



Changing
for the better.
For you

2020

Annual Report



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01

Strategic Report

Certain alternative performance measures ("APMs"), which are contained in the audited financial statements, are included in this Annual Report. They are used by management to assess the underlying performance of the business and as information in recommending dividends.

EBITDA, which is widely used in the industry, represents profit from operations plus depreciation and amortisation of productive assets (including the Group's share of depreciation and amortisation of associates and joint ventures) adjusted for gain/(loss) on disposals of PPE and intangible assets and for share in associates' and joint ventures' non-operating income/(expenses).

Free Cash Flow is used by the Board of Directors, in conjunction with Net Debt (being Total Debt Finance less Cash and Cash Equivalents) as a guide in recommending dividend payments. Free Cash Flow is determined as the aggregate amount of the following items: Net cash from operating activities from continuing operations, CAPEX, proceeds from disposal of PPE, interest received and dividends received.

Reconciliations of Operating Profit to EBITDA and of Free Cash Flow to Net cash from operating activities are set out in note 25 of the audited financial statements.

US\$ million

Revenue

6,870 2019: 8,157

Profit from operations

1,930 2019: 2,327

EBITDA

2,422 2019: 2,805

Free Cash Flow

838 2019: 1,099

Net cash from operating activities

2,144 2019: 2,292

Severstal at a Glance

PAO Severstal (“Severstal”, “the Company”, or “the Group”) is a vertically integrated steel and steel-related mining business with its major assets located in Russia and some investments in other countries. The Company was founded in 1955 at the Cherepovets Steel Mill in Russia. Severstal’s strategy is aimed at further strengthening its financial performance, maximising value creation and enhancing shareholder returns, whilst looking after its employees and minimising its impact on the environment. Severstal’s strategic priorities are superior client experience, cost leadership and embracing new opportunities, supported by Severstal’s advanced corporate culture. The Company comprises two major operational divisions: Severstal Resources and Severstal Russian Steel.

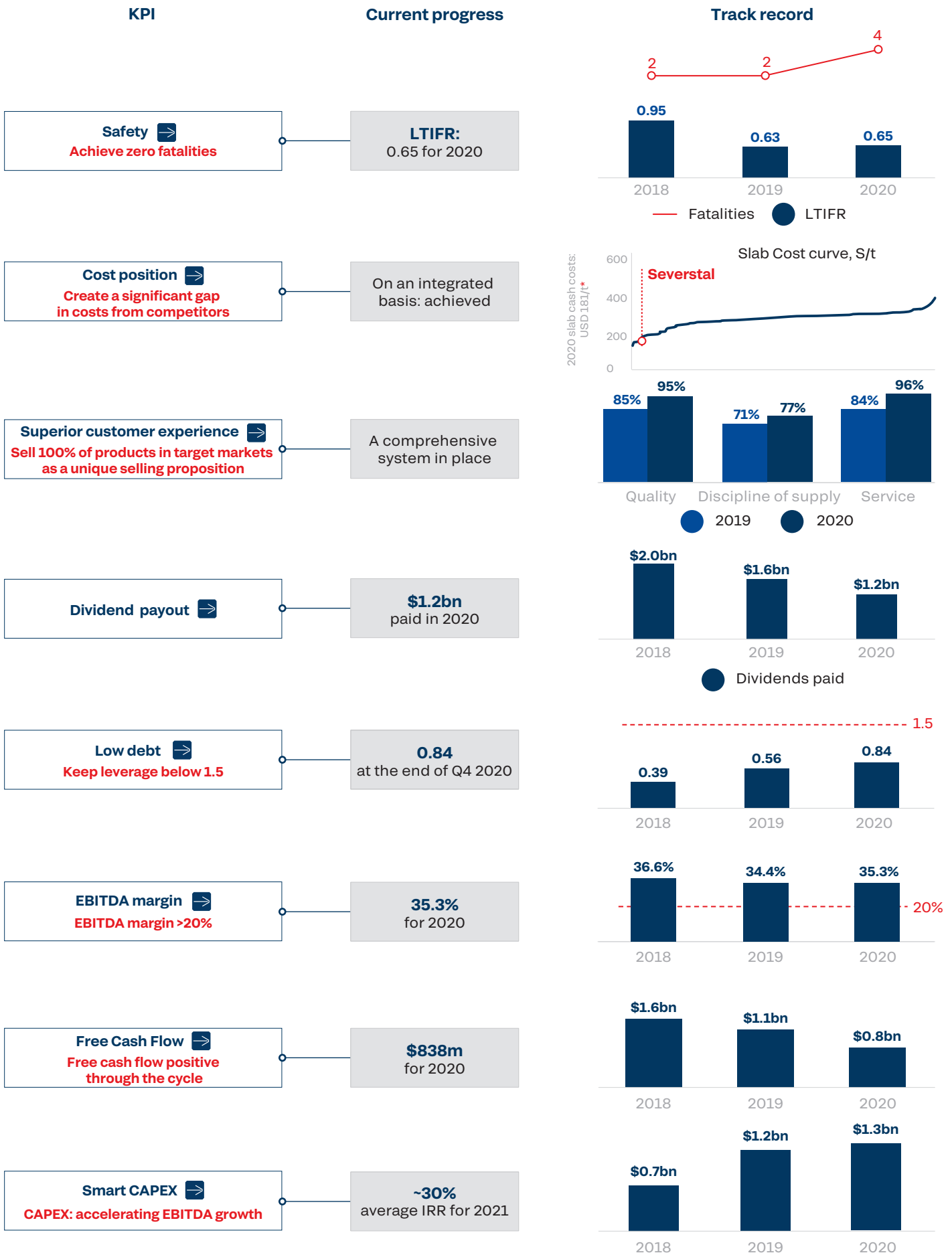
Severstal Resources

Severstal’s mining assets are a fundamental part of the Company’s vertically integrated business model. Severstal Resources supplies almost all of the iron ore and approximately 80% of the hard coking coal consumed by Severstal’s steel business, while also selling significant volumes to external customers both in Russia and abroad.

Severstal Russian Steel

The Company’s core asset is the Cherepovets Steel mill, one of the lowest cost steel mills in the world, strategically located near to the Company’s mining operations, the Baltic ports and Russia’s industrial heartland. Severstal Russian Steel is a leading Russian steel producer. The division has a broad product portfolio, comprising a majority of high value-added flat steel products and increasing volumes of long products for construction and downstream sales.

Financing the growth: our targets match the new strategy priorities



* Severstal analysis, quarterly and annual reports

Chairman's Review



Dear Shareholders,

Achieving more together is a core value of our business and in 2020 it was key not only to Severstal, but to the whole world. The COVID-19 pandemic presented extraordinary challenges across the globe: businesses, including Severstal, faced uncertain markets and exceptional volatility, but I am proud that our fundamental strength and the commitment of our people ensured our operations continued without interruption and delivered robust results.

Successfully navigating a challenging year

Severstal responded swiftly and effectively during the year to the impact of the pandemic, with the health and safety of all our employees our first priority. Rigorous hygiene processes and new ways of working ensured we avoided any large-scale outbreaks of COVID-19. Our response showed the strength of Severstal's business model and the flexibility of its leadership and our people.

In line with the corporate purpose which guides Severstal, we provided support, including equipment and financial help, to our people and the local communities in which we operate.

The economic uncertainty caused by the global pandemic had an inevitable effect on our performance, however the benefits of our low cost position provided substantial mitigation and a strong competitive advantage in a difficult year for the whole industry.

Business transformation

Even in the face of the deep global crisis Severstal's drive to transform its business continued. The pandemic strengthened our commitment and determination to achieve a transformation and underlined the need to ensure an even greater customer focus and recognise the benefits of cooperation and partnership.

We are driven by the success and progress of those with whom we cooperate, which encourages us to develop and inspire others to strive for innovation. Working together is not just about how we work within Severstal; it means developing relationships with our clients that are built on trust. By understanding the unique needs of their businesses and the challenges they face we can cooperate on solutions and create real value.

Working together also means building a range of strong partnerships from small start-ups to global companies, applying new technologies, improving our processes and identifying new opportunities.

During the year we announced an evolution of our brand that, while retaining our core principles, aligns us even closer to our customers and further positions us as a leader of the future steel industry as well as a leader in creating value. Severstal's essence is to develop success through continuous improvement and working with our partners to discover new opportunities.

Corporate Governance

Severstal is committed to the highest international and national standards of corporate governance and has industry leading disclosure and transparent corporate reporting. Our adherence to the highest ethical standards starts with the Board – half of which are independent Non-Executives.

The Board spends considerable time discussing health and safety and our continuing initiatives to improve Severstal's safety performance. In addition it reviews a wide range of matters including progress on our transformation process, environmental and climate change strategy, corporate governance and budgets.

The Board carries out an annual self-evaluation of its performance based on the individual contribution of each Board member and has an external evaluation once every three years in accordance with best corporate governance practice.

We greatly benefitted from the wise counsel of all Board members during a challenging 2020 when the breadth of their experience and skills was invaluable for the business.

Our People

While every year the passion, dedication and work of our people is praiseworthy, I want to say a particular thank you for the immense efforts of our employees during 2020. Their adaptability and determination reflected the strong corporate culture of Severstal and the unity of our purpose. Despite the market downturn, Severstal didn't have any layoffs. Instead we were hiring new talent during the whole year and took a decision to make an extra one-time financial payment of RUB 10,000 to all our people in April 2020 excluding the top-100 management team.

During 2020 the working environment that Severstal created for our people not only reflected our absolute priority of health and safety, but also introduced more flexible and remote working patterns where possible.

The efforts we had taken in previous years as part of the transformational changes to our culture such as encouraging digital skills, a business development mindset and agile ways of working provided an excellent foundation and we continued to develop talent and provide opportunities for career development.

Commitment to diversity and inclusion is an important part of our corporate culture and is vital for our long-term, sustainable development. One example is the Severstal Women's Club, which offers female employees advice, training and development opportunities to help overcome legacy gender inequality issues in the industry. Such initiatives are key for our business as we lead the steel industry of the future.

Sustainable Development

In the wake of COVID-19 it is vital to create a more resilient and sustainable world and steel has a pivotal role to play

as we build back better. As a strong, versatile and 100% recyclable metal it is the material of choice for many industries and Severstal is creating new products and uses to meet this demand.

While steel can help the world become more sustainable, Severstal itself has a clear and progressive sustainability agenda. We have set ambitious but, most importantly, deliverable environmental targets supported by investment projects. Thinking long-term we have set a 3% greenhouse gas emissions intensity reduction goal till 2023 as a first step in this direction. Our next step would be setting a long-term goal.

A strong sustainability strategy is important to our customers, investors and other stakeholders and as a corporate leader it is something we should have and must deliver.

Returns to shareholders

Being a leader in value creation for all stakeholders is an important target for Severstal and senior management has Total Shareholder Returns as a KPI. In 2020, a total of US\$ 1.2 bn was returned to shareholders in the form of dividends, for an average dividend yield of c.11% for the year.

Outlook

The continuing impact of COVID-19 on the global economy is likely to remain a major factor for steel demand during 2021. The pattern of demand will reflect the lifting or imposition of lockdowns, the timing of recovery of individual market sectors and the impact of potential government stimulus measures around the world including infrastructure investment.

What 2020 has shown is that even with immensely challenging markets, Severstal's vertically integrated business model, low cost position and customer-focused approach provides resilience and competitive advantage.

Our refreshed branding still features our Unity symbol, which reflects how we stand together with our customers, partners, colleagues and society to achieve common goals. Never has the power of working together been more important and by doing so we will all achieve more.

On behalf of the Board, I would like to thank our dedicated employees and shareholders for their much appreciated and continued support.

Alexey Mordashov



Chairman of the Board of Directors

CEO's Review



Dear Shareholders,

Looking back on an exceptionally challenging year for the global community I would first like to express my great pride and gratitude for the incredible hard work and commitment of my colleagues across Severstal. Despite global lockdowns and market disruptions, Severstal's robust performance throughout the COVID-19 pandemic is a testament to both the strength of our vertically integrated business model and to our growth strategy.

Our number one priority has been to minimise employee health risks. At the very start of the pandemic we introduced a range of prevention protocols to reduce the risk of infection and spread of the virus, including remote working, enhanced sanitation and personal protective equipment. I am pleased to say that in 2020 and to date we have avoided any large-scale outbreak of COVID-19 at our operations, and this enabled us to continue to operate at full capacity throughout the period.

Customer-centric integrated solutions provider

Continued progress on Severstal's transformation programme remained an important priority for the Company. Severstal aims to be the company of first choice for our customers, employees and partners, and so in November we were delighted to unveil new corporate branding, signaling the transformation of Severstal into a customer-centric innovative solutions provider.

The transformation programme has involved significant changes over the past two years. We are now working even more closely with customers to develop unique integrated solutions that will support their commercial success. A significant focus of investment has been the expansion of Severstal's product range and improving product quality. In addition, we have launched a whole new range of customer services and engagement systems. Severstal now has an outstanding customer proposition, thanks to our large variety of digital services and offers, more typically offered by B2C companies.

New opportunities

We continue to invest in innovation and digital solutions to meet the future needs of the customer. We partnered with Russia's first environmental startup accelerator, alongside the SKOLKOVO Foundation, to support entrepreneurs developing future solutions to help Russia's industrial sector reduce its environmental footprint.

Through Severstal Ventures we led a second tranche of investment into Dutch company Airborne, a global leader in developing digital automation platforms to produce composite parts. We recognise that Airborne has developed and brought to market a unique set of digital technologies with huge potential for the significant carbon fibre composites industry. We also acquired Sintez CIP Ltd and Sintez PP Ltd, the owners of the only

producer and supplier in Russia and the CIS region of carbonyl iron powders, which represents an exciting new move for Severstal into the electronics market.

We were also able to expand into new geographic markets in 2020, offering competitive high spec steel and raw material products to new customers. In our upstream mining and steel production division, Karelsky Okatysh supplied Brazil for the first time, delivering innovative iron ore pellets developed to meet the specifications of the new client's blast furnaces. In our downstream market-facing business we completed Severstal's first ever delivery of large-diameter pipes to the USA, an order of over 2,300 tonnes, which we expect to pave the way for supplies of these products to other high-value export destinations. We also supplied steel for an international stadium for the first time, in Egypt. Our end-to-end customer service meant we worked closely with the client in developing an order specification that would meet their precise needs and delivered our products directly to their construction site within a very tight schedule.

Health and Safety

We strive every day to ensure the interests and wellbeing of our employees are safeguarded. Health and safety is a key metric against which we measure the performance of our company and our management team and an area we are absolutely focused on. We are proud of our significant efforts this year which have helped protect our workforce and their families from coronavirus.

However, despite our unremitting scrutiny on safety, to the Company's great sadness there were four fatalities of our employees during 2020. The Company has conducted a thorough review of its practices to establish next steps and prevent occurrence of similar cases in future.

Reflecting Severstal's firm resolve to improve our safety performance, in October 2020, we appointed a new Director for Health, Safety and Environment who has 20 years' experience in managing labour safety in major industrial companies, and his expertise will be invaluable as he leads Severstal to a step change in workplace safety. Safety remains Severstal's absolute priority.

Climate Action

Severstal recognises the urgency for the steel industry to reduce its greenhouse gas emissions and contribute towards the goals of the Paris Agreement, and we are wholly committed to showing leadership by taking meaningful steps to reduce our own climate contribution. In 2020 we announced publicly a target to cut Severstal's greenhouse gas emissions intensity by 3% over the next three years compared with 2020. This commitment represents the first stage of a longer-term strategy we are developing. At the same time, we announced upgraded total atmospheric emissions reduction targets for 2025, representing a 13% (66,500 tonnes) drop against 2017 levels, compared with the previously announced target of 7%.

I was delighted that we introduced Severstal's first Head of Environment position to drive our strategy to reduce the Company's carbon footprint. Over the past year, Severstal has climbed several positions in the Worldsteel ranking of companies with the lowest GHG emissions intensity to rank 11th out of 50 companies with comparable technologies, and our ambitions for further progress are underpinned by a roadmap of confirmed investment projects.

Supporting our local stakeholders

Severstal has a long history of running support programmes for our local communities and we were proud to be able to make an important contribution in 2020.

With the onset of COVID-19 Severstal worked with the mayors of our local regions to draw up tailored support programmes of initiatives that would meet the needs of the most vulnerable. Company employees delivered donations of food and essentials to families with children; we donated laptops to children homeschooling; we provided personal protective equipment for key workers, including medical professionals and the police force, and we funded mental support hotlines - to name just some actions. Severstal has also been providing support to local SMEs, and we made one-off bonus payments to our individual employees, recognising the broader financial strain the pandemic may be putting on their families.

I firmly believe we have an important responsibility to support our local stakeholders, and we are continuing to monitor the situation and provide the help required.

A strong team, with a positive outlook

Looking ahead to 2021, the pandemic has not yet passed but there is light at the end of the tunnel. I am confident that Severstal's low-cost position and commitment to moving forward on our growth strategy will ensure the Company remains both resilient and competitive, and we will continue to strengthen our leadership.

Once again, I would like to express my huge gratitude and respect for my colleagues for their unfaltering commitment. I am convinced we shall come through the pandemic together and emerge even stronger than before.

Alexander Shevelev

Chief Executive Officer



Strategy and Business Review

Severstal's purpose

Severstal's purpose is to be an innovative, efficient and trusted provider of solutions based on steel and non-steel products, to benefit our clients and stakeholders, while improving the well-being of our people and society.

Severstal will achieve this through constantly improving and opening up new opportunities for our clients and partners and delivering an excellent customer experience.

Severstal's business model

Severstal is a steel and mining company with its major assets located in Russia. The unrivalled efficiency of the Company's business is underpinned by its vertically integrated business model with high quality, modern upstream and downstream facilities.

The Company is almost fully self-sufficient in raw materials (coking coal and iron ore), which are supplied by its Resources assets, located close to Severstal's steel production plants. This model gives the Company a natural hedge against the volatility of raw materials prices throughout the year, supporting our industry-leading margins. Severstal has one of the lowest cost profiles among steel producers globally.

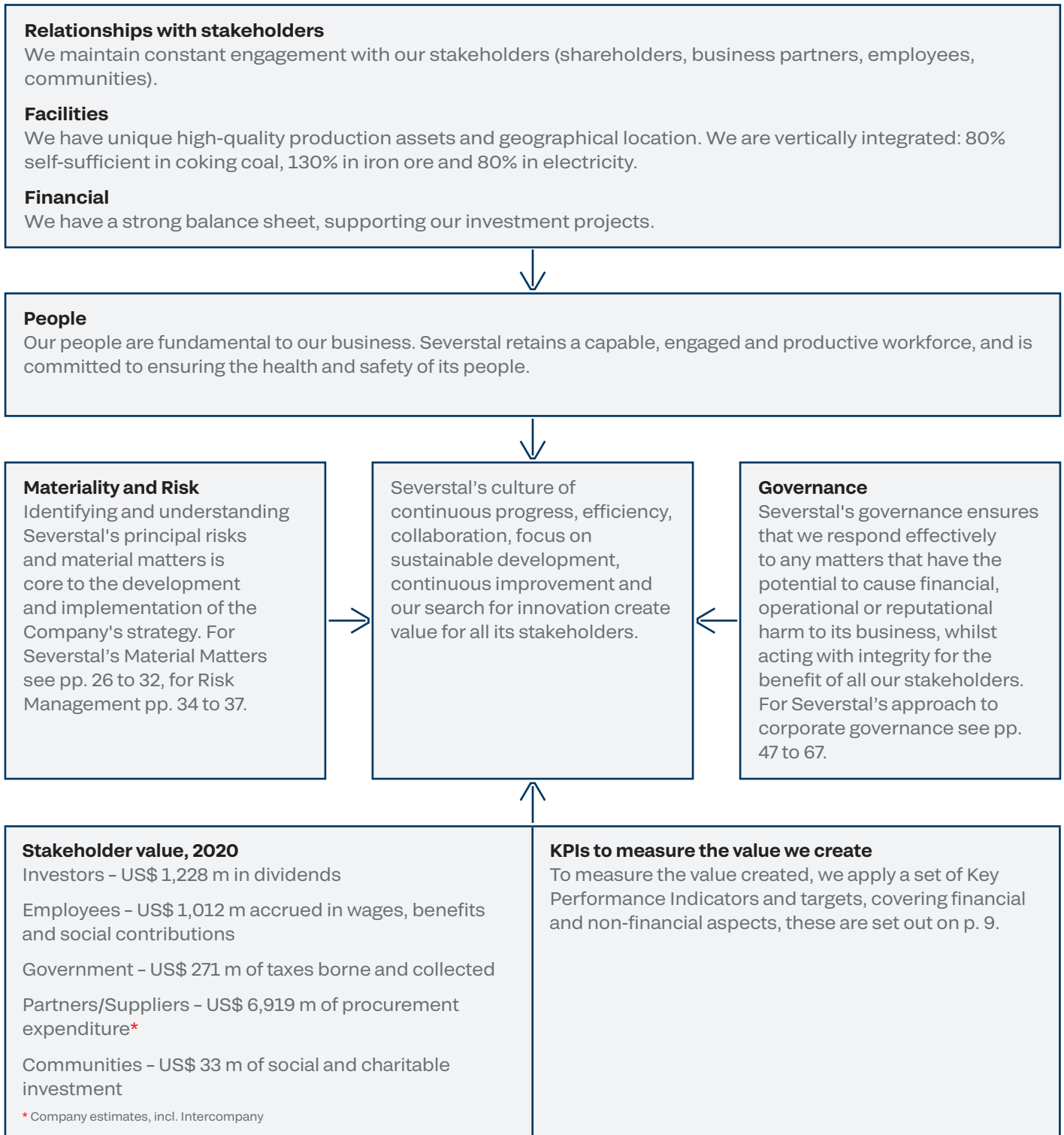
Severstal is predominantly focused on supplying steel products to the domestic market, though it is also a significant exporter. The Company's cost competitiveness and its position near the key steel consuming regions of Russia as well as to Severstal's

export markets are particularly valuable in that they provide the flexibility to shift its sales focus between the Russian domestic market and the export market in a cost effective manner, depending on relative domestic and global demand for steel and mining products.

Severstal has a diversified product portfolio with an emphasis on high value-added steel products, and is focused on consistently delivering new products that will meet the requirements of the next generation of infrastructure projects. We are also focused on opportunities in new growth niches, such as wind tower production and cryogenic steel components for LNG tanks. Through Severstal Ventures, we carry out investments in promising projects and directions in the field of new technologies and materials. Investing in venture capital funds gives us unique access to a vast range of projects focused on technologies that are ready for rapid implementation.

Severstal has implemented a prudent investment policy, under which its investments maintain a primary focus on the key areas of the Company's updated strategy – superior customer experience, cost leadership and embracing new opportunities, supported by its culture and focus on sustainable development, and are aimed at further strengthening its financial performance, maximising value creation and enhancing shareholder returns. Cutting-edge technology will allow Severstal to produce more high value-added and innovative products and solutions, improve customer care and reduce its environmental impact.

Severstal's value creation for its shareholders and stakeholders






Severstal's Strategy


In 2018, we announced Severstal's new vision and new development strategy. We established four strategic priorities: superior client experience, leadership in cost reduction, new capabilities and corporate culture.

Since then, significant changes have taken place at Severstal: internal processes and approaches have been transformed, with the Company now working more

closely with customers on solutions that will support their success. A significant focus of our investment has been the expansion of Severstal's product range and improving product quality. In addition, Severstal has launched a whole new range of services and customer engagement systems. Severstal's repositioning towards external audiences has been supported by fundamental changes to the Company's working processes.


The elements of Severstal's strategy

 <p>Leadership in cost reduction</p>	 <p>Superior customer experience</p>	 <p>New capabilities</p>
<p>Efficiency allows us to direct more resources to projects that contribute to the success of our clients and partners.</p>	<p>Continuous development of the Company's offering providing solutions that improve the efficiency of our clients' businesses.</p>	<p>Going beyond the normal realms of steelmaking, by using cutting-edge technologies and business models.</p>



Culture

Building a client-centric culture aimed at improving the efficiency of customer service and the quality of interaction within the company.



Sustainable development

Severstal takes a proactive approach towards protecting the environment.

Severstal believes that providing our clients with best-in-class customer care will enable the Company to attract and retain customers in a volatile macro-economic environment.

Superior client experience

Severstal is constantly adapting for its customers. Priorities include:

- Building a client-focused organisation - three industry-specific teams, each with their own specialisation: Construction, Mechanical engineering and Energy engineering.
- Investment in equipment to expand the product mix and improve the quality of rolled steel products: Commissioning new Pickling Line 4, Commissioning a unit for slitting and cutting-to-length (to improve rolled product quality).
- Mastering new product categories that meet the growing requirements of the market. Mastering steel grades that are new for the Russian market to help our customers localise their supply chains.
- Developing digital, logistical, technical and financial services for consumers.
- Launching financial services for small and medium-sized business clients (YooMoney, fast bank guarantees, fast lending, payment via corporate credit cards).

- Expanding customer segments, entering new niches: Wind energy Offers for small and medium-sized business clients.
- New models of customer interaction. Partner production and delivery of trade racks.

One of the priorities for ensuring Severstal delivers a superior client experience is **managing a range of products and solutions**. We offer a portfolio of innovative products including products tailored for individual orders, and have also designed our brand architecture to make it easy for customers to navigate through our range and select the products they need. Offering our customers comprehensive solutions means we can go beyond steel, while our advanced engineering helps us optimise the final product design by selecting the best materials. Our TechConsulting direction is focused on developing our services to improve processes and achieve economic benefits for our key customers.

Our **product quality management** involves the identification of individual customer requirements to ensure that products are of the required quality and can be easily processed on the customer's site; we have

developed a system to monitor the product parameters critical for customers, and to quickly rectify any deviations; we have developed a system to control product quality during transportation; and we have streamlined our process for managing customer feedback.

The main changes to the **supply chain management** process include the development of programme implementation on basic services in terms of delivery performance; the development of additional services within our distribution network (warehouse delivery, cutting, financial instruments); the development of individual services for key customers (e.g. a consignment warehouse); and the development of a multimodal delivery system, i.e. combining different methods for delivering products to the customer.

We are also focused on **customer service support**, and are introducing such tools to improve customer communications as making up-to-date information available 24/7 on customer's personal portals, chat bots, e-mail notifications; online services (smart calendar services, online card payments for orders, certificate verification); loyalty programme with additional services and special offers to help our customers improve their margins. In December 2020, Severstal launched its ["Vmeste" client portal](#) ("Together"), which provides customers with training materials, industry forecasts and analytics, expert opinions and updates on corporate activities.

Leadership in cost reduction

Severstal believes that the Company's being cost competitive is a vital contributor to its success. Therefore we continue to pursue a strategy of low-cost steel production. Severstal's efficient, vertically integrated structure means it is largely self-sufficient in primary steel-related raw materials, which enables the Company to maximise efficiencies and reduce production costs.

In 2020, the Company introduced a number of efficient cost-saving solutions. Severstal has a strong track record of delivering operational improvements that have enabled it to become one of the lowest cost steel producers in the world, according to [World Steel Dynamics](#).

With the aim of enhancing its operational, technological and business efficiency, Severstal invests, in the construction and modernisation of production and mining facilities, and the further development of its supply chain system. These investments help the Company to maintain and increase its cost advantage over its competitors. Severstal constantly looks to introduce advanced technologies across its key business areas operations, and is already running a number of improvement programmes and has expanded its existing Business System to cover new areas of operation.

New opportunities

Severstal embraces new opportunities by looking beyond its traditional business to ensure that the Company remains innovative and at the forefront of the

industry. Furthermore, Severstal endeavours to maintain its operational leadership by actively identifying new early-stage opportunities and developing technological solutions that will add further value to its business model.

Severstal strives to bring innovation to all of its operations, i.e. products, processes, and business model. Innovation management covers continuous improvements as well as breakthrough improvements, such as R&D advanced engineering, technological development centers within production segments, Severstal Digital, and the Company's digital business innovation team.

Neural networks have been introduced by Severstal to improve the quality of rolled metal: the EVE Computer Vision Model is a neural network that improves the efficiency of product inspection by identifying four types of rolled defects. EVE eliminates the need for human involvement in routine operations by independently inspecting digital images of the metal surface. On average it finds 13 times fewer false defects than the existing Parsytec strip inspection system, which means that operators are able to inspect all potential defects during their shift. Overall, it is three times more effective in tracking defects, significantly reducing the risk of poor defective products being shipped to clients.

Severstal uses an innovative approach to problem-solving to create tailored solutions for its clients, starting right at the engineering stage. For a large real estate developer, we invented a more efficient solution for multi-level car parks based on steel structures. For this particular client, Severstal delivered solutions for the engineering, manufacturing, and the delivery of steel structures and the engagement of a construction partner to build the car park. This helped to reduce the construction was reduced from eight to five months, reducing the cost of the project for Severstal's client 17%.

There is also a clear market need for the radical changes that are brought to Severstal via our venture capital division, Severstal Ventures. Severstal Ventures focuses on technologies that are ready for rapid implementation in the steel making industry. This is the first institutionalised venture investment initiative of its kind in the global steel industry. Severstal Ventures invests in venture capital funds with the aim of gaining access to a unique range of technological and business projects, including steel making and associated construction, machinery manufacturing and energy projects. Furthermore, Severstal Ventures supports the venture projects that it has invested in, providing them with access to the Company's in-house expertise, facilities for trialling pilot products and funding. As such, Severstal Ventures enables the Company to benefit directly from early access to new technologies, which should contribute to further cost efficiencies and the development of unique products.

In 2020, Severstal Ventures invested into Dutch company Airborne, a global leader in developing digital automation platforms for the production of composite parts, and products with integrated composites. In spite of the coronavirus pandemic, which has led to many venture

projects on the global market being placed on hold, Severstal led the new investment in Airborne with the support of existing shareholders including HPE Growth. In addition, Severstal and Airborne have entered into an exclusive technology partnership agreement in Russia. Under the terms of the agreement, Severstal will be Airborne's first-choice partner within Russia for the implementation of all composite projects, including the automated production of composite.

Severstal's Corporate Culture: Efficiency, Inspiration, Cooperation

Severstal aims to maintain a corporate culture that unites its talented and ambitious workforce. The Company believes that maintaining and further developing a strong corporate culture will enable it to accomplish its new strategy, without compromising its core values of quality, collaboration and innovation.

Severstal endeavours to develop its advanced corporate culture by creating an environment in which employees:

- strive to understand the needs of the business and solve problems at a pace faster than the Company's competitors;

- are fully engaged to achieve the best results and are able to develop their talents in various aspects of the Company's business;
- engage with partners to increase product value and satisfy customer needs;
- are incentivised to work as a team towards minimising environmental impact and creating a sustainable business.

Severstal believes that these strategic priorities drive operational and organisational excellence, promote a safety-conscious culture and collegiate working environment and improve customer satisfaction.

Severstal's priorities for advancing its corporate culture include:

- Speed – solve any problem faster than competitors;
- High level of engagement – create an attractive environment in which people achieve better results faster;
- Partnership – work with partners for joint excellence;
- Sustainability – create a sustainable environment together;
- Talent development.

Corporate repositioning and update to Severstal's brand

<p>Achieve More Together</p> <p>Vision — to be the leader of the steel industry of the future.</p> <p>Mission — to be the leader in value creation.</p> <p>We aim to create success through continuous improvement, and working together to develop new opportunities.</p>	<p>We are driven by the progress and success of those we cooperate with. This drives us to continue in our development and foster innovation with our partners.</p>
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In December 2020, Severstal launched new corporate branding to reflect the significant transformation of the business into a customer-centric innovative solutions provider. The updated brand reflects changes which have taken place at Severstal over the past two years. The Severstal brand has been pivoted to resonate in a new way. The drive for continuous improvement suggested in the first part of the slogan ('Achieve More') now implies continuously working to provide solutions to help its customers achieve their goals. 'Together' now means working closely with clients and partners.

Severstal has also redesigned its corporate mission, which now reads as follows: "Our mission is to support your success, constantly improving and opening up new opportunities together." All of the Company's strategic priorities are aligned to this mission, with an emphasis on delivering excellent customer experience as the foundation of Severstal's brand, and the Company is always looking for new opportunities to achieve this. Severstal's new corporate identity reflects reliability, dynamism, technical progress, optimism, openness, flexibility and unity. Learn more about the updated branding on [Severstal Brand](#).



