in 2014.
 ** Starting from 2016, Belorucheyskoye Mine Authority data is included in Severstal Resources.

Severstal Resources

The mining businesses of Severstal Resources mostly use water from natural sources, including groundwater (83%), surface water bodies (2%), storm water and meltwater from our land parcels (8%), as well as water supplied by utilities (7%).

Total Severstal Resources water intake by source, million cubic metres



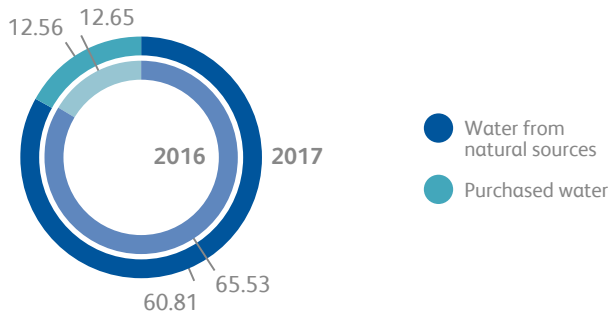
The amount of this water depends directly on natural factors beyond control, such as the inflow of water to underground mines and open pits, or the amount of precipitation. These factors largely define the changes in our annual water intake. These sources cover our production needs with a significant surplus, and we discharge this surplus as wastewater to surface water bodies. The overall increase in water intake across the division in 2017 reflects higher inflow from natural sources, continuation of surface water delivery from Section 2 of Severnaya mine by Vorkutaugol (suspended in the second quarter of 2016 following the mine disaster), and transition of Yunyaginskiy open pit to a new surface delivery point.

Closed loop water systems minimise the use of water from natural sources in our production. Individual businesses of Severstal Resources reuse 53% to 98% of their water. Olcon has the highest water recycling performance, with 98% of water in its concentrate production reused in its closed loop system.

Severstal Russian Steel

Severstal Russian Steel takes some of its water from natural sources: 81 % of water intake comes from surface water bodies, and 0.5 % comes from underground water bodies. We also use storm water and melt water from our territories (1.4 %), and purchase water from third parties (17.1 %).

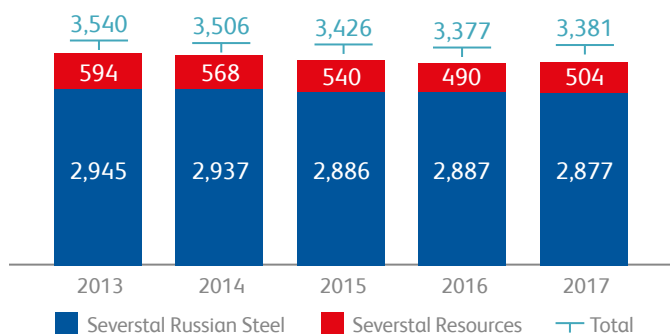
Total Severstal Russian Steel water intake by source, million cubic metres



The majority of process water from natural sources is used by Cherepovets Steel Mill. Water from natural sources is used to replenish local recycling loops and the integrated water supply system, and constitutes 1.67 % of the overall water intake. Recycled water constitutes 98.33 % of the overall water intake.

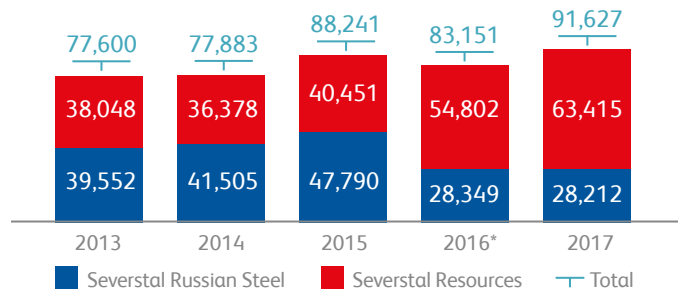
The overall water intake across the division reduced by 6 % in 2017 reflecting the reduction of water use by third party consumers of Cherepovets Steel Mill.

Total amount of reused water, million cubic metres



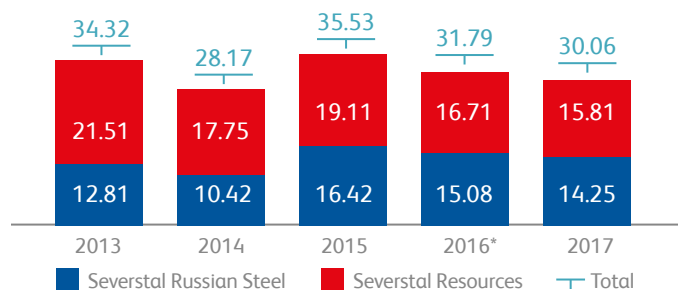
Effluents and Water Body Protection Initiatives

Water discharge, thousand cubic metres



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

Wastewater discharge in water bodies, thousand tonnes



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

Severstal Resources

Severstal Resources increased its wastewater discharge in 2017 by 14.5 % due to higher water inflow in the pits.

Effluent discharges reduced marginally (by 5 %) from 2016. The main driver of this change is the reduction of effluent discharges by Karelsky Okatysh due to lower content of solid residue in waste water (in 2016, sediment dams and natural water bodies had large amounts of algae). Effluent discharges in 2017 increased as follows:

- By 20 % in Olcon due to larger amount of Kirovogradsky pit waste water with higher content of solid residue
- By 27 % in Vorkutaugol due to higher content of solid residue in pit water (up 26 % from 2016) reflecting its higher mineralization.

Water protection initiatives in 2017

Olcon

- Installation of 2,325 metres of discharge pipes and 500 metres of water conduits eliminated waste water discharges in water bodies and on land. We reduced fresh water consumption and organised waste storage in a special facility.

- Biofilter was started in the sediment dam of Kirovogorsky pit. Implementation of a biological waste water treatment technology reduced the concentration of pollutants by 15–25%. Both water and shoreline are treated to achieve maximum effect. We placed phytomats (bags with special nutrient-enriched soil) around the sediment dam helping the plants to grow even in rocky areas. In August 2017, our environmental specialists installed 750 phytomats with germinated sedge, horsetail, willow, comarum and other plants.

Karelsky Okatysh

We continued the construction of the second stage of the tailing treatment facility. New equipment will enable water recycling after treatment. Today we need to pump clean water five kilometres away, and then pump back contaminated water with solid residue. This project will also reduce our power consumption. The second stage of the tailing treatment facility is scheduled for completion in August 2018.

- We completed the modernisation of dry magnetic separation system. Along with increasing our processing capacity to six million tonnes of ore per year, it will also generate environmental benefits. Separation of ore from overburden with sulphur content, we will reduce the concentration of sulphates in sludge, which is a byproduct of pellet manufacturing, therefore reducing the contamination of water bodies.
- We performed a comprehensive evaluation of the impact of Karelsky Okatysh on water ecosystems, and the assessment of the impact of Korpanga tailing pond and sediment dam on the Kenti-Kento lake system. We detected changes in bodies of fish in Lake Okunevoye. These changes reflect body adaptations to long-term exposure to potassium and sulphates in lake water.

Vorkutaugol

- Upon technical examination of the outlets of Zapolyarnaya and Komsomolskaya mines and Yunyaginsky pit, we developed proposals for renovation or constriction of treatment facilities to improve waste water properties. We made a decision to overhaul Vorkutinskaya (2018) and Vorgashorskaya (2019) treatment systems, and to clean and recover sediment dams and surface trays of Komsomolskaya and Zapolyarnaya mines.

Severstal Russian Steel

In 2017 the overall amount of wastewater discharges in the division, and from Cherepovets industrial site in particular, remained level with the previous reporting period. Cherepovets Steel Mill generates 87% of the overall wastewater discharge in the division, and 98% of pollutant emissions. There were no oil product or liquid waste spills in 2017.

Cherepovets Steel Mill

Cherepovets Steel Mill uses an integrated closed-loop water system that includes clarifying basins 1 and 2 with the total area of 6.6 hectares, an Integrated Water Discharge Filtration Station treating up to 12.0 thousand cubic metres of wastewater per hour prior to its discharge to Koshta River, and two sludge ponds with the total volume of 52 million cubic metres.

Completion of the Integrated Water Discharge Filtration Station reduced pollutant discharges by 20% in 2017 compared with 2015.

The production businesses of Severstal have 60 local recycling loops. This water supply and discharge system allowed reducing the number of permanently used wastewater outlets from nine to two.

Severstal invests approximately 250 million roubles in the construction of the closed loop water system at Cherepovets Steel Mill.

Cherepovets Steel Mill discharged 14.1 thousand tonnes of pollutants in 2017, which is 5% less than in 2016. This change reflects the reduction of pollutant emissions from Outlet 3 following the completion of technology upgrades at Severstal Metiz.

19 pollutants are regulated in wastewater discharges of Cherepovets Steel Mill. The majority of them (84.5%) are discharged through Outlet 3, with 13 pollutants within maximum permissible limits.

To achieve compliance across all regulated pollutants, we work on a number of initiatives agreed upon with the government authorities and scheduled for completion by 2023. For further details, please refer to the Key Priorities in Corporate Social Responsibility and Sustainable Development table below.

Water protection initiatives in 2017

In 2017, Cherepovets Steel Mill invested 726.642 million rubles in the following water protection initiatives:

- We continued the upgrade of sludge treatment facility of blast furnace gas cleaning systems in the main building of blast furnace 1–5 dehydration plant. This project will eliminate sludge discharges in Sludge Pond 1 and further to Outlet 3, reducing our overall pollutant discharges.
- Construction of Cooling Towers 2 and 4 will improve the efficiency of process water cooling and eliminate the discharge of recycled water into surface water drains.
- We are also upgrading the primary slag treatment facility (Section 2) in the steelmaking unit.



- Replacement of sludge pipe 1 of the converter 1 gas cleaning system in the steelmaking unit.
- Institute of Biology of Inland Waters (Borok) completed the research project on the use of vegetation for final treatment of water discharged from Outlet 3 to Koshta River (plant selection and adaptation). It selected plant species and performed a static evaluation of wastewater treatment efficiency.
- Repairs of water treatment equipment.

Oryol Steel Plant

In 2017 we completed a series of water protection initiatives under the Water Use Agreement and Water Body Use Permit:

- Monitor water body (Oka River), including third party monitoring
- Seal ruptures in process water intake pipeline (Oka)
- Replace backup pump at the hydro unit

Severstal Metiz

- We are completing the transition to new production technology in Steel Wire Plant 2, Steel Shape Plant and Calibration Plant. In 2017, we launched two new units using molten lead instead of sodium nitrate. This project will reduce the amount of pollutants in wastewater discharged in Sludge Pond 1 and further to Outlet 3.

Volgograd Branch of Severstal Steel Ropes

- We repaired the electric valves at local treatment facilities to improve treatment process and eliminate discharge of untreated water into clean water tanks.
- Water recycling station filter was repaired as well. Consumption of river water was reduced.

Key Priorities in Corporate Social Responsibility and Sustainable Development

2017 objectives	Progress and 2017 highlights	2018 and short term objectives
Environmental component		
Cherepovets Steel Mill		
Reduce dust emissions by 500 tonnes per year after the completion of central gas cleaning system for Ladle Furnace 2 and Steel Finisher	● Dust emissions reduced by 454 tonnes since the launch in July 2017	—
Rehabilitation of steelmaking furnaces of SSM Tyazhmash with gas filtering system upgrades	🕒 In progress	Scheduled for completion in 2018
Renovation of blast furnace slag treatment line	● Blast furnace slag treatment line renovated	Commissioning scheduled for 2018
—	—	Preliminary planning of construction of the secondary wastewater treatment system for outlet 3 scheduled for 2018 Construction of a secondary wastewater treatment system for outlet 3 scheduled for 2023
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	● Plant species selected, static evaluation of wastewater treatment efficiency completed	Further activities at the closed loop water facility planned for 2018
—	—	Modernisation of Rybinsk Reservoir biological waste water treatment facility, Torovo recreation centre and Rodnik health resort scheduled for 2018
Completion of the preliminary design of a new industrial landfill for Cherepovets Steel Mill	● Preliminary design completed	Development of project documentation scheduled for 2018
Development of project documentation for the construction of storage facility for steelmaking waste and zinc-containing blast furnace slag	● Project documentation completed, positive opinion of the state environmental commission received	State expertise, construction permit application, and physical construction scheduled for 2018-2019

2017 objectives

Transfer of PCB*-containing capacitors and transformers to a specialised treatment organisation

—

—

Severstal Distribution

Renovation of Treatment Station 2

Oryol Steel Plant

Further reduction of storm water and melt water leaks from roofing and redirection of drains to closed loop water system

Severstal Metiz

—

Production technology changes underway

—

Severstal Steel Ropes

Replacement of water recycling station filter

Repair of power gates at the local treatment station

Vorkutaugol

Improvement of the efficiency of existing treatment systems at Vorkutinskaya and Zapolyarnaya mines

Rehabilitation of Yunyaginsky pit (Eastern, Eastern Edge and Eastern Yunyaginsky Trough)

Olcon

Application of dust suppressant to tailing pond surfaces along with biological rehabilitation

Progress and 2017 highlights

🎯 Two Sovtol transformers transferred

—

—

🎯 In progress

🕒 Implementation suspended

—

🎯 Discontinuation of sodium nitrate process and replacement of Units 2, 3 and 7 at Steel Wire Plant 2

—

● Completed Reduction of river water consumption

● Complete Washing water treatment process optimised

🎯 Completed technical assessment of existing discharge outlets

🎯 20 hectares rehabilitated

● Complete

2018 and short term objectives

Scheduled for completion in 2024

Processing of reinforced concrete waste with extraction of scrap and production of assorted crushed stones scheduled for 2018

Collection of used chemical power sources for third party processing starting from 2018

Launch of Treatment Station 2 after renovation scheduled for 2018

—

Renovation of Unit 7 at Steel Wire Plant 2 (replacement of pickling bath with an overflow type) to reduce atmospheric emissions of sulphuric acid vapour is scheduled for 2018

Scheduled for completion in 2018

Replacement of mercury bulbs with LED light sources to reduce the amount of Class 1 hazardous waste (mercury bulb waste) scheduled for 2018–2022

—

—

Renovation of Vorkutinskaya mine included in 2018 AIP.

