

Corporate Social  
Responsibility and Sustainable  
Development Report

2019



Severstal 

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# Chairman's Review



Dear partners and colleagues:

In 2019, Severstal maintained its position as a global industry leader in efficiency, equipped to deliver strong performance in all market conditions. The dedicated work of our people across all Severstal businesses and production chains empowered Severstal yet again to demonstrate the promise of Severstal's updated strategy, announced in 2018, and our vision to be the first-choice company for our customers, employees and shareholders.

As a part of our comprehensive business transformation programme, today we are moving away from disconnected asset management towards an integrated value creation chain, replacing an inflexible centralised sales structure with flexible industry-specific teams and product groups. The success of our new strategy largely depends on the initiative and engagement of our people. All changes that we have planned need to come along with the changes in our corporate culture in three areas that we define as “speed”, “inspiration” and “collaboration”. I am happy to report a positive change in employee engagement, which reached 81% last year.

The safety of our employees and contractors is paramount in all our operations. Our objective in this area is to completely eliminate workplace fatalities. We work hard on updating our safety management systems and deploy innovative technologies to achieve a 50% improvement of LTIFR between 2017 and 2025.

New market requirements and standards force us to speed up and digitise all corporate processes, including the automation of environmental protection processes. Customer requirements motivate us to create “green” steel, a product manufactured with a lower environmental footprint. We are planning to launch an automated environmental protection system at Cherepovets Steel Mill. We will also improve our reporting system as well as the quality and volume of our stakeholder disclosures.

We continuously work on reducing our environmental footprint, conserving energy and using natural resources responsibly. The environmental protection programme of Severstal will achieve a 30,000 tonne reduction in annual environmental emissions from Cherepovets Steel Mill by 2025.

Together with World Steel Association experts, we are evaluating and choosing the most efficient ways to reduce greenhouse gas emissions for implementation in our businesses. In addition to climate change risks, we also consider opportunities stemming from the growing demand for renewable energy. In response to this global trend, we established a joint venture with Windar and Rusnano that builds wind towers.

We maintain a continuous dialogue with our business partners, communities and government authorities. Our assets play an important role in the development of local communities. They create jobs for local communities, generate orders for local small and medium businesses, and generate tax revenue for various budgets.

We also help address social issues and invest in improving the quality of life in local communities, municipal landscaping and renovation of health care, culture and sports facilities. Severstal invested \$45 million in the development of local communities in 2019.

The coronavirus pandemic that has already affected the lives of millions of people around our planet will certainly require adjustments to our plans as well. Global steel markets see increased tensions, and Russia is no exception. We are facing new challenges in corporate social responsibility as well.

Today our goal is to protect the people — our employees, contractors and suppliers — and preserve our businesses and teams. Severstal follows all safety recommendations of the Government of Russia and local authorities. Sometimes it is a challenge, considering the non-stop operation of some of our assets. However, we took our own steps to prevent the spread of coronavirus across our work sites and offices, and provide financial support to our employees. It is important to us that our employees and local residents feel as safe as possible these days. I ordered a one-time support payment of approximately 500 million roubles to our employees. In addition to that, we provide financial support to specific foundations and organisations helping vulnerable social groups during the coronavirus pandemic in our regions.

We are facing serious challenges, yet we strive to keep being optimistic and urge our employees and partners to do the same. Severstal is stable today, and we are confident we will be able to maintain this stability.

**Alexey Mordashov**  
Chairman of the  
Board of Directors





# CEO's Review



Last year, we fully launched the comprehensive Severstal transformation programme. The purpose of this programme is to pursue the strategic priorities of our renewed corporate strategy, including “Leadership in cost reduction”, “Superior customer experience”, “New opportunities” and “Culture of urgency, inspiration and collaboration”.

We made an important decision to review our organisational structure to establish a foundation for comprehensive business transformation. All manufacturing and sales assets of Severstal have been split into two large domains, Upstream and Downstream, sharing aligned business goals.