CFO's Review



Dear Shareholders,

Faced with a global humanitarian crisis, 2020 was an extremely challenging year for all steelmakers, with both steel demand and prices substantially impacted amidst COVID-19 outbreaks around the world. In this challenging environment, Severstal's vertically integrated business model, the flexibility of our distribution channels and our strong financial position enabled us to move forward confidently on our strategic plans and successfully navigate market volatility.

The resilience of our business model, coupled with operational excellence, ensured we were able to maintain a solid financial performance and continue to deliver an industry-leading EBITDA margin, which stood at 35.3% in 2020. We generated US\$ 838 m in free cash flow, while our net debt/EBITDA was kept at 0.8, comfortably below our target of 1.5, enabling us to provide continued strong shareholder returns.

We remain committed to:

- The transparent principles of core capital allocation;
- Industry-leading EBITDA margins through improved efficiency and cost management;
- Positive free cash flow through the cycle;
- Smart CAPEX - requiring a minimum 20% IRR for every investment project;
- A strong balance sheet with the aim of not exceeding the net debt/EBITDA ratio target level of 1.5;
- Returning value to shareholders in the form of dividends.

Leading EBITDA margins

Despite the extraordinary market environment resulting from the global pandemic, in 2020 we generated Group revenues of US\$ 6.9 bn. Demand for steel was considerably disrupted by the impact of COVID-19 and government efforts to contain it, and weaker pricing dynamics for steel products prevailed throughout the period leading to lower sales volumes in 2020. However, steel prices recovered towards the second half of the year as lockdowns lifted globally. Severstal's low cost position enabled us to remain competitive throughout the period.

We continued to make good progress on our EBITDA growth strategy and delivered EBITDA of US\$ 2.4 bn, by further enhancing customer experience, offering diversified and tailor-made product solutions, maintaining stringent cost controls and proactively exploring new opportunities and market channels. The loss of premiums in both European and Russian markets had an inevitable negative effect, but we achieved what we consider a strong result against the market environment backdrop. Whilst this was below our initially outlined annual growth target, we are confident that with recovering global macro environment in the year ahead, we will be able to regain ground in 2021. As such, we remain firmly committed to our target of delivering 10-15% EBITDA improvement, net of macro factors, year on year until 2023.

Faced with increasing costs associated with ensuring the wellbeing of all our people amidst COVID-19, we were able to maintain one of the lowest position on the global cost curve by optimising other business-related expenses. As a result, despite a small increase, our integrated cash cost of slab was maintained at a modest US\$ 160 per tonne in Q4 2020, ensuring our resilient profitability even in such a challenging pricing environment.

Our EBITDA margin performance underpins our ability to achieve a robust financial performance throughout the industry cycle and supports our track record of being able to successfully navigate through a number of downturns.

Robust balance sheet

Severstal remains focused on maintaining low levels of debt, and our financial position remained strong throughout 2020 despite the challenging market situation.

The continued strength of our balance sheet underpins our performance throughout the cycle, and enables us to continue investing in high return projects and to continue to pay attractive dividends to our shareholders.

CAPEX

Despite the gradual recovery in global markets during the second half of the year positively impacting on steel price dynamics, it is prudent to remain cautious about the outlook and prepared for any further volatility. Therefore, we maintained our conservative approach to CAPEX during 2020. Severstal has a strict internal rate of return (IRR) target of at least 20% for each CAPEX project and this is a key component for any capital allocation.

We continue our increasing focus on innovation, as well as on sustainability. Our investment priority remains to pursue development projects that will deliver a significant cost advantage in the long-term, maintain our focus on customer-centricity by providing our clients with tailored, unique solutions and increase our steel production volumes. Our digital investment programme fully supports all these parameters, and we continue to develop and implement intelligent solutions that will provide long-term benefits.

In 2021 we will prioritise our major investment projects, achieving full capacity at Blast Furnace #3 and our coke battery #11, first unit launched in December 2020. We aim to achieve our ambitious economic goals while remaining conscious of our responsibility towards the environment, and these initiatives will contribute significantly towards our sustainability performance and minimising our impact on the environment.

Shareholder returns

We remain wholly committed to returning maximum value to our shareholders while maintaining a comfortable level of debt.

Our dividend policy is to return 100% of the Group's adjusted free cash flow to shareholders providing the net debt/EBITDA ratio remains below 1.0, or, if the net debt/EBITDA ratio goes above 1.0, the amount paid out in dividends is to be calculated from adjusted net profits (not less than 50%) for the respective reporting period. Severstal is currently applying the approach of calculating the dividend based on an adjusted free cash flow.

Any CAPEX which exceeds the baseline level of US\$ 800 m will not be counted in determining the level of dividend payout. With Severstal's financial position remaining strong despite market challenges, and net debt/EBITDA maintained at 0.8, the total dividend returned to shareholders for 2020 stood at US\$ 1.2 bn.

Alexey Kulichenko

Chief Financial Officer



Market Environment

Steel market and the global economy

Global GDP growth in 2020 was affected by two parallel factors: the “late cycle” in economic growth in developed markets and the COVID-19 pandemic. The outbreak of COVID-19 affected the economic activity of all countries without exception. Governments responded through fiscal stimulus for private consumption and business activity, monetary stimulus included a decline in key rates and quantitative easing.

During the first pandemic wave, China succeeded in containing the virus, while other countries faced high infection rates and maintained strict lockdown measures in place until mid-May 2020. Restrictions affected transportation, services and some non-essential sectors, as well as construction and manufacturing to some extent, resulting in a global GDP slump. The recovery of business activity began as lockdowns were lifted. The second wave of the pandemic brought with it higher disease rates and softer quarantine measures.

The greater impact of the crisis was seen in developed markets, for which the services sector contributes a larger share to GDP. Affected by two COVID-19 waves, GDP growth declined in 2020 in the US (from 2.2% in 2019 to -3.4%) and in the EU (from 1.3% in 2019 to -7.2%). Emerging countries also felt the pressure of the crisis: Indian GDP fell by 8% in 2020 due to severe lockdown measures. China's GDP growth decelerated to 2.3% in 2020 (from 6% in 2019) as it was supported by fiscal stimulus and effective virus control.

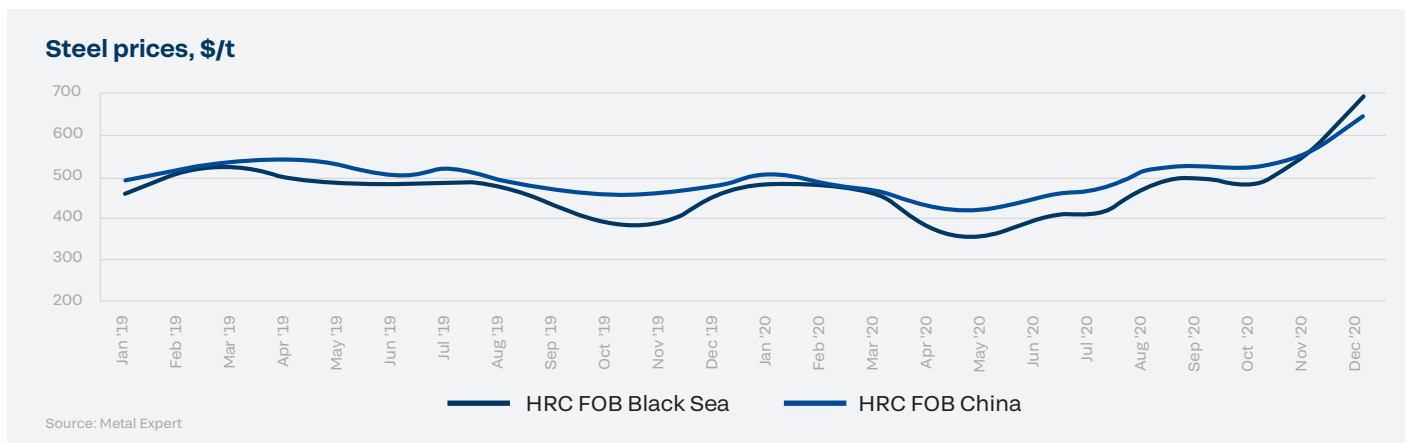
Reflecting the COVID-19 related downturn, global steel demand decreased by 2.4%. Euro area demand

contracted by 15.2%, while Indian steel consumption declined by 20.2%. Resilient Chinese consumption increased by 8%, aided by infrastructure stimulus and a strong property market. The major steel demand contraction was seen in Q2, while in Q3 and Q4 2020 pent-up demand drove growth as severe lockdown restrictions were lifted.

Global GDP is expected to grow in 2021 after the fall in 2020. The upside potential for the global economy is being fuelled by the development of COVID-19 vaccines and the recovery of global trade. Global steel demand is expected to increase by 4.1%¹ in 2021, slightly exceeding the 2019 levels. The major driver of steel consumption growth is anticipated to come from developing countries - India and ASEAN. Demand from the Euro area is also expected to recover. Chinese steel consumption should stay high as the government is likely to continue its infrastructure projects started in 2020.

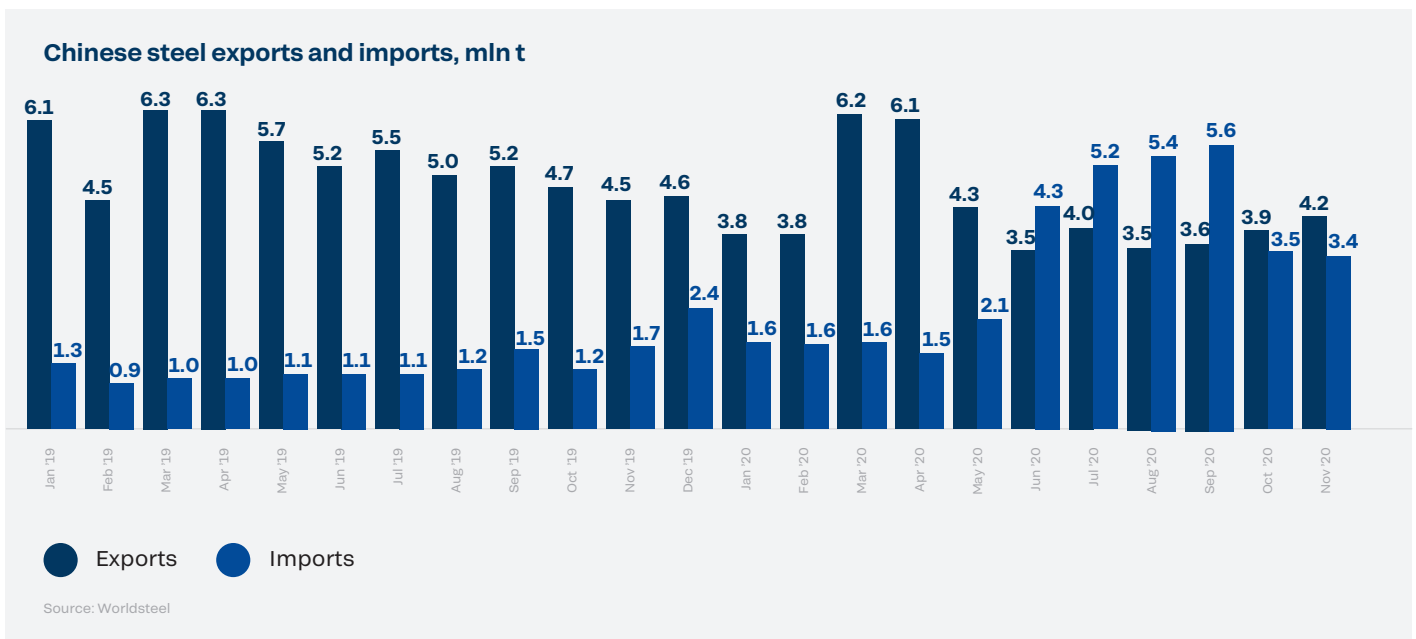
Steel prices

The price of Chinese hot-rolled coil (HRC) exports was stable in 2020 at \$500/t. Russian export HRC prices also increased by 2% in 2020, taking the year average to US\$ 475/t (FOB Black Sea). The steel market was under pressure from falling global steel demand in the first half of 2020. In response to lowered demand, producers halted around 70 mln tonnes of blast furnace capacity. In the second half of 2020 the steel market entered a recovery phase, fuelled by pent-up demand and high raw material prices. At the same time, steelmakers started to restart idled blast furnaces.



¹ Source: Worldsteel

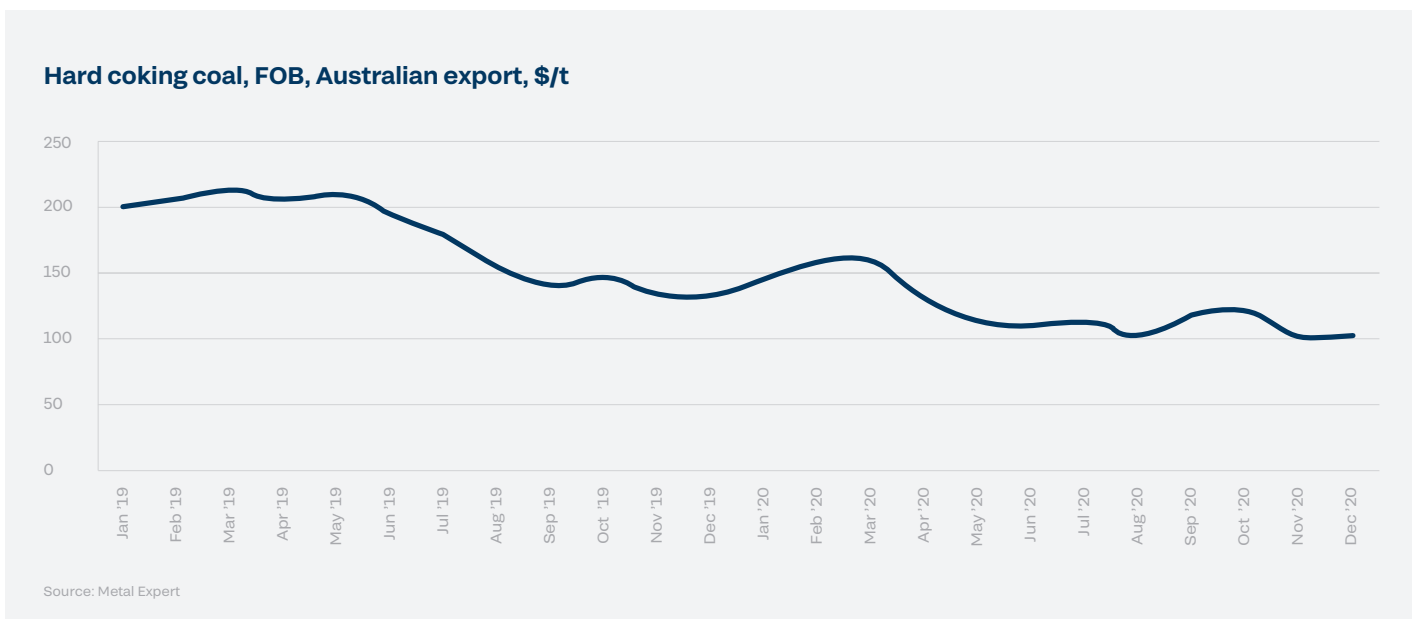
In 2020 China became a net steel importer for the first time since 2009. This supported steel prices in South East Asia.



Steel price dynamics in 2021 will be determined by the positive steel demand outlook and raw material price trends. The Russian HRC export price will be supported by a recovery in Turkish steel demand, improving demand in the Middle East due to anticipated oil price growth and increased EU consumption.

Hard coking coal

Severe market conditions in 2020 weighed on the hard coking coal (HCC) market. The major negative factor was the idling of blast furnace capacity. Additionally China - Australia tensions got worse and China imposed a strict ban on Australian coal imports from October. These factors resulted in a 31% decline in HCC prices in 2020.



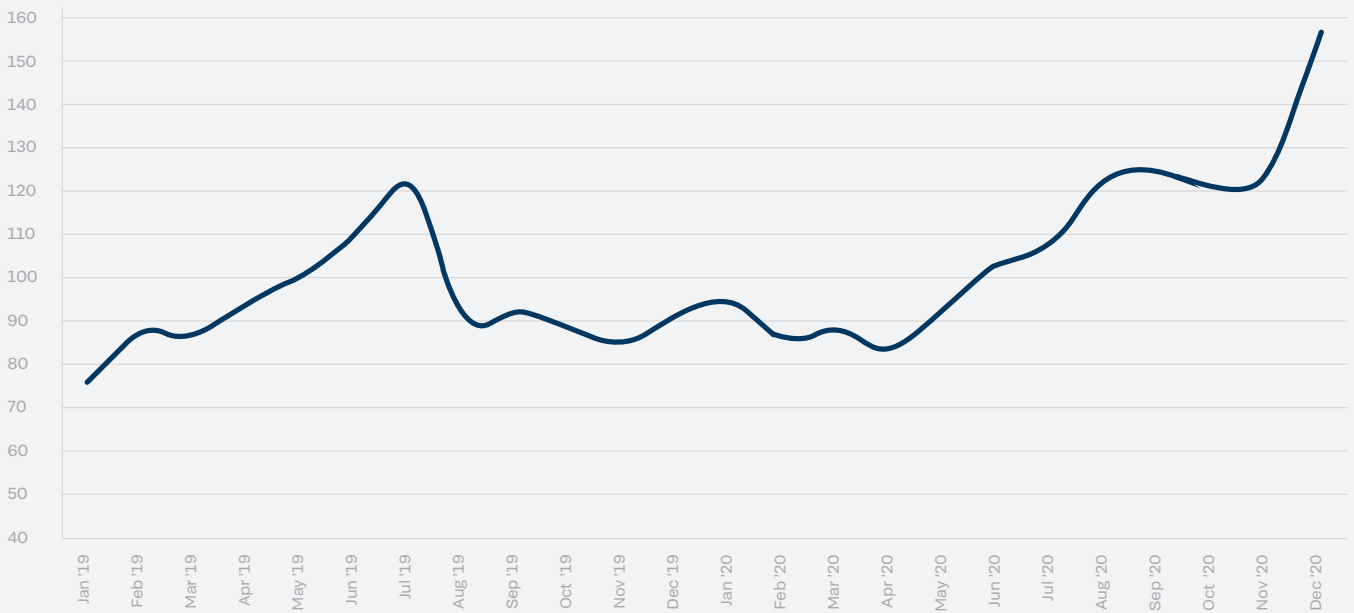
The HCC price will be supported by recovering steel production in 2021. Chinese policy will continue to drive uncertainty around the seaborne coking coal market.

Iron ore price

The iron ore price grew steadily from April, averaging US\$108/t in 2020 (+16% YoY). The steady price growth

was supported by strong Chinese steel production expansion and blast furnace utilisation rates surged higher than 2019 levels. Supplies from Australia and Brazil in the first half of 2020 were at lower levels due to COVID-19 related mine halts. The fall in demand outside China was offset by a rise in Chinese consumption.

Iron ore (62% Fe fines), CFR, Chinese import, \$/t



Source: Metal Expert

The iron ore price is significantly above marginal costs, which is justified by high consumption in China. Chinese consumption dynamics will be critical for the iron ore price in 2021.

Russian economy and steel demand

Russian GDP followed the global downturn, contracting by 3.9%¹ in 2020. The deceleration of economic growth mostly took place in Q2 2020 when the lockdown restrictions were imposed. The recovery of economic activity started as lockdown measures were lifted. Industrial production declined by 2.9%, fixed capital investments decreased by 6.6%, household consumption declined by 5.7% in 2020.

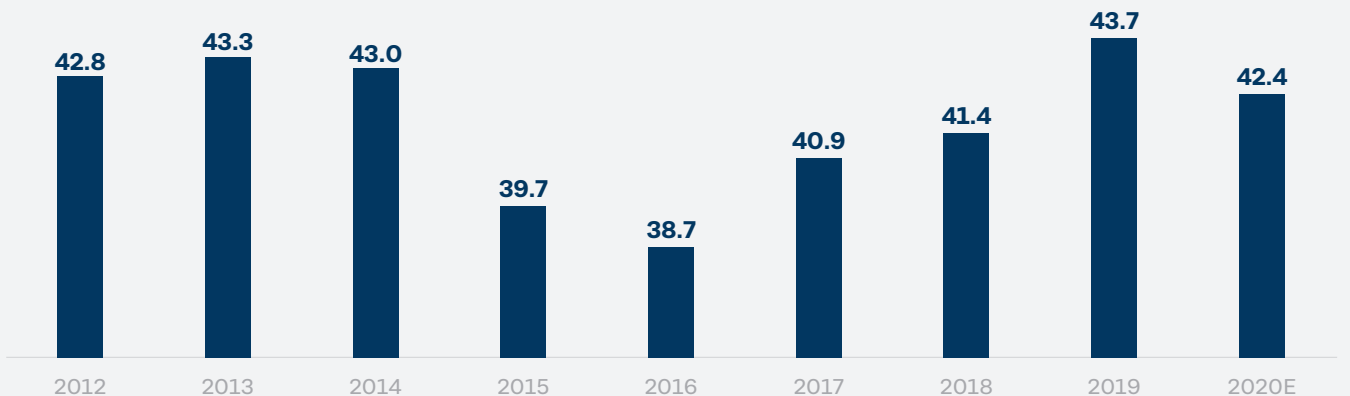
The Russian government introduced a stimulus package to reduce the impact of the economic crisis. Fiscal

measures were focused on supporting household income and business activity. The Central Bank of Russia cut the key rate to 4.25%, the lowest level in history. Inflation reached 4.9% by the year-end.

GDP growth in 2021 is anticipated to recover to 2.5%². Upside potential is supported by pent-up export and internal demand. Monetary easing and implementation of the RUB 6.4 trln National Recovery Plan, which should accelerate investment in infrastructure projects to support GDP growth.

Steel demand in 2020 decreased by 3%³, while it is expected to recover in 2021 by 3–4%⁴. An acceleration of Russian steel demand will be fuelled by growth in business activity and the implementation of the National Projects programme. Upside potential is anticipated from the construction sector as the government has introduced its preferential mortgage programme.

Russian steel demand, mt

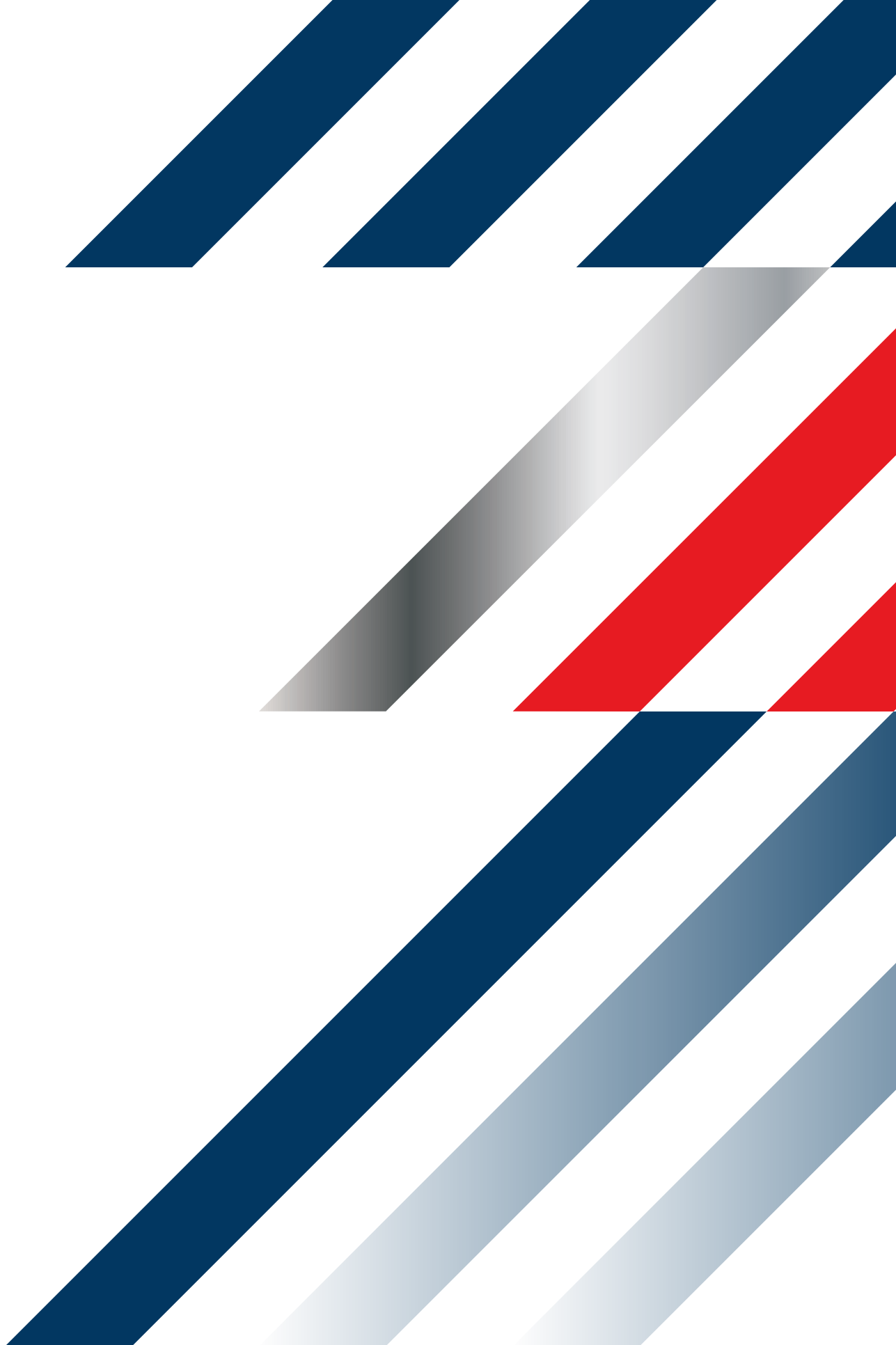


Source: Worldsteel, Severstal Estimate

¹ Source: Ministry of Economic Development of the Russian Federation

² Source: IMF

^{3,4} Source: Severstal estimate



Severstal's Material Matters

Understanding what is important to our stakeholders and our business is vital to ensuring our success. By engaging with our stakeholders, we become more aware of what is important to them and by understanding the risks we face, we are better placed to make informed decisions that help us deliver on our strategy.

The Board published its view of Severstal's Material Matters and its Principal Risks on 12 May 2020, and invited comments from investors and stakeholders. After considering and incorporating the feedback received, it was published on 12 October 2020. The material included in this Annual Report has only been amended for matters arising after 12 October 2020.

Stakeholder engagement

Details of how we engage with our key stakeholder groups are set out in detail on pp. 25-31 of Severstal's 2019 Corporate Social Responsibility and Sustainable Development Report. The key stakeholder groups are:

shareholders and investors; employees; Government; customers; partners/suppliers and our communities.

Our approach to materiality assessment

Identifying matters that are of material common interest to our stakeholders and our business, and understanding how they may affect our ability to create value over time, are fundamental to delivery of our strategy. The topics identified through this process were wide-ranging. They were analysed, prioritised and discussed by the Board. Each material matter covers a number of topics and issues, and some are classed as principal risks facing the Company. The matters we have identified as material to our stakeholders and our business are identified below, along with clarification of whether we consider these to be principal risks. Principal risks are defined as risks, or a combination of risks, that would threaten Severstal's business model, future performance, solvency or liquidity. An analysis of Severstal's principal risks, together with mitigating activities is set out in the Risk Management section (pp. 34-37).

Material matter	Comment
<i>Health and Safety</i>	Severstal is committed to eliminating 100% of fatalities and accidents across the business and constantly improving health and safety standards at all our assets. Whilst protecting our employees from harm is morally right, ensuring a safe workplace is also a direct investment in the productivity of the business. Safety is considered a principal risk.
<i>Workforce culture and capability</i>	Severstal relies on a capable and engaged workforce that behaves in accordance with Severstal's values and Code of Conduct to be able to deliver its strategy.
Cost leadership	Maintaining Severstal's cost leadership position is essential for us to operate profitably and be able to invest in the future.
Politics and regulation	Severstal operates in an unstable global environment that has an increasing risk of government intervention through changes in legislation, taxation and protectionism. Politics and regulation risk is considered a principal risk.
Customer experience	Severstal's customers have a need for ever more sophisticated products, and expect shorter lead times and constantly increasing quality.
Market environment	Steel is a global commodity that can be subject to rapid changes in demand with a significant amount of unutilised capacity to meet that demand. Fluctuations in raw material prices can also significantly affect finished product prices. The market environment is considered a principal risk.
<i>Environmental impacts and climate change</i>	Severstal is constantly trying to reduce its environmental footprint, conserving energy and using natural resources in a responsible manner. Understanding the effects of climate change on our business is important as we try to maximise the opportunities associated with the transition to a lower carbon future. Environmental impact is considered a principal risk.
<i>The well-being of the city of Cherepovets and other communities of presence</i>	Severstal needs Cherepovets to be a successful city with engaged citizens to provide an environment with a qualified, skilled and engaged workforce, in order to achieve success.
Maximising shareholder returns	Severstal's investors expect Severstal to continue to provide superior shareholder returns.

Material matters that have not yet been addressed within the Strategic Review (those listed in italics above) are expanded upon below.

Health and Safety

Severstal endeavours to ensure that the Company's health and safety practices progress are in line with the highest global standards. Lost Time Injury Frequency Rate (LTIFR*) is a key metric against which performance is measured. Severstal invests heavily every year in improving health and safety procedures, upgrading equipment and increasingly uses operating machinery to reduce the risks that are inevitably associated with heavy industry.

The Company aims to achieve its long-term goals for improving health and safety set in 2018:

- By 2025, reduce LTIFR by 50% compared with 2017 and eliminate all work-related fatalities;
- By 2025, ensure all businesses achieve ISO 45001 certification.

In 2020, the Cherepovets Steel Mill, Severstal Metiz, Vorkutaugol, Karelsky Okatysh, Olcon, Yakovlevskiy Mine and Severstal Distribution (Latvia) successfully achieved certification of compliance with the ISO 45001 international standard for occupational health and safety, accounting for c. 79% of Severstal employees. Izhora Pipe Mill, Severstal Vtorchermet and Severstal Distribution (Cherepovets) are scheduled for certification in 2021.

As of 2020, LTIFR was 0.65, which is a slight increase in comparison with 0.63 last year (which has been restated to correct an error from the previously published 0.61). This compares with 1.35 in 2010.

To the Company's deep regret there were four staff and ten contractor fatalities in 2020 which is an increase compared to two staff and three contractor fatalities in 2019. Most fatalities occurred at the Company's large construction projects. Severstal has investigated each of these cases to prevent them from occurring again in the future.

In 2020, as a response to the high level of fatalities the project `Management of fatal risks` was launched, which aims to identify fatal risks and stop their occurrence in the units. Production managers jointly with risk-managers carried out risk mapping, identifying critical technical, procedural and behavioural barriers which will help to better safeguard an employee at work. The risk analysis matrix produced by this project allows both workers and managers to focus attention on the mitigation of the risk of fatalities.

In order to raise safety levels in contractor organisations, the following measures have been taken:

- Construction territories are divided into clear zones, and responsible executives are appointed from the top-managers of contractor organisations;
- Fatal risks are determined for construction activities; 'stop cards' have been incorporated;

- Regular 'stop hours' are held with managers and workers, to provide information on incidents;
- A system to assess contractor health and safety managers has been introduced;
- To ensure additional independent control over compliance with safety measures, health and safety officers from Severstal have started working at construction sites.

Additionally, under the programme to raise the safety culture among contractors, the following measures are in progress:

- Assessment of the industrial safety maturity of contractors prior to running a tender;
- Ranking of contractors by the level of danger of the works performed and their level of system development;
- Determining an appropriate level of interaction with each category of contractor, including use of additional resources to ensure supervision over 'weak' contractors;
- Introducing a new system of contractor motivation for safer working.

In 2020, Severstal invested over 1 bn RUB in health and safety programmes including:

- Modernisation of aerogas monitoring system and extending for the coverage by 'Strata' system in the mine shafts Vorkutinskaya, Zapolyarnaya, Komsomolskaya and Vorgashorskaya (Vorkutaugol);
- Purchase of the an explosion suppression system (Vorkutaugol);
- Procurement of the automated fire suppression system (CherMK);
- Installation of robotic systems to eliminate the need for human involvement in dangerous zones (CherMK);
- Ensuring safe operation of lifting equipment (Severstal-Metiz);
- Measures to limit the access to the industrial site (perimeter fencing, alarm systems) (Karelsky Okatysh);
- Transport collision prevention system, underground search system (Olcon);
- Extension of the water monitoring system to avoid mine flooding (Yakovlevskiy Mine);
- Installation of video surveillance systems (all business units).