Scheduled for completion in 2021

Continued rehabilitation of Yunyaginsky pit

—

* Polychlorinated biphenyls

2017 objectives	Progress and 2017 highlights	2018 and short term objectives
Deployment of bioremediation technology to treat nitrous pollutants in quarry waters	🕒 Phytomat installation in water and along the shores	Scheduled for completion in 2019
Installation of new sludge pipes and water conduits to eliminate wastewater discharge in water bodies	🕒 In progress	Scheduled for completion in 2018
Karelsky Okatysh		
Implement the programme for reduction of atmospheric sulphur dioxide emissions	🕒 Signed an agreement on the development of a feasibility study for the construction of sulphur removal facility for baking machine off-gases	Scheduled for completion in 2023
Analysis of tailing pond water intake from drainage area and its impact on wastewater discharge parameters. Evaluate opportunities for reduction of wastewater discharges to Lake Okunevoe	🕒 Signed an agreement on development of tailing maintenance facility for 2018–2043	Develop technical solutions for tailing maintenance overhaul (new stocking method)
Upgrade the Dry Magnetic Separation System (DMSS) Reduction of sulphur content in ore	● DMSS upgraded to process up to six million tonnes of ore per year	Ongoing
Selection of best possible reagents for the tailing pond. Improve the quality of treated water used in technology processes	🕒 Three suppliers selected. Selection of the best chemical agent in process	Scheduled for completion in 2018
Completion of a pyrolytic waste treatment station. Partial decontamination and utilisation of Class 3-4 hazardous waste (use of waste in production)	🕒 Received permits for waste decontamination and utilisation. Start-up and adjustment in progress.	Scheduled for completion in 2018
Full decontamination of Class 3–4 hazardous waste	● 300 kg/hour Urican-300 incinerator Incinerator used 24x7 to treat 2,628 tonnes of waste	Ongoing

Power Consumption and Energy Efficiency

Energy Efficiency Management System and Objectives

By reducing power consumption every year, Severstal makes a real contribution to the rational use and conservation of energy resources while reducing our environmental footprint. Severstal has been working on Comprehensive Energy Conservation Programme since 2000 and adopted Energy Conservation Policy in 2003. We reviewed this policy in 2017. The Policy was extended to all Severstal businesses to ensure a uniform approach to energy conservation and energy efficiency.

Our energy conservation programme includes provisions for the following:

- Design of an energy conservation strategy and deployment of energy conservation technologies and equipment
- Development of an energy resource management system
- Utilisation of waste energy
- Renovations and upgrades
- Reduction of steelmaking energy consumption to match world-leading steelmakers
- Reduction of greenhouse gas emissions
- Development of an accurate power generation and consumption metering system and a planning system

These activities are organised and coordinated by the Centre for Energy Efficiency of Severstal Chief Power Engineer's Department. 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.

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.

Our energy management system helped us achieve the following results compared with 2000:

- 16.5% reduction of energy consumption per tonne of steel
- 14.5% reduction of natural gas consumption per tonne of steel
- 19.8% reduction of electricity consumption per tonne of steel

We are planning to roll out similar energy management systems at other businesses of Severstal.

Key Priorities in Corporate Social Responsibility and Sustainable Development

Projects	Expected outcome	Completion
Cherepovets Steel Mill		
The 2015–2019 energy conservation and energy efficiency programme of Cherepovets Steel Mill includes investment, organisational and technical projects in five areas	Conservation of 75 million cubic metres of natural gas Conservation of 82 million kWh of purchased electricity	2019
Vorkutaugol		
Annual energy conservation initiatives of Vorkutaugol	Reduction of power consumption per tonne of mined rock to 45 kWh	2017
Olcon		
Development of a 6 kW reactive power compensation project	Reduction of power consumption by 2% to 3% after project completion	Project design in progress
Reduction of losses in heating networks, replacement of pipes and insulation	Reduction of heating costs by 5–8% per year	By 2019
Retirement of low-efficiency power equipment	Reduction of power costs by 2–4%	By 2019
Installation of electricity meters	Reduction of water and steam consumption costs by 10–15%	By 2019

Our Centre for Energy Efficiency completed the implementation of ISO 50001:2011 — Energy management systems standard.

Severstal won the Best Industrial Energy Conservation and Energy Efficiency Promotion Project nomination of the ENES 2017 Nationwide Energy Efficiency and Energy Saving Contest.

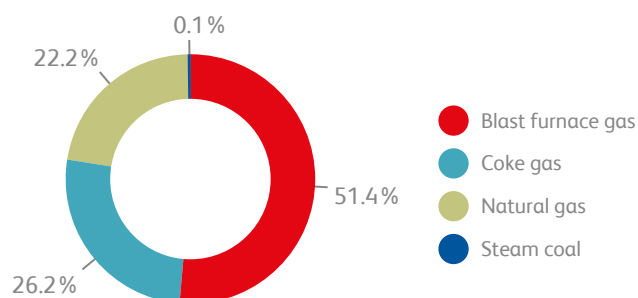


2017 Highlights

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). They provide the majority of electricity and all heat needed by Cherepovets Steel Mill and 80% industrial consumers in the city. These power plants use a mix of fuels.

Fuel mix in 2017, %



Efficient utilisation of blast furnace gas in power plants helped us to reduce gas flaring to 2.56% of the overall blast furnace gas, compared to 3.73% in 2016.

In 2017, our TPP exceeded their nominal ratings and generated the all-time high of 4441.7 million kWh of electricity. TPP-SS and TPP-PS-2 made the biggest contribution to our internal power generation and produced 93.0% of all our power.

In 2017 we produced 50.4 million kWh (1.2%) more electricity than a year before.

We owe this result 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 308.7 million kWh of electricity in 2017.

The oxygen plant is the highest consumer of electricity at Cherepovets Steel Mill. It uses four air separation units and six compressed air stations. Compared with 2000, we achieved 8.4% reduction in power consumption for production of compressed air, and 12.3% reduction in power consumption for production of oxygen. We are planning to install new compressors to supply air to oxygen modules in early 2018. This will reduce our power consumption by a quarter.

In 2017, Cherepovets industrial site consumed 5670.279 million kWh of electricity.

Our ratio of internally generated electricity to consolidated power consumption has been growing steadily over the last few years. In 2017, this ratio increased to 78.3% compared to 77.8% a year before.

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 an additional gas holder to reduce natural gas consumption. In 2016 we started the development of project documents for the utilisation of converter gas with TPP-SS.

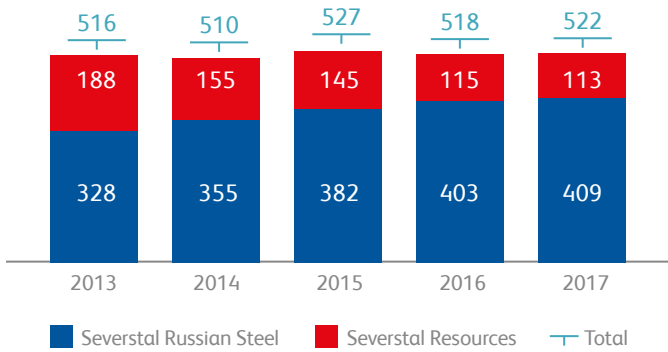
We are planning to increase internal power generation at Cherepovets Steel Mill by 5%. Under our agreement with Power Machines, the upgrade of TPP-SS Turbine Generator 5 will improve its capacity by 25 MW. The upgrades will be completed on the operating unit without interruption of power supply.

We also get some 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.

Power generation and consumption by Cherepovets Steel Mill, thousand kWh

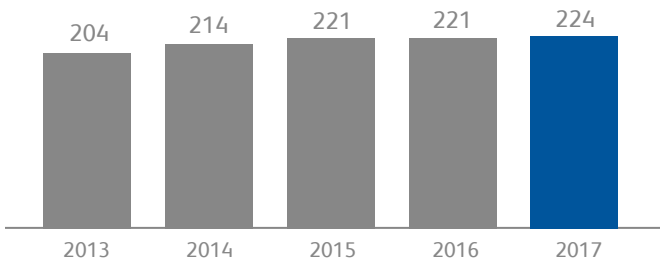
	2015	2016	2017
Total consumption including	6,166,370	6,077,806	6,096,821
External sources	2,018,372	1,686,531	1,655,118
Internal generation	4,147,998	4,391,275	4,441,703
TPP-SS	2,361,336	2,602,942	2,623,499
TPP-PS	1,477,480	1,456,400	1,509,456
GNCT	187,637	199,477	191,765
TSC	121,545	132,455	116,983
Use in shops	5,649,626	5,574,273	5,610,497
Process consumption	5,716,107	5,641,968	5,666,700
Losses	66,480	67,695	56,203
Sales to third parties	447,268	432,650	426,542
Non-process consumption	2,995	3,188	3,579

Specific power consumption, kWh per tonne of steel



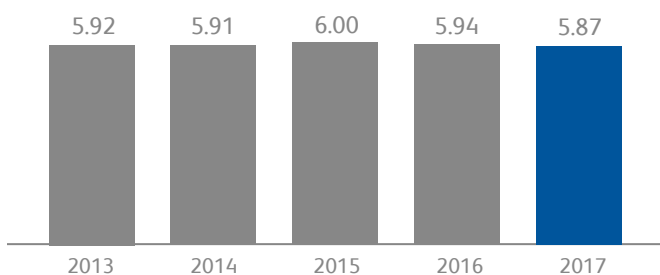
Specific power consumption in 2017 increased from 2016 by 4 kWh per tonne of steel (1%), to 522 kWh per tonne of steel. This increase is associated with the launch of the new ladle furnace in the steelmaking plant in July 2017.

Natural gas consumption, cubic metres per tonne of steel



Specific natural gas consumption in 2017 increased from 2016 by four cubic metres per tonne of steel (1%). This increase reflects higher consumption at TPP-SS and TPP-PS due to lower output of coke gas, as we started the renovation of coke battery 4 in May 2017.

Specific energy consumption, Gcal per tonne of steel



Specific energy consumption reduced by 0.069 Gcal per tonne of steel (1.2%) from 2016, to 5.866 Gcal per tonne of steel. This change reflects the following:

- Reduction of losses of blast furnace gas, steam heat and electricity, by 0.02 Gcal per tonne of steel
- Reduction of hot metal production by 160 thousand tonnes (1.72%), equivalent to 0.059 Gcal per tonne of steel.

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.

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

Karelsky Okatysh

- Karelsky Okatysh works on the local hot water supply system. Shower rooms will get hot water from local electric boilers instead of getting it delivered from central boiler. This approach will reduce water heating costs by a factor of nine.
- We are rolling out energy efficient technologies to reduce vapour consumption at our oil product storage station. This is an expensive resource as we need to burn fuel oil to produce it. Following the upgrade, we will maintain the required temperature of oil products using thermal oil and circulation of hot fuel oil instead of vapour, and use electricity to heat the fuel oil circuit.
- The electrical department of Karelsky Okatysh also took the initiative to reduce the production of compressed air. These projects will help Karelsky Okatysh reduce power consumption and save up to 90 million roubles per year.



6

SOCIAL PROJECTS AND INVESTMENTS

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External Social Programmes of Severstal: Policy and Management

The social programmes of Severstal focus on supporting sustainable development of our regions, improving the quality of life of our employees and local communities, and protecting the environment. Severstal makes significant investments in social infrastructures of our regions in order to foster favourable social environments for the implementation of our long-term development strategy.