Severstal is trying to reinvent its business, from a manufacturer of basic rolled steel products to a supplier of complex solutions, and to create an environment that will be able to adjust quickly to customer needs in our rapidly changing world. We would like to become a more innovative and technology-focused company.

Today Severstal is working on a comprehensive system to search for, support and implement innovative ideas both within and outside the Company. Our initiatives include creating Russia's first corporate venture project investment fund, Severstal Ventures funds, the world's first steelmaking start-up accelerator SteelTech, our own technology park and, certainly, innovative solutions in future engineering and product quality assurance. We are building an entire ecosystem capable of creating an environment for a stable flow of new ideas. We established a network of technology development centres across all our production sites, and we are collecting proposals for innovations from our employees under the Idea Factory initiative. We keep increasing our focus on the professional development of our employees. In 2019, we delivered more than 50 hours of training per employee.

Safety and health of our employees remain our absolute priority. We are working on creating a safe working environment with involvement of all our employees in this process. A special hazard identification methodology has been developed, and innovative tools including computer vision are under deployment. In 2019 Severstal invested approximately 1.1 billion roubles in industrial safety and injury prevention initiatives at Cherepovets Steel Mill. Some of the most notable projects included site reconstructions to improve work conditions and reduce injury risks.

Our business keeps moving towards a more responsible attitude towards the environment, and we are constantly looking for opportunities to reduce emissions in our regions. Over the last five years, we invested 11.7 billion roubles in environmental projects at Cherepovets Steel Mill, reducing total emissions by 8%. This reduction constitutes approximately 23,400 tonnes per year.

In 2019 we started installing automated atmospheric emission measurement systems in the coke-agglomeration production of Cherepovets Steel Mill. This project is a part of the Comprehensive Action Plan for the reduction of emissions in the city of Cherepovets, and a part of the nationwide Ecology project.

We actively work on reducing CO<sub>2</sub> emissions. Severstal was the first Russian steelmaker to join the World Steel Association Step Up programme aimed at reducing carbon emissions, and we are now working with association experts to select the best available technologies.

We recently joined the UN Global Compact and are now integrating its principles in the protection of human rights, labour rights and the environment, and anti-corruption. We align our development goals with the UN 2030 Sustainable Development goals. Our project focused on increasing power generation through the use of recycled resources meets three out of the 17 goals: Affordable and clean energy, Responsible consumption and production, and Climate action.

As a part of the Business and Biodiversity initiative proposed by the Russian Ministry of Natural Resources, and the Ecology nationwide project, Severstal signed an agreement with Darwin Reserve. We support ornithologists in research and preservation of birds included in the IUCN Red List.

Severstal made a public announcement of our ambitious 2025 goals in sustainable development, and we are committed to continuous communication of our progress to stakeholders. Our new Corporate Social Responsibility and Sustainable Development Report strives to demonstrate our transparency towards the communities.

Today we live in a new, challenging environment affected by the coronavirus pandemic. As a national backbone enterprise, Severstal continues operating in this difficult period. Those of our employees who are required to ensure continuous operation work on site, and the rest of our staff work remotely. We are trying to maintain appropriate transparency as we are taking steps to prevent the spread of coronavirus while trying to take into account the opinions of employees affected by these steps. We provide our employees with updates on actual status and steps we are taking via all communication channels available to us, and we also launched a Coronavirus Hotline. We also need to collaborate efficiently with society in general and local communities, help them address their challenges, and provide our targeted support. Coronavirus has affected Severstal's operations, whilst the market environment has become more complicated, and the risk of demand slowdown is growing. However, we are confident that our strategy and dedicated work of all our employees and partners will enable us to overcome these challenges.