Workforce culture and capability

Leadership based on Severstal's well-established corporate culture has been discussed earlier in this report.

Severstal's people are key to its success and the Company continues to invest in developing the skills and careers of all its team. Personnel development is a constant area of focus and key to supporting our corporate culture. It is essential for the continued progress of the business that each employee has the opportunity to reach their full potential and take their careers at Severstal to the highest level.

Talent development is focused on a number of areas:

- Attracting talent and support for young professionals;
- Staff development;
- Raising motivation and engagement.

* LTIFR refers to Lost Time Injury Frequency Rate of Severstal staff, the number of lost time injuries occurring in the workplace per one million hours worked.

Recruiting and developing talented graduates is vital for Severstal since it allows the Company to meet its long-term need for professionals.

To attract the most-experienced professionals and most talented graduates from the labor market in 2020, we focused on increasing the awareness and attractiveness of our HR brand. We have developed an employee value proposition that reflects the company culture and is in line with the main corporate slogan "Achieve more together": "More pride in the result", "More inspiration at work" and others.

We developed a new careers website and updated Severstal's page on the recruitment site HH.ru.

In 2020, for the first time we entered the top 25 companies in the most cited employer brand ranking. The amount of positive online feedback about working at Severstal increased by 35.6%.

In the last four years, 79 young professionals have passed through the leadership programme. Seven graduates of the programme have already taken leadership positions in the company. More than 600 graduates from universities and colleges are employed by the company every year.

Severstal annually conducts a large-scale anonymous social survey, Severstal Pulse, to understand the level of employee satisfaction with their work at the company and readiness to put more efforts into achieving ambitious goals. In 2020 Severstal started to measure the happiness index of employees, instead of engagement index, which was already high for the last two years (78% in 2018 and 81% in 2019). Based on the survey, 57% of survey participants are proud of what they are doing, feel connected with Severstal's purpose and agree that their job makes them happy. This result is a good foundation for the further development of our corporate culture and increasing employee engagement Severstal's strategic priorities and ambitious goals.

Environmental impacts and climate change

Environment

In the reporting year, a number of initiatives were implemented to reduce Severstal's negative impact on the environment.

In 2020, Severstal continued implementing activities included in the framework of the Ecology National Project and its federal Clean Air initiative. At Cherepovets Steel Mill, a system was established to control the content of gas emissions from sinter shops #2 and #3, to manage the agglomeration technology and also the renovation of the electric filters #1 and #2 of the aspiration unit.

Moreover, in 2020 Severstal decided to invest in equipment reducing emissions from sintering machines #10 and #11 in sinter shop #3 at the Coke-Agglomeration plant until 2024. Along with previously approved activities, this will reduce the emission of air pollutants by 66,800 tonnes per year against 2017 levels. The total reduction of atmospheric emissions will reach 22.5% by the end of 2024.

In 2020, Severstal revised and upgraded its total atmospheric emissions reduction targets for 2025. Following the Company's decision to fit new gas cleaning equipment at the Cherepovets Steel Mill's sinter processing plant, Severstal now expects to reduce its total atmospheric emissions by 13% against 2017 levels, compared with the previously announced target of 7%.

In line with the plan to reduce wastewater discharge into water bodies, the closed loop water treatment facilities in the rolling mill were modernised, and the water supply system at the slag processing plant was technically updated. In 2021, Severstal will continue upgrading its water treatment facilities including: the drainage system at the zinc processing line; at the sinter shop; modernisation of pumping station #8; at the cold rolling plant; and local water purification at the Coke-Agglomeration plant.

In 2020, Severstal completed two large investment projects that will positively impact the Company's environmental performance:

- Launch of coke battery #11. This uses a coal charge ramming technology, which is unique for Russia. The intensity of atmospheric emissions of pollutants will be 20% lower than at coke batteries # 7 – 10.
- Reconstruction of blast furnace #3. The complex relies on new technologies with regard to aspiration and gas purification system, but also uses up-to-date technological solutions in its design, in line with the best available techniques. The intensity of polluting atmospheric emissions will be 53% lower than at blast furnaces #1 and #2.

Karelsky Okatysh is implementing a comprehensive programme to reduce sulphur dioxide emissions from the production of concentrate and pellets (purification of flue gas from roasting machines from sulphur dioxide). In 2020, the construction of wastewater treatment plants was completed at the Korpangskoye deposit. Also, works are in progress to form a closed loop on a new tailing dam section.

Vorkutaugol carried out the reconstruction of water treatment facilities at the Vorkutinskaya mine. Project works to reconstruct the water treatment facilities are in progress at the Vorkuta Mechanical Plant and Vorgashorskaya, Komsomolskaya, and Zapolyarnaya mines.

The construction of mine water treatment facilities is continuing at Yakovlevskiy Mine. Yakovlevskiy Mine is carrying out research to identify new means and technologies to clean up mine water.

When implementing environmental initiatives, Severstal relies on its Environmental Policy (updated in October 2018) and the principles of the UN Global Compact, while at the same time contributing to the achievement of the sustainable development goals.

In July 2020, Severstal adopted its first biodiversity standard, aimed at managing the risks of possible changes to biodiversity resulting from Severstal's operational activities.

In 2020, two Severstal enterprises (Vorkutaugol, Severstal Metiz) were certified in accordance with ISO

14001: 2015 for the first time. Along with five Severstal enterprises retaining the certification (Cherepovets Steel Mill, Karelsky Okatysh, Izhora Pipe Mill, Severstal SMC-Vsevolozhsk, Severstal Distribution (Latvia)), ISO 14001: 2015 covers over 75% of Severstal's personnel.

At Severstal Russian Steel atmospheric emissions of pollutants decreased by 7% to 257,700 tonnes in 2020 y/y. The overall reduction in total emissions is related to the sale of Mini-Mill Balakovo in 2019, lower CO emissions due to introduction of combined blowing in converters and the reduced working hours of sintering machines without the bed layer, following the completion of maintenance works.

The reduction in atmospheric emissions of pollutants at Severstal Resources by 9% to 193,300 tonnes primarily reflects lower emissions levels at Vorkutaugol, due to the higher utilisation rate of methane at the mines' boiler units.

Climate change

As a global steel industry leader Severstal is committed to ensuring transparency and action in relation to climate-related risks and opportunities, and supports the voluntary recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

Climate change and energy efficiency, as well as reducing negative impact on the environment, are among the main priorities in the development of steel technologies and equipment. These objectives are naturally connected. Despite technological advances, the steel industry generates harmful emissions (7% to 9% of direct greenhouse gas (GHG) emissions), and is a large consumer of energy resources.

Severstal was one of the first companies to join Worldsteel's 'Step up' programme, which aims to reduce GHG emissions by the global steel industry through the introduction of a new methodology. Launched in Cherepovets, a study is ongoing, using the Worldsteel benchmarking system to identify opportunities to reduce CO₂ emissions from steel production in the short-term.

In addition to the Worldsteel's project, Severstal participates in the Net Zero Steel Initiative at the World Economic Forum Mission Possible platform; cooperates with an investors' initiative Climate Action 100+; supports the Net Zero Steel Pathway Methodology Project (development of methodological approaches to achieve Science-based targets); and is a member of the Climate Committee of the Russian Union of Industrialists and Entrepreneurs, and the Russian Steel association.

The Nationally Determined Contribution (NDC) of the Russian Federation implies reducing GHG emissions to 70% of 1990 levels by 2030, subject to: the maximum absorption capacity of forests and other ecosystems; and to the sustainable and balanced social and economic development of the Russian Federation. We believe that GHG emissions reduction targets should be in line with the Paris Agreement and NDC of the country.

Governance

Severstal's Board of Directors recognises climate change as a material matter for its business and carefully examines the issues Severstal faces in rising to the challenge of further reducing its GHG emissions and making the most of the opportunities that a lower carbon future offers. The entire Board holds an in-depth discussion at least once a year on how climate change issues affect Severstal, the Company's response and proposed strategies and actions.

The Health, Safety and Environment Committee of the Board is responsible for overseeing the management's plans, and climate change is a standing item at all Health, Safety and Environmental Committee meetings. The Audit Committee is responsible for ensuring that the disclosure in this report, the Corporate Social Responsibility and Sustainable Development Report and other public reporting is consistent with the disclosure requirements of the Task Force on Climate Related Financial Disclosures. The Audit Committee is also responsible for overseeing the effective management of climate-related risks by the business.

In January 2020, Olga Kalashnikova was appointed to the Head of Environment position to lead the Company's strategy to reduce its carbon footprint and meet the climate challenge. The creation of this new role underlines Severstal's commitment to achieving a leading sustainability performance among global steel producers. Olga Kalashnikova, who was previously responsible for Upstream environmental performance at Shell Russia, is now primarily focused on the development of a clear strategy and roadmap to decrease Severstal's carbon emissions. She is also working closely with departments across the business to ensure the Company's environmental initiatives are aligned to Severstal's stated ESG targets.

Under Olga's leadership, the Carbon Group was created to drive the climate agenda at a corporate level. Every quarter the team reports on its progress with climate KPI's to the Board of Directors, and monthly to the CEO.

In order to ensure that the aspiration of Severstal's Board is aligned with that of its top management CO₂ emissions reduction is now a factor in determining top management remuneration.

Strategy

The continuing demand for steel for infrastructure in Russia and the developing world means that, despite steel being the most recyclable construction material, demand for steel cannot be met for some considerable time by recycling end-of-life steel products alone. This is exacerbated in Russia by the relative immaturity of the recycling industry. In order to meet demand, it is necessary to continue to produce primary steel for the foreseeable future. The major source of Severstal's GHG emissions is the use of coking coal in the reduction process, for which there is currently no effective substitute. Severstal believes that, in the future, breakthrough technologies will be successfully developed and the Company welcomes all research and development efforts.

In summer 2020, we partnered with the GreenTech Startup Booster, Russia's first accelerator for environmental startups. The project is coordinated by the SKOLKOVO Foundation in Moscow, and is aimed at finding and implementing innovative solutions within the areas of ecology, industrial safety and sustainable development.

Until emerging technologies become established on an industrial scale, which could take over a decade, Severstal's focus will be on identifying opportunities to reduce the carbon intensity of steel production by improving raw material quality, energy efficiency, process yield and process reliability.

Severstal is also looking at decarbonisation strategies. Last year Severstal invited external consultants to assist

us in developing a decarbonisation pathway for our main asset – the Cherepovets Steel Mill. We are developing a potential roadmap for decarbonisation that could potentially significantly reduce our carbon footprint. We will continue to work on, and examine these options.

We understand that our current initiatives will still not be enough to meet the global climate challenge and it is important to keep an eye on the long-term as well. We are currently developing our long-term climate strategy, which will be designed, if possible, to meet the Paris Agreement goals and include a two degree or lower scenario, with a view to establishing a science-based target and publishing it in 2021 or 2022.

An analysis of the risks and opportunities of climate change to Severstal is set out below:

Risk	Opportunity
<i>Short-term (one to two years)</i>	<i>Short-term (one to two years)</i>
Legislative and regulatory changes mean that climate change could become a new form of trade barrier. For example, it is possible that the EU, currently Severstal's largest export market, could impose a carbon border tax as a result of lobbying by EU steelmakers.	The increased focus provided by having steel production and the mining assets with a common set of goals should lead to reduced GHG emissions, as there is a greater ability to "design" iron ore pellets and coking coal in a way that the overall process of steel making is more carbon efficient. Business opportunities are also arising in Russia from increased demand for renewable energy, such as wind turbine tower production.
<i>Medium-term (two to five years)</i>	<i>Medium-term (two to five years)</i>
The demand for steel produced directly from iron ore and coking coal reduces as pressure from governments and consumers means that recycling steel in electric arc furnaces, particularly with electricity from non-carbon sources, is seen as environmentally more attractive from an environmental viewpoint.	The principal areas producing iron ore and coking coal for the global steel market (Australia and Brazil) are forecast to be much more affected by the weather related aspects of climate change, leading to more regular supply disruption, compared with Severstal's Russian-based production.
<i>Longer-term (over five years)</i>	<i>Longer-term (over five years)</i>
Customers demand carbon free or significantly carbon-reduced steel. Physical risks, such as thawing permafrost and temperature extremes, especially for mining assets in Vorkuta, increased intensity and duration of extreme weather events.	Carbon-capture technology or replacing coking coal with hydrogen becomes more commercially viable.

Risk management

The identification, assessment and management of climate-related risks are fully integrated into Severstal's overall risk management process, which is described further in the next section of this report.

Management is also ensuring that climate change risks and opportunities are culturally embedded in day-to-day business, and actively considered and actioned in Severstal's transformation programme.

Metrics and targets

Severstal GHG emissions

The most significant metrics used to monitor climate performance are carbon intensity per tonne of steel and total GHG emissions.

Severstal	GHG emissions, mln tonnes CO ₂ e*			
	2017	2018	2019	2020
Scope 1	26.1	26.2	26.5	26.8
Scope 2	1.5	1.5	1.6	1.6
Scopes 1 and 2	27.6	27.7	28.1	28.4

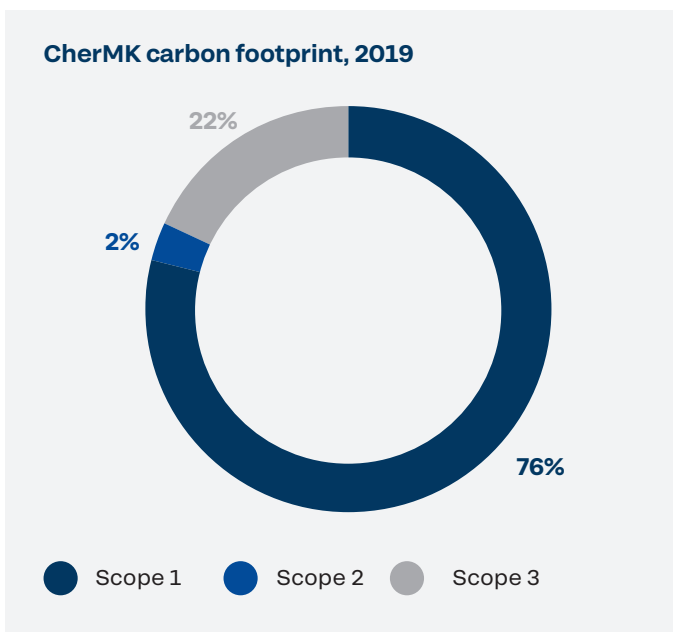
Cherepovets Steel Mill	GHG emissions, mln tonnes CO ₂ e*			
	2017	2018	2019	2020
Scope 1	21.2	21.2	21.6	22.5
Scope 2	0.6	0.6	0.8	0.8
Scopes 1 and 2	21.8	21.8	22.4	23.3

Total GHG emissions went up by 1% due to increased production volumes, and the launch of Coke Battery #11 and Blast Furnace #3.

* In 2020, Severstal carried out an exercise to review the calculation methodology, which resulted in including methane in the calculation scope (already reported as a pollutant) and increased emissions at Vorkutaugol. Data for previous years has been revised accordingly.

Severstal's Scope 1 and 2 GHG emissions have been calculated in accordance with the 2006 IPCC Guidelines and the GHG Protocol Scope 2 Guidance. During the year, Severstal engaged an independent international assurance provider to review its methodology, processes and systems used in 2019 in order to provide assurance that emissions are being calculated appropriately. The recommendations for improvement from the review have been implemented.

Severstal's Scope 3 GHG emissions have been calculated for the first time, and all 15 categories listed in the GHG Protocol were considered and material categories were assessed, including other indirect emissions, such as the extraction and production of purchased materials and fuels, and transportation. They account for around 18% of our carbon footprint. Further information will be provided in Severstal's 2020 Sustainable Development and Corporate Responsibility Report.



As part of its "Step up" exercise, the World Steel Association estimated that the Cherepovets Steel Mill's carbon intensity in 2019 amounted to 2.083 tonnes of CO₂e per tonne of liquid steel (Scopes 1-3), compared with the global steel industry average of 2.3.

Whilst our performance ranks highly amongst our global peers (ranking in the first quartile of companies with the lowest GHG emissions according to the World Steel Association), we appreciate that we can do better as a business. As a result, Severstal is focused on decarbonisation and this year we set a target of a 3% reduction in carbon emissions intensity by 2023 compared with 2020 levels. This three-year target is based on an in-depth review to understand exactly where in our operations we can make improvements that will reduce emissions.

It is the first target that we are setting and we fully intend to set longer-term goals as we refine the initiatives and investment required to achieve these.

Decarbonisation is a huge task and we will work towards achieving a significant reduction of emissions in different

ways. We are going to modernise our facilities and improve energy efficiency. The CO₂ abatement will be delivered through the implementation of the following projects:

- Construction of a dry coke quenching unit;
- Construction of Mill 170;
- Construction of boiler unit No.11;
- Commissioning an equipment complex to reduce emissions from sinter machines #10, #11;
- Argon purging of metal in a steel casting ladle from production to casting.

These are just a few examples of the actions we will undertake to achieve our short-term goal.

The well-being of the city of Cherepovets and other communities of presence

To improve the long-term sustainability of our regions, Severstal implements a range of projects focused on diversifying their economies and reducing monotown dependencies, environmental protection, improving quality of life, creating a comfortable urban environment, and developing the social and cultural potential of the territories. Severstal is confident that sustainable social and economic development is a crucial component of the successful functioning of an enterprise. In 2020, Severstal invested about US\$ 33 m in social and charitable programmes.

Severstal contributes to the development of the support infrastructure for small and medium businesses, social entrepreneurs and investor organisations, using dedicated institutions, supporting local infrastructure development, education, culture and sports.

During the COVID-19 pandemic, Severstal took measures to prevent the disease from spreading at all sites and offices, and provided financial and wellbeing support to our employees. The Company started a large-scale support programme for the population of the regions where we are present in partnership with local authorities and public structures. Severstal businesses helped secure the supply of medical and protective equipment and ventilators to the healthcare institutions of Cherepovets, Vorkuta, Olenegorsk, Kostomuksha, and Belgorod region, as well as several other cities, financed the purchase of personal protective equipment and disinfectants for health care workers and other municipal response teams as well as volunteers. We provided laptops to educational institutions to facilitate distance learning for children from vulnerable families.

In partnership with 'Severgroup' enterprises, over 2.5 bn RUB was allocated towards supporting the local population and employees in relation to the COVID-19 pandemic. This included a one-time support payment of approximately 500 million RUB to our employees (10,000 RUB to each employee except for TOP-100 managers).

Despite the new challenges, Severstal continued to implement its long-term projects to develop local communities, social infrastructure, support to vulnerable categories of people, educational, cultural and sport support programme. These include the 'Way Home'

programme, a comprehensive child neglect, juvenile delinquency and social orphanhood prevention programme; the Agency for Urban Development supporting small and medium enterprises; the Museums of Russian North grant programme, focused on preserving and updating the historical and cultural heritage of the Russian North.

A new long-term project 'Youth Parking' was launched in Cherepovets. It targets schoolchildren in grades 5 to 7 from industrial areas, and is designed to create social mobility opportunities for teenagers and to help develop their personal qualities, necessary for a successful life.



Risk Management

Severstal's operations are subject to certain risks. Effective risk management is an essential element of our operations and strategy. The accurate and timely identification, assessment and management of risks supports decision making at all management levels and ensures that the Company achieves its strategic goals and meets its KPIs.

Risk Management Framework

Severstal's risk management framework is designed to identify, manage and mitigate the risk of any failure to achieve its business objectives. Executive management, managers and employees at all levels participate in the risk management process on an ongoing basis, and perform duties assigned to them within this. The Board of Directors and all Severstal employees are obliged to adhere to the Company's risk policies and standards at all times during their work.

Severstal has a formalised management structure in place, with clear delineation of roles, responsibilities and accountabilities for the Board, Audit Committee, Executive Committee and risk management function.

The Board of Directors is ultimately responsible for maintaining a sound risk management and internal

control system. The Board regularly discusses the risks facing the business. The Audit Committee closely monitors the effectiveness of the risk management system, obtains regular risk reports from management, is responsible for overseeing internal controls on behalf of the Board and agrees with internal audit the areas in which it requires assurance.

The risk management structure includes a Risk Management Committee that is responsible for implementing the risk management policy and monitoring the effectiveness of controls that support Severstal's business objectives. This committee meets several times a year and can meet more frequently if required. The committee comprises key management, the CEOs of Severstal's production facilities and the head of the internal audit function. Risk reports are compiled and submitted at each Risk Management Committee meeting, after which material risks are reported for discussion to the Board.

The risk management function is responsible for coordinating risk identification and assessment processes, implementing risk management best practice, internal and external reporting, and organising and coordinating Severstal's insurance programme.

Board	Assures shareholders that the Company has identified key risks and is managing them effectively
Audit Committee	Monitors the overall effectiveness of the risk management system, oversees internal controls, and directs the activity and obtains assurance from the internal audit function
Risk Management Committee	Monitors key risks and the performance of the risk management system; Promotes communication between managers and between management and the Board; Preliminarily approves risk management policies and procedures; Reviews and approves external and internal risk reports
Risk management and internal control function	Coordinates risk identification, assessment and mitigation measures; Elaborates internal control policies and procedures; Accumulates and processes risk assessment data; Generates consolidated risk reports
Risk owners	Identify specific risks and initiate risk management measures

Risk identification and assessment

Severstal's risk landscape covers all risks that could affect the business, customers, supply chain and communities. There is a formal risk identification and management process to ensure that risks from day-to-day operations, the general economy, the steel sector and the changing climate are continually identified, evaluated and where possible mitigated throughout Severstal's operations.

Emerging risks

The Board carries out an assessment of emerging risks in the market environment and the Russian and global economy at each meeting. The management presents its assessment of the market environment, the trends and disruptive threats, and these are discussed and challenged. Professors Auzan and Mau are able to provide unparalleled insight into the current and future state of the Russian economy and the effect that















international macroeconomic and political changes could have on Severstal's business. Between meetings the Board is kept briefed by management on the views of analysts and management's view of the market environment and any changes to the current and future legislative and regulatory landscape. Severstal has further refined its approach towards identifying and managing emerging risk during the year.

Risk appetite

Overall, Severstal takes a balanced approach to risk taking, although the Board seeks to minimise safety, health and reputational risks. The Board recognises that it is not possible or necessarily desirable to eliminate some of the risks inherent in Severstal's activities.

In addition to this some of the risks facing the business are not within the Company's active control, particularly as far as market risk is concerned.

Key













Relative severity	Change since the last report	Speed at which the risk could impact	Included in the Viability Statement
 High  Medium	 Increasing risk  Decreasing risk  Stable	 Within three months  Within a year  Over a year	VS
Principal risks	Nature of the risk	Mitigating activities	Overall change since the last report
Health, safety and environmental risks – safety  	Severstal operates in hazardous industries and risks include the potential danger of fire and explosions, as well as risks specific to individual operations such as high levels of methane or rock falls in mines; potential foot traffic accidents and higher risk of accidents during maintenance of steel operations.	Rigorously enforced, comprehensive health and safety policies; Regular polygraphic screening of all employees on health and safety risk awareness; Rigorous root cause analysis of any safety issues and implementation of appropriate remedial action; Continuous training, communication and behavioural learning; Enhanced control over contractors.	No change  Constant management focus on improving safety is reflected in improved behaviour, LTIFR and other safety metrics.
Market risk – changes in demand for steel   VS	Domestic demand depends on the state of the national economy. Investments in fixed capital, construction and industrial production in Russia are still exposed to the risks of contraction from a fall in oil prices and a high degree of uncertainty, particularly in relation to whether the coronavirus outbreak in Russia can be contained to the same extent as in other countries. There is also a risk of the coronavirus (or a variant) returning, requiring further “lockdown” measures. Continued reduction in domestic demand requires Severstal to endeavour to increase its export sales, which are less profitable. Demand in international markets has been seriously affected by the coronavirus pandemic and are also at risk if there further variants of the virus that might be resistant to certain vaccines.	Focus on customer orientation; Optimisation of sales geography; Search for new sales markets; Focus on the more stable, higher value segments.	Increased risk  The Russian and global economies have been significantly impacted by the economic effects of the coronavirus pandemic weakening global steel demand.




Assessment of principal risks

The Group's risk management system works effectively and has supported a robust assessment by the Directors of the principal risks facing the Group. The principal risks are reviewed throughout the year and discussed formally by the Board at least twice a year.

Principal risks

Severstal's principal risk categories have been defined as: health, safety and environmental; strategic; market; legislative and regulatory; and cyber risk. The table below lists the principal risks that could affect the Group as determined by the Board, an assessment of the current status of the risk and how the Group mitigates the risk. The contents of the table, however, is not intended to be an exhaustive list of all the risks and uncertainties that may arise. As commented under Severstal's Material Matters, during 2020, Severstal consulted with investors and stakeholders on its principal risks and this was published formally on 20 October 2020. The only changes to the principal risks are for events after that date.

<p>Market risk – fluctuations in price of steel</p> <p></p> <p>✓✓✓</p> <p>VS</p>	<p>Export prices and profitability have reduced due to the coronavirus pandemic, continuing global overcapacity issues, the increasing introduction of protectionism measures and deterioration of the global economic outlook. Domestic prices are driven by the premium over export prices, which may reduce further if domestic demand shrinks.</p>	<p>Customer orientation; Use of longer-term contracts; Engagement with anti-dumping and tariff authorities.</p>	<p>Increased risk</p> <p></p> <p>Continuing coronavirus uncertainty and risk of countries imposing tariffs to protect their steel industries as a result of the economic affects of coronavirus.</p>
<p>Strategic risk – potential government action</p> <p></p> <p>✓✓✓</p>	<p>The level of uncertainty in the global political scene could result in a significant disruption in “normal” economic activity. There is also the risk of further sanctions against Russian individuals and businesses, which could lead to a reduced ability to deal with a wide range of counterparties.</p>	<p>Business interruption and business continuity plans; Compliance procedures.</p>	<p>No change</p> <p></p> <p>Although largely outside Severstal’s control, procedures are in place to ensure the Company is compliant with all sanction requirements.</p>
<p>Legislative and regulatory risks – tax</p> <p></p> <p>✓</p>	<p>Despite almost complete codification, the provisions of Russian tax laws constantly change. A whole range of new tax provisions and amendments to previous regulations are enacted every year, some of which are favourable to the taxpayer, and some unfavourable.</p>	<p>Severstal is compliant in all material respects with applicable tax, customs, foreign currency and other regulations, responding in a timely manner to all changes and endeavouring to maintain a productive discussion with regulatory authorities on matters of the interpretation of law. Severstal also ensures that the government, where appropriate, understands the Company’s position and the effect of certain actions.</p>	<p>No change</p> <p></p> <p>There has been no significant change in the discussions on potentially increasing taxation for the metals and mining industry for some time.</p>
<p>Market risk – competition risks</p> <p></p> <p>✓✓</p>	<p>Low capacity utilisation across the world creates a highly competitive environment. The global market has in the past been positively affected by planned reductions to steelmaking capacity by the Chinese Government, primarily driven by environmental considerations. However, the balance between supply and demand within China is changing, particularly as a result of the coronavirus pandemic, and it is possible that the Chinese steel industry could become more active in international markets as Chinese production could outstrip supply.</p>	<p>Cost management and product quality improvement initiatives.</p>	<p>Increased risk</p> <p></p> <p>The fall in demand for steel as a result of the coronavirus pandemic and with capacity not having been cut to the same extent, has made local and export markets much more competitive.</p>
<p>Market risk – fluctuations in the prices of raw materials, energy and services</p> <p></p> <p>✓✓</p>	<p>Global raw material prices typically fluctuate in line with stock replenishment cycles in China, but are intensified by seasonal peaks and troughs in the construction industry. Due to a number of factors, including natural disasters, supply issues and more recently the coronavirus pandemic, prices for raw materials have dropped significantly and this trend is expected to continue.</p>	<p>Streamlined planning and purchasing of raw materials, including scrap; More efficient use of raw materials; The acquisition and subsequent expansion of the Yakovlevskiy mine has made Severstal more self-sufficient in iron ore.</p>	<p>Increased risk</p> <p></p> <p>The pricing and supply of raw materials remains volatile and the current downward trend could continue.</p>
<p>Health, safety and environmental risks – environmental</p> <p></p> <p>✓</p>	<p>Severstal operates industrial facilities that hold heavy metals or hazardous substances which could present significant risks to the health and safety of local communities and the environment. The relevant authorities have imposed, are imposing and could in the future impose specific requirements for Severstal to reduce its environmental footprint.</p>	<p>Severstal has a unified Health, Safety and Environment Policy. Severstal’s environmental commitments are integrated in the Corporate Environmental Protection Policy of Severstal; Severstal has implemented several mechanisms to try and ensure this type of risk is below the average level for the industry.</p>	<p>No change</p> <p></p> <p>The amount of legislation and the expectations of society in Russia and beyond in relation to this type of risk have remained relatively stable since the last report.</p>

<p>Cyber risk</p>  	<p>As Severstal expands its digital footprint and engages increasingly with its customers and suppliers through the internet, and increases interconnectivity within its operations, the exposure to attack from malicious third parties and the extent of potential damage to Severstal is increasing.</p>	<p>Severstal continues to be vigilant as far as cyber risk is concerned and satisfactorily completed a comprehensive programme of staff education and training during the year.</p>	<p>Increased risk</p>  <p>The risk of external cyber-attacks continues to increase.</p>
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Assessment of the Group's prospects

Severstal operates in an industry that requires a long-term view. Severstal makes investments that will protect its business case in the long term, for example: the refurbishment of blast furnaces, investments in improving the life of its mines and investments needed to reduce Severstal's greenhouse gas emissions.

Russia, Severstal's core market, has significant infrastructure needs and the Russian Government has investment plans over the next five years to endeavour to meet this need. The requirement for steel in Russia is expected to continue to grow for the foreseeable future. The rest of the world's requirement for steel is also expected to continue to grow, and Severstal expects, subject to continuing free trade, to be able to continue to participate in the global steel market, supported by the Company's cost leadership position.

Our integrated model means Severstal is not as exposed to volatility in the supply and prices of iron ore and coking coal as some of its competitors. In addition to this, Severstal's proximity to export markets means sales can be switched relatively quickly from domestic to export markets and vice-versa.

Severstal operates an annual planning process which includes short-term (one year) and longer-term (five year) financial forecasts, based on inputs from each of its businesses. These plans and risks to their achievement are reviewed by the Board as part of its strategy review and budget approval processes. The processes for identifying and managing the Principal Risks are described above.

Going Concern

The going concern assessment considers whether it is appropriate to prepare the Company's financial statements on a going concern basis.

The Directors have reviewed the Group's budgeted cash flows and related assumptions, including appropriate stress testing of risks (primarily steel demand and prices) and taken into account undrawn credit facilities and debt maturities. As a result, the Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements (in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued by the UK's Financial Reporting Council).

Viability statement

The viability assessment considers solvency and liquidity over a longer period than for the purposes of the going concern assessment above. Inevitably, the degree of certainty reduces over this longer period.

The Board has assessed the Group's viability over a three-year period. This period is within the Group's established business planning and forecasting processes and is subject to review and approval each year by the Board.

In making the assessment, severe, but plausible scenarios have been considered that estimate the potential impact of each principal risk that could arise in the assessment period, for example, a prolonged downturn in steel price and demand; a significant rise in protectionism such that Severstal finds it more difficult to export steel profitably; and a period of instability in the Russian economy, which results in reduced demand for steel.