Severstal pays special attention to programmes helping to develop the potential of local communities, address pressing social issues, develop small and medium businesses, preserve cultural heritage, develop culture and support sports and education. In this area, we follow the UN 2030 Agenda for Sustainable Development adopted by UN Member States. (For further details, please refer to the Business and Corporate Social Responsibility section.)

Severstal follows international best practices and follow the approaches of international CSR codes and standards supporting their propagation along the whole value chain.

We develop multi-party partnership infrastructure and work closely with government authorities and communities. The key areas of our social investments are aligned with the needs and expectations of our stakeholders, first and foremost the government and the general public.

The main areas of our social and economic cooperation with the regions are usually defined in our agreements with regional and municipal authorities. These agreements define the key areas and principles of our collaboration and mutual commitments. Strategic areas of cooperation include employment of local residents, education and career orientation of youth, health care, prevention of child neglect and social orphanhood (for further details on our actual agreements, please refer to the Government Authorities section of this report), and support and development of culture.

When we start working with our stakeholders, we seek to balance our corporate priorities with priorities of individual regions and the interests of various groups of the general public. Our corporate policy on the management of external social programmes is based on Severstal corporate mission, strategy and values detailed in several documents published in the Corporate Social Responsibility—Our Approach section of our corporate 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

All subsidiaries of Severstal Group use the same approach to the management of external social programmes. At the same time, we consider regional differences in our social collaboration programmes. When we select our projects, we pay special attention to the reproducibility of successful social practices in all our regions, and to promoting our experience in other regions.

Management of External Social Programmes in PAO Severstal



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.

Contribution to Sustainable Development of Severstal Regions

Diversification of 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 government, communities, businesses and media in our regions.

Import replacement 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, paying legal salaries 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.

2017 Highlights

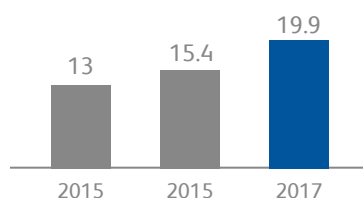
Successful effort by Severstal and its local partners has a huge impact on the social and economic environment in Cherepovets. All our subsidiaries are members of a consolidated taxpayer group. Despite a challenging environment in the steel product market, Severstal pays taxes regularly and on time.

In 2017, Severstal Russian Steel and Severstal Resources divisions paid approximately 46.2 billion roubles in various budgets and extrabudgetary funds, including the following:

- Taxes — approximately 33.7 billion roubles
- Mandatory non-tax payments — approximately 302 million roubles
- Payments to extrabudgetary funds — approximately 12.1 billion roubles

Since the majority of Severstal assets with largest headcount are located in Vologda Oblast, this is where we pay the largest portion of our taxes. In 2017, we paid 10.59 billion roubles of taxes to the consolidated budget of Vologda Oblast (7.6 billion roubles in 2016), including 890 million roubles to the budget of Cherepovets.

Severstal's Purchases from Local Suppliers, billion roubles



The major investment programme of Cherepovets Steel Mill, spans across almost all production units, has resulted in larger purchases of equipment and spare parts, as well as transportation, construction and repair services. In 2017 Severstal purchased 19.9 billion roubles worth of goods and services, or 16 % of our overall purchases, from Vologda Oblast suppliers, an increase of 4.5 billion roubles from the previous reporting period when this share was 13 %. Approximately 12 billion roubles was spent on purchases from small and medium businesses. Severstal Russian Steel had 337 such suppliers; 18 of them submitted 43 applications for Severstal's outsourcing projects and are now undergoing technology and business audits.

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 2017, our mining businesses worked with 66 suppliers who have more than 2,000 employees. For the majority of our suppliers, cooperation with Vorkutaugol is a guarantee of their stability in a challenging economy.

Compared with 2016 when Olcon purchased goods and services from 97 regional businesses, in 2017 we purchased from 115. Olcon purchased 585.11 million roubles worth of goods and services from them in the reporting year. Most often, regional contractors helped us service certain types of equipment, make spare parts and install new machines.

Being the largest employer in the city, Karelsky Okatysh also supports the creation of local jobs. In 2017, it purchased services from more than 60 regional contractors.

Development of Regional Potential

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.

In 2016–2017, Severstal and our joint ventures with the city, Agency for Urban Development and Cherepovets Investment Agency, developed a feasibility study for the creation of a high-growth area in Cherepovets.

Joint effort 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.

The following results need to be achieved to maintain this status:

- 40 residents in the high-growth area
- 2,328 jobs created by residents
- 10.2 billion roubles of investments made by residents

Applications started coming in towards the end of 2017, and the first two businesses have already been included in the resident registry.

Cherepovets Industry Park

Severstal and the City of Cherepovets established the Cherepovets Investment Agency Non-Profit Organisation to support favourable business environment and attract investment in priority areas of municipal development. In 2017, agency portfolio included 31 investment projects up to 2025 with combined budget over 7.7 billion roubles. Total amount of investments committed through the Investment Council of the City of Cherepovets in 2017 was 4.8 million roubles.

One of these projects is the Cherepovets Industry Park, a major strategic development initiative. In 2017 the site of the industry park was completed and equipped with engineering and transport infrastructure with support from the Monotown Development Fund. The park is open to residents and new businesses. One of the core resident, a fibrolite wall panel factory, is already building its manufacturing facility in the park. Construction of a lattice floor tile plant is about to start. Foreign investors also expressed their interest in the park.

Steelmaking Centre and Children's Technology Park

Culture tourism is a priority area of development for Cherepovets. 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 build with Severstal's support. This museum centre tells the exciting story of steel in the region and offers a detailed presentation of the 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 2017 the it had almost 40,000 visitors and over a thousand organised groups from dozens of Russian cities and more than 30 foreign countries. In 2017, it hosted approximately 300 culture, education and career orientation events.

In 2017, Chairman of Severstal Alexey Mordashov personally launched the 66.5 million rouble investment project to build the Quantorium Children's Technopark. This project is a part of the public-private partnership programme realised under the agreement between Russian Ministry of Education and Science and the Government of Vologda Oblast. It is financed from federal and regional budgets, and Severstal funds.

Severstal supported the creation of an interactive display on acoustics, mechanics, hydrodynamics and optics. Severstal will also fund a major renovation and the installation of elevators in the building that the City provided for this project. Upon full launch, Technopark will be used by more than 3 children and youths of 5 to 18 years old. It will also host school competitions and other events for young inventors and researchers.

Olcon supported the creation of By the Deer Mountain museum and fairgrounds in Olenegorsk. With Olcon's support, the museum received new exhibits, stands and displays. The museum features mining vehicles and equipment, demonstrates the production of iron ore concentrate, tells the stories of the city and Olcon, and shows the lifestyle of indigenous people. Two rooms were equipped for temporary exhibitions.

Development of Small and Medium Businesses

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.



The Agency for Urban Development offers comprehensive support to new and existing entrepreneurs at all stages from the creation of a business idea to its implementation. The Agency for Urban Development is a resource base for development of businesses across Vologda Oblast and in some of our other regions. Severstal supports it financially, and our employees provide advice to the Agency. The Agency works in 14 different areas.

International Cooperation Centre

In 2017, the Agency for Urban Development started the School of New Exporters educational project. It provides small and medium businesses with access to comprehensive training programs and learn how to start exporting their goods on their own or use turnaround services of the Export Support Centre. Since the beginning of 2017, the School organised 13 workshops for 72 companies. One company took the full course, and 31 other companies received comprehensive advice on export operations. The next training course starts in March 2018.

In February 2017, Cherepovets Agency for Urban Development established the International Certification and Standardization Centre. The Centre issues international compliance certificates to agricultural, food, wood, metallurgy, machinery and construction industry products. It will help local producers to access foreign markets and become more competitive in Russia.

In 2017, the International Cooperation Centre published an exporter catalogue with information about 25 export-oriented Cherepovets businesses and organised several events for local business community and international companies.

Business Consulting Centre

The Agency's Business Consulting Centre offers advice on business incorporation and management. In 2017 it offered approximately 7,000 consulting and service sessions.

Business Education Centre

The Agency's Business Education Centre offers training courses to new and experienced entrepreneurs as well as job seekers. This special programme had 828 students over the year.

Guarantee Centre

The Agency is the operator of the Guarantee Fund government programme and provides loan guarantees to entrepreneurs under this programme. In 2017 the regional fund provided guarantees to 30 businesses who were able to secure over 382 million roubles in loans, preserve 992 existing jobs and create 77 new jobs.

Real Estate Support Centre

The Real Estate Support Centre helps small and medium businesses find appropriate locations in its database. These include fully equipped office space offered under preferential conditions, municipal real estate, private locations and land parcels.

Social Innovations Centre

In partnership with from Severstal and the Government of Vologda Oblast, the Agency operates Vologda Regional Social Innovation Centre that promotes social entrepreneurship and social projects. The Centre provides comprehensive support to existing and future social entrepreneurs.

The Agency website* has a catalogue of social ideas available for everyone, as well as constantly updated list of grant competitions and federal special-purpose programmes that could help finance social projects.

In 2017, two projects supported by the Centre for Social Innovations of the Agency for Urban Development received federal awards.

Business Cooperation Centre

The Department of Economic Development of Vologda Oblast is working on the Growth Synergy project to support business cooperation. Agency for Urban Development is one of the operators of this project. The agency is responsible for the following:

- Help involve SMB in Severstal's outsourcing projects
- Training in the use of online trading systems of large enterprises including Severstal, Apatit and Russian Railways
- Administration of the Online Business Cooperation platform
- Organisation of industry cooperation workshops

Large enterprises purchased 16.8 billion rouble (11% up from 2016) worth of goods and services from regional small and medium businesses in 2017.

Franchising Development Centre

Approximately one thousand franchises from all over Russia were included in the industry franchising catalogue created by the Centre. In 2017 Cherepovets had more than 150 manufacturing, continued education of children and adults, health care, retail sales and catering franchisees.

After the Franchising: Successful Business Model of the Future hands-on workshop led by an international franchise expert, two franchises of Cherepovets entrepreneurs launched their services across Russia.

Procurement Support Centre

The Procurement Support Centre provides comprehensive support to small and medium businesses in the area of purchasing as defined in Federal Law on the Foundations of Social Assistance to Citizens in Russia, and helps small and medium businesses to sell to 30 large enterprises, including state corporations. In 2017, members of the Cooperation Council learned to use the Tektorg trading system and the particular details of cooperation with companies like Rosneft, Russian Railways or Gazpromburiene.

* www.agr-city.ru

Resource and Methodology Centre

It is to a large extent thanks to the Agency that more than 50,000 people work in small and medium businesses in Cherepovets today. This is more than double the number of Cherepovets Steel Mill employees. While the average unemployment rate among the economically active population in Russia is 5.2%, in Cherepovets it is only 0.95%*. Small and medium businesses generate more than one third of municipal tax revenues.

Cherepovets experience of SMB development has been replicated to the Republic of Karelia. Agency for Urban Development developed and implemented the business competence and cooperation development programme in Kostomuksha. Business competence and cooperation development events had 72 students. The programme provided informational support and advice to 42 small and medium businesses.

In 2017, ambassadors of Nizhny Novgorod, Magnitogorsk and Kirovsk studied the experience of Cherepovets in improvement of investment climate and development of entrepreneurship. A project to establish Agencies for Urban Development in Vorkuta and Severodvinsk was planned.

Business Press Centre

Our Press Centre published approximately 200 press releases about the activities of the Agency for Urban Development, generating over 1,000 messages in a variety of social and political media.

In 2017, Agency for Urban Development helped create **66 new businesses, create 185 new jobs and preserve 1,044 existing jobs in Cherepovets.**

Social Investments and Social Partnership

Severstal works with regional and local authorities and invests in improving the quality of life of local communities in our regions. We view support for education and culture, prevention of orphanhood, support for mothers and children, health care, sports, development of local communities, and support for labour veterans, as important social investments.

Relying on Russian and international best practices, Severstal uses strategic planning tools, stakeholder coordination systems and competitive selection process in this area. Severstal replicates successful solutions to our other regions.

Severstal uses traditional forms of charitable support; for example, we support a variety of cultural, educational and social and non-profit organisations.

Severstal builds playgrounds, stadiums and play areas, and invests in infrastructure and landscaping in many of our cities.

Almost all Severstal businesses engage with local communities, assess their impact and work on development programmes. They also support disability organisations, veteran associations, children's educational institutions, sports clubs and schools, and host regional and municipal festivals and celebrations.

In addition to Severstal employees and their family members, other local residents also benefit from the comprehensive Severstal Health programme. Severstal provides financial support to

Severstal Medical Unit and Children's Hospital in Cherepovets and our other locations.

For several years, Vorkutaugol and the City of Vorkuta have been signing a Social Partnership Agreement that includes the participation of Vorkutaugol in the social development of the city and its involvement in the improvement of quality of life in the Extreme North. Every year we invest in projects that cannot be financed from municipal or regional budget. 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: Miners' Palace of Culture and Olympus Sports Centre.

Every year, 90,000 guests attend shows, concerts, sports clubs and other events at the 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 a palace of culture.

Severstal works in Vorkuta, 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). Earlier we built deer passages through our industrial facilities.

* As of 6 March 2018.

Charitable expenses, million roubles

	2015	2016	2017
Charitable expenses, including			
• Free labour / services			
• Financial and material support for organisations and funds	1,380	1,666	1,530
• Participation in non-profit and self-regulating organisations			
• Other projects			

2017 Highlights

- Cherepovets continued the Gift to the City project supporting municipal environment in 2017. Severstal invested 8 million roubles in the landscaping of two parks whose locations were selected in an online vote based on recommendations of municipal authorities. We invested 5 million roubles in the development of Cadet Boulevard. Severstal has been supporting Severstal hockey club and its children's school. The school has approximately 1,000 students. We invested approximately 900 million roubles in this area in 2017.
- Every year, Severstal provides approximately 25 million roubles to Severstal Medical Unit for the purchase of health care equipment. Severstal's co-financing in 2017 was instrumental to purchasing an ophthalmic microscope and endoscopic equipment.
- Severstal has been supporting Cherepovets Children's Hospital for many years. In 2017, we granted 17 million roubles to the hospital for the purchase of sedation ventilator and extra payments for doctors and nurses.
- In Vologda, Severstal sponsored the construction of a youth sports ground in Vologda Sports Palace, a hockey rink in Molochnoye (Vologda District), as well as sports grounds and children's playgrounds in Vytegorsk District. We invested over 8 million roubles in these projects.
- In Kostomuksha, Karelsky Okatysh sponsored the construction of youth sports ground at Stroiteley Street, a biathlon track, and a walkway to the college, as well as the renovation of the Centre for Out-Of-School Activities, and also provided financial support to several municipal schools and kindergartens. In summer, Karelsky Okatysh helped repair the road to Ledmozero. In addition to that, Karelsky Okatysh started building the road to the new Vostochny pit that we plan to start mining in 2021–2022. The new road supports our production and also helps with regional travel.
- Nurse training continues under the agreement between Karelsky Okatysh, Kostomuksha Hospital, Petrozavodsk Medicine College and unemployment office. This project offers an the opportunity to study nursing part-time in order to address shortage of nurses in Kostomuksha Hospital and reduce unemployment among women.

- Vorkutaugol invested 20 million roubles in projects covered by the social and economic partnership agreement for 2017. This money was used to support Vorkuta municipal infrastructure, landscaping, and development of sports, culture, health care and children's infrastructure. Severstal participated in the organisation of the Spartakiad for Indigenous People of Russian North, the Second International Accessible Arctic, and the Comfortable City project. We installed a playground in Severny, and built and mounted new bus stops in the residential area of Zheleznodorozhny community and Vorgashor. Vorkutaugol also sponsored the construction of the New Year's Snow Town at the city central square. We provided support to public schools and sports, culture and social support organisations. Vorkutaugol purchased a 1.4 million rouble portable X-ray machine for the Municipal Emergency Care Clinic. We received letters of commendation from Vorkuta administration and the regional government for support in the management of Usinskoye Water Conduit accident.
- Every year, Olcon funds sports and wellness projects for its employees and local residents. One of our major projects in 2017 was the renovation of the Veteran Square in Olenegorsk with Severstal's donation of 1.6 million roubles.

Social Programmes of Severstal

- Maternity and childhood: The Way Home Charitable Fund (since 2006) is a joint project of Severstal, City of Cherepovets and the Government of Vologda Oblast on comprehensive prevention of orphanhood and child neglect. The programme is active since 2009 in the main regions of Severstal.
- Comprehensive support services for small and medium businesses and social entrepreneurs: Cherepovets Agency for Urban Development Non-Profit Partnership (since 1999).
- Cherepovets Investment Agency Non-Profit Organisation. Development of favourable business environment and bringing investments in priority areas of municipal development (since 2010).
- Style of Steel children's arts competition (since 2010).
- Support for vulnerable families and general patronage: Blago Charitable Foundation (since 1999). Supports more than 21 thousand veterans of the steelmaking industry.
- I. A. Milyutin Charitable Foundation (since 1999). The Foundation supports individuals with disabilities and medical conditions, orphans, orphanages, nursing homes and hospitals.
- Zabota Integrated Social Services Centre (since 2012, Cherepovets).
- Special events for low income families and families with many children on First-Grader Day and Mother's Day jointly organised with the Centre for Social Support of Families and Children (Vorkuta).
- Nadezhda social support centre for children (Vorkuta).
- Rehabilitation centre for children with mental and physical handicaps (Vorkuta).

- Integrated Social Services Centre (Olenegorsk).
- New Year events and presents for disabled children, low income families, families with many children and seniors living alone (Cherepovets, Olenegorsk, Vorkuta, Kostomuksha, Balakovo).

Way Home: Social Partnership for Children

We launched the Way Home programme on comprehensive prevention of social orphanhood and juvenile delinquency in 2006 in Cherepovets. The programme is financed through the Way Home Charitable Foundation and uses private and public funds and community effort to address an important social issue. Severstal Chairman Alexey Mordashov initiated this programme and keeps overseeing it personally. Today more than 140 social institutions of Cherepovets participate in the Way Home programme.

The programme also includes individual projects in our other cities, including Vorkuta, Kostomuksha, Balakovo, Veliky Ustyug, Krasavino, Olenegorsk, Volgograd and Yaroslavl.

Social technologies employed in the programme demonstrated their efficiency and showed that the support for mothers and families in hardship helps to keep children in their birth families and improves the chances of finding responsible foster parents for orphans.

To improve and enhance program tools and evaluate its efficiency, we use conferences, round tables and joint work groups with government authorities and local administrations, as well as social workers from federal and regional institutions to evaluate the success of our projects. At these meetings, we discuss cooperation opportunities and achievements, and identify new ways to collaborate with local communities and have them support our projects.

The joint effort of municipal authorities and the Way Home Charitable Foundation resulted in significant improvement of social environment in Cherepovets. Every year, there are fewer orphans in the city, and most of them get adopted by foster families. Only children that are particularly difficult to place remain in the orphanage, including adolescents, siblings and children with disabilities.

2017 Highlights and Plans for 2018

At the end of December 2017, Alexey Mordashov chaired the traditional annual meeting of the programme expert council. Meeting attendees summarised programme results and the social environment in the city for 2017, discussed short-term plans and established priority areas of operation.

In 2017, the number of children in Cherepovets orphanages reduced by 10%. Number of children deprived of parent care reduced by 31% in Vologda Oblast and by 23% in Cherepovets.

Families in hardship received help and support from professional psychologists, facilitators, lawyers and social workers, caregivers and social workers, and resolved pressing family issues.

1,537 children, including 1,250 children in Cherepovets, stayed in their biological families. 164 adopted children stayed in their foster families. 12 children who intended to abandon their children changed their intentions and kept their babies in the family.

Foundation experts used corrective technologies to reduce delinquency risks of 1,433 children (including 1,035 in Cherepovets) who realised the outcomes of their behaviour and took personal responsibility for it. Approximately 16 thousand local residents received some form of help (emergency psychological, legal, social, humanitarian or financial support).

In September 2017, we launched the Variant Care for Children Under 3 project with free-of-charge daycare facilities for 100 children from families in hardship.

Our volunteering centre together with Severstal Youth Council will work on the Good Renovation Relay project. Volunteers renovated 11 apartments of families with children in need.

TUI Russia and CIS, a subsidiary of Severgroup, sponsored Sochi health resort packages for six families with children, purchased rehabilitation equipment for children with disabilities, and purchased rehabilitation theatre props for families and children.

Our charitable initiatives with support from local residents helped hundreds of families in hardship by providing them children's clothes and footwear, food, personal hygiene, rehabilitation equipment and so forth.

Severstal invested 56.2 million roubles in the development of this programme in 2017, compared to 51.3 million roubles in 2016. Severstal employees, residents and businesses of Cherepovets donated 1.8 million roubles, compared to 2.1 million roubles in 2016.

In 2017 we received grants from the President of Russia, Government of Vologda Oblast, and the Foundation for Support of Children in Hardship, to expand this programme, replicate and share our experience. Total amount of additional donations in the reporting period was 22.0 million roubles, compared to 7.4 million roubles in 2016.

In December 2017, we started replicating support technologies for families affected by alcohol into 15 regions of Russia under the Healthy Family for a Child project.

For 2018, our Way Home programme includes a plan to replicate the technology for early detection of family troubles across Vologda Oblast and other cities where we work. This technology includes the development of new recreational rehabilitation programmes for youth, participation in competitions for grants for development of new support methodologies and practices for families in hardship, and active involvement of citizens and responsible entrepreneurs in volunteering and charitable activities.

For further details on the geography and key projects of the Way Home programme, please refer to the online version of this report on our website.

Cherepovets Children— Way to Success Programme

In 2017, Severstal supported the launch of Cherepovets Children—Way to Success support and development programme for talented children in Cherepovets. Co-funded by Trajectory Fund for Scientific, Educational and Cultural Initiatives and the City of Cherepovets, this programme will run under the personal patronage of Alexey Mordashov. Way Home Charitable Foundation will be the programme operator.

The programme focuses on providing creative environment for identification and comprehensive support for children with talent for science.

Key elements:

- Professional development programmes for teachers
- Competition among teachers and extracurricular education practitioners in Cherepovets
- School competitions for participation in Severstal reserve in the Onega Shipbuilders education centre, and the organisation of reserve itself
- Development of educational programmes and events for motivated school students and teachers

In April and May 2017, the first lectures and master classes for children as well as training programmes and a competition for Cherepovets high school biology, mathematics, physics and chemistry teachers took place. Approximately 200 children, 186 teachers and 40 other education practitioners participated in the competition. 13 competition winners took professional

development courses in Sirius Education Centre in Sochi and received sets of popular science publications from the Trajectory foundation.

In September, there was a competition among ninth grade Cherepovets high school students. The competition had 62 applicants, and 35 students with high achievements in science were accepted. Competition winners and 13 Cherepovets teachers joined a dedicated track of the Onega Shipbuilders educational centre on the shore of Lake Onega. For a whole week, educators from Moscow, St. Petersburg, Ufa and Bryansk, as well as distinguished teachers and winners of various competitions and recipients of president's awards read lectures and led practical workshops on physics, mathematics, chemistry, biology, social and creative arts.

Palace of Children's and Youth Creative Arts supported the organisation of special biology tracks. It purchased modern equipment, such as microscopes, micro labs, micro specimens, laboratory glassware, protective equipment, furniture and software.

Severstal invested 5.5 million roubles in the development of this programme in 2017.



Support for Culture

Support for culture and arts is a priority area of charitable activities for Severstal. Severstal has been supporting the leading Russian museums, theatres and non-governmental organisations, as well as regional culture authorities for many years. Chairman of the Board and other executives of Severstal are members of the Boards of Trustees of Bolshoi Theatre, Mariinsky Theatre, the Russian Museum, the State Tretyakov Gallery, Jewish Museum and Tolerance Centre, Cherepovets Museum Association and Moscow Synodal Choir.

In 2017, Severstal presented our culture support projects at 25 Russian and international public events, conferences and round tables. Severstal Corporate Centre alone supported more than 100 culture and arts events in 15 regions of Russia.