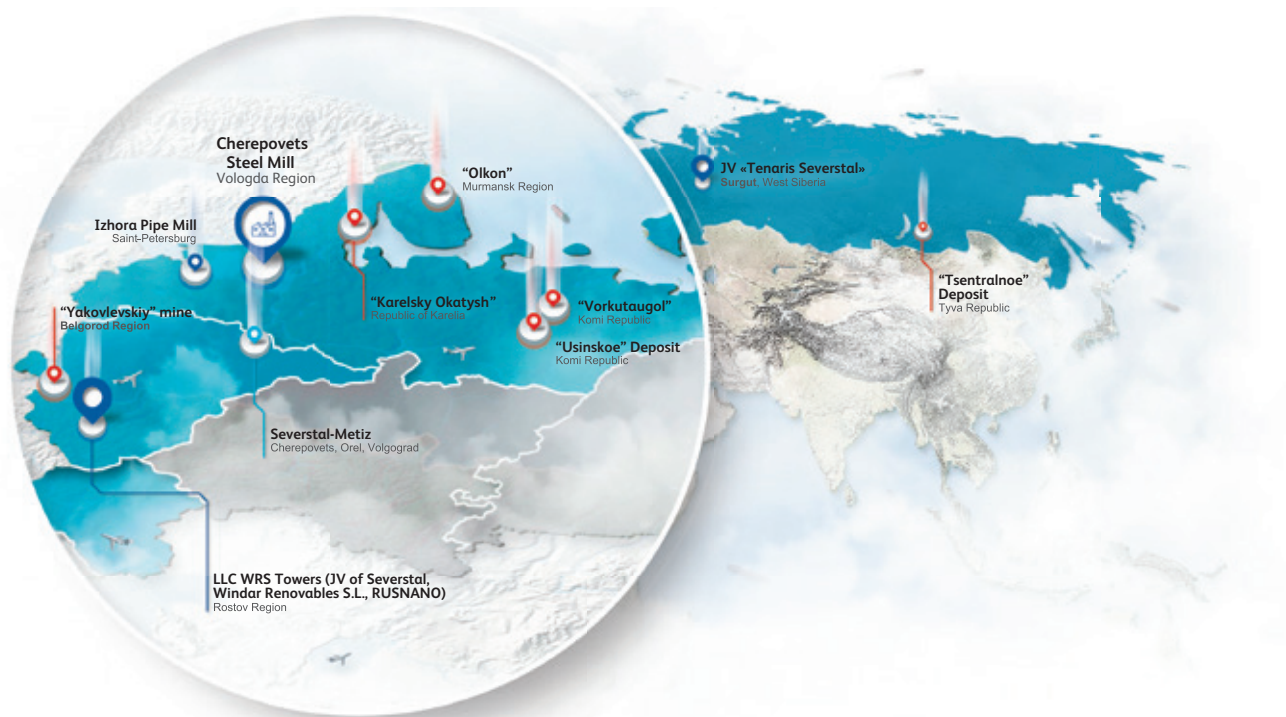
The principal risks with a direct link to the viability statement have been indicated in the table of Principal Risks above. The scenarios assume an appropriate management response. The impacts of these scenarios were overlain on the longer-term financial forecasts to assess how the Group's liquidity and solvency would be affected. The assessment took account of the Group's current funding, forecast requirements and existing committed borrowing facilities. Severstal's dividend policy is transparent and predictable, given its linkage to Free Cash Flow and Net Debt/EBITDA.

Based on the above, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due in the period to 31 December 2022.

In making this statement, the Directors have made the following assumptions:

- the Group currently has access to global debt markets and expects to be able to finance facilities as necessary. The Group's five-year forecasts are not designed to allow for a prolonged period of limited access to global debt markets or a sustained period of adverse conditions in these markets.
- that in the event of multiple risks occurring and having a particularly severe effect on the Group, all actions such as constraining capital expenditure and reducing or suspending payments to shareholders would be taken on a timely basis. The business believes it has the processes to identify the need for such actions, as necessary.
- that implausible scenarios, such as multiple risks occurring at the same time, or the impact of individual risks occurring that cannot be mitigated by management actions to the degree assumed do not occur. For example, Severstal being barred from all export markets.

Divisional Review



Severstal Resources Division

Key assets

1. Karelsky Okatysh

Located in Karelia, north-western Russia, Karelsky Okatysh is one of the country's leading and most modern iron ore mining complexes. It produces high-quality iron ore pellets with an iron concentration of up to 67%. Its three major deposits, Kostomuksha, Korpanga and South Korpanga, have an estimated supply of some one billion tonnes.

2. Olcon

Located in the Murmansk region, Olcon is Russia's most northerly iron ore complex. Olcon mines magnetite-hematite quartzite ores from six open pits and Olenegorsk underground mine, and produces high-quality iron ore concentrate (c. 69%) and crushed stones.

3. Vorkutaugol

Located in the Komi Republic (near Vorkuta), north-east European Russia, Vorkutaugol mines coking and steam coal and is one of the largest producers of hard coking coal in Russia. Coking coal produces coke which is used for steel production. The three deposits operated, the Vorkutinskoye, Vorgashorskoye and Yunyaginskoye coal deposits, have an estimated life of 17, 9 and 13 years, respectively. The business consists of four underground mines, one open-pit mine and two washing plants, a mechanical plant, maintenance and transport facilities.

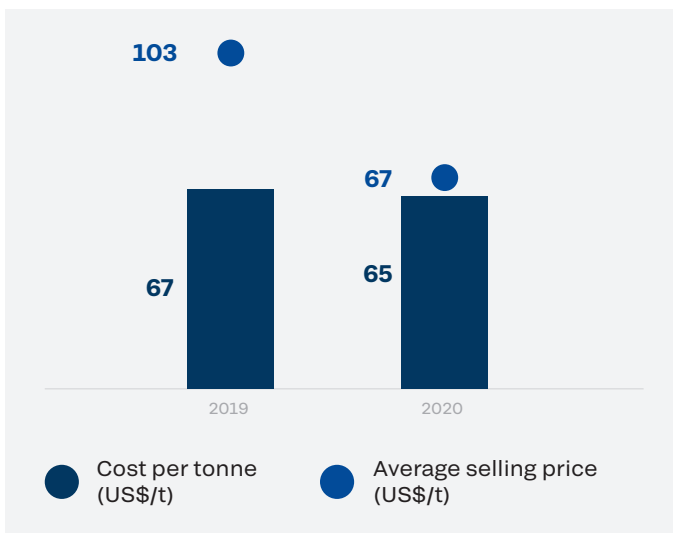
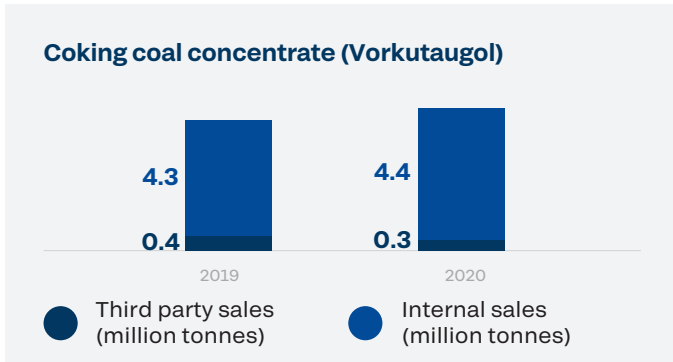
4. Yakovlevskiy Mine

The Yakovlevskiy deposit, with a total resource base of over nine billion tonnes, is located 40km north of Belgorod. The resources are unique in iron content, the concentration of which reaches a minimum of 60%. From 2017 to 2023, the Yakovlevskiy deposit has implemented a phased programme to increase production. It is planned to increase ore production by five times – up to five million tonnes per annum.

Performance overview

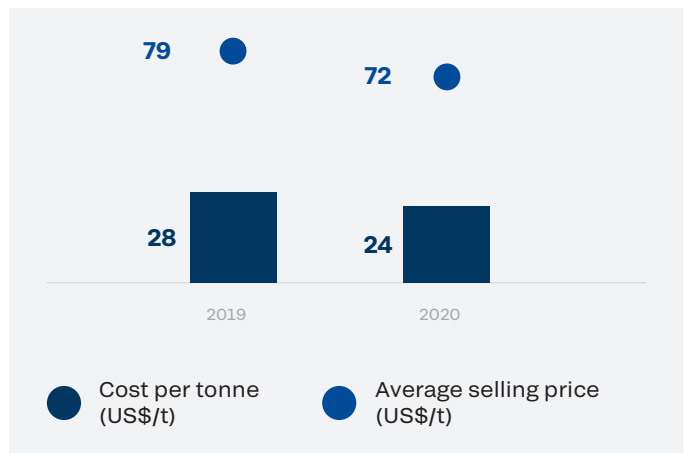
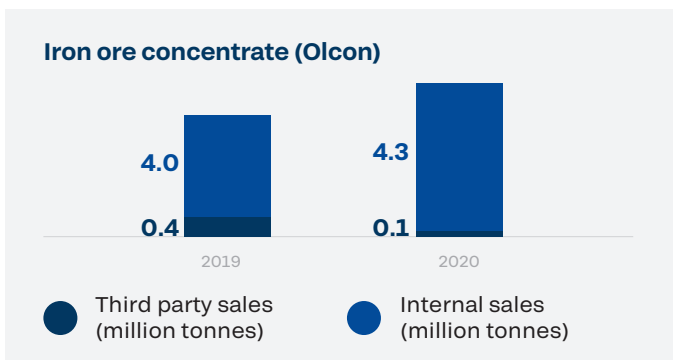
The market environment for steel-related commodities in 2020 was influenced by the COVID-19 pandemic. Nevertheless, iron ore prices demonstrated steady growth from April, while coking coal prices declined by 35% in 2020 caused by idling of blast furnace capacities and the Chinese ban for Australian coal imports from October. In 2020, the average headcount at Severstal Resources was 14,175, compared with 13,957 in the prior year.

Vorkutaugol



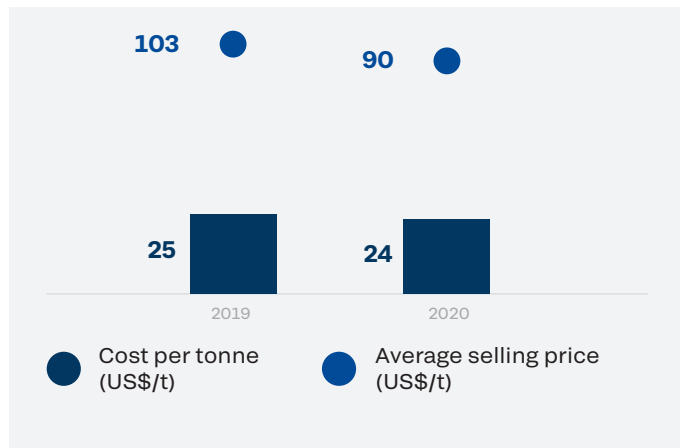
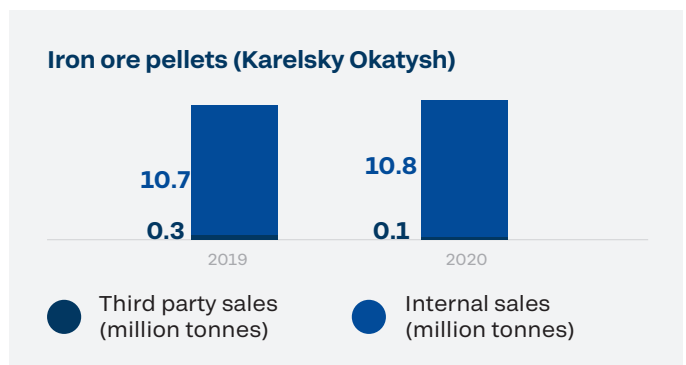
- Average selling price decreased by 35% year-on-year following global benchmarks.
- Cost per tonne year-on-year remained unchanged.

Olcon



- Average selling price decreased by \$7/tonne.
- Severstal managed to maintain a low cash cost in 2020.

Karelsky Okatysh



- Average selling prices for iron ore pellets decreased by \$13/tonne.
- The improved cost dynamics reflects the operational efficiency programme and cost-saving initiatives despite cost inflation year-on-year.

Key developments in 2020

Karelsky Okatysh

In 2020, Karelsky Okatysh focused on improving product quality, reducing costs and updating machinery and equipment. The company has completed a major project to equip all the technological sections with magnetic-gravity separators and a second phase of raw pelletisation modernisation. Karelsky Okatysh continued working on large strategic projects: the construction of a cyclic-flow technology complex in the Central quarry, MAERZ furnace, and a new bay for the tailings storage facility.

Olcon

In 2020, Olcon continued to improve the quality of its concentrate. The average iron content in iron ore in 2020 was 68.90%, reaching historical highs of 69.04% in September. Olcon started extracting iron ore from the Yuzhno-Kakhozerskoye deposit, and constructing the road to the Pechegubskoye deposit.

Vorkutaugol

Coking coal sales slightly increased in 2020 to 4.7 million tonnes per year. Vorkutaugol successfully completed an industrial experiment to produce new coal grades 2ZhL – 2ZhS. As a result of their use, the company received a significant end-to-end effect of c. 100 million RUB. This change will enable a better coking index. The coke is used in Cherepovets to smelt pig iron.

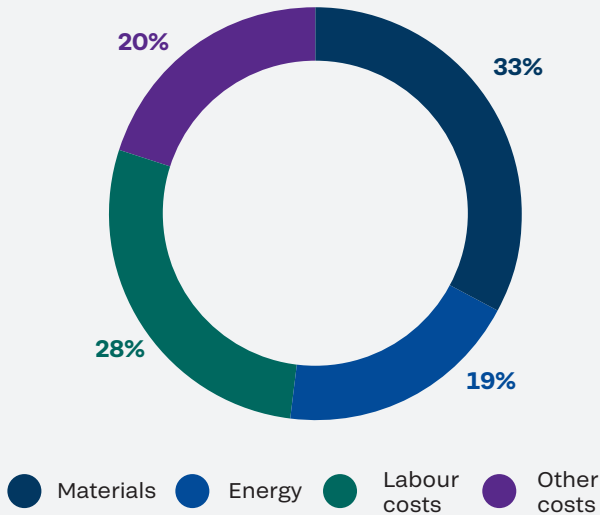
A module degasation station was launched in the ventilation shaft #4 at the Zapolyarnaya mine. Its launch will increase the effectiveness of mine degasation, and will allow increased coal production. One of the units of an automated mining and safety control system AMICUM was launched. It will ensure 24/7 safety control in mines.

Vorkutaugol launched mine construction activities in unit #43 of the Vorgashorskaya mine. This will allow the Company to extract 18.7 million tonnes of coal of grades 1Zh, as well as extend the life of mine until 2029.

Yakovlevskiy Mine

Iron ore production in 2020 amounted to 1.8 million tonnes. A strategically important step for the Yakovlevskiy Mine in 2020 was the launch of an ore drying complex. It is a historically large investment project that cost approximately 3 bn RUB. The new equipment reduces the moisture content of ore from 8% to 2%, which will avoid the freezing of products in the cold season when sent to the northern regions, which in turn will result in fewer problems related to unloading customer materials. Due to the operation of the new equipment, the Yakovlevskiy Mine plans to increase the supply of raw materials in winter, which is crucial to reach the target of five million tonnes by 2023.

Cost of sales structure 2020



Strategic priorities for 2021

of the Vorkutinskaya mine treatment facilities and construction of new ones.

Karelsky Okatysh

In 2021, Severstal will continue to invest in production optimisation, safety, and environmental initiatives. The main goals of Karelsky Okatysh for 2021 will be to reduce costs, increase volumes and further improve product quality. A number of projects aimed at reducing environmental impact will be implemented, in particular, pilot industrial testing and continued research to apply gypsum cake from the pilot desulphurisation unit. To reduce heat energy costs, the company is aiming to start boiler equipment reconstruction. Also under examination are projects to build a dry magnetic separation complex at a crushing and dressing plant, and a project to reconstruct a plant to make it possible to accept ore and concentrate from other enterprises (Yakovlevskiy Mine in particular) and use it for pelletising at Karelsky Okatysh.

Olcon

In 2021, Olcon is launching a project to develop a technogenic deposit of an emergency settling sump. This should enable an increase in concentrate production by 166,000 tonnes per year. A strategy to increase production volumes up to five million tonnes of concentrate per year will also be developed. Iron ore extraction from the Pechegubskoye deposit will become an important part of this strategy.

Vorkutaugol

The 2021 investment programme will amount to 7.7 billion roubles.

1. Almost 1.7 billion roubles will be spent on maintaining current production. This includes updating and purchasing new equipment at all units.
2. 4.6 billion roubles will be spent on production development. The largest projects will be the development of the 21st and 24th blocks of the Komsomolskaya mine (2.1 billion roubles) and preparation for development of the 43rd block at Vorgashorskaya mine (1.9 billion roubles), raising efficiency of the Pechorskaya washing plant (455 mln roubles). These measures will allow us to fulfill our commitments to clients.
3. 700 million roubles will be spent on the underground mines construction at all of the Vorkutaugol mines.
4. The company will invest 229 million roubles to increase industrial safety levels. Almost half of this will be spent on modernisation of the aerogas monitoring system and extending the coverage by the 'Strata' system, to the mine shafts.
5. Vorkutaugol will allocate 90 million roubles towards environmental projects, mainly on the modernisation

Yakovlevskiy Mine

In 2021, the Yakovlevskiy mine plans to increase production to 3.25 million tonnes, and to expand its headcount by 500, to 2,500 people. In 2021, the Yakovlevskiy Mine will continue to build infrastructure necessary to reach five million tonnes in 2023. The key focus of enterprise development will be on dispatching and further adoption of digital technologies.

Severstal Russian Steel Division

Severstal Russian Steel is a leading Russian steel producer, with a broad product mix, and an extensive distribution network. The division focuses on high value-added flat steel products and the production of long products for construction and downstream sales.

Severstal's downstream assets include producers of large diameter pipes and metalware, as well as service centres and stamping facilities for exposed automotive parts. The division has the highest share of high value-added products among its domestic peers, while Severstal's flagship Cherepovets Steel Mill is one of the most cost effective steel mills in the world.

Located in north-west Russia, the division's steel operations benefit from convenient rail access to the Company's mining operations and low-cost direct river access to the Baltic ports. It is also well positioned to serve the industrial hubs around St. Petersburg and Moscow.

In 2020, the average headcount at Severstal Russian Steel was 38,046, compared with 36,722, in 2019.

Key assets

1. Cherepovets Steel Mill

One of the world's largest stand-alone integrated steel works by capacity as well as an excellently located, low-cost steel producer. It produces a wide range of flat and long-rolled products, including hot and cold-rolled flat products, galvanised and colour-coated products and long-steel applications. Rolling Mill 5000, located in Kolpino, near St. Petersburg, produces strips for large diameter pipes, as well as thick plates for ship and bridge building, nuclear and other industries.

2. Izhora Pipe Mill

The mill in Kolpino specialises in manufacturing large diameter pipes from plate, which are produced at the nearby Kolpino Mill 5000. It has a production capacity of 600,000 tonnes of pipes per year, most of which are used in oil and gas pipeline projects.

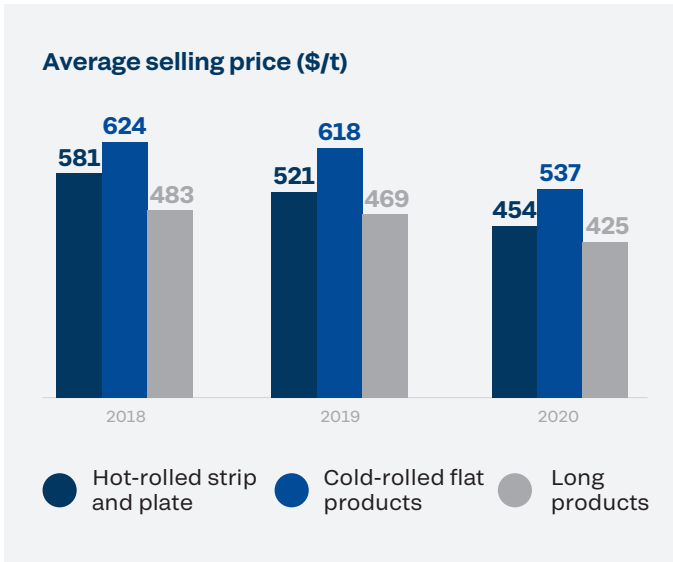
3. Severstal-Metiz

Manufacturer of more than 100,000 product types, including cold-drawn steel, steel shapes, railway fasteners, low carbon and high carbon wire, nails, steel fibre, steel wire ropes, wire strands, steel meshes, fasteners and carbonyl iron powders. Severstal-Metiz comprises several subsidiaries: the Cherepovets site in north-west Russia, the Orel site in central Russia, the Volgograd site in the Povolzhye region and the Dzerzhinsk site in Nizhny Novgorod Region.

4. Downstream production assets

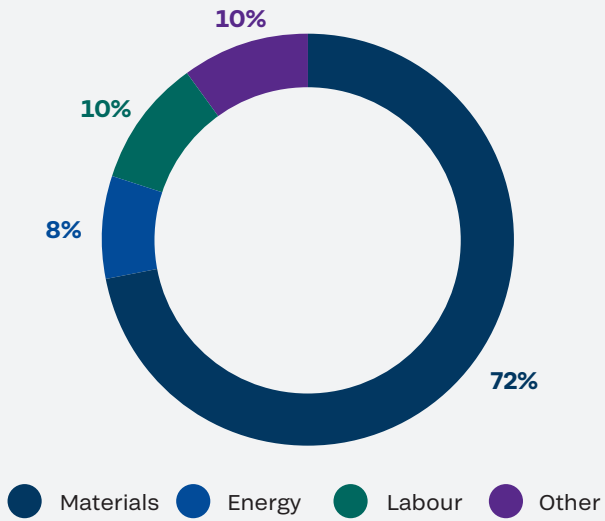
- Severstal Distribution consists of sales representations and more than 30 warehouses of various scale, located in European Russia and 12 countries in the European Union. The sales volume of this distribution network exceeds 2.5m tonnes of steel products a year. Severstal Distribution offers steel processing and distribution services including multimodal schemes by water/rail/road and containers, and also maintenance and financial solutions. A tailored approach to a client's objectives makes purchasing steel products through the distribution network convenient and profitable both for large construction and production companies and SMEs. Remote export sales are performed through the subsidiary Severstal Export GmbH.
- Severstal-Gonvarri-Kaluga service centre is a Russian-Spanish joint venture of two global steel manufacturing and processing leaders. Providing a link between a rolled-metal manufacturer and the final user, the enterprise provides a whole range of services related to longitudinal and transverse cutting of rolled metal, and blanking for further processing. It has a design capacity of 170,000 tonnes of rolled metal products per year, produced for the automotive, electrical and machinery industries.
- Gestamp-Severstal-Kaluga Stamping Facility is a joint venture between Severstal and international group Gestamp. It is equipped with a number of press lines and produces the full range of rolled steel products, from coils to car components for international car manufacturers. It has an annual output of 13 million stamped parts and has potential to expand production.
- Severstal-SMC-Vsevolozhsk service centre is a joint venture with Japanese company Mitsui. It provides a wide range of services, from longitudinal and transverse cutting of rolled metal, blanking for further stamping to forming unique client-oriented storage, packaging, logistics and financial programmes. The enterprise has the first production line in Russia and CIS countries for welding blanks for the automotive industry. This allowed Severstal to become the first Russian metallurgical company to enter the market for ultralight steel auto bodies, demanded by auto producers, carrying out component assembling in Russia and the CIS. The service centre's capacity is 150,000 tonnes.
- Gestamp-Severstal-Vsevolozhsk is a joint venture of Severstal and Gestamp group. It is equipped with press line and welding assembly equipment and produces car components for international car manufacturers. Annual output is some 600,000 parts - press and assembly - with the potential to increase up to two million parts.

Production of crude steel slightly declined to 11.3 million tonnes due to lower production volumes of EAF steel following the sale of the Balakovo mini-mill in 2019. The weighted average steel selling price for 2020 declined by 11%, as a result of adverse pricing dynamics globally. The share of HVA products increased to 48% in 2020.

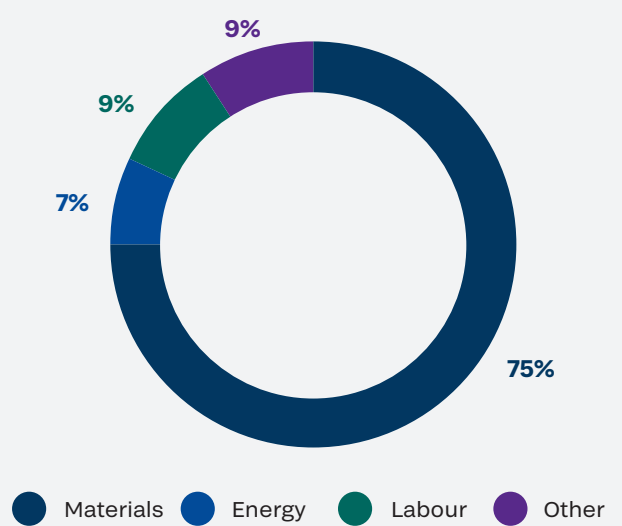


Severstal has the broadest product mix among Russian metallurgical enterprises. The Company's product portfolio is constantly expanding, and its focus is on the development of high-tech products with high value-added, with clients' requests actively taken into consideration. Severstal's key domestic customers include construction companies and pipe mills, machinery and automotive clients. Severstal Russian Steel benefits from its proximity to export routes. Its export share depends on the health of the Russian market and the attractiveness of international sales options as an alternative. In 2020, exports comprised 39% of the division's total sales volumes. Sales and cost of sales figures in the charts below are presented as a percentage of the total sales or cost of sales of the Severstal Russian Steel division.

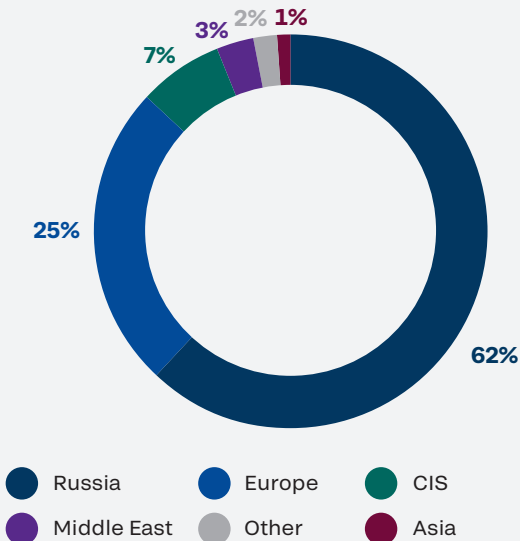
Cost of sales structure 2020



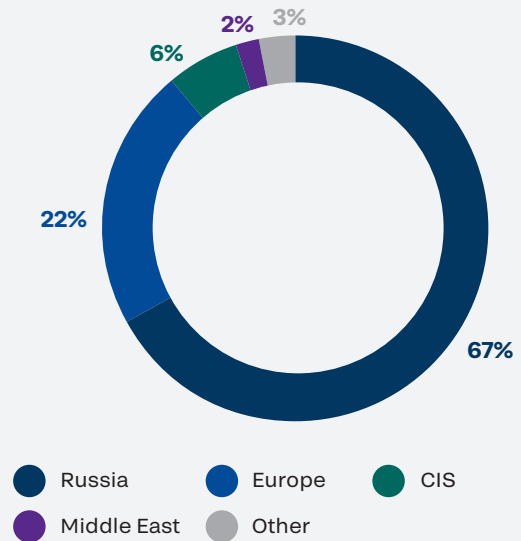
Cost of sales structure 2019



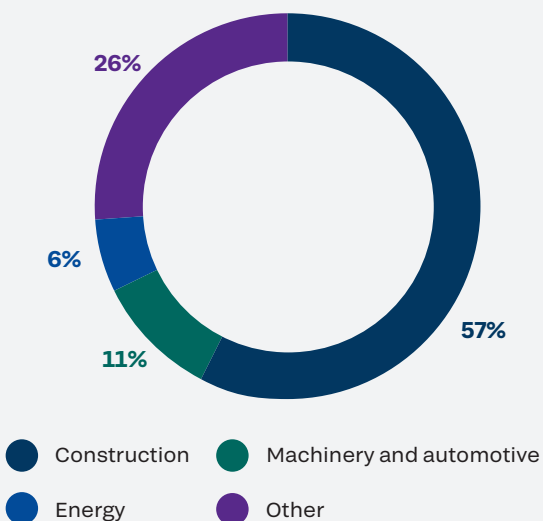
Sales by regions 2020



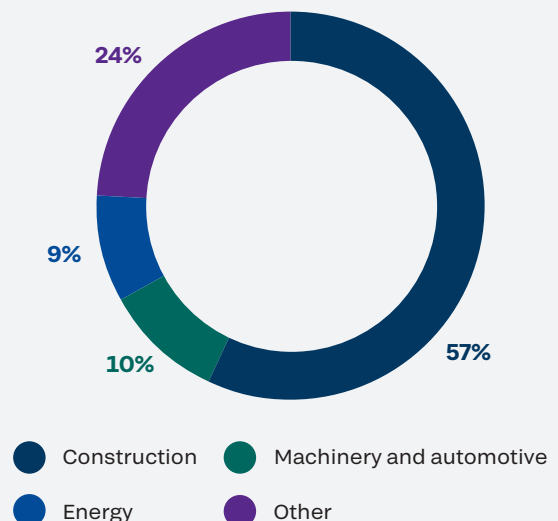
Sales by regions 2019



Sales by industries 2020



Sales by industries 2019



Key developments in 2020

- Launch of blast furnace #3. The investment amounted to over RUB 33 bn. The design capacity of BF#3 is more than three million tonnes of pig iron per year. This is the second largest blast furnace after Severyanka (four million tonnes per year), producing half of CherMK pig iron. The launch of blast furnace #3 will ensure the stability of CherMK during further modernisation, as well as achieve increased production of cast iron and steel.
- Launch of coke battery #11, a new unit using coal charge ramming technology. The investment exceeds RUB 33 bn. The capacity of the first block is 700,000 tonnes of products per year. The new unit will increase coke production to meet increasing cast iron output and, consequently, higher steel production volumes. The environmental advantage of the project is crucial; the system of dust-free delivery of coke from the chamber will provide air quality of up to 10 mg/m³ - the level of the cleanest steel enterprises in the world. The battery complex is equipped with smoke-free loading systems for coke batteries. The launch of the second block is scheduled for 2021.
- Severstal patented the technology for the production of an innovative carbon-containing product (IPUS). It is used as a fuel for blast furnaces. The end-to-end economic effect of using the IPUS (from December 2018 to the present) exceeded US\$ 29 m.
- All three converters at the BOF Shop are equipped with the new substance systems. This initiative allows the number of casts to increase from 82 to 86. The equipment measures steel temperature in a converter during refining. It will increase the reliability of the unit, reduce overuse of ferro-alloys, reduce casting length by 30 seconds and, consequently increase steel output.
- Record high levels of production and supply of new types of products. In 2020, Severstal supplied some 858,500 tonnes of new types of products. It exceeded the combined results for 2018 and 2019 by 40%. Due to that, Severstal generated an additional US\$ 31 m in revenue. The share of innovation products in the product portfolio increased more than two-fold, reaching 8.6%.

Strategic priorities for 2021 and beyond

- Launch of the second block of coke battery #11 with the capacity of 700,000 tonnes per year. Launch of both blocks will allow increased coke volume production for larger hot metal output and, consequently steel. Mastering coal charge ramming technology will enable us to use low-value grades of coal without reducing the quality characteristics of coke.
- Launch of the flexible steelmaking unit. The unit will work flexibly, combining the properties of a shaft furnace with those of a small converter. This means that the upgraded unit will be able to process additional volumes of liquid pig iron, which will be available after the launch of blast furnace #3. This will reduce the costs of producing electrical steel products. In addition, it will enable us to easily regulate the technical process behind our steel smelting, and adapt flexibly to the commodity market.
- Finalisation of a project to extend the maximum widths of pickled hot and cold-rolled strip. The investment programme will be c. RUB 8 bn. It will allow us to produce and process steel up to 1,850 mm wide and, consequently, increase production, improve quality of pickled hot and cold-rolled strip, and broaden the range of products for the automotive industry.
- Launch of long-range wire mill 170. Construction of this unit responds to market trends and moves Severstal one step closer to its strategic goal, i.e. diversification of its product portfolio in the rolled steel segment, and increasing the share of complex and unique products.

02

Corporate Governance

Board of Directors



Alexey
Mordashov

Role: Chairman of the Board of Directors, Member of the Health, Safety and Environmental Committee

Experience: Born in 1965. Alexey Mordashov has been working for Severstal since 1988. He started his career as a Senior Economist, becoming Chief Financial Officer in 1992. In December 1996, he was appointed as Severstal's Chief Executive Officer. Between 2002 and 2006 he served as CEO of Severstal Group and was Chairman of Severstal's Board of Directors. From December 2006 to December 2014, Alexey was CEO of Severstal. From December 2014 until May 2015, Alexey Mordashov served as CEO of AO Severstal Management - the managing company of PAO Severstal. Alexey was elected Chairman of the Board of Directors of PAO Severstal in May 2015.