Culture institutions and popular events supported by Severstal:

- Golden Mask Theatre Festival (Moscow, Riga, Liepāja, Ventspils, Cherepovets, Petrozavodsk, Kostomuksha)
- Bolshoi Theatre (Moscow)
- Tretyakov State Gallery (Moscow)
- Pushkin Museum of Fine Arts (Moscow)
- The State Historical Museum (Moscow)
- Sergey Andriyaka Watercolor and Fine Arts Academy (Moscow)
- Mariinsky Theatre and Gergiev Moscow Easter Festival (St. Petersburg, Moscow and festival regions)
- The Russian Museum (St. Petersburg)
- Cherepovets Museum Association (Cherepovets)
- Jewish Museum and Tolerance Centre (Moscow)
- Moscow Synodal Choir
- Prix Benois de la Danse international ballet festival
- Vologda Museum and Reserve (Vologda) and its branch in Semenkovo (Vologda and Vologda Oblast)
- Museum of Dionisy Frescoes of Kirillo-Belozersky Museum Reserve (Ferapontovo, Kirillovsky District)
- Beloozero Interregional Arts Festival (Belozersk)
- Radishchev Arts Museum (Saratov) and its branch—Balakovo Art Gallery
- Vremya Kolokolchikov Rock Festival (Cherepovets)
- Regional Festival of Military Songs (Olenegorsk)
- Wider Circle Children's Art Festival (Olenegorsk)
- Morozko New Year's Fairy Tale Festival (Olenegorsk)
- North Star Culture and Entertainment Centre (Olenegorsk)
- Master Classes of Sergey Andriyaka Watercolor and Fine Arts Academy (Olenegorsk)

- Municipal Museum and Exhibition Centre (Vorkuta)
- Miners' Palace of Culture (Vorkuta)
- Municipal Children's Arts School (Vorkuta)
- Total Dictation educational event (Vorkuta)
- International Festival of Chamber Art (Kostomuksha)
- Sergey Ozhigov Art Song Festival (Kostomuksha)
- Nord Session International Festival (Kostomuksha)
- Spring Rhythms Dance Festival (Kostomuksha)
- Kanteletar International Folklore Festival (Kostomuksha) and other

Major Culture Events Supported by Severstal in 2017

- Our Army—Our Victory exhibition of private collections of A. G. Egorov and K. V. Zhuromsky in Sergey Andriyaka Watercolor and Fine Arts Academy (Moscow)
- Arkady Rylov exhibition in the Russian Museum (St. Petersburg)
- Andrey Tarkovsky exhibition in the Russian Museum (St. Petersburg)
- Sergey Andriyaka Watercolor and Fine Arts Academy exhibition in Manege (Moscow)
- North Frescoes Film Festival (Vologda)
- Music Expedition culture project (Vologda)
- Voice of Trades trade art (Vologda)
- Northern Rhapsody Winds and Percussions Performance Competition (Cherepovets)
- Ilya Repin—50 Masterpieces exhibition in Radishchev Arts Museum in Saratov
- Treasured Books of Old Believers—Library of Paisiy Maltsev exhibition (Balakovo)
- Composer Gennady Vavilov—Woven with Music documentary film (Kostomuksha)
- Tour of Viktor Ryzhakov's JulyEnsemble Art Studio (Vorkuta)

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 Cherepovets alone approximately 20,000 residents saw Russia's most popular theatre performances. Festival programme in Severstal cities is a part of a larger programme, Best Performances of the Golden Mask Festival in Russia and Baltic States.

In 2017, Cherepovets festival featured the Lady Macbeth of Mtsensk performance of the Moscow Young Generation Theatre, and the Save Supersquirrel Comic Performance and Romeo and Juliet ballet by the Musical Theatre of the Republic of Karelia.

In Petrozavodsk and Kostomuksha, Russian Academic Youth Theatre showed their Lada or Joy performance, while Moscow Young Generation Theatre brought its Stay With Your Loved Ones and Balding Cupid plays. The programme also included Karelia performances that received Golden Mask awards, including the Iron puppet show and the Romeo and Juliet ballet.

Severstal has been a general partner of the Golden Mask in Latvia festival for the past 12 years. In 2017, citizens of Riga, Ventspils and Liepāja enjoyed nine performances of Russia's top theatres.

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.

This programme is a grant competition with the purpose to identify and support the best projects targeting the revival of regional museums, the development of partnerships between museums and other culture institutions, and the development of new shapes and forms of museum activities. 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 with Severstal businesses: Republic of Karelia, Komi Republic, Arkhangelsk Oblast, Vologda Oblast, Kirov Oblast, Kostroma Oblast, Leningrad Oblast, Murmansk Oblast, Novgorod Oblast, Pskov Oblast, Perm Krai and Nenets Autonomous Okrug.

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 2017 was 7 million roubles.

2017 Programme Highlights

In 2017 the competition focused on supporting the most efficient museum projects in the area of regional culture tourism. The competition had 44 applications from 11 northern regions of Russia. Seven projects received support upon the competition.

In October, Cherepovets hosted the Made in Museum project laboratory. It welcomed 39 museum specialists from among the grant competition semifinalists, 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. The training programme included both theoretical and practical modules.

The travel grant competition helped 65 employees of 27 museums across Komi and Karelia Republics, and Vologda and Murmansk Oblasts to visit Russia's largest museum conferences and forums, and participate in professional internships.

Apart from the grant competition, the Museums of Russian North Programme includes the training of museum professionals in culture and efficient cooperation with tourism sector for the development of cultural tourism. Supported by Severstal, representatives of major Cherepovets museums and the City of Cherepovets took a three-day tour of Tula Oblast to study new museum technologies.

The educational module of the Steelmaking Museum hosted the New Approaches to Traditional Engagement of Museum Audiences workshop for the leading museums of Cherepovets and Vologda.

The project element of the workshop was dedicated to the development of tourist routes boosting the popularity of museums, for both organised groups and individual tourists, as well as creation of accessible environments for tourists with disabilities.



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.

In 2017, the Steel People — Vereshchagin Brothers Serving their Country competition was dedicated to Cherepovets natives, the 175th anniversary of Russian painter Vasily Vereshchagin and the 178th anniversary of his brother Nikolay Vereshchagin.

At the first stage of the competition, contestants completed a research assignment and wrote two stories, Personal File of Vasily Vasilevich Vereshchagin and Personal File of Nikolay Vasilevich Vereshchagin, demonstrating that both Vereshchagin brothers dedicated their whole lives to serving their country. After that, shortlisted competitors took master classes in Vereshchagin House Museum. The third stage included the At First Hand presentations telling the stories of museum exhibits related to famous brothers.

The final step of the competition was the team design of an online interactive booklet about Vereshchagin House Museum Memorial for high school students.

Support for Christian Orthodox churches and monasteries

- Holy Trinity Church in Khoroshevo (Moscow)
- Goritsky Monastery (Vologda Oblast)
- Church of the Nativity (Cherepovets)
- Our Lady of Kazan Church (Sheksna, Cherepovets Region)
- Intercession of the Theotokos (Konechnoe, Cherepovets District)
- Kostomuksha Diocese of the Russian Orthodox Church
- Panagia Portaitissa Church (Vorkuta)
- Saint Barbara Chapel (Vorkuta), and others



Main Sports Organisations and Events Supported by Severstal

- Severstal Cherepovets ice hockey team (Cherepovets)
- Women's Volleyball Club Dynamo (Moscow)
- Vorkutaugol Chief Executive's Hockey Cup (Vorkuta)
- Igor Sheptenko Minifootball Memorial (Vorkuta)
- Olympus Children's Hockey Club (Vorkuta)
- Vorkutaugol Children's Football Club (Vorkuta)
- Shakhter Children's Volleyball Club (Vorkuta)
- Annual Towards Victories Corporate Spartakiad (Vorkuta)
- Mom, Dad and I Sports Festival (Vorkuta)
- Youth Cross Country Ski Race (Vorkuta)
- Yury Foka Table Tennis Memorial (Kostomuksha)
- Northwestern Federal District Boxing Championship (Kostomuksha)
- Steel Bear Race (Kostomuksha)
- Russia's Nationwide GTO Fitness Standard (Kostomuksha)
- Kostomuksha Chess Cup
- 2017 Kostomuksha Ice Hockey Championship
- Ice Challenge and Autumn Challenge running contest (Kostomuksha)
- Karelsky Okatysh Karelia Power Lifting and Bench Press Championship
- Live Steel Multisport Competition (Kostomuksha)
- 35th annual open Tourism Festival (Kostomuksha)
- Biathlon Kos Sport Club (Kostomuksha)
- Spartakiad in nine sports, Open Volleyball Tournament for the Chief Executive's Cup, and open family sports events (Olenegorsk)
- Corporate sports contests in our regions
- Steel Games Spartakiad for our employees, and family sport events (Balakovo)
- Belgorod Kickboxing Memorial to commemorate Belgorod athletes fallen in the line of duty, and others



Corporate Volunteering

In addition to investing significant funds in development of external social programmes, Severstal tries to get our employees involved in their planning and implementation. This approach helps building our corporate culture and reinforcing Severstal as a socially responsible brand.

We believe corporate volunteering is an important aspect of personal development helping to recognise one's own importance to society. Severstal offers its employees a variety of opportunities to participate in corporate charitable programmes that help our volunteers to acquire useful social and communication skills while building friendly relationships with peers and like-minded people. Our volunteers also work on their own projects and provide pro bono professional services.

Our corporate volunteering programme is active in Cherepovets, Moscow, Balakovo, Vorkuta, Veliky Ustyug, Kolpino (Leningrad Oblast), Olenegorsk, Kostomuksha and Yaroslavl. Our programme includes training workshops with internal and external experts; we design and run charitable initiatives, raffles, Christmas fairs, auctions, marathons, master classes and other events to support orphans, children with disabilities, senior citizens, etc.

Severstal has been running the Hockey Without Borders charitable project since 2014. This initiative helped a lot of individuals with limited mobility to watch Severstal games in the arena and participate in informal meetings with players. This programme is personally funded by division executives and project partners, and delivered by our volunteers. They help disabled individuals to get to the stadium and accompany them through the games.

In preparation for the New Year celebration, Severstal businesses participated in the traditional Gift for Every Child event of the Way Home Charitable Foundation.

2017 Highlights

- In 2017 Severstal joined a new social initiative on the development of charities—Giving Tuesday, the International Day of Giving.
- In 2017, the Hot Hearts of Severstal volunteering marathon combined the three most important areas of volunteering: blood donation, volunteering per se, and volunteer militia.
- Severstal employees donated approximately 5,000 litres of blood and organised eight corporate donor days.
- More than 60 employees of Severstal's Cherepovets site participated in the Good Renovation Relay project in 2017. In their free time they helped renovate homes of nine families in hardship. Good Renovation Relay is a volunteering project of Severstal and Way Home Charitable Foundation.
- We organised an open training session with Severstal Hockey Club in the new season. In December, children from THERE IS FUTURE! non-governmental organisation helping families with disabilities joined the clients of the Hockey Without Borders project.

- In 2017 Cherepovets employees of Severstal gave 730 gifts to children participating in the Way Home programme. We purchased 160 presents using money received from directors of Severstal Russian Steel.
- Balakovo employees of Severstal prepared 162 gifts to children in their city. Kolpino site organised the Give a Child a Celebration event. Our employees collected presents for children from disadvantaged families of Kolpino District and families in hardship.
- Employees of Olcon, our contractors and municipal authorities collected approximately 180 thousand roubles and 39 presents within the Gift for Every Child initiative organised by Olcon Youth Council in Olenegorsk.

Severstal employees work on 30 major volunteering projects every year.

- Employees of Karelsky Okatysh collected presents for children from families participating in the Compromise project. In Kostomuksha, they participated in the Giving Tuesday initiative and prepared 20 New Year's gifts for the patients of Rehabilitation Centre for Children with Disabilities, raised money for rehabilitation of two children, and donated part of the money to help purchase test strips for children with diabetes.
- Employees of Vorkutaugol Legal Directorate organise in master classes in decorative and applied arts for children in foster families.
- Miners from Vorkutinskaya mine support Vorgashor Dom Rebyonka orphanage for children up to four years old. Our employees purchased developmental toys, children's clothes, sanitation and hygiene articles, and household appliances for this organisation.
- Vorkutaugol Youth Council supports mining industry veterans and the veterans of the Great Patriotic War and organises annual celebrations for children from disadvantaged and unprivileged families (Ded Moroz in Every House). We fulfilled New Year's wishes of 115 children.
- Vorkutaugol employees also support animal shelter.



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.

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.

2017 Highlights

- Head of Environmental Protection Service of Severstal Russian Steel Oleg Saraev took responsibility for the Russia's Environment project in Cherepovets. The objective of this project is to introduce citizens to municipal environmental events and get them involved in joint activities.
- Employees of Cherepovets Steel Mill volunteered in cleaning events on our industrial site and in Cherepovets. Traditional cleaning areas include parks and beaches, river banks, Sobornaya Gorka and Makarinskaya Roshcha. Overall, employees cleaned more than 20 municipal facilities. Together with several educational institutions, they planted nine flower beds in the city in the Flower Fantasy competition and participated in the City Picnic tree planting event together with City Parents Council.
- In Cherepovets, Severstal supported the competition of environmental research projects among school students who submitted their ideas on the study of air quality in the city. Conclusions and recommendations of competition participants were submitted to the municipal environmental protection committee. We have also organised the Environmental Diary competition and the Environmental Selfie tour of Cherepovets Steel Mill for Cherepovets teachers and school students.
- Severstal volunteers, their friends and family members in Moscow participated in a traditional volunteering cleaning event in the House Museum of Boris Pasternak in Peredelkino. The volunteering event concluded with a tour of the House Museum.

Clean Metallurgy Project. Severstal Management received ERAECO national environmental award in the Environmental Education nomination for development of environmental education and promotion of environmentally responsible behaviours with youth.

- Employees of Severstal Long Product Mill Balakovo organised a volunteering event and cleaned a section of Samara—Balakovo—Volgograd highway. Our steelmakers planted approximately 60 birches on the 50th Anniversary of VLKSM Waterfront in recognition of the Year of Ecology.
- Employees of Severstal Steel Solutions cleaned up the area in front of the entrance to our Oryol industrial site. More than 20 years helped to remove litter and last year's foliage, and planted flower beds and 10 apple trees to celebrate the 10th anniversary of the company.
- In 2017 employees of Olcon participated in several environmental events. In April and May, they organised traditional collection of mercury bulbs and thermometers from local residents. Collected items were sent to a special processing facility. In June, our employees cleaned up their assigned areas of Olenegorsk. In the end of August, Olcon participated in the Live, Forest! environmental initiative. Olenegorsk school students together with miners planted young pines near our tailing pond by Vostochny pit.