External appointments:

- Member of the Supervisory Board (since June 2010) of the Non-Profit Partnership Consortium "Russian Steel" (currently - Association "Russian Steel"), President of the Consortium (from 2013 to 2015), from 2016 to 2017 - Chair of the Supervisory Board;
- Member of the Executive Committee of the World Steel Association, headquartered in Brussels, Belgium. Prior to that Chairman (from 2012 to 2013) and Vice-Chairman (from 2013 to 2015);
- Chairman of the Russian Union of Industrialists and Entrepreneurs' (RSPP) Committee on Integration, Trade and Customs Policy and WTO;
- Co-Chairman of the Northern Dimension Business Council;
- Vice-President of Russian-German chamber of commerce, member of the Russian-German workgroup responsible for strategic economic and finance issues;
- Member of the Board of Directors of Nordgold S.E.;
- Member of the Board of Directors of TUI AG;
- Member of the Strategic Council for Investments in New Industries under the direction of the Minister for Trade & Industry of the Russian Federation;
- Chairman of the Board of Directors of Lenta Ltd.

Education: Alexey earned his undergraduate degree from the Leningrad Institute of Engineering and Economics. He also holds an MBA degree from the Business School of Northumbria University (Newcastle, UK). Alexey was granted an honorary doctorate from the Saint-Petersburg State University of Engineering and Economics in 2001 and from the University of Northumbria, UK in 2003.



Alexander Shevelev

Role: CEO of AO Severstal Management, Member of the Health, Safety and Environmental Committee

Experience: Born in 1974, Alexander started his career at Cherepovets Steel Mill as a repairman in a repair-tool shop in 1997. Later he worked as a shift foreman, lead economist and deputy head of the strategic planning department, and head of production development department in OAO Cherepovets Steel Mill. From 2002 to 2004 he worked as Technical Support Director of OAO Cherepovets Steel Mill. In 2012 Alexander Shevelev became executive director of OAO Cherepovets Steel Mill currently OAO Severstal-Metiz. From 1 July 2012 he was appointed First Deputy Mayor of Cherepovets, and in June 2013 he was appointed Deputy Governor of the Vologda region Deputy Governor of the Vologda region. From July 2013 to March 2016 he was CEO of OAO Severstal-Metiz. From April 2016 to December 2016 he has been CEO of SVEZA Group. In December 2016 Alexander was appointed CEO of and elected to the Board of Directors of AO Severstal Management.

External appointments: none.

Education: Alexander Shevelev graduated from the Vologda State Dairy Farming Academy with a degree in Mechanical Engineering and from the State Technical University in St. Petersburg where he mastered in economics and management. Alexander also holds an MBA degree from the Northumbria Business School, Newcastle, UK.

Company shareholdings: Alexander Shevelev holds 0.0007% or 5,880 Severstal ordinary registered shares.



Alexey Kulichenko

Role: CFO of AO Severstal Management

Experience: Born in 1974. Between 1996 and 2003 Alexey worked for Sun Interbrew, starting his career there as a cash flow economist at the Rosar plant in Omsk and ending it as Efficiency Planning and Managing Director of Sun Interbrew. Between 2003 and 2005 Alexey worked as CFO at Unimilk. From December 2005 to July 2009 he worked as CFO of ZAO Severstal Resource. In July 2009 Alexey Kulichenko was appointed CFO of OAO Severstal. From 8 November 2016 till 11 December 2016 he was CEO of AO Severstal Management.

External appointments: Non-Executive Director of Lenta Ltd.

Education: Alexey graduated from the Omsk Institute of World Economy with a degree in Economics.

Company shareholdings: Alexey Kulichenko holds 0.01432% Severstal shares represented by 120,000 Global Depository Receipts.



Andrey Mityukov

Role: CEO of TT-Holding, LLC.

Experience: Born in 1967. Andrey Mityukov has held various HR management positions in Henkel-Russia plant from 1997 to 2000. In 2000 he worked at Sun Interbrew as Human Resources Director at the Povolzhye plant and from 2001 as Regional Human Resources Director. In 2003 Andrey joined the Group as Human Resources Director of “Sveza”. From 2005 to 2015 he held the role of Senior Vice President of Human Resources of PAO Severstal. From 2015 to 2019 he was Senior Vice President of Human Resources of LLC “Severgroup”. Andrey Mityukov became CEO of TT-Holding in 2019.

External appointments: none.

Education: In 1988 Andrey Mityukov graduated from the Leningrad PVO Military Political Academy. In 2001-2002 Andrey studied Human Resources Management under a joint programme run by the Higher School of Economics (Moscow) and Harvard University. In 2012 he studied in the INSEAD Business School under the “Strategy for HR leaders” programme.

Company shareholdings: none.



Agnes Anna Ritter

Role: Chief Technical Officer of AO Severstal Management, Member of the Health, Safety and Environmental Committee

Experience: Born in 1982. Before joining Severstal, Agnes Ritter worked as a consultant for The Boston Consulting Group (BCG) and worked in operational and organisational efficiency in the heavy and oil industries. Agnes joined Severstal in 2010. From 2011 to 2016 she was Head of Production at Severstal Resources. In April 2016, she was appointed Director of Production in AO Severstal Management. In September 2018 she was elected to the Board of Directors of PAO Severstal.

External appointments: none.

Education: Agnes graduated in Vienna, Austria with a degree in sales and marketing, and then furthered her studies at the College of Europe. In 2013, she studied TGM (transition to general management) at INSEAD business school, Fontainebleau and Singapore.

Company shareholdings: none.



Sakari Tamminen

Role: Senior Independent Director, Chairman of the Remuneration and Nomination Committee, Member of the Audit Committee

Experience: Born in 1953. Sakari Tamminen has extensive relevant experience at operational and Board level within steel and metals companies as well as industrial companies, including being the President and CEO of the Finnish steel and metal construction company Rautaruukki Corporation from 2003 to 2014. Sakari is currently a member of the Board at steel company Ovako Ab. Sakari was the member of the Board of Directors of World Steel Association from 2003 to 2014; the Vice Chairman of the Board of Sanoma Corporation from 2002 to 2013; member of the Board of Lemminkäinen constructing company from 2002 to 2009; Chairman of the Confederation of Finnish Industries from 2009 to 2010 and held a directorship of Danske Bank Plc from 2014 to 2017. He is Chairman of the Board of Directors of Versowood Oy and M.J.Paasikivi Oy. He also held roles as Executive Vice President and CFO of Metso Corporation (1999-2003) and Rauma Corporation Plc (1991-1999).

External appointments:

- Member of the Board of Directors of Ovako Ab;
- Chairman of the Board of Directors of Versowood Oy;
- Chairman of the Board of Directors of M.J.Paasikivi Oy.

Education: Sakari Tamminen studied in Tampere University. He holds a degree of Master of Science (Economics).

Company shareholdings: Sakari Tamminen holds 0.00084% Severstal shares represented by 7,000 Global Depository Receipts.



Alun Bowen

Role: Independent Non-Executive Director, Chairman of the Audit Committee, Member of the Remuneration and Nomination Committee

Experience: Born in 1955. Alun Bowen spent almost 37 years working for KPMG in London, Sydney, Cardiff, Hong Kong and Kazakhstan. He has extensive relevant experience both at Board level and in advisory roles. Between 2001 and 2005 Alun led KPMG's global sustainability practice and was personally involved in providing assurance on BP's and Chevron's global greenhouse gas emissions and Anglo American's Report to Society. He also was Managing Partner of KPMG Kazakhstan from 2008 to 2013. He has been a member of the audit committees of The Institute of Chartered Accountants in England and Wales, Business in the Community and The Prince's Trust.

External appointments:

- Non-Executive Director, Chair of the Audit and Risk Committee of Transport for Wales;
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Julian Hodge Bank Limited;
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Hodge Life Assurance Company Limited;
- Non-Executive Director, Chairman of the Risk and Conduct Committee and member of the Audit Committee of Hodge Limited;
- Trustee and Director of the Hodge Foundation.

Education: Alun Bowen holds a Master of Arts degree from Trinity College, Cambridge, where he studied Metallurgy and Materials Science, and he is a Fellow of the Institute of Chartered Accountants in England and Wales.

Company shareholdings: Alun Bowen's wife holds 0.00050% Severstal shares represented by 4,225 Global Depository Receipts.



Philip Dayer

Role: Independent Non-Executive Director, Chairman of the Health, Safety and Environmental Committee, Member of the Remuneration and Nomination Committee

Experience: Born in 1951. Philip Dayer has extensive experience of advising international companies, including in the CIS. Philip sits on the Boards of several listed companies in the energy, software and financial services sectors. Philip qualified as a Chartered Accountant and pursued a corporate finance career in investment banking providing capital markets advice, including on M&A transactions and flotations. Over the past five years he has also held Non-Executive Directorships at Hurricane Exploration plc, Cadogan Petroleum plc, Dana Petroleum plc, Arden Partners plc, Navigators Underwriting Agency Limited, IP Plus plc, AVEVA Group plc and JSC “National Company KazMunayGas”.

External appointments:

- Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration Committee of JSC VTB Capital Holding;
- Chairman of the Board of Directors, member of the Remuneration Committee, member of the Risk Committee of VTB Capital plc;
- Non-Executive Director and Chairman of the Audit Committee of The Parkmead Group plc.

Education: Philip graduated from King’s College (London) in Law and he is a Fellow of the Institute of Chartered Accountants in England and Wales.

Company shareholdings: Philip Dayer holds 0.00054% Severstal shares represented by 4,500 Global Depository Receipts.



Alexander Auzan

Role: Independent Non-Executive Director, Member of the Health, Safety and Environmental Committee

Experience: Born in 1954. Alexander Auzan is Dean of the Faculty of Economics at Lomonosov Moscow State University, a professor, founder of the National Projects Institute, and one of Russia’s leading economists. In the late 1980s, he was involved in the establishment of consumer protection associations and was a Member of the Executive Bureau of the Council of Consumers International (worldwide consumers association). In 2005–2011 he was a President of Association of Russian Economic Think Tanks (ARETT). Mr. Auzan was also a member of the President’s Commission for Modernisation and Technological Development of Russian Economy and President’s Council for Development of Civil Society and Human Rights. He is currently a member of the Presidential Economic Council. He has written numerous papers on the modernisation of Russia, national values, and the dynamics of a social contract. His applied work involves economic and development consulting for national and regional governments, including participation in development of “Strategy-2020” for Russia in 2011–2012. In 2015 he headed the working group on preparation of proposals for structure, directions, resources provision and plan for the social and economic development strategy of Russia up to 2030.

External appointments:

- Independent Director and member of the Strategic Planning Committee of AO RVK;
- Member of the Board of Directors of OOO VEB Innovations.

Education: Alexander Auzan graduated from Moscow State University and holds a PhD in Economics.

Company shareholdings: none.



Vladimir Mau

Role: Independent Non-Executive Director, Member of the Audit Committee

Experience: Born in 1959. Vladimir Mau is an honoured Russian economist. Since 1991 he has participated in Russia's economic reform, including working as Advisor to the Chairman of the Russian Government from 1992 to 1993. From 1997 through 2002 Vladimir was Head of the Working Center for Economic Reforms of the Russian Government. In 2002 he became the Rector of the Academy of National Economy of the Russian Government (ANE), and since September 2010 the Rector of the Russian Presidential Academy of National Economy and Public Administration (RANEPA).

External appointments:

- Member of the Trustees Board of Yegor Gaidar Foundation;
- Member of the Board of Directors, member of the Audit Committee, member of the Nomination and Remuneration Committee of PAO Gazprom;
- Member of the Board of Directors, member of the Committee for Corporate Governance, nominations and remunerations of PAO TRANSCAPITALBANK;
- Member of the Management Board of Foundation for Social and Economic Research and Education;
- Member of the Board in the "Centre for Strategic Development" Foundation;
- Chairman of the Trustees Board in the Non-Profit Foundation Analytical Centre "Forum";
- Member of the Board of Directors of AO Academia "Prosvescheniye" Foundation;
- Member of the Supervisory Board of the Analytical Center for the Government of the Russian Federation;
- Member of the Board of Trustees of the Federal State Budgetary Institution "Russian Academy of Education".

Education: Vladimir Mau is a Doctor of Economics, Professor, PhD (Universite Pierre Mendes France), Honored Economist of the Russian Federation. Vladimir graduated from the Moscow Institute of National Economy in 1981.

Company shareholdings: none.

Corporate Governance

This section sets out how Severstal has applied the principles of good governance during the year.

Corporate governance model

Severstal is listed on the “First Level” on MICEX and has a “standard listing” for its depository receipts on the London Stock Exchange. Accordingly, Severstal follows the provisions of the:

1. Recommendations from the Corporate Governance Code (2014) approved by the Central Bank of Russia and recommended for application by the joint stock companies with listed securities – available on [CBR website](#), and
2. UK Corporate Governance Code (2018) available on the [FRC website](#).

Severstal’s Corporate Governance Code has been prepared in line with the recommendations of the above codes and is based on the following main principles:

- the Company intends to implement efficient and transparent mechanisms to guarantee the rights and interests of its shareholders conferred by law, the Company’s Charter and other regulatory documents, and also those recommended by international corporate governance standards;
- the Company maintains a policy of equal treatment of all shareholders irrespective of the size of their shareholding, their nationality or jurisdiction;
- the Company intends to support the application of its shareholders’ rights to participate in the Company’s governance by inviting shareholders to participate in the meetings, vote on meeting agendas and obtain timely information about the Company’s operations, its management bodies and supervisory/auditing bodies;
- the Company intends to maintain high quality engagement with all our stakeholders, including customers, suppliers, workforce and communities;
- the Company regards increasing the market value of its shares (capitalisation) as one of its principal goals.

In addition to Severstal’s Corporate Governance Code and the Company’s Charter (both available on the [Corporate Governance section](#) of Severstal’s website), the activities of Severstal’s management and supervisory bodies, as well as other internal activities, are governed by a set of internal corporate documents, which are also available on [Severstal/Company Documents](#).

Severstal is a member of the Russian Institute of Directors, the leading expert and resource centre for corporate governance, established by the largest Russian companies to develop, incorporate and monitor standards of corporate governance in Russia.

Severstal is committed to continuing to develop and evolve its corporate governance practices. For example, although the minimum requirements for compliance for a “standard listing” for its depository receipts on the London Stock Exchange are relatively limited, Severstal continually monitors the requirements for those companies that have a “premium listing” and, where it believes that these requirements will enhance transparency, they are adopted.

Compliance Statement

Throughout the year, Severstal complied with the requirements of a listing on the “First Level” on MICEX and a ‘standard listing’ for depository receipts on the London Stock Exchange. Severstal does not comply with the requirements of the UK Corporate Governance Code in two respects: Severstal has not entered into a relationship agreement with Alexey Mordashov, its majority shareholder; and the Chair of the Board is not independent.

The Board seeks to ensure that the interests of the minority shareholders in the Company are properly respected by and aligned with those of the majority shareholder. The Board has carefully considered whether there would be any benefit to the minority shareholders of the Company entering into a relationship agreement with the majority shareholder, however, the Board has decided that the existing arrangements and regulations that are in place, which endeavour to ensure that Severstal is capable of conducting its business independently of the major shareholder and his related companies, are satisfactory and that transactions with the controlling shareholder and his related companies are at an arm’s length and on fair commercial terms. The principal safeguards may be summarised as follows:

- Half of the Board consists of Independent Non-Executive Directors and the Audit Committee and the Remuneration and Nomination Committee consist of and are chaired by Independent Non-Executive Directors.

- The majority shareholder exercises his voting rights, including those related to amending [Severstal's Charter](#), in a way which would not be prejudicial to the interests of minority shareholders.
- The majority shareholder does not vote on any resolution to approve a “related party transaction”. Severstal has established a process whereby, whenever required, individual related party transactions are voted on by the other members of the Board, who have no involvement with those transactions, having been reviewed by the internal audit function to ensure that they have been recorded and valued appropriately. All related party transactions are also reviewed by the Audit Committee and disclosed in the audited IFRS financial statements.
- Shareholders have direct access to members of the Board and executive management at Severstal's Annual Capital Markets Day and Annual General Meetings of Shareholders, which are held in person. The majority shareholder, as the Chairman of Severstal, will ensure that the interests of all shareholders continue to be aligned.

The Code has a requirement that the Chair of the Board should be independent, which means that the Chair should only serve for nine years, including time as a member of the Board. Alexey Mordashov is not independent as he is the majority shareholder, and he has also served more than nine years on Severstal's Board.

The Independent Non-Executive Directors have considered the position:

- in light of the safeguards set out above;
- Alexey Mordashov's performance and practice as Chair since his appointment in 2015, when he has always clearly distinguished his role as Chair with that of majority shareholder;
- his active and regular communication with the Independent Non-Executive Directors;
- his independence from management;
- his demonstrable wish that the Company is managed for the benefit of all stakeholders.

The Independent Non-Executive Directors are satisfied that it is in the best interests of the Company, the shareholders and other stakeholders, that Mr. Mordashov continues in his role as Chair of the Company, as opposed to considering appointing an independent Chair.

Responsibility Statements

Each of the directors who is a director at the date of the approval of this Annual Report confirms that to the best of their knowledge:

1. The assets, liabilities, financial position and profit of the Group set out in the financial statements, prepared in accordance with IFRS, are fairly presented in all material respects;
2. The Strategic Report includes a fair view of the development of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;

3. The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This Annual Report was approved by the Board of Directors on 3 February 2021.

General Meeting of Shareholders and supervisory bodies

The General Meeting of Shareholders (“GMS”) sits at the top of Severstal's governance structure. Full information on the responsibilities of the GMS is available online at [Severstal/GMS](#), together with details of when the GMS is held and how shareholders are informed of an upcoming GMS and information on resolutions at GMS, including those resolutions of the GMS that were taken during 2020.

Three General Meetings of Shareholders were held in 2020: one annual and two extraordinary meetings.

The agenda of the Annual General Meeting of Shareholders dated 5 June 2020 covered the following items:

1. Election of members of the Board of Directors of PAO Severstal.
2. Allocation of profit of PAO Severstal for 2019 results. Payment (announcement) of dividends for 2019 results.
3. Payment of dividends for the first three months of 2020.
4. Approval of the Auditor of PAO Severstal.

Payment of dividends for the first six months and nine months of 2019 were approved at the Extraordinary General Meetings of Shareholders which were held on 28 August and 27 November 2019 respectively.

An external auditor is appointed annually by the GMS. Its fee is subject to approval by the Board. Details of Severstal's External Auditor is available in the Auditor's Report of this Annual Report.

The Board of Directors

Severstal's Board of Directors is responsible for the 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 is also responsible for the approval of annual, half-year and quarterly results, the issue of any securities, establishing the dividend policy and the recommendation of dividends. It is also responsible for establishing Severstal's risk appetite, system of internal control, governance, monitoring of executive performance and succession planning. The Board reviews standards of ethics and policy in relation to health, safety, environment, social and community obligations. Full information on the responsibilities of the Board of Directors is available on [Severstal/Board of Directors](#).

The Board's activity is regulated by Russian law, the [Company's Charter](#) (2018) and [Regulations for the Board of Directors](#) (2020).

Composition of the Board of Directors

According to the Company's Charter, Severstal's Board comprises ten members. Severstal believes that maintaining a balance on the Board is a prerequisite for good decision-making and corporate governance, and ensuring equal regard for the interests of all shareholders. Details of our Directors can be found in their biographies.

Board composition	
Executives and Non-Executives	50%
Independent Non-Executives	50%
Male	90%
Female	10%

Board diversity	
Nationality	Russia (6)
	UK (2)
	Finland (1)
	Austria (1)
Professional experience	Number of Board members
Steel	6
Mining	6
Finance	6
Oil & Gas	2
Academia	2

The Board reviews the independence of all Independent Non-Executive Directors annually, and has determined that all such directors are independent, in line with the UK Corporate Governance Code, and have no cross-directorships or significant links, which could materially interfere with them exercising their independent judgment. The Company's Independent Non-Executive Directors play a leading role in corporate accountability and governance through their membership and participation in the Board's committees.

New directors to the Board participate in an induction programme when they take office. This includes details of the Company's operations and procedures, as well as information on what is required from them in their role according to the Company's internal corporate documents. This includes Severstal's Charter, Corporate Governance Code and other internal corporate documents, applicable corporate governance law, and descriptions of best practice to help ensure their early effective contribution to the Company.

Governance calendar for 2020

The calendar of in-person Board and its committees' meetings is shown below:

Severstal's Board and its committees	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
In-person Board	v			v			v			v		
Audit Committee	v			v			v			v		
Remuneration and Nomination Committee	v						v			v		
Health, Safety and Environmental Committee	v			v			v			v		

The authority of Severstal's Sole Executive Body is exercised by the CEO of the Company.

Following the resolution of the Company's shareholders, dated 10 September 2014, the powers of Severstal's CEO were transferred to the managing company, Severstal Management, with effect from 1 January 2015. This change was in line with the Company's stated strategic focus of optimising its management structure and further enhancing management efficiency and transparency.

Severstal Management achieved this by reducing management layers, centralising certain administrative functions and removing duplication. The managing company has authority for managing all issues in the Company's current operations, except for those issues specifically reserved for the Company's GMS and the Board of Directors.

Alexander Shevelev was appointed CEO of Severstal Management with effect from 12 December 2016.

More details about PAO Severstal's managing company are available on [Severstal/Sole Executive Body](#).

Board activity in 2020

In 2020, Severstal's Board of Directors held six meetings, including one meeting in person, four meetings by means of video call and one meeting in absentia by means of correspondence voting. The low number of in-person meetings is explained by the global COVID-19 pandemic restrictions.

The Board spent a considerable amount of time during 2020 discussing safety. In particular, the Board continues to review safety throughout the business

and its continuing initiatives to improve Severstal's safety performance. Inevitably, the Board was involved in discussion regarding the impact of COVID-19 on the business and its people. It also discussed regularly the changing dynamics of steel prices, progress on Severstal's transformation process and environmental and climate change strategy.

In addition to the matters described above, the Board reviewed the following key matters:

- Annual Report and Financial Statements under IFRS and RAS;
- New Regulations for Board Committees;
- Audit and Assurance Policy for the three years ending 31 December 2022;

- New vision and strategic priorities;
- New objectives of the Company regarding environment, health and safety;
- Severstal's financial plan, financial performance and reporting;
- Risk and risk mitigation matters;
- Results of the external assessment for the Board and its committees' performance;
- The composition of the Board and its committees and succession planning;
- External Auditor's fee;
- Budget for 2021;
- Issues related to the General Meeting of Shareholders;
- Related party transactions, etc.

The attendance of the Company's members of the Board of Directors at in-person meetings of the Board and its committees during 2020

Member of the Board of Directors	Number of in-person Board meetings possible	Number of video Board meetings possible	Number of Board meetings attended	Audit Committee meetings attended (out of 4 meetings)	Health, Safety and Environmental Committee meetings attended (out of 4 meetings)	Remuneration and Nomination Committee meetings attended (out of 3 meetings)
Alexey Mordashov	1	4	5	-	-	3*
Alexander Shevelev	1	4	5	-	4	3*
Alexey Kulichenko	1	4	5	4	-	-
Andrey Mityukov	1	4	5	-	-	3*
Agnes Ritter	1	4	3	-	3	-
Alun Bowen	1	4	5	4	4*	3
Philip Dayer	1	4	5	4*	4	3
Sakari Tamminen	1	4	5	4	3*	3
Alexander Auzan	1	4	4	-	-	-
Vladimir Mau	1	4	4	2	-	-

* Means that the specified director is not a member of the Committee, although he attended the meeting.

Moreover, Independent Non-Executive Directors meet separately as a group in person during the year. There was one such a meeting in 2020.

Board internal evaluation results for 2020

The Board carries out an annual self-evaluation of its performance based on the individual contribution of each Board member and has an external evaluation once every three years in accordance with the best corporate governance practice.

An independent review of the effectiveness of the Board was carried out in 2019. Accordingly, the Board carried out a self-assessment of its effectiveness in 2020. The independent review confirmed that the Board was operating in accordance with the recommendations within the Russian Corporate Governance Code and the UK Corporate Governance Code with certain exceptions, which are commented upon in this report. The outcome of the self-assessment in late 2020

was consistent with that carried out independently in 2019. The recommendations for improvement from the independent assessment have now largely been implemented or are incorporated into the work programmes of the Board and its committees.

Senior Independent Director

Sakari Tamminen is Severstal's Senior Independent Director and Chairman of the Remuneration and Nomination Committee.

The Senior Independent Director's role is to:

- coordinate communication of Independent Non-Executive Directors;
- liaise with the Chairman of the Board;
- act as an advisor for the Chairman to ensure efficient activity of the Board;
- ensure that appropriate succession planning procedures are in place in relation to the Chairman's succession;

- meet annually with independent directors to appraise the Chairman's performance, taking into account the views of Executive Directors, and on other occasions as are deemed appropriate; and
- be available to shareholders if they have concerns which have not or cannot be resolved through contact with the Chairman or the Company's executive body.

Investor relations

The Board makes considerable efforts to establish and maintain good relationships with shareholders and the wider investment community. There is regular dialogue with institutional investors during the year, primarily through the Head of Communications and Investor Relations and his team.

Corporate Secretary

The Corporate Secretary ensures Severstal's compliance with the requirements of applicable law, the Company's Charter and internal documents regulating the needs and interests of the Company's shareholders. The Corporate Secretary is responsible for safeguarding the rights and interests of shareholders, as well as establishing transparent and effective regulations to secure the rights of shareholders. Full information on the responsibilities of the Corporate Secretary is available online at [Severstal Corporate Secretary](#).

Artem Bobulich has been the Corporate Secretary of Severstal since 20 January 2014. Artem Bobulich (born in 1983) has worked in the Company's Corporate Secretary Team of the Legal Affairs Directorate since 2007. He graduated from the Cherepovets State University with foreign philology specialisation and from the Moscow State Law Academy.

Share capital

Severstal share capital comprises ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as at 31 December 2020 comprises 837,718,660 issued and fully paid shares.

All Severstal shares carry equal voting and distribution rights. There are no restrictions or limitations on voting rights for holders of Severstal shares and GDRs.

Equity capital structure as at 31 December 2020	Share, % Shareholders' equity capital
Alexey Mordashov*	77.03%
Treasury shares	1.43%
Institutional investors and employees	21.54%
Total	100%

* Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov had purchased shares in Severstal such that as at 31 December 2020 he controlled indirectly 77.03% of Severstal's share capital.

Whistleblowing procedures

Severstal operates a whistleblowing policy for employees to confidentially report concerns about any unethical business practices to senior management in strict confidence, and without fear of recrimination, through several routes. Severstal's Ethics Committee is the executive body which oversees the firm's whistleblowing activities and the Audit Committee receives details of whistleblowing reports.

Anti-bribery and anti-corruption measures

[Severstal's Anticorruption Policy](#), is supported by the Employee Code of Conduct and the [Code of Business Conduct](#), which incorporate appropriate provisions to meet Severstal's obligations under Russian legislation and the UK Bribery Act.

All individuals applying for employment with Severstal are screened for their attitude to corruption and risk. The applications of those employees who do not meet the expected standard are not proceeded with. A training and communications programme is in place for all employees to ensure that they understand Severstal's requirements and related reporting procedures. Regular screening checks are also carried out for existing employees.

Arrangements with contractors and suppliers have been and continue to be reviewed to ensure full compliance with Severstal's anti-corruption policy. Oversight of the programme is the responsibility of the Ethics Committee, which reports regularly to the Audit Committee.

Payments to Governments

Severstal's payments to governments disclosure in the year ended 31 December 2020 can be found at [Severstal Payments to Governments](#).



Board Committees and Reports from Their Chairs

Severstal's Board of Directors has the following committees:

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

The Board Committees serve as consultative and advisory bodies that deal with issues raised by the Board of Directors. Committees may not act on behalf of the Board and are not considered to be management bodies of the Company. They have no powers in relation to managing the Company.

Committee meetings are held as and when necessary, but at least three times a year. They are held separately from Board meetings so that extra attention can be given to discussing issues, which require preliminary Board consideration prior to approval by the Board of Directors members, and determine the necessity of the Board's approval for a specific issue.

Decisions of each Committee are taken by a majority vote of all Committee members taking part in the meeting. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie.

The activity of Severstal's Committees is regulated by the Regulation for the Board Committees which is available at [Severstal/ Board Regulations](#).

The Audit Committee

The Audit Committee consists of three Independent Non-Executive Directors. Currently they are:

1. Alun Bowen (Chairman)
2. Sakari Tamminen
3. Vladimir Mau

Report by Alun Bowen, Chair of the Audit Committee

The Audit Committee has had a busy year and, in common with the rest of the business, has learnt to operate in a different way. The highlight of the year was consulting and publishing Severstal's [Audit and Assurance Policy](#), however, this has not taken us away from our primary responsibilities of providing oversight over Severstal's system of internal control and ensuring that information presented by Severstal is fair, balanced and understandable.

Audit and Assurance Policy

The process of drafting, consulting and ultimately publishing an Audit and Assurance Policy was a valuable exercise for the Audit Committee and the Board. Direct engagement with investors and a variety of stakeholders has provided a sharpness and focus to our current and future activity. In the main, it provided comfort to the Committee that what we are doing is supported by investors and stakeholders. Some of the feedback challenged our thinking and sometimes meant that a different approach is being taken, which the Committee believes will provide greater clarity and a better outcome, in line with the expectations of investors and stakeholders.

The Audit and Assurance Policy is planned to be a three-year rolling document and the Committee is committed to continuing the process of updating its Audit and Assurance Policy on an annual basis, which will mean that the Committee will be held directly to account by Severstal's investors and stakeholders, as well as Severstal's Board. This is something that the Audit Committee relishes.

Risk management framework and internal control environment

The COVID-19 pandemic and its related economic effects have undoubtedly provided challenges to the effective operation of Severstal's risk management framework and the control environment.

Risk management framework

As part of the Audit and Assurance Policy consultation process, in May, the Board published a draft of Severstal's Principal Risks and Material Matters. Feedback from investors and stakeholders did not require any significant changes, which gave the Audit Committee confidence that the directors' assessment of Severstal's Principal Risks and Material Matters is appropriate. Section 7 of the Audit and Assurance Policy sets out the principal sources of assurance received by Severstal's Board and its committees in relation to information used to assess the management of Severstal's Principal Risks and Material Matters, the relevant key performance indicators and the nature of the assurance received by the Board and the nature of external assurance, if any. This exercise has assisted the Audit Committee and the Board in ensuring

that it has appropriate sources of assurance for each of Severstal's Principal Risks and Material Matters and that there is alignment with Severstal's risk management framework.

Control environment

The Audit Committee has continued to support the management's efforts to improve the control environment during the year and a lot of effort has gone into ensuring that the controls that will be in place when the SAP S4/HANA implementation is completed in late 2021 are of the highest standard.

Operational resilience

The COVID-19 pandemic has produced innumerable challenges for Severstal's operational resilience, such as: the increased legal restrictions; more than 10,000 employees working remotely and requiring enhancement of their digital skills; the increased risk of cyberthreats, particularly in a remote-working environment; the requirements and increase in value and exposure to theft of personal protective equipment; and the difficulty in carrying out psychological tests in a remote environment, which are important for addressing corruption and fraud risk.

The Audit Committee has been impressed with how the control environment has been adapted to ensure that Severstal is as resilient as possible, and a significant amount of that credit goes to Severstal's information technology function and its Corporate Security Department who have been innovative in finding solutions when faced with this myriad of challenges.

Whistleblowing, ethics, crime, fraud and corruption

The whistleblowing procedures and other communication channels continue to operate effectively, and no issues of major concern were raised during the year.

The Audit Committee has also received regular reports from the Ethics Committee with no particular issues.

The Corporate Security Report monitors the dynamics of the number of crimes committed within Severstal which continues to fall significantly faster compared with crime in the Russian Federation and, for example, the Vologda Region which contains Cherepovets. The number of successful judgements in Severstal's favour is also rising steadily as the quality of investigations continues to improve. The same applies to organised groups of contractors and third parties, which have been a particular focus over the last few years.

Internal audit

The annual Internal Audit Plan is developed from a consideration of the Principal Risks and Material Matters facing Severstal, a cycle of audit testing and management requests. The Audit Committee provides its input at an off-site meeting with Nikolay Lavrov, the Chief Audit Executive. The Audit Committee meets on its own with Nikolay Lavrov, in addition to the off-site session, at least four times a year.

On a five-year basis an external assessment of our internal audit is carried out. This was carried out during the year by Deloitte, which included interviews with Severstal's leadership and myself, and a review of the internal audit function's documentation. Deloitte were able to confirm that Severstal's internal audit function generally conforms with the Standards and Code of Ethics of the Institute of Internal Auditors and benchmarked favourably with international best practice for internal audit. Deloitte's recommendations for improvement have already been implemented.