In 2017 Ministry of Natural Resources and the Environment of Murmansk Oblast awarded Olcon with a letter of commendation for active contribution to Russia's Year of Ecology events.

- Vorkutaugol employees supported regional River Band environmental event for the seventh time in a row. Between July and August, they cleaned up water protection zones of seven creeks and four fishing rivers. This event involved 176 employees of Vorkutaugol and children from the Warm Home project supported by Severstal.
- In 2017 Karelsky Okatysh organised eight environmental events. It also organised the Future Starts Today children's drawing competition and the Making Artificial Bird Nests wildlife protection event. Karelsky Okatysh named the winners of the environmental logo design contest and organised an environmental knowledge contest on the Day of Environment. In the end of April, it held a contest in environmental responsibility among its departments. Employees of Karelsky Okatysh participated in the World Water Day and volunteer cleaning events by the Kostomuksha Iron Ore Plant sign, Ahvenjarve Rocks memorial, shores of Lake Kontokki, and Kostomuksha—Voknavolok highway.



ABOUT THIS REPORT

This document is the Corporate Social Responsibility and Sustainable Development Report of PAO Severstal and its subsidiaries and affiliates (“Severstal”, “Company”) for the year 2017. In accordance with the Severstal strategy for greater transparency, this Report contains information about the strategy and mission of Severstal, about the guiding principles of our initiatives in the fields of corporate social responsibility and sustainable development, about our key events and results in this area, about our impact on the economy, society and the environment, and about our stakeholder engagement.

This Report also provides short-term and long-term goals and key objectives in the key areas. Severstal has been publishing this report on an annual basis since 2010. 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.

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.

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Approach Used to Evaluate the Significance of Individual Topics for Inclusion in this Report

This Report covers issues that are significant for all subsidiaries and directly or indirectly affect Severstal's ability to create, maintain or destroy economic, social or environmental value for itself, its 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 49 survey responses, including 30 responses from shareholders and investor community, government authorities, business partners and local communities. We also received 19 survey responses from employees of key departments of Severstal involved in the matters of 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 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 8 were highlighted as the most material ones. Aspects with final score of 7 were considered less material. Aspects with final scores under 7 were considered immaterial.

We also analysed the following sources to identify material aspects for our stakeholders:

- Requests for information from federal and regional authorities
- 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

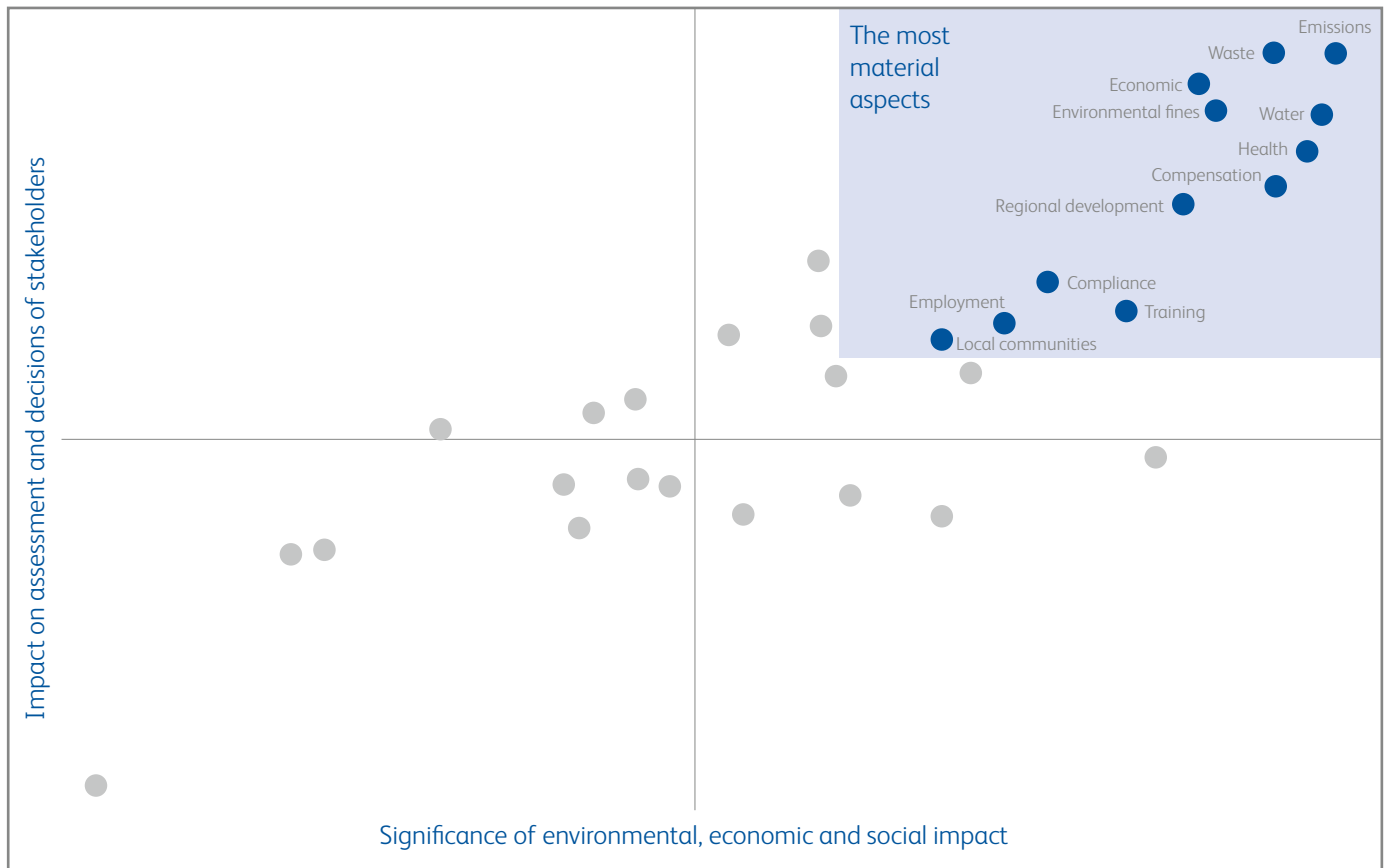
- Emissions
- Effluents and waste, including waste reuse and recycling
- Occupational health and safety
- Use of water resources
- Financial performance
- Compliance with environmental protection laws
- Investments in transportation and social infrastructure, and indirect impact on the economic development of our regions
- Employee compensation (by region) relative to the market
- Employee education and training
- Compliance with laws and regulations
- Employment
- Impact on local communities, including cooperation and development programmes

Less material aspects

- Land use and impact on biodiversity
- Power consumption and energy efficiency
- Use of raw materials
- Assessment of environmental aspects of supplier operations
- Equal management opportunity and equal remuneration for women and men
- Purchasing, including purchasing from local suppliers
- Informing employees of material changes in Company operations
- Anti-corruption
- Assessment of human rights compliance in the Company, including employee training
- Non-discrimination of employees and consumers
- Anti-monopoly compliance

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.

Materiality Matrix



Description of the Information

This report contains data for the calendar year 2017, 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.

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 Note 29 to the Consolidated Financial Statements for Years Ending 31 December 2017, 2016 and 2015.

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.

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 2017 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.

The environmental footprint tables include PBS Coals for 2013, but not later as this entity was excluded from the reporting following

the sale of Severstal’s North American assets. Due to structural changes in 2016, statistical data for Belorucheyskoye 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.

To ensure authenticity of data in the Report, we use standardised data collection and consolidation procedures and double check 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. Council opinion is provided in Appendix 4 to this Report. Information about the opportunities presented at face-to-face stakeholder engagement events will be provided in the next reporting cycle.

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).

Appendices

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	
1. Organisational Profile			
102–1	Name of the organisation	1. About Severstal	●
102–2	Activities, brands, products and services	1.1. Core Businesses and Corporate Structure	●
102–3	Location of headquarters	Registered office of PAO Severstal: Mira 30, Cherepovets, Vologda Oblast, Russia, 162608 Mailing address: 127299 Russia, Moscow, Clara Zetkin, 2	●
102–4	Location of operations	Map of Severstal Assets	●
102–5	Ownership and legal form	1. About Severstal	●
102–6	Markets served	Sales	●
102–7	Scale of the organisation	1. About 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	
102-8	Information on employees and other workers	1.1. Core Businesses and Corporate Structure RSPP 3.1.1 RSPP 3.1.4 ISO 26000 Responsible Labour Practices	●
102-9	Supply chain	Cooperation with Suppliers Supply Chain Responsibility 6.2. Contribution to Sustainable Development of Severstal Regions ISO 26000 Fair Business Practices	●
102-10	Significant changes to the organisation and its supply chain	Steel Production	●
102-11	Precautionary principle or approach	3.5. Managing New Opportunities ISO 26000 Environmental Protection	●
102-12	External initiatives	UN Sustainable Development Goals and Severstal Participation in international industry initiatives, trade shows and forums Prevention of corruption and violations of laws and internal regulations RSPP 1.1 ISO 26000 Organisational Governance	●
102-13	Memberships of associations	Review by Chairman of PAO Severstal Participation in international industry initiatives, trade shows and forums	●
2. Strategy			
102-14	Statement from senior decision-maker	Review by Chairman of PAO Severstal Review by Chief Executive of AO Severstal Management	●
102-15	Key impacts, risks, and opportunities	3.5. Risk Management 3.6. Managing New Opportunities See also Severstal Annual Report — 2017, pages 22–25	●
3. Ethics and Integrity			
102-16	Values, principles, standards, and norms of behaviour	ISO 26000 Fair Business Practices 3.9. Stakeholder Engagement. Principles and Forms of Engagement	●
102-17	Mechanisms for advice and concerns about ethics	Feedback Channels	●
4. Corporate Governance			
102-18	Governance structure	ISO 26000 Organisational Governance 3.2. Governing bodies	●
102-19	Delegating authority	2.1. Management of Sustainable Development in Severstal	●
102-20	Executive-level responsibility for economic, environmental, and social topics	3.2. Governing bodies 3.3. Governance structure	●

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	
102-21	Consulting stakeholders on economic, environmental, and social topics	3.9. Stakeholder Engagement	●
102-22	Composition of the highest governance body and its committees	Composition of Severstal Board (as of 31 December 2017) RSPP 3.1.12	●
102-23	Chair of the highest governance body	Composition of Severstal Board (as of 31 December 2017)	●
102-24	Nominating and selecting the highest governance body	RSPP 3.1.12	○
102-25	Conflicts of interest	3.2. Governing bodies	●
102-26	Role of highest governance body in setting purpose, values, and strategy	3.2. Governing bodies See also Severstal Annual Report — 2017, page 51	●
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	See also Severstal Annual Report — 2017, page 54	●
102-29	Identifying and managing economic, environmental, and social impacts	See also Severstal Annual Report — 2017, pages 34, 51	●
102-30	Effectiveness of risk management processes	3.5. Risk Management	●
102-31	Review of economic, environmental, and social topics	See also Severstal Annual Report — 2017, page 53	●
102-32	Highest governance body's role in sustainability reporting	Draft report is reviewed by Independent Non-Executive Director, Chairman of the Audit Committee, and member of the Remuneration and Nomination Committee	●
102-33	Communicating critical concerns	4.2 Policy and Management RSPP 3.1.12	●
102-34	Nature and total number of critical concerns	3.2. Governing bodies	●
102-35	Remuneration policies	See also Severstal Annual Report — 2017, pages 11, 59–60	●
102-36	Process for determining remuneration	See also Severstal Annual Report — 2017, pages 11, 59–60	●
102-37	Stakeholders' involvement in remuneration	3.2. Governing bodies	●
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	Principles and Forms of Engagement	●
102-41	Collective bargaining agreements	Collaboration with trade unions	●
102-42	Identifying and selecting stakeholders	Principles and Forms of Engagement	●

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**

102-43	Approach to stakeholder engagement	Principles and Forms of Engagement	●
102-44	Key topics and concerns raised	Stakeholder Engagement Local Communities	●
6. Reporting Practice			
102-45	Entities included in the consolidated financial statements	See also Severstal Annual Report — 2017, pages 123–124	●
102-46	Defining report content and topic Boundaries	7. About this Report	●
102-47	List of material topics	Approach used to evaluate the significance of individual topics for inclusion in this Report	●
102-48	Restatements of information	7. About this Report	●
102-49	Changes in reporting	7. About this Report	●
102-50	Reporting period	7. About this Report	●
102-51	Date of most recent report	7. About this Report	●
102-52	Reporting cycle	7. About this Report	●
102-53	Contact point for questions regarding the report	7. About this Report	●
102-54	Claims of reporting in accordance with the GRI Standards	7. About this Report	●
102-55	GRI Content Index	Appendix 1	●
102-56	External assurance	7. About this Report	●