The internal audit function has continued to work on its process for formalising its view of the effectiveness of Severstal's system of internal control. At the most recent Audit Committee the Chief Audit Executive reported that, in Internal Audit's opinion, the control environment as a whole is appropriate to establish and maintain an effective internal control system by management and employees.

Financial reporting

The Audit Committee continues to debate and challenge the judgements made by management and their use of estimates in the preparation of the financial statements. The most significant issues regarding the 2019 Annual Report and financial statements, and how they were dealt with, was reduced this year as a result of the settlement of the long-running Lucchini claim. The Audit Committee was satisfied that the regular estimates and judgements made by management in preparing the financial statements are appropriate.

Also, there were no changes in the Alternative Performance Measures (APMs) used and presented during the year. The Audit Committee is satisfied that the APMs, which are widely used in the steel industry, and are included in the audited financial statements, provide useful insight into Severstal's financial performance and also aid investors to understand more easily how the directors have taken dividend decisions in the context of Severstal's published dividend policy and that the use of the APMs does not distract from IFRS measures.

The Committee carried out a similar process to previous years in relation to the production of the Annual Report to ensure that the Annual Report taken as a whole is fair, balanced and understandable.

The Audit Committee were also satisfied that: the information presented in Severstal's strategic report is consistent with that included in the financial statements; and that the assessment of Severstal's prospects; the going concern assessment; and the viability statement were appropriately reflected in the Annual Report. Next year's Annual Report will include a Resilience Statement. The sensitivities that will be issued in the preparation of the Resilience Report were consulted on and agreed with investors as part of the Audit and Assurance Policy process.

Last year the Audit Committee said it would carry out a review of the possible impact of climate change on Severstal's financial statements. A paper was presented to the most recent Audit Committee which, using the paper prepared by Nick Anderson, a member of the

International Accounting Standards Board, as a base, set out an analysis of the IFRS standards applicable to Severstal that might be affected. The paper set out that the most material impact would be in relation to the impairment of assets in accordance with IAS 36 and that the cash generating units most likely to be affected were the coking coal mines at Vorkuta and the steelmaking assets at Cherepovets. In both instances, using the impairment calculations carried out in the preparation of the financial statements at 31 December 2020 as a basis, the assets in the balance sheet for both these cash generating units would be recovered within five years. The Audit Committee determined that it would not expect there to be any impact, as a result of climate change, on Severstal's balance sheet at 31 December 2020.

Non-financial reporting

A particular feature and benefit of the consultation on the Audit and Assurance Policy was that investors and stakeholders were able to debate and contribute their views on Severstal's non-financial reporting. It was agreed that safety, airborne emissions and climate change were the matters that investors and stakeholders were most concerned about, a view shared by the Board. The Audit and Assurance Policy sets out the Audit Committee's plans for obtaining assurance on these matters and good progress is being made in implementing them.

External audit

The Audit Committee in its Audit and Assurance Policy, after the input of investors and stakeholders, sets out the process for the forthcoming audit tender which will be concluded this year. Severstal's current auditor KPMG will not participate in the audit tender due to the length of time KPMG has carried out the audit. Future tenders will take place every five years. The first two stages of the corporate auditor selection process have been carried out and the Audit Committee is satisfied, at this stage, that the three shortlisted firms and the respective Lead Audit Engagement Partners have the capability and characteristics to carry out a robust, quality audit.

The Audit Committee has, and continues to place great importance on, the quality and effectiveness of its external audit. In assessing quality, the Audit Committee looks to the audit team's objectivity, professional scepticism, continuing professional education and its relationship with management. The Audit Committee has carried out its annual evaluation of the external auditor, to its satisfaction, covering audit quality, independence and the outcome of regulatory reviews of KPMG Russia's performance.

George Pataraya has taken over as Lead Audit Engagement Partner this year and I have met with him, by videoconference, each quarter and at the year-end, before each Audit Committee, with my fellow committee member Sakari Tamminen, to discuss audit issues.

The Audit Committee reviewed the list of uncorrected misstatements reported by KPMG and concluded that none were material, individually or in aggregate, to the

financial statements. Accordingly, the Audit Committee did not require any adjustment to be made to the financial statements as a result of the audit differences reported by KPMG.

Audit fees for the year ended 31 December 2020 were US\$ 0.9 million (2019: US\$ 0.9 million). Non-audit fees were US\$ 0.1 million (2019: US\$ 0.3 million).

Looking ahead

In 2021, in addition to its regular work, the Audit Committee will be:

- Finalising the corporate auditor selection process.
- Reviewing developments in the planned convergence of non-financial reporting standards.
- Reviewing European developments in the reporting of controls over financial reporting.
- Assessing whether aspects of the proposals anticipated to be made in 2021 by the UK's Financial Reporting Council might enhance Severstal's reporting.

The Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of three Independent Non-Executive Directors:

1. Sakari Tamminen (Chairman);
2. Philip Dayer;
3. Alun Bowen.

Role

The role of the Remuneration and Nomination Committee is to assist the Company in engaging qualified talent, creating the incentives necessary to ensure they are successful within the Company, ensuring there is an appropriate talent pool and overseeing succession planning within Severstal. It also reviews the remuneration and compensation of the Company's senior managers and Board members.

Report by Sakari Tamminen, Chairman of the Remuneration and Nomination Committee

In 2020 the Remuneration and Nomination Committee maintained its focus on three key areas:

- Corporate culture and employee engagement;
- Succession planning and Severstal's talent pool;
- Executive remuneration structure the long-term incentive plan (LTIP)

Superior corporate culture

Severstal's fostering of its corporate culture puts people at the core of our ability to grow through innovation and continuous improvement. This is just one element of our business that sets us far ahead of our peers, and this enables us to introduce value-adding initiatives into our company with speed and efficiency.

We have undergone a major transformation and corporate repositioning to turn our business into a client-centric company, restructuring all of our activities so that each of our processes will ultimately contribute to increasing our consumers' own efficiency.

Our advanced corporate culture provides us with a team of highly motivated people to help deliver our vision. With the corporate repositioning of our business, it remains a crucial element of our strategy and the Company's transformation, facilitating an attractive and sustainable working environment with the customer at the centre. This culture supports the development of our employees, nurturing skills in our priority areas of customer service, sales and innovation.

First introduced in 2010, our Business System remains central to providing a superior corporate culture based on the systematic implementation of initiatives to optimise production and standardise our internal processes. These enable us to maximise energy and equipment efficiency, create a customer-centric model and focus on employee safety.

There are four main aspects to the Business System:

- Safety;
- Customer care;
- People engagement;
- Continuous improvement of operational performance.

We do not tolerate bullying or corruption at any level of the business, and our Anti-Corruption Policy ensures compliance with both Russian and international anticorruption laws. This policy ensures that we have standard requirements for all our businesses, as well as in areas such as 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.

Our enhanced Severstal Employee Code of Conduct and Code of Business Partnership ensure that anti-corruption requirements are fully integrated into our supply chain. We also have an Ethics Committee in place and a 24/7 anonymous telephone/SMS hotline for all whistleblowing and grievance concerns.

Our HR policy includes a strong commitment to training, to ensure best practice is shared and encouraged across the Company. Our industry-leading employee development and training schemes, from foundation programmes through to senior professional development has created a workforce fit for the future, enabling us to recruit and retain the brightest and the best talent to support our business' future success.

Our mission to lead the steel industry of the future has created a platform that attracts talent and provides a compelling point of difference to our peers. By ensuring our position as a trusted and attractive employer we are confident that we have a workforce that will support us in our efforts to achieve our targets and beyond.

Employee engagement

The "Severstal Pulse" employee engagement survey has been in place since 2013, and each year the Committee reviews the results of the survey.

In 2020 Severstal started to measure a happiness index of employees instead of the engagement index,

which has already been fairly high for the last two years (78% in 2018 to 81% in 2019). Based on the survey, 57% of employees are proud of what they are doing, feel connected with the Company's purpose and agree that their job gives them satisfaction. This result presents a good foundation for further development of Severstal's corporate culture and our potential to increase employee engagement towards our strategic priorities and ambitious goals.

An important element of each survey programme is the focus groups and discussions that follow these surveys, based on which we develop action plans for further improvements.

We also introduce new initiatives based on the feedback we receive; through our "Pulse" survey last year, we received a request to increase digital skills and so in April 2020, we launched Severstal's digital learning platform – an inhouse development programme designed to facilitate employee learning. Almost 12,000 employees completed the programme's foundation level in 2020.

Succession planning and Severstal's talent pool

Severstal is committed to growing our talent pool and ensuring there are suitable remuneration policies in place to motivate management to deliver on KPIs and objectives that benefit all of the Company's stakeholders. To support this, we have a 360-degree feedback system in place, as well as other forms of assessment, including a review of the senior management team twice a year by the CEO and the Board of Directors, semi-annual Staff Committee reviews and an established succession pool.

When it comes to succession planning, we maintain a pool of potential successors for all of the directors' positions and, where possible, seek to recruit internally for these roles; this enables us to offer our employees suitable opportunities for development and progression within Severstal. The Committee is deeply involved in this process, and committed to finding the best candidates from within the Company, regularly reviewing our corporate talent pool to determine a potential succession plan for each senior management role.

The Committee plays an active role in reviewing changes to the senior management team, and in 2020 appointed Anna Lvova as Severstal's Director for Human Resources. Having first joined Severstal in 2010, Anna is an excellent example of a candidate who has progressed through Severstal's corporate talent pool to a senior management position, and we are proud to continue nurturing and developing our impressive internal talent. The top management team was also strengthened by Albert Lyaskovsky joining as Director for Labour Safety, Industrial Safety and Environmental Protection.

To ensure the effective development of our talent pool and staff allocation, we offer flexible staffing, as well as taking steps to encourage a business development mindset among our employees. This is supported by our close involvement of employees in our transformational changes to our culture, including offering additional bonuses for achieving ambitious goals. In 2020, to accelerate the development of our talent pool, we

launched two development programmes for successors for middle and top level positions in the organisation.

The Committee is regularly updated on the senior management team's capabilities, due to its involvement in Severstal's Second Opinion programme, a review programme in which talented employees are interviewed by a person unknown to them, independently of the executive management.

Executive remuneration structure

The Group's executive remuneration structure is designed to ensure a balance between engaging and retaining highly qualified managers and the interests of Severstal's shareholders. Though the established remuneration policy has long-term variable pillars, such as LTIPs and KPIs, the fixed salary element is reviewed on an annual basis involving a benchmark using external data. This ensures that the Company's management compensation is fair and in line with the market. We target remuneration for our executives in the range of between the 50th and 75th percentile of the market average, as defined by external benchmarks. We regularly review these external benchmarks, which are provided by one of the Big 4 accountancy firms, to ensure that they are relevant and appropriate to our business.

Annual Remuneration consists of the following two parts: the fixed salary mentioned above, and a variable portion known as a bonus.

The bonus' percentage of an individual's annual salary varies for various executive levels. However, in general the bonus consists of two parts – an individual element and a corporate one:

- The first 50% is based on performance against individual targets. The individual targets for executive Board members are set by the Company CEO; targets for the CEO are determined by the Remuneration and Nomination Committee and recommended to the Board;
- The remaining 50% of the bonus is based on performance compared with the Company's financial and operational KPIs set by the CEO at the start of the year and approved by the Remuneration and Nomination Committee. The set of KPIs includes financial targets such as operating cash flow, EBITDA and Total Shareholder Return. Consideration is also given to Severstal's safety, environmental and climate change performance.

Board of Directors' remuneration and compensation policy

By the decision of the General Meeting of Shareholders (GMS), Board members may be paid a remuneration during the execution of their duties and reimbursed for expenses incurred in connection with their responsibilities as Board members. The amount of such remuneration or compensation is subject to approval by the GMS only. In the event that a Board member resigns before the term of his/her office expires, they will be paid pro rata in proportion to the term of office that expired prior to resignation.

Severstal reimburses the expenses that may be incurred by Board members' expenses in connection with the performance of their duties as Board members, including transport, accommodation and mailing costs, as well as costs relating to the translation of company documents or materials that they are provided with.

Long-term incentive programme (LTIP)

To support the long-term retention of top management and alignment of their interests with those of the shareholders, Severstal has an LTIP programme in place. The LTIP covers a period of three years and is based on a "phantom" stock plan.

This type of stock plan pays a cash award to an employee that equals a set number of Severstal shares multiplied by the current share price.

Phantom stock plans contain vesting schedules that are based on tenure. The vesting period for the whole LTIP starts only after the end of the third year of the executive's participation in the programme. The number of phantom shares attributed to an executive is determined by a proportion of the executive's salary in the first year of the programme. Each year, the Committee reviews the awards made under the LTIP programme and the individuals who are eligible to receive awards.

The fundamental principles for participation in the LTIP are that:

- The Job plays a critical role in the transformation of the Company;
- The Job plays a critical role in the delivery of the financial ambitions of the Company;
- A recognition that retaining talent is critical for the sustainability, growth and success of the Company.

The Committee has determined that the main goals of the LTIP are the retention of key employees by providing a strong remuneration position competitive to Severstal's peer group, combined with a focus on the Company's performance.

The Committee has agreed a simple and transparent plan to incentivise and drive the behaviour of employees in both operational roles and those implementing strategic change to deliver increased shareholder value.

Measurements of success are 50% based on the price of Global Depositary Receipts (GDR) and 50% on the Group's improvement in EBITDA.

Compensation of Senior Managers, Executive Officers and Directors

Key management's remuneration for the year ended 31 December 2020, consisting of salaries and bonuses, amounted to US\$ 9 million (2019: US\$ 9 million).

The remuneration paid to members of the Board of Directors of PAO Severstal deemed to be Independent Directors as provided for by the Corporate Governance Code of PAO Severstal for the execution of functions of the Board members of PAO Severstal are as follows starting from 1 May 2019:

- to an Independent Director approved by the Board resolution as a Chairman of any Committee of the

Board of Directors of PAO Severstal – 11,700 Euro (or an equivalent in any other currency) per month;

- to any other Independent or Non-Independent Director – 5,900 Euro (or an equivalent in any other currency) per month.

Loans are not made by Severstal to Senior Managers, Executive Officers and Directors.

Looking ahead

In 2021, the Committee will continue to focus on culture and engagement at Severstal, in addition to ensuring our considerable pool of talent is correctly incentivised for the benefit of all stakeholders. These are key elements of Severstal's strategy and I look forward to providing an update on our progress.

Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee currently consists of:

1. Philip Dayer (Chairman),
2. Alexey Mordashov,
3. Alexander Shevelev,
4. Alexander Auzan,
5. Agnes Ritter.

Role

The Health, Safety and Environmental Committee assists the Board in obtaining assurance that appropriate systems are in place to deal with the management of health, safety and environmental risks.

Report by Philip Dayer Chair of the Health, Safety, and Environmental Committee

2020 has been an exceptionally challenging year that has significantly stress-tested Severstal's health and safety structures and procedures as well as our safety culture, which we have developed over many years.

Protecting our employees during the pandemic

Throughout the COVID-19 pandemic, the Company has operated in full compliance with recommendations issued by the Government of the Russian Federation and the regional authorities to help reduce the impact of coronavirus and keep our employees safe. The Health, Safety and Environmental Committee monitored management's actions to contain and minimise the impact of the pandemic at Severstal's operations and how to adapt to changing conditions and external regulations during the year. In response to the pandemic, a special committee was formed with the responsibility for the day-to-day response to the latest developments in the global spread of the virus. We acted swiftly and prudently, and the fact that we had no major outbreaks throughout 2020 is a significant achievement and testament to the immense effort of our people given the complex range of heightened safety measures our teams had to introduce, reflecting the varied working environments across Severstal's vertically integrated operations. In March, we placed restrictions on business travel abroad and reduced

travel within Russia. Regular sanitation and disinfection of all workplaces was made mandatory and we introduced temperature-checking for all employees on their arrival at work. We suspended group meetings and all employees who could do so were asked to work from home. While the extent of measures taken varied during the year reflecting changing local risk levels, we remained highly vigilant at all times. Although the Company reported a number of positive cases during the year, strict quarantine measures ensured the overwhelming majority of our workforce was unaffected by the virus.

The success of the measures we took was partly due to a major focus on ensuring effective internal communications on managing the virus with our employees and contractors.

Health and safety performance

Against the backdrop of these unprecedented circumstances, I would like to provide an update on our usual safety indicators. In 2018 the Company set long-term health and safety improvement targets to: reduce LTIFR by 50% by 2025, compared with 2017, and eliminate all work-related fatalities; and, by 2025, ensure all businesses achieve ISO 45001 certification. In 2020, six of our enterprises (Cherepovets Steel Mill, Severstal Metiz, Vorkutaugol, Karelsky Okatysh, Olcon, Severstal Distribution (Latvia)) received ISO 45001 certificates.

While it gives me some comfort to report that Severstal achieved an LTIFR of 0.65 in 2020, which is quite an achievement given the momentous pressure the pandemic put on our safety processes, we are deeply disappointed and saddened to report that we had 14 deaths on Severstal sites in 2020.

Every death is a tragedy and each case has been individually investigated and reviewed by myself and the HSE Committee. Despite specific efforts we have taken to improve contractor safety, ten of the fatalities were contractor staff, who were mostly working in breach of Severstal's safety regulations, despite their contractual obligations to comply with our safety standards. A failure to comply with safety procedures was also the principal cause of the fatalities amongst our staff. This has highlighted a systemic problem which we are addressing by taking far-reaching measures.

Strengthened health and safety team and enhanced approach

Our efforts to improve safety are being led by an enlarged and strengthened senior health and safety team, with two important hires made during 2020. Albert Lyaskovsky was appointed as Severstal's new Director for Labour Protection, Industrial Safety and Environmental Protection. Albert is highly experienced in driving safety culture change at major industrial businesses, having most recently spent 12 years at the petrochemicals company SIBUR where he rose from chief expert on labour protection and industrial safety to Director of Labour Protection, Industrial Safety and Environmental Protection. I am delighted that Albert agreed to join us and we will benefit greatly from his experience and skills. The HSE committee will work closely

with him over the coming years as he will be responsible for overseeing enhanced labour safety standards across all of Severstal's industrial sites.

We were also pleased to welcome Svetlana Sobornova as a Project Leader on Health and Safety. She is an experienced professional, previously working at Royal Dutch Shell, KPMG, EuroChem A.G. and NLMK Group. As a direct reaction to the high level of fatalities, Svetlana is leading our 'Management of fatal risks' project aimed at achieving zero work-related fatalities.

The project is specifically focused on:

1. Building an understanding of the risks that have led to work-related fatalities in recent years
2. Visualising these risks on the shop floor
3. Introducing 'barrier-thinking' to our risk management approach, which involves the development of three risk barrier categories (technical, procedural and behavioral)
4. Assessing residual risk, i.e. evaluating how well risks are controlled once the barriers have been applied
5. Reinforcing existing barriers and shaping a standardised model for assigning effective barriers for each fatal risk, thereby creating a universal control system for fatal risks

Our goal is to have zero fatalities across the business. Our track record of LTIFR is of little relevance until we are confident we have a safe environment for everyone. I am grateful for the hard work Albert and Svetlana have already put into this critical area and I am optimistic that their contribution as part of the strengthened health and safety team will translate into marked improvements in our safety performance – an absolutely critical objective for the Board.

Environmental protection

2020 has been a very active year in terms of demonstrating Severstal's commitment to protecting the natural environment. The Company made good progress against its targets to reduce atmospheric emissions, waste disposal and discharged wastewater.

The HSE Committee is responsible for overseeing Severstal's Climate Change Strategy and this is a standing item at every HSE Committee meeting. Before setting targets to reduce Severstal's greenhouse gas emissions, over the last year the Company has undertaken a thorough process with external consultants to ensure we are able to measure accurately Severstal's base position, accounting for Scopes 1-3. Following this extensive work, in July we were able to announce a public target for our carbon emissions reduction, committing to cut our greenhouse gas emissions intensity by 3% over the next three years, when compared with 2020. This commitment was not made lightly. Our communications approach around our decarbonisation strategy is to only make public commitments that the Company knows are ambitious but achievable and which are backed up by a roadmap of concrete actions and investments. We are already making progress towards this first short-term target but we are also developing strategies to support our attainment of mid and long-term targets over the next decade and will announce these as soon as these strategies have been

approved. The HSE Committee and I are very excited about the progress on this important area and the management is highly motivated to reduce Severstal's climate impact and play our role in helping to meet the goals set by the Paris Climate Agreement.

Thanks to ongoing equipment enhancements, in July Severstal was also able to revise and upgrade its total atmospheric emissions reduction targets for 2025 and the Company now expects to reduce its total atmospheric emissions by 13% (66,500 tonnes) against 2017 levels, compared with the previously announced target of 7%.

We have also strengthened our team with the appointment of Olga Kalashnikova who was previously responsible for upstream environmental performance at Shell Russia. During more than ten years at Royal Dutch Shell, Olga was responsible for: ensuring best environmental practices were maintained at the group's joint ventures in Russia; developing and running strategies to address local environmental issues (including those related to biodiversity and environmentally sensitive areas); managing greenhouse gas emissions; and, energy efficiency. Olga is helping drive our Climate Change Strategy as we aim to set both mid and longer-term goals in the coming months.

External recognition

In 2020 our overall environmental progress has once again been recognised by ESG ratings agencies and awards.

Severstal's MSCI ESG rating was upgraded to 'B'. Severstal was upgraded to 15th place in the global ESG rankings of steel-producing companies in the SAM Corporate Sustainability Assessment. According to SAM, the seven-point rise, from 41 to 48 (out of 100), reflected the steady improvements in Severstal's sustainability practices and disclosure, most significantly in the Environment category. A key contributor to the improvement was recognition of Severstal's programmes to reduce pollutant emissions and discharges into water, as well as further progress in biodiversity conservation and the Company's announced climate strategy.

Our FTSE4Good Index score also improved to 3.5 points out of a possible 5, and our Sustainability Report received first prize in the Best Corporate Social Responsibility and Sustainable Development Report category at the XXIII Moscow Exchange Annual Report Competition.

Looking forward

First and foremost, ensuring the Company is doing everything in its power to keep its employees and contractors safe will continue to be our number one priority. We will closely monitor the situation with the coronavirus pandemic, as well as investing in the right measures to ensure our contractor safety procedures are fit for purpose. I know we have an incredibly strong and committed team in place to support this and I am confident we can take transformative action.

We also remain committed to advancing our Climate Change Strategy whilst ensuring the integrity of our reporting and the long-term positive impact of our actions.



053

Financial Statements

Independent Auditors' Report

To the Shareholders of PAO Severstal and Board of Directors

Opinion

We have audited the consolidated financial statements of PAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2020, 2019 and 2018, the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: PAO Severstal.

Registration number in the Unified State Register of Legal Entities:
No. 1023501236901.

Cherepovets, Vologodskaya oblast, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Registration number in the Unified State Register of Legal Entities:
No. 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). Principal registration number of the entry in the Register of Auditors and Audit Organizations: No. 12006020351.

The impact of COVID-19

Please refer to the Notes 1, 7 and 26 in the consolidated financial statements.

The key audit matter

The COVID-19 pandemic is an unprecedented challenge for the global economy. As with the overwhelming majority of businesses worldwide, the pandemic impacted the Group's business due to uncertain markets and their exceptional volatility. The potential negative effects of the pandemic on the Group's consolidated financial statements are subject to a significant degree of uncertainty. Amongst others, we have considered the following matters as part of our audit:

Impairment of property, plant and equipment

Management assessed the effect of the pandemic related disruption and economic volatility has had on its operations and cash flows. The forecasts for business operations have been reassessed and models supporting property, plant and equipment impairment assessment have been revised. Management has concluded that COVID-19 and the current global market conditions did not result in impairment provisions for its property, plant and equipment. Refer Note 7.

Cash flow projections incorporate management's estimate relating to the impact of inherent future volatility in volumes, commodity prices, margins and demand. These calculations require the application of some key assumptions such as discount rates, inflation rates and growth rates, and include management's assessment of the potential ongoing economic impacts of the COVID-19 pandemic and the related macro-economic disruptions.

How the matter was addressed in our audit

Impairment of property, plant and equipment

- we challenged the management regarding a list of cash generating units for which cash flows included in the value in use calculation should have been updated as a result of continuing volatilities in the markets;
- we involved our valuation specialists in assessing the methodology, discount rates, long-term commodities price forecast, currency exchange, inflation rates and other inputs applied by management in the value-in-use calculation;
- we compared the estimated future cash flows, including operating costs, capital expenditures with historical results and with the plan authorised by management to evaluate the consistency;
- we performed sensitivity analysis of the effects to the value in use that would result from the change in significant assumptions, such as discount rate;
- we considered the adequacy of the Group's disclosure in Note 7 in respect to the assessment of impairment of property, plant and equipment.

Measurement of trade receivables

- we examined the effect arising from the impact of COVID-19 on the Group's processes and internal controls, including any changes in credit terms agreed with customers, customers' financial conditions and any other factors which might result in revisions of the allowance matrix;
- we analysed the average repayment period of trade receivables and compared them with prior year; on a sample basis, we obtained trade receivable confirmations and considered ageing to identify collection risks;
- we also assessed the adequacy of the Group's disclosure on the trade receivables and the related credit risks in Note 26.

The key audit matter	How the matter was addressed in our audit
<p>Measurement of trade receivables</p> <p>In light of the COVID-19 outbreak, management reviewed the allowance matrix for different ages of trade accounts receivable and concluded that this should not be revised.</p> <p>Assessment of control environment</p> <p>As a result of the COVID-19 pandemic, the financial reporting and business processes, including the underlying IT environment and related controls, may be affected. For example, due to the employees' lack of physical access when working remotely, or shortage of certain employees due to illness or layoffs, the strength of the control environment may deteriorate or may be redesigned to address the new circumstances resulting in new or different risks. Those risks are particularly in areas such as system access and management of the roles and responsibilities when operating controls relevant to our audit, including increased use of privileged accounts.</p>	<p>Assessment of control environment</p> <p>- we updated our understanding of the Group's IT environment and related controls in place to identify potential changes caused by the impacts from COVID-19 pandemic, including potential breakdowns in operating effectiveness of controls relevant to core business processes, and our understanding of the general IT controls that support the consistent operation of automated controls;</p> <p>- we tested general IT controls in the area of system access and privileged accounts both on the application level and database management system (DBMS) level with the involvement of information risk management specialists.</p>

Other Information

Management is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Pataraya G.E.
JSC "KPMG"
Moscow, Russia
3 February 2021



PAO Severstal and subsidiaries

Consolidated income statements Years ended 31 December 2020, 2019 and 2018

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

	Note	Year ended 31 December		
		2020	2019	2018
Revenue				
Revenue - third parties		6,744	8,002	8,436
Revenue - related parties	10	126	155	144
	4	6,870	8,157	8,580
Cost of sales		(3,952)	(4,908)	(4,918)
Gross profit		2,918	3,249	3,662
General and administrative expenses		(428)	(357)	(306)
Distribution expenses		(544)	(532)	(578)
Other taxes and contributions		(28)	(56)	(69)
Share of associates' and joint ventures' profits		17	20	14
Loss on disposal of property, plant and equipment and intangible assets		(21)	(12)	(23)
Net other operating income		16	15	7
Profit from operations		1,930	2,327	2,707
(Impairment)/reversal of impairment of non-current assets	7	(11)	5	68
Net other non-operating expenses	8	(50)	(74)	(50)
Profit before financing and taxation		1,869	2,258	2,725
Finance income		13	5	14
Finance costs		(135)	(137)	(113)
(Loss)/gain on remeasurement and disposal of financial instruments		(77)	(19)	58
Foreign exchange (loss)/gain	6	(361)	125	(165)
Profit before income tax		1,309	2,232	2,519
Income tax expense	9	(293)	(465)	(468)
Profit for the period		1,016	1,767	2,051
Attributable to:				
shareholders of PAO Severstal		1,016	1,766	2,051
non-controlling interests		-	1	-
Basic weighted average number of shares outstanding during the period (millions of shares)	22	825	825	817
Basic earnings per share (US dollars)		1.23	2.14	2.51
Diluted weighted average number of shares outstanding during the period (millions of shares)	22	850	849	848
Diluted earnings per share (US dollars)		1.23	2.08	2.47

These consolidated financial statements were approved by the Board of Directors on 3 February 2021.

The accompanying notes form an integral part of these consolidated financial statements.

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income

Years ended 31 December 2020, 2019 and 2018

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

	Note	Year ended 31 December		
		2020	2019	2018
Profit for the period		1,016	1,767	2,051
Other comprehensive (loss)/income:				
Items that will not be reclassified to profit or loss				
Actuarial (losses)/gains	20	-	(12)	6
Translation to presentation currency		(542)	364	(663)
Total items that will not be reclassified to profit or loss		<u>(542)</u>	<u>352</u>	<u>(657)</u>
Items that may be reclassified subsequently to profit or loss				
Translation to presentation currency - foreign operations		8	(1)	(3)
Total items that may be reclassified subsequently to profit or loss		<u>8</u>	<u>(1)</u>	<u>(3)</u>
Items that were reclassified to profit or loss				
Changes in fair value of financial assets measured through other comprehensive income		-	-	(4)
Total items that were reclassified to profit or loss		<u>-</u>	<u>-</u>	<u>(4)</u>
Other comprehensive (loss)/income for the period		<u>(534)</u>	<u>351</u>	<u>(664)</u>
Total comprehensive income for the period		<u>482</u>	<u>2,118</u>	<u>1,387</u>
Attributable to:				
shareholders of PAO Severstal		482	2,117	1,387
non-controlling interests		<u>-</u>	<u>1</u>	<u>-</u>

The accompanying notes form an integral part of these consolidated financial statements.

PAO Severstal and subsidiaries

Consolidated statements of financial position 31 December 2020, 2019 and 2018

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

	Note	31 December		
		2020	2019	2018
Assets				
Current assets:				
Cash and cash equivalents	12	583	1,081	228
Short-term financial investments		6	6	7
Trade accounts receivable	13	529	582	554
Accounts receivable from related parties	11	18	21	20
Inventories	14	888	1,137	1,087
VAT recoverable		97	97	66
Income tax recoverable		-	5	5
Other current assets		107	166	105
Total current assets		2,228	3,095	2,072
Non-current assets:				
Long-term financial investments	15	33	26	8
Investments in associates and joint ventures		116	120	76
Property, plant and equipment	16	4,746	4,670	3,469
Intangible assets	17	252	279	212
Deferred tax assets	9	12	15	27
Other non-current assets		9	17	10
Total non-current assets		5,168	5,127	3,802
Total assets		7,396	8,222	5,874
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		648	709	545
Accounts payable to related parties	11	9	17	21
Short-term debt finance	18	610	290	110
Income taxes payable		15	19	11
Other taxes and social security payable		146	126	107
Dividends payable	18	8	7	6
Other current liabilities	19	334	418	323
Total current liabilities		1,770	1,586	1,123
Non-current liabilities:				
Long-term debt finance	18	2,002	2,361	1,345
Deferred tax liabilities	9	372	365	295
Retirement benefit liabilities	20	61	74	56
Other non-current liabilities	21	447	358	176
Total non-current liabilities		2,882	3,158	1,872
Equity:				
Share capital	22	2,753	2,753	2,753
Treasury shares		(104)	(107)	(133)
Additional capital		308	308	308
Translation reserve		(2,516)	(1,982)	(2,345)
Retained earnings		2,280	2,483	2,274
Other reserves		8	8	8
Total equity attributable to shareholders of PAO Severstal		2,729	3,463	2,865
Non-controlling interests		15	15	14
Total equity		2,744	3,478	2,879
Total equity and liabilities		7,396	8,222	5,874

The accompanying notes form an integral part of these consolidated financial statements.

PAO Severstal and subsidiaries

Consolidated statements of cash flows Years ended 31 December 2020, 2019 and 2018

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

	Note	Year ended 31 December		
		2020	2019	2018
Operating activities:				
Profit before financing and taxation		1,869	2,258	2,725
Adjustments to reconcile profit to cash generated from operations:				
Depreciation and amortisation		460	464	405
Impairment/(reversal of impairment) of non-current assets	7	11	(5)	(68)
Movements in provision for inventories, receivables and other provisions		97	(4)	(13)
Loss on disposal of property, plant and equipment and intangible assets		21	12	23
Loss on disposal of subsidiary	23	-	21	-
Share of associates' and joint ventures' profits		(17)	(20)	(14)
Changes in operating assets and liabilities:				
Trade accounts receivable		(80)	17	(23)
Accounts receivable from related parties		(1)	1	(9)
VAT recoverable		(12)	(24)	35
Inventories		57	59	(211)
Trade accounts payable		42	8	40
Accounts payable to related parties		(3)	(1)	(5)
Other taxes and social security payable		42	12	15
Other non-current liabilities		-	(7)	(8)
Assets held for sale		-	(10)	-
Net other changes in operating assets and liabilities		20	26	(70)
Cash generated from operations		2,506	2,807	2,822
Interest paid		(133)	(114)	(104)
Income tax paid		(229)	(401)	(464)
Net cash from operating activities		2,144	2,292	2,254
Investing activities:				
Additions to property, plant and equipment		(1,256)	(1,157)	(653)
Additions to intangible assets		(71)	(61)	(35)
Additions to financial investments		(20)	(55)	(23)
Net cash outflow on acquisition of subsidiary	23	(19)	-	-
Net cash inflow from disposal of subsidiary	23	-	215	-
Proceeds from disposal of property, plant and equipment and intangible assets		5	15	15
Proceeds from disposal of financial investments		7	21	210
Interest received		10	4	16
Dividends received		6	6	4
Net cash used in investing activities		(1,338)	(1,012)	(466)
Financing activities:				
Proceeds from debt finance		38	1,205	-
Acquisition of non-controlling interests		-	-	(2)
Repayments of debt finance *		(48)	(58)	(584)
Repayments of lease liabilities		(15)	(16)	-
Dividends paid		(1,228)	(1,574)	(1,971)
Net cash used in financing activities		(1,253)	(443)	(2,557)
Effect of exchange rates on cash and cash equivalents		(51)	16	(34)
Net (decrease)/increase in cash and cash equivalents		(498)	853	(803)
Cash and cash equivalents at beginning of the period		1,081	228	1,031
Cash and cash equivalents at end of the period		583	1,081	228

* These amounts include exercise of bonds' conversion rights of US\$ 43 million for the year ended 31 December 2020 (2019: US\$ 50 million, 2018: US\$ 28 million).

The accompanying notes form an integral part of these consolidated financial statements.

PAO Severstal and subsidiaries

Consolidated statements of changes in equity Years ended 31 December 2020, 2019 and 2018

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

	Attributable to the shareholders of PAO Severstal						Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves		
Balances as at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	
Profit for the period	-	-	-	-	2,051	-	2,051	
Translation to presentation currency	-	-	-	(666)	-	-	(666)	
Other comprehensive income/(loss)	-	-	-	-	6	(4)	2	
Total comprehensive (loss)/income for the period	-	-	-	(666)	2,057	(4)	1,387	
Dividends	-	-	-	-	(1,977)	-	(1,977)	
Conversion of bonds	-	73	-	-	-	-	73	
Other	-	-	-	-	(1)	-	(1)	
Balances as at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	2,865	
Profit for the period	-	-	-	-	1,766	-	1,766	
Translation to presentation currency	-	-	-	363	-	-	363	
Other comprehensive loss	-	-	-	-	(12)	-	(12)	
Total comprehensive income for the period	-	-	-	363	1,754	-	2,117	
Dividends	-	-	-	-	(1,545)	-	(1,545)	
Conversion of bonds	-	26	-	-	-	-	26	
Balances as at 31 December 2019	2,753	(107)	308	(1,982)	2,483	8	3,463	
Profit for the period	-	-	-	-	1,016	-	1,016	
Translation to presentation currency	-	-	-	(534)	-	-	(534)	
Total comprehensive (loss)/income for the period	-	-	-	(534)	1,016	-	482	
Dividends	-	-	-	-	(1,219)	-	(1,219)	
Conversion of bonds	-	3	-	-	-	-	3	
Balances as at 31 December 2020	2,753	(104)	308	(2,516)	2,280	8	2,729	

The accompanying notes form an integral part of these consolidated financial statements.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements Years ended 31 December 2020, 2019 and 2018

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

1. Operations

These consolidated financial statements of PAO Severstal and subsidiaries comprise the parent company, PAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 23.

Severstal began operations on 24 August 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On 24 September 1993, as part of the Russian privatisation programme, Severstal was registered as an Open Joint Stock Company ('OAO') and privatised. Through participating in Severstal's privatisation auctions and other purchases, Alexey Mordashov (the 'Majority Shareholder') purchased shares in Severstal such that as at 31 December 2020, 2019 and 2018 he controlled indirectly 77.03% of Severstal's share capital. In November 2014, Severstal changed its legal form from OAO to PAO (Public Joint Stock Company) following the requirements of the amended Russian Civil Code.

Severstal's global depository receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Moscow Exchange ('MOEX'). Severstal's registered office is located at Ul. Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises three iron ore complexes, JSC Karelsky Okatysh, JSC Olcon in northwest Russia, OOO Korpanga (Yakovlevskiy mine) in southwest Russia and a coal mining complex, JSC Vorkutaugol in northwest Russia.
- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 and large-diameter pipe mill in Kolpino, all in northwest Russia; a metalware plant located in Russia; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various supporting functions for trading, maintenance and transportation, located in Europe.

Economic environment

The year ended 31 December 2020 has seen significant global market turmoil triggered by the outbreak and spread of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and stock market indices, as well as a depreciation of the Russian rouble. Management is closely monitoring market conditions which at the end of the year have demonstrated growth both in the oil prices and market indices. The significance of the impact of COVID-19 on the Group's business largely depends on the duration and effect of the pandemic on the Russian and world economy.

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

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

The major part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realisation and settlement of its assets and liabilities.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping and safeguard investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution.

2. Basis for preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

The Group additionally prepared IFRS consolidated financial statements presented in Russian roubles and in the Russian language in accordance with the Federal Law No. 208 – FZ 'On consolidated financial reporting'.

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Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial assets and liabilities at fair value through profit and loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and assets held for sale at fair value less costs to sell.

The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in Note 3.

Critical accounting judgments, estimates and assumptions

Areas of judgement that have the most significant effect on the amounts recognised or disclosed in the consolidated financial statements are:

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of assets

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Taxation

The taxation system and regulatory environment of the Russian Federation are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who can impose significant fines, penalties and interest charges. In recent years the regulatory authorities have adopted a more assertive stance regarding the interpretation and enforcement of legislation, which has resulted in greater tax and regulatory risk. Also, a number of new laws introducing tax legislation changes have been recently adopted; their application in practice might influence the tax treatment of transactions related to foreign companies and their activities, which could potentially impact the Group's tax position and possibly create additional tax risks in the future.

Accordingly, management has to apply considerable judgement in determining the appropriate amounts of tax payable. Management believes that the Group has complied in all material respects with all existing, relevant legislation and has made appropriate provision for tax payable.

Allowance for expected credit losses

The Group makes allowance for expected credit losses of trade receivables using an allowance matrix. Loss rates are based on actual credit loss experience over the past three years. When evaluating the adequacy of an allowance for expected credit losses, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Decommissioning liabilities

The Group recognises its decommissioning liabilities provision using the best estimate of the expenditures required to settle the present obligation based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after

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employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Litigation

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Functional and presentation currency

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. The functional currency of the major part of the Group's entities is the Russian rouble, except for entities located in Latvia and Poland; other entities and currencies are not material to the Group.

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

a. Exploration for and evaluation of mineral resources

Expenditures associated with search for specific mineral resources are recognised as exploration and evaluation assets.

The Group measures its exploration and evaluation assets at cost and classifies as tangible or intangible according to the nature of the assets acquired and applies the classification consistently.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are proved and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into property, plant and equipment or intangible assets depending on the type of the asset.

b. Development expenditure

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalised and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

c. Stripping costs

The Group separates two different types of stripping costs that are incurred in surface mining activity:

- Stripping activity asset;
- Current stripping costs.

Stripping activity asset is created as part of usual surface activity in order to obtain improved access to further quantities of minerals that will be mined in future periods.

Current stripping costs are costs that are incurred in order to mine the mineral ore only in the current period.

After initial recognition, stripping activity assets are carried at cost less accumulated depreciation and any impairment loss. Depreciation is calculated using the units of production method.

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d. Property, plant and equipment

Depreciation is calculated using the straight-line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Infrastructure assets	5 – 50 years

e. Leases

The Group's right-of-use assets include land and buildings, plant and machinery, vehicles and other productive assets. Short-term and low value leases are accounted as leases; lease and non-lease components are treated as a single lease item for all leased assets.

The lease liability is discounted using the Group's incremental borrowing rates varying between 1% and 10% depending on the lease agreement's currency. For some specific lease agreements, the discount rate is determined by the interest rate implicit in these lease agreements.

f. Intangible assets (excluding goodwill)

Intangible assets are amortised over their estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The table below presents the useful lives of intangible assets:

Mineral rights	12 - 25 years
Software	3 - 10 years
Other intangible assets	3 - 50 years

The major component of the software is the SAP business system. Amortisation of intangible assets is included in the captions "Cost of sales" and "General and administrative expenses" in the consolidated income statement.

g. Impairment of non-current assets

At each reporting date the Group assesses whether there is any indication of impairment of the Group's non-current assets. If any such indication exists, the asset's recoverable amount is estimated.

For the purpose of impairment testing, the recoverable amount of cash generating unit is determined based on value in use calculations. The value in use calculation uses cash flow projections based on actual operating results and the business plan approved by management and a corresponding post-tax discount rate which reflects current market assessment of the time value of money and risks associated with each individual cash-generating unit.

h. Inventories

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

i. Dividends payable

Dividends are recognised as a liability in the period in which they are authorised by the shareholders.

j. Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

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k. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

l. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). For the Group's entities, the discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan.

The Group's retirement benefit service costs are allocated and recognised in the income statement as part of "Cost of sales" and "General and administrative expenses" proportionally to related salary expenses. Any actuarial gain or loss arising from the calculation of the retirement benefit liability is fully recognised in other comprehensive income.

Other long-term employee benefits include various compensations, non-monetary benefits and a long-term cash-settled share-based incentive programme.

Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closure of its certain production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate.

m. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, net of any tax effects is recognised as a deduction from equity and classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

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n. Revenue recognition

Most of the Group's revenue is revenue from contracts with customers.

Revenue from the sale of hot rolled strip and plate, other steel products, pellets and iron ore and most other revenue (see Note 4) is recognised in the income statement primarily at the point in time when control over the promised goods passes to the customer.

The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods and is reduced for estimated customer returns, rebates and other similar allowances.

In most instances, control passes, and sales revenue is recognised when the product is delivered to the vessel or vehicle on which it will be transported once loaded to the destination port or the customer's premises.

The Group's products are sold to customers under contracts which vary in tenure, but are generally less than one year in duration (therefore, no significant effect of any financing component exists) and pricing mechanisms, including some volumes sold in the spot market. Revenue is generally recognised at the contracted price as this reflects the stand-alone selling price.

o. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year.

Diluted earnings per share are calculated by dividing adjusted profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding, adjusted for the effect of all dilutive potential ordinary shares.

p. Segment reporting

An operating segment's results are reviewed regularly by key management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available and is prepared on the same basis as these consolidated financial statements.

4. Revenue

Revenue by product was as follows:

	Year ended 31 December		
	2020	2019	2018
Hot-rolled strip and plate	2,394	2,780	2,756
Galvanized and other metallic coated sheet	595	667	629
Pellets and iron ore	569	688	627
Metalware products	502	539	542
Other tubes and pipes, formed shapes	500	447	456
Shipping and handling *	499	501	543
Cold-rolled sheet	493	604	802
Colour-coated sheet	377	397	364
Long products	281	575	701
Semi-finished products	183	194	321
Large diameter pipes	150	376	477
Coal and coking coal concentrate	57	95	93
Scrap	6	4	6
Others	264	290	263
	<u>6,870</u>	<u>8,157</u>	<u>8,580</u>

* Shipping and handling do not represent a separate performance obligation under IFRS 15 "Revenue from contracts with customers" and is disclosed only for presentation purposes. For the year ended 31 December 2020 shipping and handling related to Severstal Resources and Severstal Russian Steel Divisions amounted to US\$ 10 million and US\$ 489 million, respectively (2019: US\$ 24 million and US\$ 477 million; 2018: US\$ 119 million and US\$ 424 million, respectively).

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Revenue by delivery destination was as follows:

	Year ended 31 December		
	2020	2019	2018
Russian Federation	4,233	5,451	5,126
Europe	1,761	1,812	2,233
CIS	451	475	492
The Middle East	171	141	295
Africa	86	128	140
Central and South America	63	80	86
South-East Asia	60	-	24
China and Central Asia	30	18	43
North America	15	52	141
	<u>6,870</u>	<u>8,157</u>	<u>8,580</u>

5. Staff costs

Employment costs were as follows:

	Year ended 31 December		
	2020	2019	2018
Wages and salaries	(770)	(794)	(739)
Social security costs	(241)	(254)	(244)
Retirement benefit service costs (Note 20)	(1)	(1)	1
	<u>(1,012)</u>	<u>(1,049)</u>	<u>(982)</u>

Key management personnel include the following positions within the Group:

- CEO and Deputy Directors;
- Members of the Board of Directors.

Key management's remuneration for the year ended 31 December 2020, consisting of salaries and bonuses, totalled US\$ 9 million (2019: US\$ 9 million; 2018: US\$ 11 million).

Additionally, in 2020, a provision for their long-term cash-settled share-based incentive programmes of US\$ 3 million was accrued (2019: US\$ 3 million; 2018: US\$ 4 million). This provision is subject to further adjustments, depending on a range of the Group's financial and non-financial indicators.

6. Foreign exchange (loss)/gain

	Year ended 31 December		
	2020	2019	2018
Foreign exchange (loss)/gain on cash and cash equivalents and debt finance	(303)	126	(184)
Foreign exchange (loss)/gain on derivatives	(64)	7	-
Foreign exchange gain/(loss) on other assets and liabilities	6	(8)	19
	<u>(361)</u>	<u>125</u>	<u>(165)</u>

7. (Impairment)/reversal of impairment of non-current assets

	Year ended 31 December		
	2020	2019	2018
(Impairment)/reversal of impairment of property, plant and equipment	(11)	5	66
Reversal of impairment of intangible assets	-	-	2
	<u>(11)</u>	<u>5</u>	<u>68</u>

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Key assumptions that management used in their value in use calculations are as follows:

- For all cash-generating units, apart from those included in the Severstal Resources segment, cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash-generating units of the Severstal Resources segment cover a period which corresponds to the contractual time remaining of the respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation are in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended 31 December		
	2020	2019	2018
Russia	2.4 - 3.9	n/a	3.8 - 4.4

- Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended 31 December		
	2020	2019	2018
Severstal Resources:			
Russia (US\$ rate)	9.9 - 11.8	n/a	13.8
Severstal Russian Steel:			
Russia (US\$ rate)	8.5 - 8.7	n/a	n/a

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

Severstal Resources segment

JSC Olcon

2018

The Group performed an analysis and identified factors that indicated that the previously recognised impairment loss in respect of the JSC Olcon cash generating unit may require reversal. For the purposes of impairment testing, the value in use was determined by discounting expected future net cash flows of this cash generating unit. Based on the results of the impairment testing, a reversal of the impairment of US\$ 51 million was recognised in 2018, of which US\$ 49 million was allocated to property, plant and equipment and US\$ 2 million to intangible assets. The carrying amount of the JSC Olcon non-current assets was US\$ 151 million as at 31 December 2018.

The following main assumptions were used in the impairment test model:

- the forecast sales volumes decrease by 1% in 2019, stay flat in 2020, decrease by 1% in 2021 and decrease on average by 7% p.a. in 2022 to 2026;
- the forecast iron ore concentrate prices decrease by 5% in 2019, decrease by 1% in 2020, increase by 3% in 2021 and increase on average by 1% p.a. thereafter to 2026;
- operating costs are forecast to decrease by 8% in 2019, decrease by 2% in 2020, increase by 13% in 2021 and decrease on average by 7% p.a. in 2022 to 2026;
- foreign exchange rates are forecast to increase by 5% in 2019, increase by 2% in 2020, decrease by 2% in 2021 and 2022 and increase on average by 1% p.a. in 2023 to 2026;
- post-tax discount rate of 13.8% (in US\$ terms).

The recoverable amount of the JSC Olcon cash-generating unit is not sensitive to changes in the main assumptions used in the impairment test model. There is a significant surplus of recoverable amount compared with the carrying amount of non-current assets as at 31 December 2018.

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Other units

2020

An impairment loss of US\$ 11 million was recognised in 2020 in relation to specific items of property, plant and equipment.

2018

A reversal of impairment of US\$ 4 million was recognised in 2018 in relation to specific items of property, plant and equipment.

Severstal Russian Steel segment

Other units

2019

A reversal of impairment of US\$ 5 million was recognised in 2019 in relation to specific items of property, plant and equipment.

2018

A reversal of impairment of US\$ 13 million was recognised in 2018 in relation to specific items of property, plant and equipment.

8. Net other non-operating expenses

	Year ended 31 December		
	2020	2019	2018
Charitable donations	(23)	(31)	(30)
Final settlement of legal claim against disposed subsidiary (Note 27)	(16)	-	-
Social expenditure	(10)	(14)	(14)
Net loss on disposal of subsidiary (Note 23)	-	(21)	-
Other	(1)	(8)	(6)
	<u>(50)</u>	<u>(74)</u>	<u>(50)</u>

9. Taxation

The following is an analysis of the income tax expense:

	Year ended 31 December		
	2020	2019	2018
Current tax charge	(243)	(410)	(430)
Corrections to prior year's current tax charge	13	9	(9)
Deferred tax	(63)	(64)	(29)
Income tax	<u>(293)</u>	<u>(465)</u>	<u>(468)</u>

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% to reported profit before income tax.

	Year ended 31 December		
	2020	2019	2018
Profit before income tax	1,309	2,232	2,519
Tax charge at Russian statutory rate	(262)	(446)	(504)
Profit taxed at different rates	1	10	28
Corrections to prior years' current tax charge	4	9	(9)
Non-tax deductible (expenses)/income, net	(19)	(40)	18
Reassessment of deferred tax assets and liabilities	(17)	2	(1)
Income tax expense	<u>(293)</u>	<u>(465)</u>	<u>(468)</u>

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Profit tax rate applied to the Group's companies in Russia is 20%, except the following companies, for which in 2021-2022 the following changes in tax rates will be applied: PAO Severstal - 16.5% (2020 - 19%), AO Izhora Pipe Mill - 16.5% (2020 - 15.5%), JSC Olcon - 19% (2020 - 19%).

The following table sets out the composition of the net deferred tax liability and movements based on temporary differences arising between the fiscal and reporting balance sheets:

	31 December 2020	Recognised in income statements	Business combination	Translation to presentation currency	31 December 2019
Deferred tax assets:					
Tax loss carry forwards	5	(4)	-	(1)	10
Property, plant and equipment	3	-	-	-	3
Inventory	27	11	-	-	16
Accounts receivable	11	(3)	-	(2)	16
Provisions	34	(10)	-	(8)	52
Financial investments	23	(2)	-	(6)	31
Other	5	(8)	-	(6)	19
Gross deferred tax assets	108	(16)	-	(23)	147
Less offsetting deferred tax liabilities	(96)	16	-	20	(132)
Recognised deferred tax assets	12	-	-	(3)	15
Deferred tax liabilities:					
Property, plant and equipment	(409)	(55)	(3)	68	(419)
Intangible assets	(31)	(1)	-	6	(36)
Inventory	(9)	8	-	1	(18)
Accounts receivable	(3)	(3)	-	1	(1)
Other	(16)	4	-	3	(23)
Gross deferred tax liabilities	(468)	(47)	(3)	79	(497)
Less offsetting deferred tax assets	96	(16)	-	(20)	132
Recognised deferred tax liabilities	(372)	(63)	(3)	59	(365)
Net deferred tax liability	(360)	(63)	(3)	56	(350)

	31 December 2019	Recognised in income statements	Business de- combination	Translation to presentation currency	31 December 2018
Deferred tax assets:					
Tax loss carry forwards	10	-	-	1	9
Property, plant and equipment	3	(4)	-	3	4
Inventory	16	(10)	(1)	1	26
Accounts receivable	16	10	-	-	6
Provisions	52	20	-	4	28
Financial investments	31	(9)	-	5	35
Other	19	4	-	1	14
Gross deferred tax assets	147	11	(1)	15	122
Less offsetting deferred tax liabilities	(132)	(26)	1	(12)	(95)
Recognised deferred tax assets	15	(15)	-	3	27
Deferred tax liabilities:					
Property, plant and equipment	(419)	(67)	17	(44)	(325)
Intangible assets	(36)	(2)	-	(3)	(31)
Inventory	(18)	4	-	(2)	(20)
Accounts receivable	(1)	4	-	(1)	(4)
Other	(23)	(14)	-	1	(10)
Gross deferred tax liabilities	(497)	(75)	17	(49)	(390)
Less offsetting deferred tax assets	132	26	(1)	12	95
Recognised deferred tax liabilities	(365)	(49)	16	(37)	(295)
Net deferred tax liability	(350)	(64)	16	(34)	(268)

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	31 December 2018	Recognised in income statements	Translation to presentation currency	31 December 2017
Deferred tax assets:				
Tax loss carry forwards	9	1	-	8
Property, plant and equipment	4	1	-	3
Inventory	26	8	(1)	19
Accounts receivable	6	(6)	(2)	14
Provisions	28	-	(5)	33
Financial investments	35	25	(7)	17
Other	14	7	(9)	16
Gross deferred tax assets	122	36	(24)	110
Less offsetting deferred tax liabilities	(95)	(30)	21	(86)
Recognised deferred tax assets	27	6	(3)	24
Deferred tax liabilities:				
Property, plant and equipment	(325)	(42)	61	(344)
Intangible assets	(31)	(1)	7	(37)
Inventory	(20)	(14)	1	(7)
Accounts receivable	(4)	(1)	-	(3)
Other	(10)	(7)	3	(6)
Gross deferred tax liabilities	(390)	(65)	72	(397)
Less offsetting deferred tax assets	95	30	(21)	86
Recognised deferred tax liabilities	(295)	(35)	51	(311)
Net deferred tax liability	(268)	(29)	48	(287)

The Group has not recognised cumulative tax loss carry forwards in the following amounts and with the following expiry dates:

	31 December		
	2020	2019	2018
Between one and five years	19	18	204
No expiry	258	423	418
	277	441	622

In 2019 the decrease of cumulative tax losses not recognised mostly related to expired tax losses.

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US\$ 116 million as at 31 December 2020 (31 December 2019: US\$ 271 million; 31 December 2018: US\$ 207 million).

10. Related party transactions

	Year ended 31 December		
	2020	2019	2018
Revenue from:			
Associates	27	29	30
Joint ventures	70	86	81
Other related parties	29	40	33
	126	155	144
Purchases from:			
Associates	60	63	63
Joint ventures	4	6	6
Other related parties	39	62	55
	103	131	124
Other income from other related parties	12	13	12

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11. Related party balances

	31 December		
	2020	2019	2018
Short-term accounts receivable:			
Associates	3	4	3
Joint ventures	7	9	6
Other related parties	8	8	11
	<u>18</u>	<u>21</u>	<u>20</u>
Short-term accounts payable:			
Associates	5	6	6
Other related parties	4	11	15
	<u>9</u>	<u>17</u>	<u>21</u>
Short-term loans - Joint ventures	2	4	6
Long-term loans - Joint ventures	6	6	5

The amounts outstanding are expected to be settled in cash. The Group does not hold any collateral for amounts owed by related parties.

12. Cash and cash equivalents

	31 December		
	2020	2019	2018
Cash at bank	140	875	130
Bank deposits	443	206	98
	<u>583</u>	<u>1,081</u>	<u>228</u>

13. Trade accounts receivable

	31 December		
	2020	2019	2018
Customers	633	653	624
Allowance for expected credit losses	(104)	(71)	(70)
	<u>529</u>	<u>582</u>	<u>554</u>

14. Inventories

	31 December		
	2020	2019	2018
Raw materials and supplies	325	472	465
Finished goods	288	323	295
Work-in-progress	275	342	327
	<u>888</u>	<u>1,137</u>	<u>1,087</u>

Of the above amounts US\$ 5 million (31 December 2019: US\$ 2 million; 31 December 2018: US\$ 2 million) were stated at net realisable value.

During the year ended 31 December 2020, the Group recognised a US\$ 21 million release and a US\$ 37 million allowance for obsolete and slow-moving inventories and reduced the carrying amount to net realisable value (2019: US\$ 19 million and US\$ 16 million, respectively; 2018: US\$ 38 million and US\$ 25 million, respectively).

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15. Long-term financial investments

	31 December		
	2020	2019	2018
Financial assets at FVTOCI	26	19	3
Loans	7	7	5
	<u>33</u>	<u>26</u>	<u>8</u>

16. Property, plant and equipment

Property, plant and equipment comprise of owned and leased assets that do not meet the definition of investment property.

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Cost:						
31 December 2017	1,521	4,323	359	55	952	7,210
Reclassifications	13	(13)	11	(11)	-	-
Additions	-	-	-	-	774	774
Disposals	(4)	(90)	(4)	(12)	(19)	(129)
Transfers to other assets	(2)	(2)	-	-	-	(4)
Transfers	101	485	56	1	(643)	-
Translation to presentation currency	(267)	(756)	(74)	(8)	(160)	(1,265)
31 December 2018	<u>1,362</u>	<u>3,947</u>	<u>348</u>	<u>25</u>	<u>904</u>	<u>6,586</u>
Recognition of right-of-use assets on initial application of IFRS 16	25	21	1	-	-	47
Reclassifications	78	(64)	(14)	-	-	-
Additions	14	30	-	-	1,281	1,325
Disposals	(9)	(91)	(6)	(3)	(49)	(158)
Business de-combinations	(166)	(221)	(5)	-	(2)	(394)
Transfers from other assets	32	26	1	-	-	59
Transfers	84	574	238	2	(898)	-
Translation to presentation currency	166	490	55	2	119	832
31 December 2019	<u>1,586</u>	<u>4,712</u>	<u>618</u>	<u>26</u>	<u>1,355</u>	<u>8,297</u>
Reclassifications	(55)	-	55	-	-	-
Additions	6	10	-	-	1,279	1,295
Disposals	(3)	(97)	(7)	(4)	(9)	(120)
Business combinations	6	12	1	-	-	19
Transfers to other assets	(9)	(7)	-	-	-	(16)
Transfers	379	647	220	-	(1,246)	-
Translation to presentation currency	(243)	(747)	(122)	(4)	(232)	(1,348)
31 December 2020	<u>1,667</u>	<u>4,530</u>	<u>765</u>	<u>18</u>	<u>1,147</u>	<u>8,127</u>
Depreciation and impairment:						
31 December 2017	586	2,639	139	36	109	3,509
Reclassifications	8	(8)	7	(7)	-	-
Depreciation expense	56	293	30	-	-	379
Disposals	(3)	(77)	(4)	(4)	(3)	(91)
Reversal of impairment	(8)	(23)	(21)	-	(14)	(66)
Translation to presentation currency	(103)	(462)	(29)	(6)	(14)	(614)
31 December 2018	<u>536</u>	<u>2,362</u>	<u>122</u>	<u>19</u>	<u>78</u>	<u>3,117</u>
Reclassifications	40	(35)	(5)	-	-	-
Depreciation expense	63	319	44	-	-	426
Disposals	(6)	(80)	(6)	(2)	(46)	(140)
Business de-combinations	(47)	(97)	(4)	-	-	(148)
Reversal of impairment	-	-	-	-	(5)	(5)
Translation to presentation currency	62	288	19	3	5	377
31 December 2019	<u>648</u>	<u>2,757</u>	<u>170</u>	<u>20</u>	<u>32</u>	<u>3,627</u>
Depreciation expense	55	314	46	-	-	415
Disposals	(2)	(78)	(6)	(4)	(8)	(98)
Impairment	-	-	-	-	11	11
Translation to presentation currency	(101)	(438)	(32)	(3)	-	(574)
31 December 2020	<u>600</u>	<u>2,555</u>	<u>178</u>	<u>13</u>	<u>35</u>	<u>3,381</u>

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	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total
Net book values:						
31 December 2018	826	1,585	226	6	826	3,469
31 December 2019	938	1,955	448	6	1,323	4,670
31 December 2020	1,067	1,975	587	5	1,112	4,746

Other productive assets include transportation equipment and tools.

As at 31 December 2020, property, plant and equipment included right-of-use assets of US\$ 129 million related to leased assets (31 December 2019: US\$ 162 million; 31 December 2018: US\$ 86 million of leased assets were not yet put into operation and included in construction-in-progress).

Of the above amounts of additions to construction-in-progress, US\$ 38 million (2019: US\$ 18 million, 2018: US\$ 13 million) is capitalised interest.

The Group applied a weighted average capitalisation rate of 5% to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2020 (2019: 6%; 2018: 5%).

17. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration	Other intangible assets	Total
Cost:						
31 December 2017	32	55	237	265	45	634
Reclassifications	-	1	-	(1)	-	-
Additions	-	-	28	7	1	36
Disposals	-	(1)	-	(4)	-	(5)
Translation to presentation currency	(4)	(9)	(44)	(8)	(7)	(72)
31 December 2018	28	46	221	259	39	593
Reclassifications	-	2	-	(2)	-	-
Additions	-	2	71	9	4	86
Disposals	-	-	(10)	(1)	(1)	(12)
Business de-combinations	-	-	(2)	-	-	(2)
Translation to presentation currency	2	4	31	6	6	49
31 December 2019	30	54	311	271	48	714
Reclassifications	-	5	-	(6)	1	-
Additions	-	1	53	11	-	65
Disposals	-	-	(8)	(1)	-	(9)
Business combinations	2	-	-	-	2	4
Translation to presentation currency	(4)	(9)	(50)	(7)	(8)	(78)
31 December 2020	28	51	306	268	43	696
Amortisation and impairment:						
31 December 2017	23	38	82	226	24	393
Amortisation expense	-	1	22	2	1	26
Reversal of impairment	-	(2)	-	-	-	(2)
Disposals	-	(1)	-	(4)	-	(5)
Translation to presentation currency	(3)	(6)	(16)	(2)	(4)	(31)
31 December 2018	20	30	88	222	21	381
Amortisation expense	-	1	34	2	1	38
Disposals	-	-	(3)	(1)	(1)	(5)
Business de-combinations	-	-	(1)	-	-	(1)
Translation to presentation currency	2	4	11	1	4	22
31 December 2019	22	35	129	224	25	435
Amortisation expense	-	1	40	2	2	45
Disposals	-	-	(1)	-	-	(1)
Translation to presentation currency	(3)	(6)	(21)	(1)	(4)	(35)
31 December 2020	19	30	147	225	23	444
Net book values:						
31 December 2018	8	16	133	37	18	212
31 December 2019	8	19	182	47	23	279
31 December 2020	9	21	159	43	20	252

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18. Debt finance

	Currency	Maturity	Interest rate	31 December		
				2020	2019	2018
Eurobonds 2021	US dollars	August	3.85%	505	505	503
Eurobonds 2022	US dollars	October	5.9%	635	633	635
Eurobonds 2024	US dollars	September	3.15%	802	799	-
Rouble bonds 2024	Roubles	March	8.65%	139	165	-
Rouble bonds 2026	Roubles	March	8.65%	206	247	-
Convertible bonds 2021	US dollars	April	0.5%	16	36	86
Convertible bonds 2022	US dollars	February	0.0%	240	231	220
Bank financing	Roubles			65	31	7
Other financing	Roubles			4	4	4
				<u>2,612</u>	<u>2,651</u>	<u>1,455</u>

Total debt is contractually repayable after the balance sheet date as follows:

	31 December		
	2020	2019	2018
Less than one year	610	290	110
Between one and five years	1,799	2,119	1,344
After more than five years	203	242	1
	<u>2,612</u>	<u>2,651</u>	<u>1,455</u>

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Debt financing	Lease liabilities, net	Dividends payable	Derivative financial liabilities, net	Total
Balance as at 31 December 2017	2,093	-	6	157	2,256
Net cash flow changes	(658)	-	(1,971)	(12)	(2,641)
Equity changes	(76)	-	1,977	3	1,904
Interest accrued and other finance costs	96	-	-	-	96
Changes in fair value and gain on disposal of financial instruments	-	-	-	(63)	(63)
Changes in lease liabilities, net	-	73	-	-	73
Foreign currency translation gain	-	-	(6)	-	(6)
Balance as at 31 December 2018	1,455	73	6	85	1,619
Initial application of IFRS 16	-	47	-	-	47
Net cash flow changes	1,082	(23)	(1,574)	(19)	(534)
Equity changes	(24)	-	1,545	(2)	1,519
Interest accrued and other finance costs	117	3	-	-	120
Changes in fair value and gain on disposal of financial instruments	-	-	-	22	22
Changes in lease liabilities, net	-	30	-	-	30
Foreign currency translation loss	21	13	30	-	64
Balance as at 31 December 2019	2,651	143	7	86	2,887
Net cash flow changes	(106)	(21)	(1,228)	(13)	(1,368)
Equity changes	(3)	-	1,219	-	1,216
Interest accrued and other finance costs	136	6	-	-	142
Changes in fair value and loss on disposal of financial instruments	-	-	-	141	141
Changes in lease liabilities, net	-	13	-	-	13
Business combinations	3	-	-	-	3
Foreign currency translation (gain)/loss	(69)	(23)	10	-	(82)
Balance as at 31 December 2020	<u>2,612</u>	<u>118</u>	<u>8</u>	<u>214</u>	<u>2,952</u>

Bonds issued

In April 2016, the Group issued US\$ 200 million senior unsecured guaranteed convertible bonds maturing in 2021. The conversion rights may be exercised at any time on or after 9 June 2016. The initial conversion price was set at

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US\$ 13.80 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, while the host liability is accounted for at amortised cost using market interest rate of 5.1% per annum at the date of the issue. The bonds bear an interest rate of 0.5% per annum, which is payable semi-annually in April and October each year, beginning in October 2016. Holders of the bonds had an option to require an early redemption of their bonds on 29 April 2019 at the principal amount plus accrued interest. The Group also has an option for early redemption, exercisable starting from 20 May 2019 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes. During 2018-2020 conversion rights were partially exercised. As a result, as at 31 December 2020 US\$ 183 million of bonds at nominal value were redeemed (31 December 2019: US\$ 161 million; 31 December 2018: US\$ 103 million).