Economic

201	Economic performance		
103	Management approach	3.5. Managing New Opportunities 3.6. Quality Management 3.8. Customer orientation	●
201-1	Direct economic value generated and distributed	Severstal Strategy and Investment Programme RSPP 1.2, 1.3, 1.4, 1.6, 1.7	●
201-2	Financial implications and other risks and opportunities due to climate change	Reduction of greenhouse gas (GHG) emissions	●
201-3	Defined benefit plan obligations and other retirement plans	See also Severstal Annual Report — 2017, pages 90–91 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	Compensation	●
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Compensation	●

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

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	6.1. External Social Programmes of Severstal: Policy and Management 6.2. Contribution to Sustainable Development of Severstal Regions 6.3. Social Investments and Social Partnership	●
203-1	Infrastructure investments and services supported	6.2. Contribution to Sustainable Development of Severstal Regions 6.3. Social Investments and Social Partnership	●
203-2	Significant indirect economic impacts	6.2. Contribution to Sustainable Development of Severstal Regions	●
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	6.2. Contribution to Sustainable Development of Severstal Regions	●
205	Anti-corruption	ISO 26000 Fair Business Practices	
205-1	Operations assessed for risks related to corruption	Customer relations Prevention of corruption and violations of laws and internal regulations	●
205-2	Communication and training about anti-corruption policies and procedures	Prevention of corruption and violations of laws and internal regulations	●
205-3	Confirmed incidents of corruption and actions taken	Prevention of corruption and violations of laws and internal regulations	●
206	Anti-competitive Behaviour	ISO 26000 Fair Business Practices	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practice	None	●

Environmental

301	Materials		
301-1	Materials used by weight or volume	Coal Production Iron Ore Production Steel Production Purchases of main raw materials	●
301-2	Recycled input materials used	Waste reduction and processing, and land rehabilitation initiatives in 2017	●

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	
301-3	Reclaimed products and their packaging materials	Waste reduction and processing, and land rehabilitation initiatives in 2017	●
302	Energy	ISO 26000 Environmental Protection	
302-1	Energy consumption within the organisation	Power generation and consumption by Cherepovets Steel Mill RSPP 2.2	●
302-2	Energy consumption outside of the organisation	We do not collect this kind of statistics	○
302-3	Energy intensity	5.3. Power Consumption and Energy Efficiency 2017 highlights RSPP 2.2.1	●
302-4	Reduction of energy consumption	5.3. Power Consumption and Energy Efficiency 2017 highlights RSPP 2.2.1	●
302-5	Reductions in energy requirements of products and services	5.3. Power Consumption and Energy Efficiency 2017 highlights	●
303	Water	ISO 26000 Environmental Protection	
GRI 103	Management approach	5.2. Environmental Protection. Policy and Management	●
303-1	Water withdrawal by source	Use of Water Resources RSPP 2.3	●
303-2	Water sources significantly affected by withdrawal of water	Use of Water Resources RSPP 2.3	●
303-3	Water recycled and reused	Use of Water Resources 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 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		○
304-3	Habitats protected or restored		○
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations		○
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	
GRI 103	Management approach	5.2. Environmental Protection. Policy and Management. Atmospheric pollution	●

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	
305-1	Direct (Scope 1) GHG emissions	Reduction of greenhouse gas (GHG) emissions	●
305-2	Energy indirect (Scope 2) GHG emissions		○
305-3	Other indirect (Scope 3) GHG emissions		○
305-4	GHG emissions intensity		○
305-5	Reduction of GHG emissions	Reduction of greenhouse gas (GHG) emissions	●
305-6	Emissions of ozone-depleting substances (ODS)		○
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Atmospheric pollution RSPP 2.6	●
306	Effluents and waste	ISO 26000 Environmental Protection	
GRI 103	Management approach	5.2. Environmental Protection. Policy and Management. Waste management	●
306-1	Water discharge by quality and destination	Effluents and water body protection initiatives RSPP 2.7, 2.7.2	●
306-2	Waste by type and disposal method	Waste management RSPP 2.8	●
306-3	Significant spills	Water protection initiatives in 2017 RSPP 2.9	●
306-4	Transport of hazardous waste	There is no cross-border waste transportation. See also: Waste Transport	●
306-5	Water bodies affected by water discharges and/or runoff		○
MM1	Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated	Waste reduction and processing, and land rehabilitation initiatives in 2017	●
MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks	Waste management	●
307	Environmental Compliance	ISO 26000 Environmental Protection ISO 26000 Fair Business Practices	
GRI 103	Management approach	5.2. Environmental Protection. Policy and Management	●
307-1	Non-compliance with environmental laws and regulations	Investments in environmental protection initiatives	●
308	Supplier Environmental Assessment		
308-1	New suppliers that were screened using environmental criteria		○
308-2	Negative environmental impacts in the supply chain and actions taken	Supply Chain Responsibility	●

Social

401	Employment	ISO 26000 Responsible Labour Practices	
GRI 103	Management approach	Talent Selection and Promotion System 4.2. Policy and Management	●

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	
401-1	New employee hires and employee turnover	4.1. Staff Profile 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	4.7. Employee benefits Family Security and Benefits	●
401-3	Parental leave	Family Security and Benefits	●
402	Labour/Management Relations	ISO 26000 Responsible Labour Practices	
402-1	Minimum notice periods regarding operational changes	Collaboration with trade unions	●
403	Occupational Health and Safety	ISO 26000 Responsible Labour Practices	
GRI 103	Management approach	5.3. Occupational Safety Policy and Management	●
403-1	Workers representation in formal joint management-worker health and safety committees	Collaboration with Trade Unions on Occupational Safety	●
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Results of injury prevention initiatives 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	Occupational Morbidity	●
403-4	Health and safety topics covered in formal agreements with trade unions	Collaboration with Trade Unions on Occupational Safety	●
404	Training and Education	ISO 26000 Responsible Labour Practices	
GRI 103	Management approach	4.4. Training and Development System	●
404-1	Average hours of training per year per employee	4.4. Training and Development System. 2017 results RSPP 3.1.10	●
404-2	Programs for upgrading employee skills and transition assistance programs	4.4. Training and Development System	●
404-3	Percentage of employees receiving regular performance and career development reviews	Employee Performance Evaluation	●
405	Diversity and Equal Opportunity	ISO 26000 Responsible Labour Practices ISO 26000 Human Rights	
405-1	Diversity of governance bodies and employees	3.2. Governing bodies 4.1. Staff Profile	●
405-2	Ratio of basic salary and remuneration of women to men	Compensation. 2017 results	●
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	Collaboration with trade unions RSPP 3.2.1	●
MM4	Number of strikes and lock-outs exceeding one week's duration, by country	Collaboration with trade unions	
408	Child Labor	ISO 26000 Human Rights	

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	
408-1	Operations and suppliers at significant risk for incidents of child labor	Since the use of child labour is impossible in our production, this aspect is not considered to be material. See also: Talent Selection and Promotion System	●
409	Forced or Compulsory Labour	ISO 26000 Human Rights	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	None See also: Talent Selection and Promotion System	●
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	6.3. Social Investments and Social Partnership	●
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	Local communities	●
412	Human Rights Assessment	ISO 26000 Human Rights	
412-1	Operations that have been subject to human rights reviews or impact assessments	A question on potential human rights violations is included in the Severstal Pulse annual survey covering almost every business unit of Severstal	●
412-2	Employee training on human rights policies or procedures	Management Training Programmes	●
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening		○
413	Local Communities	ISO 26000 Community Involvement and Development	
GRI 103	Management approach	6.1. External Social Programmes of Severstal: Policy and Management	●
413-1	Operations with local community engagement, impact assessments, and development programmes	6.3. Social Investments and Social Partnership RSPP 3.3.3	●
413-2	Operations with significant actual and potential negative impacts on local communities	5.2. Environmental Protection 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	●

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**

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	
414	Supplier Social Assessment	ISO 26000 Fair Business Practices	
414-1	New suppliers that were screened using social criteria		○
414-2	Negative social impacts in the supply chain and actions taken		○
415	Public Policy	ISO 26000 Fair Business Practices	
415-1	Political contributions	Any provision of financial or other support to any political party, or any financial support to a political candidate in the name of the Company has to be approved, depending on amount and provisions of internal documents, by Director of Communications and Government Relations or, upon his approval, by the Chairman of the Board of Severstal. None in 2017	●
416	Customer Health and Safety	ISO 26000 Consumer Issues	
416-1	Assessment of the health and safety impacts of product and service categories	3.7. Quality Management	●
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 labeling	3.7. Quality Management	●
417-2	Incidents of non-compliance concerning product and service information and labeling	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	
GRI 103	Management approach	Management of Occupational Safety and Environmental Protection Risks Prevention of corruption and violations of laws and internal regulations	●
419-1	Non-compliance with laws and regulations in the social and economic area	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 2016, 2015 and 2014**

Line	Comment
Revenue	
Net sales	Consolidated income statements, Line: Revenue
<ul style="list-style-type: none"> Cash flow from financial activities 	Note: Financing income and costs /Net financing costs, Lines: Interest income, Dividend income
<ul style="list-style-type: none"> Gain on disposal of assets 	Consolidated income statements, Line: Loss on disposal of property, plant and equipment and intangible assets
Operating expenses	
<ul style="list-style-type: none"> 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	
<ul style="list-style-type: none"> Payroll 	Note: Payroll costs, except Cost of post-employment benefits
<ul style="list-style-type: none"> Total amount of payments 	Note: Payroll costs, Line: Cost of post-employment benefits
Payments to providers of capital	
<ul style="list-style-type: none"> Dividend payments to all shareholder categories 	Consolidated statements of changes in equity, Line: Dividends Consolidated statements of cash flows, Line: Dividends paid
<ul style="list-style-type: none"> Interest payable to creditors 	Note: Financing income and costs /Net financing costs, Lines: Interest expenses
Payments to governments	
<ul style="list-style-type: none"> 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	
<ul style="list-style-type: none"> Infrastructure investments 	Note: Net other non-operating (expenses)/income/Net other non-operating income/(expenses), Lines: Social expenses, Charitable donations, Depreciation of infrastructure assets
<ul style="list-style-type: none"> Direct community investments and donations 	Note: Net other non-operating (expenses)/income/Net other non-operating income/(expenses), Lines: Social expenses, Charitable donations, Depreciation of infrastructure assets

* http://www.severstal.com/files/21410/usd/Severstal_FS_31122017_rus_.pdf

** http://www.severstal.com/files/19933/usd/_Severstal_FS_31122016_Rus.pdf

Appendix 3

Material aspect boundaries

	Cherepovets Steel Mill	OOO Severstal TPZ — Sheksna	ZAO Izhora Pipe Mill	AO Severstal Long Product Mill Balakovo	OOO SSM Tyazhmash	OOO Severstal Project	OOO Severstal Promservice	OAO Domnaremont	ZAO Neva Metal	OAO KO VNTIMETMASH	OAO Severstal Infocom	ZAO TD Severstal Invest	OAO Severstalallat	OOO Severstal Vtorchermet	OOO Severstal Air Company	Severstal Branch Office in Moscow	OAO Severstal Metiz	OAO Severstal Metiz Oryol Branch	OAO Dneprometiz	AO Vorkutaugol	AO Olcon	AO Karelsky Okatysh
Emissions	+	+	+	+	+	+	+	+	+				+	+	+		+	+	+	+	+	+
Effluents and waste	+	+	+	+	+	+	+	+	+				+	+	+		+	+	+	+	+	+
Health and safety	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Water use	+	+	+	+	+	+	+	+				+	+	+	+		+	+	+	+	+	+
Financial performance	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Environmental compliance	+	+	+	+	+	+	+	+				+	+	+	+		+	+	+	+	+	+
Regional development	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Compensation	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Training and education	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Compliance	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Employment	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Local communities	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+

Appendix 4

Opinion of RSPP Council on Non-Financial Reporting on the 2017 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 2017 Corporate Social Responsibility and Sustainable Development Report (“Report”) of PAO Severstal (“Company”, “Group”, “Severstal”) at request of Severstal.

The Company requested 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 01 June and 17 June 2018 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 (www.rspp.ru).

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:

The 2017 Corporate Social Responsibility and Sustainable Development Report of Severstal provides coverage of the key areas of responsible business practices consistent with the principles of the Social Charter of RSPP, offering sufficiently complete disclosure of Company activities in these areas.

Recommendations of RSPP Council upon the public affirmation of Severstal's report for the year 2015 are partially reflected in the 2017 Report. In particular, the Report offers expanded comments to the changes in quantitative indicators, relates Company operations to the UN Sustainable Development Goals, and provides information on the management of responsibility in supply chain.

The 2016 Report contains significant information covering the following aspects of responsible business practices:

Economic freedom and responsibility. The Report covers core areas of Company operations, its structure, key projects of production divisions, as well as financial and economic results for the year 2017. The Report compares actual performance with 2017 objectives and outlines plans for the next year. The Report notes the efficiency of the Business System of Severstal in ensuring economic stability with the use of modern technologies, and improvements in productivity and product quality. The Report provides an overview of the impact of the fourth industrial revolution on the future of the steelmaking industry, including the transition to new digital technologies and potential consequences, such as the evolution of expectations from employees. It discusses the development strategy of Severstal in the digital domain, the development of the innovation programme, and the launch of pilot projects. The Report underlines the importance of

Severstal's contribution to the development of regional small and medium businesses that it makes by purchasing local products and providing other forms of support jointly with its partners. The Report discusses how Severstal achieves high product quality and what quality management system it uses. It reflects Company approach to management and the structure of its CSR commitments. The Report relates the most important Company programmes and projects to the UN Sustainable Development Goals. It provides information on corporate governance system, and management of risks and opportunities. The Report mentions that the matters of CSR and Sustainable Development related to the delivery of corporate strategy are on the agenda of the Board. It includes information on the new edition of the Anti-Corruption Policy adopted in the reporting year.

Business Partnerships. The Report offers an overview of Severstal's collaboration with the key groups of stakeholders. It discusses what Severstal does to ensure the transparency and accessibility of Company information for investors, and provides information on regular meetings, including visits to Severstal production facilities. The Report gives information on collaboration with key business partners, and cooperation with customers on product improvement, including regular consumer surveys. Severstal discusses active engagement of its clients in the development of its online store, and the operation of Central Service Centre, its key channel of customer interaction. The Report includes information about suppliers and the way Severstal works with them, mostly through its Online Trading System. It discusses how Severstal gets small and medium businesses to participate in its competitive tenders. The Report includes information about audits of partner quality management systems. It offers an overview of employee development, motivation and support programmes, and about the corporate employee communication system. The Report provides information on active engagement of Company employees in the achievement of corporate objectives and the tools used to achieve this result. The Report includes information about the activities of the Ethics Committee. It offers an overview of cooperation with trade unions on industry agreements and collective agreements. The Report discusses collaboration with specialized colleges. The Report provides an overview of measures taken to ensure occupational health and safety, a priority for Severstal and its collaboration with contractors, who had specific goals set in this area for 2017. The Report offers information about cooperation with government authorities on development of the mining industry and international trade. It provides an overview of cooperation with local authorities and regional communities.

Human Rights: This Report discusses Severstal's commitment to human rights. The greatest amount of information is provided on what Severstal does to protect labour rights of employees and how it uses the Severstal Pulse survey to study their opinions. Severstal states its commitment to the rights of indigenous people. The Report includes information about preservation of national culture and enhancement of regional cultural potential.

Environmental Protection: The Report provides an overview of industrial safety and environmental protection management system, notes that investment in this area was increased in 2017 due to several major projects at Cherepovets Steel Mill focused on reducing emissions, including GHG emissions, and

wastewater discharges in water bodies. The Report reviews key events and provides quantitative performance indicators reflecting environmental footprint by division. The Report notes the improvement of environment in Cherepovets, which has been excluded from the list of cities with the highest air pollution, partly due to Severstal's investment projects. The Report provides information on measures taken and results achieved in waste management, water use and improvements in waste water treatment. It includes information on the reduction of energy use by Cherepovets Steel Mill, plans to expand these results to other divisions, and events planned up to 2019.

Development of Local Communities: The Report notes active involvement of Severstal in social and economic development of its regions, and discusses programs in place focused on improving quality of life and social environment. It provides information on Severstal's contribution to the development of regional economies. The Report provides results of the Agency for Urban Development co-founded by Severstal. It includes information on delivery of agreements with municipal and regional authorities on corporate social programs, including those launched in the reporting year. An overview of the performance of Way Home foundation for prevention of social orphanhood is provided. The Report notes the Museum of Russian North programme, development of corporate volunteering and other socially significant activities. It includes the list of projects and organisations supported by Severstal. The Report mentions the Social Environment Monitoring regional survey.

Conclusion

The 2017 Report gives a comprehensive overview of Severstal's responsible business practices and provides sufficient information to form an opinion on the integration of the principles of corporate social responsibility and sustainable development in Severstal's strategy and business system. The Report provides performance indicators in the key areas of activities, including their economic, environmental and social aspects.

The Report follows the recommendations used in Russian and international reporting practices (Sustainability Reporting Standards of the Global Reporting Initiative, version, and the Mining & Metals Sector Supplement), ensuring comparability of information in this Report with information in reports of other companies. Performance indicators are provided in relation to the most material issues as identified in stakeholder communications and according to ISO 26000:2010 and RSPP basic performance indicators.

The 2017 Report is the ninth corporate non-financial report of Severstal, indicating its consistency in development of public reporting, increasing transparency, and consistent disclosure of information to stakeholders.

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's reports would still be useful for future reporting periods.

The Council recommends to continue developing the approach used in the 2017 Report, which includes providing meaningful comments on quantitative data and its trends. For example, it would be useful to see comments to statistical data on workplace injuries and professional diseases, as well as certain environmental performance data on waste management, management of atmospheric emissions, and evaluation of Severstal's environmental footprint. We also recommend providing specific values in addition to absolute values.

The Report relates areas of Severstal's operations to UN Sustainable Development Goals. We recommend further expanding this information in future reports, and demonstrating how current results help the Company move towards those 2030 Goals that are relevant for its operations.

Since the Company has been running an energy conservation programme for many years, we recommend including quantitative energy consumption and conservation data in the Report, both in consolidated format and with breakdown by fuel type and key assets.

The Report contains information on the processes Company uses to identify material topics, including the analysis of stakeholder opinions based on the results of a survey used to prepare the Report. We recommend providing more details on these processes and methods used to identify material topics, including information about topics identified during regular cooperation with stakeholders in the reporting period.

The Report provides trends for a variety of quantitative indicators over various periods of time. We recommend using a uniform approach to disclosures and demonstrate trends for a minimum of 3 years to make the data easier to compare.

We should note that the body of the Report could be reduced by moving some of the illustrative or supplemental information, such as lists of organisations supported by Severstal, or a full breakdown of events in different areas by individual business, into appendices. The body of the Report may provide this information in a compact, generalized form with examples and links to complete data in appendices.

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 2017 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 2017 год**

прошел общественное заверение в Совете РСПП
по нефинансовой отчетности

Развернутое заключение Совета РСПП по нефинансовой отчетности об общественном заверении отчета о корпоративной социальной ответственности и устойчивости развития ПАО «Северсталь» за 2017 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 121.01.019.03.17

Президент РСПП



Москва, 2018

А. Шохин
А.Шохин

Appendix 5

Main Projects of the Way Home Programme Completed in 2017

Project	Description
Cherepovets	
MLADA	Prevention of new-born abandonment. Support for pregnant women in hardship and families with children under two years of age
From The First Days	Comprehensive medical, psychological and pedagogical support for families with children with health conditions starting from the first days of child's life. Unique healthcare services for child development
With Mom	Support for the return of children temporarily placed with the Dom Rebyonka orphanage to their biological parents. Day-care services for children from two months to two years of age for single mothers (fathers)
Together for Children	Comprehensive support for foster families and reunited birth families. Prevention of secondary orphanhood
Rainbow of Success	Development and validation of collaboration technologies for government authorities and organizations involved in the inclusive education programme. Take a Break service offering an opportunity to leave a child for a short period with specially trained care providers
Lessons in Kindness	Helping children with disabilities with attendance of the School of Future First-Graders. Training school teachers in special development strategies for children with disabilities
Kid, You're Not Alone!	Care and support for abandoned children under 5 years of age while they are in hospital to compensate the lack of mother's love
Your Chance	Support for families with children where mother or father are serving conditional sentences or returned from penitentiary institutions
The Land of Happy Childhood	Provision of territory for communication between children and parents going through a conflict divorce, and support with resolution of conflicts negatively affecting children
New Way	Support for families with preschool children where parents are in hardship, including cases where parents are prone to alcohol abuse
Vector	Support for families with children who came over from CIS countries and are in hardship (including refugees and displaced families)
Emergency Support	Emergency support for minors and their families in situations involving violations of children rights. This service is provided via a 24x7 hotline, a public reception on children rights, and a family counseling and therapy service
Social Hotel	Temporary housing for mothers and children in hardship who don't have a place to live or an opportunity to rent
Teenager	Comprehensive work with children who are likely to commit or have already committed delinquencies
Support Service for Children in Families	Help and support for children in crisis and at early stages of trouble
Healthy Generation	Prevention of psychoactive substance abuse among children and youth. Psychologist and psychotherapist services for first-time users of psychoactive substances among children and youth, and support for their parents

Project	Description
Point of Return	Corrective technologies as an alternative to punishment for at-risk youth. Conciliation of young offenders and victims of their actions. Organisation of and support for school conciliation services
Khorovod	Creating social and cultural rehabilitation and leisure opportunities for families and youth participating in the Way Home programme
Sons of the Regiment	Creating an environment for successful socialisation of orphans and abandoned children accepted in Cherepovets High Military Electronics Engineering College of the Ministry of Defense of Russian Federation. This project is the initiative of the governor of Vologda Oblast
Future Vector	This project is funded by Severstal and the Foundation for Support of Children in Hardship. Organisation of and support for school conciliation services
Takeoff!	Rehabilitation and leisure opportunities for at-risk youth (group lessons in aircraft modeling and 3D modeling)
Trust Yourself	Inclusion of young delinquents between 14 and 18 years old in productive social activities, including fitness training, survival training, bushcraft, rock climbing and camping
Planet of Tolerance	This project is supported with the government grant and a competition organised by the Ministry of Economic Development of Russia and Severstal. Development of tolerance towards children of migrants—a project run in 9 educational institutions of Cherepovets and Cherepovets District
Defend a Child	This project is funded by AO Future NPF and Severstal. Protection and reinstatement of rights of children and their families: organisation of Public Receptions on Children Rights in 15 municipal districts of Vologda Oblast
Raduga Developmental Platform	Support for foster families, refugee families and forced migrants with children in hardship: psychological support (advice, trainings), family rehabilitation, as well as cultural and recreational activities
Protection	Informational and educational events on prevention of non-chemical additions among children and adolescents in seven Russian cities. This project uses the grant of the Union of Psychiatric Health Protection Professionals
Variant Care for Children Under Three	Variant childcare (day care, short-term care, and residential family groups) for children under three, including children with disabilities. This project is hosted by the health care and social services institutions of Cherepovets and Vologda Oblast and financed from the grant of the President of Russia for the development of civil society provided by the Presidential Grant Foundation
Healthy Family for a Child	Replication of child support technologies for families affected by alcohol in 15 Russian regions. Implementation of these technologies in eight regions (Vologda Oblast, Yaroslavl Oblast, Saratov Oblast, Murmansk Oblast, Ivanovo Oblast, Smolensk Oblast, Komi Republic and Sevastopol). This project is financed from the grant of the President of Russia for the development of civil society provided by the Presidential Grant Foundation
Other Regions	
Hand in Hand (Vorkuta, Komi Republic)	Prevention of delinquencies among orphans and abandoned children. Preparation of targeted youth groups for independent life
Warm Home (Vorkuta, Komi Republic)	Support for foster families. Social and psychological support for pregnant minors and young mothers

Project	Description
Together with Mom (Balakovo, Saratov Oblast)	Prevention of new-born abandonment
Our Sweet Home Is Our Family School (Balakovo, Saratov Oblast)	Prevention of delinquencies among minors; youth trainings and recreational rehabilitation programs. Trainings and workshops for parents
There Always Is a Choice (Olenegorsk, Murmansk Oblast)	Comprehensive rehabilitation and support services for minors and families helping them to restore positive relationships; organisation of recreation opportunities for at-risk youth
Future in the Present (Kostomuksha, Republic of Karelia)	Social and psychological support for at-risk minors with offense history Psychological support for parents and families of minors
Compromise (Kostomuksha, Republic of Karelia)	Family mediations in high conflict divorce. Psychologist support in resolution of family conflicts negatively affecting children
Keys to the World: conflict resolution with mediation technologies for foster parents (Volgograd)	Support for foster families. Education in non-conflict communication and conflict resolution techniques using modern meditative, recreational and special technologies
Emergency Social Response (Veliky Ustyug, Vologda Oblast)	Emergency support for families in crisis with emergency team dispatch. Support for families and help in hardship
Start+ (Krasavino, Vologda Oblast)	Prevention of child neglect and juvenile delinquencies through group meetings, sports and wellness events, and Hearth Family Club
Happy Together (Yaroslavl)	Psychologist and pedagogical support for families with disabled children. Comprehensive developmental sessions in groups for children with disabilities from young age. Creative arts, music and dance studio for children. Support groups for parents