As at 31 December 2020, the value of the conversion option of the convertible bonds maturing in 2021 was US\$ 24 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other current liabilities (Note 19) (31 December 2019: US\$ 34 million was included in other non-current liabilities; 31 December 2018: US\$ 50 million was included in other current liabilities).

In February 2017, the Group issued US\$ 250 million senior unsecured guaranteed convertible zero-coupon bonds maturing in 2022. The conversion rights may be exercised at any time on or after 29 March 2017. The initial conversion price was set at US\$ 20.33 per GDR. If the conversion rights are exercised, it is at the Group's discretion to determine whether to convert bonds into GDRs or to pay a cash amount as defined in the terms of the issue. This settlement option causes the conversion feature of the bond to be classified separately and measured at fair value through profit and loss, whilst the host liability is accounted for at amortised cost using market interest rate at 3.9% per annum at the date of the issue. Holders of the bonds have an option to require an early redemption of their bonds on 16 February 2020 at the principal amount. The Group also has an option for early redemption, exercisable starting from 9 March 2020 provided the value of the GDRs deliverable on conversion of the bonds exceeds 130 per cent of the principal amount of the bonds for a specified period of time. The proceeds from the bonds' issuance were mainly used for general corporate purposes.

As at 31 December 2020, the value of the conversion option of the convertible bonds maturing in 2022 was US\$ 123 million and was determined with reference to the quoted market price (level 2 of the fair value hierarchy) and included in other non-current liabilities (Note 21) (31 December 2019: US\$ 59 million was included in other current liabilities; 31 December 2018: US\$ 35 million was included in other non-current liabilities).

In April 2019, the Group issued two rouble denominated bonds amounting to US\$ 230 million and US\$ 153 million with put-options in 2026 and 2024, respectively, both due in 2029. The bonds bear an interest rate of 8.65% per annum, which is payable every 182 days, beginning in October 2019. The proceeds from the bonds' issuance were used mainly for general corporate purposes.

In September 2019, the Group issued US\$ 800 million bonds denominated in US dollars maturing in 2024. These bonds bear an interest rate of 3.15% per annum, which is payable semi-annually in September and March each year, beginning in March 2020. The proceeds from the bonds' issuance were mainly used for general corporate purposes.

At the reporting date the Group had US\$ 1,096 million (31 December 2019: US\$ 1,250 million; 31 December 2018: US\$ 1,157 million) of committed unused long-term credit lines and overdraft facilities.

19. Other current liabilities

	31 December		
	2020	2019	2018
Advances received	134	148	107
Amounts payable to employees	73	136	105
Derivative financial liabilities (Note 18)	24	59	50
Provisions	16	16	19
Lease liabilities	14	15	6
Retirement benefit liabilities (Note 20)	5	6	6
Other liabilities	68	38	30
	<u>334</u>	<u>418</u>	<u>323</u>

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20. Retirement benefit liabilities

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligations: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensation, healthcare benefits, life insurance and other benefits.

The current portion of retirement benefit liabilities is included in caption 'Other current liabilities'. The total amount of the retirement benefit liabilities is presented in the table below:

	31 December		
	2020	2019	2018
Current portion	5	6	6
Non-current portion	61	74	56
	<u>66</u>	<u>80</u>	<u>62</u>

The following assumptions were used to calculate the retirement benefit liabilities:

	31 December		
	2020	2019	2018
Discount rates:			
Russia	6.3%	6.5%	8.9%
Future rates of benefit increase:			
Russia	3.6%	4.0%	4.1%

The Group's weighted average remaining life of the pensioners and employees, receiving the retirement benefits equalled to 16 years as at 31 December 2020 (31 December 2019: 17 years; 31 December 2018: 16 years).

The movements in the defined benefit obligation were as follows:

	Year ended 31 December		
	2020	2019	2018
Opening balance	80	62	85
Benefits paid	(6)	(8)	(7)
Interest cost	4	5	6
Service cost* (Note 5)	1	1	(1)
Actuarial losses/(gains)**	-	12	(6)
Translation to presentation currency	(13)	8	(15)
Closing balance	<u>66</u>	<u>80</u>	<u>62</u>

*In the year ended 31 December 2018 service cost additionally included the effect of the retirement age increase in Russia.

**Actuarial losses/(gains) arise primarily from changes in financial assumptions.

The defined benefit obligations were wholly unfunded at the years ended 31 December 2020, 2019 and 2018.

21. Other non-current liabilities

	31 December		
	2020	2019	2018
Derivative financial liabilities	191	34	35
Decommissioning liabilities	121	155	62
Lease liabilities	110	137	67
Amounts payable to employees	9	7	5
Deferred income	-	1	3
Other liabilities	16	24	4
	<u>447</u>	<u>358</u>	<u>176</u>

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Decommissioning liabilities

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2023 – 2049. The present value of expected cash outflows was estimated using existing technology, and discounted using a real discount rate. These rates are as follows:

Severstal Resources: Russia	Discount rates, %		
	2020	2019	2018
	1.0 - 3.8	1.8 - 3.2	4.1 - 5.3

The movements in the decommissioning liabilities were as follows:

	Year ended 31 December		
	2020	2019	2018
Opening balance	155	62	76
Change in assumptions	(17)	75	(8)
Interest cost	9	7	6
Translation to presentation currency	(26)	11	(12)
Closing balance	121	155	62

The change in assumptions related to re-scheduling of the decommissioning and changes in the discount rate of JSC Vorkutaugol in 2020, 2019 and JSC Olcon in 2019, 2018, and changes in the discount rate of JSC Olcon in 2020.

22. Shareholders' equity

Share Capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUB 0.01 each. The authorised share capital of Severstal as at 31 December 2020, 2019 and 2018 comprised 837,718,660 issued and fully paid shares and amounted to US\$ 2,753 million.

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on 24 September 1993 and sold by the Government at privatisation auctions.

All shares carry equal voting and distribution rights.

Reconciliation between weighted average number of shares in issue and weighted average number of shares outstanding during the period (millions of shares):

	Year ended 31 December		
	2020	2019	2018
Weighted average number of shares in issue	838	838	838
Weighted average number of treasury shares	(13)	(13)	(21)
Weighted average number of shares outstanding during the period	825	825	817

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Earnings per share

In 2017 the Group issued US\$ 250 million convertible bonds and in 2016 issued US\$ 200 million convertible bonds (Note 18), which had an effect on earnings per share as demonstrated below:

	Year ended 31 December		
	2020	2019	2018
Profit for the period attributable to shareholders of PAO Severstal	1,016	1,766	2,051
Adjustments related to convertible bonds, net of tax	142	(3)	46
Adjusted profit for the period attributable to shareholders of PAO Severstal	1,158	1,763	2,097
Basic weighted average number of shares outstanding during the period (millions of shares)	825	825	817
Effect on conversion of convertible bonds (millions of shares)	25	24	31
Adjusted/diluted weighted average number of shares outstanding during the period (millions of shares)	850	849	848
Basic earnings per share (US dollars)	1.23	2.14	2.51
Adjusted/diluted earnings per share (US dollars)	1.36	2.08	2.47

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law.

On 8 June 2018, the Meeting of Shareholders approved an annual dividend of RUB 27.72 (US\$ 0.45 at 8 June 2018 exchange rate) per share and per GDR for the year ended 31 December 2017 and an interim dividend of RUB 38.32 (US\$ 0.62 at 8 June 2018 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2018.

On 14 September 2018, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 45.94 (US\$ 0.67 at 14 September 2018 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2018.

On 23 November 2018, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 44.39 (US\$ 0.68 at 23 November 2018 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2018.

On 26 April 2019, the Meeting of Shareholders approved an annual dividend of RUB 32.08 (US\$ 0.50 at 26 April 2019 exchange rate) per share and per GDR for the year ended 31 December 2018.

On 7 June 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 35.43 (US\$ 0.54 at 7 June 2019 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2019.

On 6 September 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 26.72 (US\$ 0.40 at 6 September 2019 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2019.

On 22 November 2019, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 27.47 (US\$ 0.43 at 22 November 2019 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2019.

On 5 June 2020, the Meeting of Shareholders approved an annual dividend of RUB 26.26 (US\$ 0.38 at 5 June 2020 exchange rate) per share and per GDR for the year ended 31 December 2019 and an interim dividend of RUB 27.35 (US\$ 0.40 at 5 June 2020 exchange rate) per share and per GDR for the first quarter of the year ended 31 December 2020.

On 28 August 2020, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 15.44 (US\$ 0.21 at 28 August 2020 exchange rate) per share and per GDR for the first six months of the year ended 31 December 2020.

On 27 November 2020, the Extraordinary Meeting of Shareholders approved an interim dividend of RUB 37.34 (US\$ 0.49 at 27 November 2020 exchange rate) per share and per GDR for the first nine months of the year ended 31 December 2020.

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23. Subsidiaries, associates and joint ventures

The following is a list of the Group's significant subsidiaries, associates and joint ventures and the effective ownership holdings therein:

Company	31 December			Location	Activity
	2020	2019	2018		
Severstal Russian Steel segment:					
<i>Subsidiaries:</i>					
LLC Severstal Digital Solutions ¹	100.0%	100.0%	100.0%	Russia	Steel sales
AO Severstal LPM Balakovo	n/a	n/a	100.0%	Russia	Iron & steel mill
JSC Domnaremont	100.0%	100.0%	100.0%	Russia	Repairs & Construction
Severstal-Project LLC	100.0%	100.0%	100.0%	Russia	Repairs & Construction
Aircompany Severstal Ltd	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	100.0%	100.0%	100.0%	Switzerland ²	Steel sales
SIA Severstal Distribution	100.0%	100.0%	100.0%	Latvia ²	Steel sales
AO Severstal Distribution	100.0%	100.0%	100.0%	Russia	Metal sales
AO Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
JSC Severstal-Metiz	100.0%	100.0%	100.0%	Russia	Steel machining
<i>Associates:</i>					
JSC Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production of liquid oxygen
<i>Joint ventures:</i>					
Rutgers Severtar LLC	34.7%	34.7%	34.7%	Russia	Production of vacuum pitch
Severstal-Gonvarri-Kaluga LLC	50.0%	50.0%	50.0%	Russia	Iron & steel mill
Gestamp-Severstal-Kaluga LLC	25.0%	25.0%	25.0%	Russia	Production of car body components
LLC TenarisSeverstal	51.0%	51.0%	n/a	Russia	Production of pipes for the oil industry
Severstal Resources segment:					
<i>Subsidiaries:</i>					
JSC Karelsky Okatysh	100.0%	100.0%	100.0%	Russia	Iron ore pellets
JSC Olcon	100.0%	100.0%	100.0%	Russia	Iron ore concentrate
JSC Vorkutaugol	100.0%	100.0%	100.0%	Russia	Coking coal concentrate
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
AO YaGOK ³	n/a	n/a	100.0%	Russia	Iron ore
OOO Korpanga	100.0%	100.0%	100.0%	Russia	Iron ore

¹ – The entity was renamed from Severstal TPZ-Sheksna LLC.

² – Severstal Russian Steel segment contains foreign trading companies, which sell products primarily produced in Russia.

³ – Merged with OOO Korpanga.

Acquisition of subsidiary

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

In the third quarter of 2020, the Group completed its estimation of the fair values of the acquired assets, the revaluation mainly related to property plant and equipment.

PAO Severstal and subsidiaries

Notes to the consolidated financial statements Years ended 31 December 2020, 2019 and 2018

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

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

	Year ended 31 December 2020
Cash and cash equivalents	1
Inventories	2
Property, plant and equipment	19
Other	3
Total assets	<u>25</u>
Debt finance	(3)
Deferred tax liabilities	(3)
Other	(1)
Total liabilities	<u>(7)</u>
Net identifiable assets acquired	18
Consideration in cash	(20)
Goodwill on acquisition of subsidiary	(2)
Net change in cash and cash equivalents	<u>(19)</u>

Investments in associate and joint venture

Investment in 2020

In July 2020, the Group acquired a 24% stake in Linde Severstal LLC for a total consideration of US\$ 2 million, resulting in a 50% share in the associate.

Investments in 2019

In March 2019, the Group acquired a 51% stake in TenarisSeverstal PTE. Ltd for a nominal total consideration close to nil. TenarisSeverstal PTE. Ltd is the sole participant of LLC TenarisSeverstal that will produce pipes for the oil industry in the Surgut area, West Siberia, Russian Federation. In 2019, the Group made additional contributions to the capital amounting to US\$ 20 million.

In July 2019, the Group acquired a 26% stake in Linde Severstal LLC for a total consideration of US\$ 1 million. Linde Severstal LLC produces coil-wound heat exchangers for use at medium-scale and large-scale liquefied natural gas plants.

Disposal of subsidiary

AO Severstal LPM Balakovo

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

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

The loss on disposal of US\$ 21 million was recognised in these consolidated financial statements as part of net other non-operating expenses.

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Notes to the consolidated financial statements Years ended 31 December 2020, 2019 and 2018

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A summary of assets and liabilities disposed during 2019 is presented below:

	<u>Year ended</u> <u>31 December 2019</u>
Property, plant and equipment	(246)
Inventories	(21)
Other	(8)
Total assets	<u>(275)</u>
Short-term debt finance	205
Trade accounts payable	22
Deferred tax liabilities	16
Other taxes and social security payable	3
Other	1
Total liabilities	<u>247</u>
Net identifiable assets	(28)
Consideration in cash	215
including intercompany loan redemption	(205)
Selling costs paid in cash	(3)
Net loss on disposal (Note 8)	<u>(21)</u>
Net change in cash and cash equivalents	<u>215</u>

24. Segmental analysis

The following is an analysis of the Group's revenue and profit from operations by segment:

	<u>Severstal</u> <u>Resources</u>	<u>Severstal</u> <u>Russian</u> <u>Steel</u>	<u>Inter -</u> <u>segment</u> <u>transactions</u>	<u>Conso-</u> <u>lidated</u>
Twelve months 2020				
Revenue	1,825	6,845	(1,800)	6,870
Profit from operations	785	1,209	(64)	1,930
Intersegment revenue	1,710	90	(1,800)	-
Twelve months 2019				
Revenue	2,169	8,025	(2,037)	8,157
Profit from operations	1,080	1,218	29	2,327
Intersegment revenue	1,954	83	(2,037)	-
Twelve months 2018				
Revenue	1,908	7,803	(1,131)	8,580
Profit from operations	872	1,877	(42)	2,707
Intersegment revenue	1,061	70	(1,131)	-

25. Alternative performance measures

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

	<u>Year ended 31 December</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
EBITDA	2,422	2,805	3,142
EBITDA margin ¹ , %	35.3	34.4	36.6
Free Cash Flow	838	1,099	1,601
Low Debt (NetDebt ² /EBITDA), x	0.8	0.6	0.4

¹ EBITDA margin is equal to EBITDA divided by Revenue;

² Net Debt is equal to the total debt finance less cash and cash equivalents.

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

The following is a reconciliation of profit from operations to EBITDA, in total and analysed by segment:

Twelve months ended 31 December 2020:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Profit from operations	785	1,209	(64)	1,930
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	170	290	-	460
Loss on disposal of property, plant and equipment and intangible assets	3	18	-	21
Share of associates' and joint ventures' depreciation and amortisation and non-operating income	-	11	-	11
EBITDA	958	1,528	(64)	2,422

Twelve months ended 31 December 2019:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Profit from operations	1,080	1,218	29	2,327
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	165	299	-	464
Loss on disposal of property, plant and equipment and intangible assets	3	9	-	12
Share of associates' and joint ventures' depreciation and amortisation and non-operating income	-	2	-	2
EBITDA	1,248	1,528	29	2,805

Twelve months ended 31 December 2018:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Profit from operations	872	1,877	(42)	2,707
<i>Adjustments to reconcile profit from operations to EBITDA:</i>				
Depreciation and amortisation of productive assets	137	268	-	405
Loss on disposal of property, plant and equipment and intangible assets	7	16	-	23
Share of associates' and joint ventures' depreciation and amortisation and non-operating income	-	6	1	7
EBITDA	1,016	2,167	(41)	3,142

The following is a reconciliation of net cash from operating activities to Free Cash Flow, in total and analysed by segment:

Twelve months ended 31 December 2020:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	786	1,311	47	2,144
Additions to property, plant and equipment	(380)	(875)	(1)	(1,256)
Additions to intangible assets	(11)	(60)	-	(71)
Proceeds from disposal of property, plant and equipment and intangible assets	-	4	1	5
Interest received	38	20	(48)	10
Dividends received	-	6	-	6
Free Cash Flow	433	406	(1)	838

Twelve months ended 31 December 2019:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	1,202	1,040	50	2,292
Additions to property, plant and equipment	(394)	(781)	18	(1,157)
Additions to intangible assets	(13)	(48)	-	(61)
Proceeds from disposal of property, plant and equipment and intangible assets	-	33	(18)	15
Interest received	55	15	(66)	4
Dividends received	-	6	-	6
Free Cash Flow	850	265	(16)	1,099

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Twelve months ended 31 December 2018:

	Severstal Resources	Severstal Russian Steel	Inter - segment transactions	Conso- lidated
Net cash from operating activities	771	1,434	49	2,254
Additions to property, plant and equipment	(296)	(357)	-	(653)
Additions to intangible assets	(5)	(30)	-	(35)
Proceeds from disposal of property, plant and equipment and intangible assets	1	14	-	15
Interest received	47	27	(58)	16
Dividends received	1	3	-	4
Free Cash Flow	519	1,091	(9)	1,601

26. Financial instruments

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures. The Group's Audit Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group on a quarterly basis.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Severstal Resources segment of the Group has not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. If required, the Severstal Russian Steel segment uses derivatives to hedge their interest rates and foreign exchange rate exposures.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	31 December								
	2020			2019			2018		
	Fair Value	Book value	Difference	Fair Value	Book value	Difference	Fair Value	Book value	Difference
Eurobonds 2021	515	505	10	517	505	12	489	503	(14)
Eurobonds 2022	686	635	51	687	633	54	653	635	18
Eurobonds 2024	840	802	38	804	799	5	-	-	-
Rouble bonds 2024	152	139	13	177	165	12	-	-	-
Rouble bonds 2026	206	206	-	247	247	-	-	-	-
Convertible bonds 2021	40	40	-	71	70	1	142	136	6
Convertible bonds 2022	370	363	7	296	290	6	249	255	(6)
	2,809	2,690	119	2,799	2,709	90	1,533	1,529	4

The above amounts include accrued interest. The fair value of the Group's Eurobonds was determined based on London Stock Exchange quotations (level 1 of the fair value hierarchy); the fair value of the Group's rouble bonds was based on MOEX.

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position and guarantees.

Part of the Group's sales are made on terms of letters of credit. In addition, the Group requires prepayments from certain customers. The Group also holds bank and other guarantees, credit insurance policies provided as collateral for certain financial assets. The amount of collateral held does not fully cover the Group's exposure to credit risk.

The Group allocates each exposure to credit risk based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements and publicly available information about customers) and applying experienced credit judgement.

Expected credit losses rate is calculated for accounts receivable based on delinquency status and actual credit losses experience over the past three years.

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The Group has developed policies and procedures for the management of credit exposure, including the establishment of a credit committee that actively monitors credit risk.

Additionally, in order to minimise credit risk of the counterparty banks, the analysis is carried out in respect of banks' financial stability, and a quarterly review of the risk limits for banks with subsequent review of the Group's operations within those established limits.

The maximum exposure to credit risk for financial instruments, including accounts receivable from related parties, was:

	31 December		
	2020	2019	2018
Loans and receivables	588	681	621
Cash and cash equivalents	583	1,081	228
Financial assets at FVTOCI	26	19	3
	<u>1,197</u>	<u>1,781</u>	<u>852</u>

The maximum exposure to credit risk for trade receivables, including trade receivables from related parties by geographic region, was:

	31 December		
	2020	2019	2018
Russian Federation	355	432	363
Europe	154	88	136
Africa	11	37	12
CIS	11	17	13
The Middle East	11	9	29
North America	3	9	-
China and Central Asia	-	8	17
Central and South America	-	-	1
	<u>545</u>	<u>600</u>	<u>571</u>

Concentration of credit risk

2020

The Group held cash and cash equivalents of US\$ 583 million as at 31 December 2020. The cash and cash equivalents are mostly held with banks, which are rated Baa3, based on Moody's ratings.

2019

The Group held cash and cash equivalents of US\$ 1,081 million as at 31 December 2019. The cash and cash equivalents are mostly held with banks, which are rated Baa3, based on Moody's ratings.

2018

The Group held cash and cash equivalents of US\$ 228 million as at 31 December 2018. The cash and cash equivalents are mostly held with banks, which are rated Ba2, based on Moody's ratings.

Allowance for expected credit losses

The ageing of trade receivables from customers, including related parties, was:

	31 December					
	2020		2019		2018	
	Gross	Allowance	Gross	Allowance	Gross	Allowance
Not past due	510	-	492	-	532	-
Past due less than 30 days	23	-	84	-	35	-
Past due 31-90 days	8	(1)	21	(1)	4	(1)
Past due 91-180 days	13	(8)	3	(1)	2	(1)
Past due 181-365 days	58	(58)	2	(1)	39	(39)
More than one year	37	(37)	69	(68)	29	(29)
	<u>649</u>	<u>(104)</u>	<u>671</u>	<u>(71)</u>	<u>641</u>	<u>(70)</u>

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The movement in the allowance in respect of trade receivables, including those from related parties, during the years was as follows:

	Year ended 31 December		
	2020	2019	2018
Opening balance	(71)	(70)	(81)
Allowance recognised	(81)	(3)	(4)
Allowance reversed	2	6	8
Allowance written off	39	-	-
Translation to presentation currency	7	(4)	7
Closing balance	(104)	(71)	(70)

The allowance account for expected credit losses in respect of trade receivables, including those from related parties, is used to record losses, unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The allowance for expected credit losses contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

The Group's allowance for expected credit losses is recognised in the consolidated income statement as part of "General and administrative expenses".

Liquidity risk

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other settlements.

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honour all cash obligations as they become due, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group also maintains committed credit lines and overdraft facilities that can be drawn down to meet both short-term and long-term financing needs. This enables the Group to maintain an appropriate level of liquidity and financial capacity and to minimise borrowing costs and achieve an optimal debt profile.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements (contractual cash flows in foreign currency were converted using the spot rate at the reporting date):

31 December 2020

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,612	(2,934)	(695)	(970)	(1,057)	(212)
Trade and other payables	750	(750)	(737)	(5)	(8)	-
Lease liabilities	124	(170)	(13)	(15)	(35)	(107)
Derivative financial assets and liabilities						
Outflow	68	(478)	(37)	(12)	(202)	(227)
Inflow	1	500	54	29	205	212
		<u>(3,832)</u>	<u>(1,428)</u>	<u>(973)</u>	<u>(1,097)</u>	<u>(334)</u>

31 December 2019

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	2,651	(3,133)	(401)	(656)	(1,802)	(274)
Trade and other payables	793	(793)	(771)	(8)	(14)	-
Lease liabilities	152	(223)	(19)	(13)	(45)	(146)
Derivative financial assets						
Outflow	-	(275)	(6)	(6)	(175)	(88)
Inflow	7	357	20	21	219	97
		<u>(4,067)</u>	<u>(1,177)</u>	<u>(662)</u>	<u>(1,817)</u>	<u>(411)</u>

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31 December 2018

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	1,455	(1,692)	(162)	(307)	(1,223)	-
Trade and other payables	600	(600)	(600)	-	-	-
Lease liabilities	73	(69)	(6)	(6)	(14)	(43)
		<u>(2,361)</u>	<u>(768)</u>	<u>(313)</u>	<u>(1,237)</u>	<u>(43)</u>

As at 31 December 2020, 2019 and 2018, the Group had no significant bank financing.

Currency risk

Currency risk arises when a Group entity enters into transactions and has balances denominated in a currency other than its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

In order to reduce the sensitivity to a currency risk the Group makes best effort to match cash inflows and outflows in the same currency.

The Group's exposure to foreign currency risk was as follows:

	31 December					
	2020		2019		2018	
	EUR	USD	EUR	USD	EUR	USD
Cash and cash equivalents	155	403	856	-	146	10
Loans and receivables	278	296	813	393	851	523
Derivative financial assets	-	26	-	-	-	-
Trade and other payables	(223)	(29)	(296)	(38)	(209)	(41)
Debt finance	(36)	(2,468)	(621)	(2,561)	(500)	(1,934)
Derivative financial liabilities	(396)	(147)	(241)	(93)	-	(85)
Net exposure	<u>(222)</u>	<u>(1,919)</u>	<u>511</u>	<u>(2,299)</u>	<u>288</u>	<u>(1,527)</u>

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency as at 31 December 2020 would have increased/(decreased) profit and equity by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2019 and 2018.

	Year ended 31 December		
	2020	2019	2018
Net profit			
EUR	(18)	43	26
USD	(155)	(186)	(121)

A 10 percent weakening of these currencies against the functional currency as at 31 December 2020 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and it has impact on the Group's operational results.

The Group has a high degree of vertical integration which allows it to control and effectively manage the entire production process: from mining of raw materials to production, processing and distribution of metal products. This reduces the Group's exposure to commodity price risk.

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Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would not have a significant effect on profit and equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2019 and 2018.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The levels in the fair value hierarchy into which the fair value measurements are categorised were disclosed in accordance with IFRS.

	Note	31 December		
		2020	2019	2018
Level 2				
Derivative financial assets		1	7	-
Derivative financial liabilities		(215)	(93)	(85)
	18	<u>(214)</u>	<u>(86)</u>	<u>(85)</u>
Level 3				
Financial assets at FVTOCI	15	26	19	3
		<u>26</u>	<u>19</u>	<u>3</u>

The description of the levels is presented below:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – inputs for the asset or liability that are not based on observable market data.

27. Commitments and contingencies

a. For litigation and liabilities

In 2015 a claw-back claim was filed by Lucchini S.p.A's ('Lucchini') extraordinary commissioner against the Group's subsidiary amounting to approximately US\$ 142 million.

Lucchini was the Group's subsidiary and was deconsolidated in 2011. Currently it is under a bankruptcy procedure. This claim related to cash received by the Group's subsidiary for supplies of raw materials to Lucchini primarily during the period when Lucchini was already not part of the Group.

On 4 September 2020, the Group and Lucchini's extraordinary commissioner agreed to cancel the claim against the Group in full, with a final settlement payment by the Group of EUR 14 million (US\$ 16 million).

b. Capital commitments

At the reporting date the Group had contractual capital commitments of US\$ 349 million (31 December 2019: US\$ 664 million; 31 December 2018: US\$ 247 million).

04

Appendix

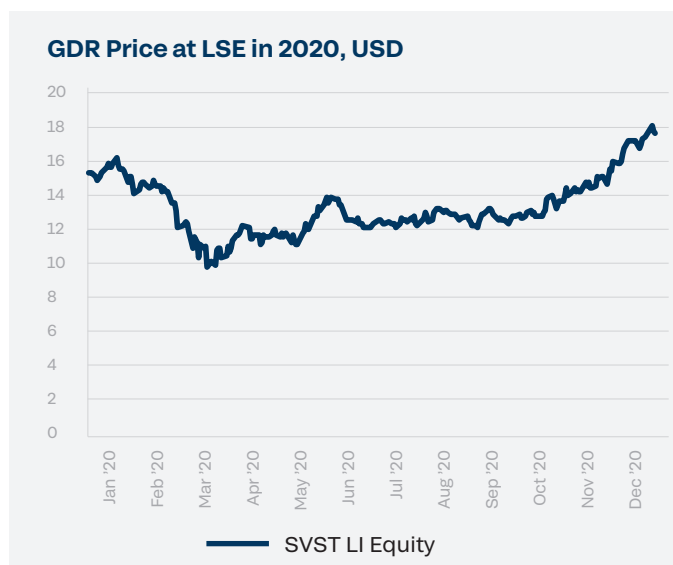
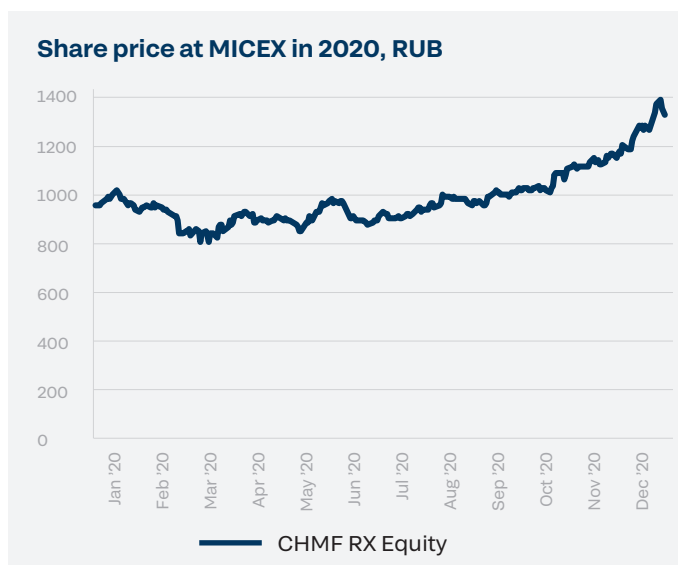
Appendix

Severstal's stocks traditionally contribute to the capitalisation of key indices on the stock exchanges on which the company is listed. Severstal makes a sizeable contribution to the MICEX and RTS indices in Russia. Additionally, Severstal is a solid constituent of MSCI Russia and FTSE Russia IOB at LSE.

Indexes

Index	Weight*
RTS	1.24%
IMOEX	1.24%
MSCI Russia	1.46%
Bloomberg World Iron/Steel index	3.62%
FTSE Russia IOB	0.28%
Russian Depository Index	2.1%

* As of 15 January 2021



Credit ratings

PAO Severstal	Moody's	Fitch	Expert RA
Credit Rating (Long Term, Foreign Currency)	Baa2/Stable	BBB/Stable	ruAAA/Stable
Date	12 February 2019	8 April 2019	20 March 2019

* "Date" does not reflect subsequent confirmations

Dividends per share/GDR announced for the periods ended in 2020, RUB:

Q1 2020	27.35
Q2 2020	15.44
Q3 2020	37.34
Q4 2020	36.27

2021 financial calendar

Capital Markets Day	March 2021
Q1 Operational results	April 2021
Q1 IFRS financial results	April 2021
Shareholders' AGM	May 2021
Q2 Operational results	July 2021
Q2 IFRS financial results	July 2021
Q3 Operational results	October 2021
Q3 IFRS financial results	October 2021

For more detailed information on divisional performance: export and domestic revenue by destination and by product, cost of sales structure, average selling price and selling volumes dynamics please refer to [Severstal's databook](#).



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Expiry date: no expiry date
Issued by: FSFM of Russia