**Alexander Shevelev**  
Chief Executive Officer



# 1

## Key performance indicators

### Financial

**8,157** **-5%** 2018: 8,580  
Revenue, US\$ million

**2,805** **-11%** 2018: 3,142  
EBITDA, US\$ million

**1,200** **+74%** 2018: 688  
CAPEX, US\$ million

### Environmental Protection

**23.4** **+6%** 2018: 22.1  
Direct greenhouse gas emissions, million tonnes

**23.4** **-7%** 2018: 25.1  
Atmospheric emissions, kg per tonne of steel

**3.8** **+10%** 2018: 3.4  
Investments in environmental protection initiatives, billion roubles

### People and Communities

**50,679** **+2%** 2018: 49,667  
Average headcount, total

**50.31** **+10%** 2018: 45.7  
Training hours (per employee)

**39** **0%** 2018: 39  
Share of women among managers and specialists, %

**0.61** **-55.7%** 2018: 0.95  
LTIFR (Lost time injury frequency rate)

**81** **+3 pp** 2018: 78  
Employee engagement, %

**45** **+2.3%** 2018: 44  
Spending on local communities, US\$ million

# About Severstal





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## Mission

- Be the leader in value creation

## Vision

- Severstal is the leader of future steelmaking
- We strive to be the first choice for our clients, employees, and partners, and a safe and attractive workplace

## Values

- Safety
- Customer Focus
- Efficiency and Responsiveness
- Teamwork
- Respect for People

## Overview of Severstal

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PAO Severstal is a vertically integrated steel and mining company with core assets in Russia and several businesses on other countries. Severstal provides high-quality rolled steel, tubes and pipes for construction, machinery, automotive, and oil & gas industries. We are one of Russia's largest producers of iron ore and coking coal.

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Severstal offers 25,000 products, including the following: long products, rolled steel, tubes, pipes and formed shapes, colour-coated steel, cold-rolled steel, hot-rolled steel, hot-rolled pickled steel, large diameter pipes, metalware and secondary products. The [Product catalogue](#) is available on our corporate website. We sell our products to 60 different countries worldwide.

Severstal comprises two core production divisions, Severstal Resources (iron ore and coking coal mining and processing plants) and Severstal Russian Steel (steelmaking and steel product manufacturing facilities). Through vertical integration, Severstal is 80% self-sufficient in coal, and 130% self-sufficient in iron ore.

- We have approximately 50,000 employees.
- Severstal is the fourth largest steelmaker in Russia.
- 16.8% of the Russian market\*.
- Ranked 13th in RIA Top 100 Russian Enterprises by Market Capitalisation rating. [www.riarating.ru/infografika/2020](http://www.riarating.ru/infografika/2020)
- Global Top 50 steelmaker according to World Steel Association. [www.worldsteel.org/steel-by-topic/statistics](http://www.worldsteel.org/steel-by-topic/statistics)
- Ranked 14th in Forbes Russia's Top 200 Private Companies rating. [www.forbes.ru/rating](http://www.forbes.ru/rating)
- Ranked 925th in Forbes Global 2000 rating. [www.forbes.com/companies/severstal](http://www.forbes.com/companies/severstal)
- One of 646 national backbone enterprises listed by the Government Commission on the Improvement of Resilience of the Russian Economy.

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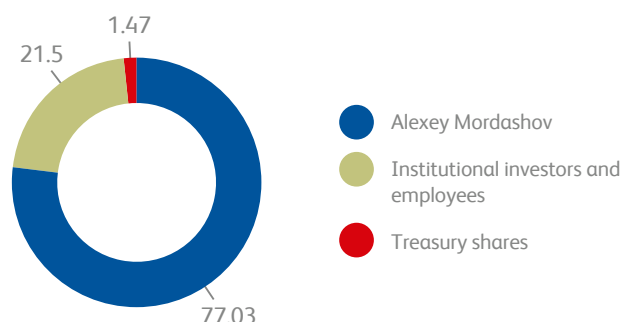
\* Severstal Russian Steel excluding metalware businesses.

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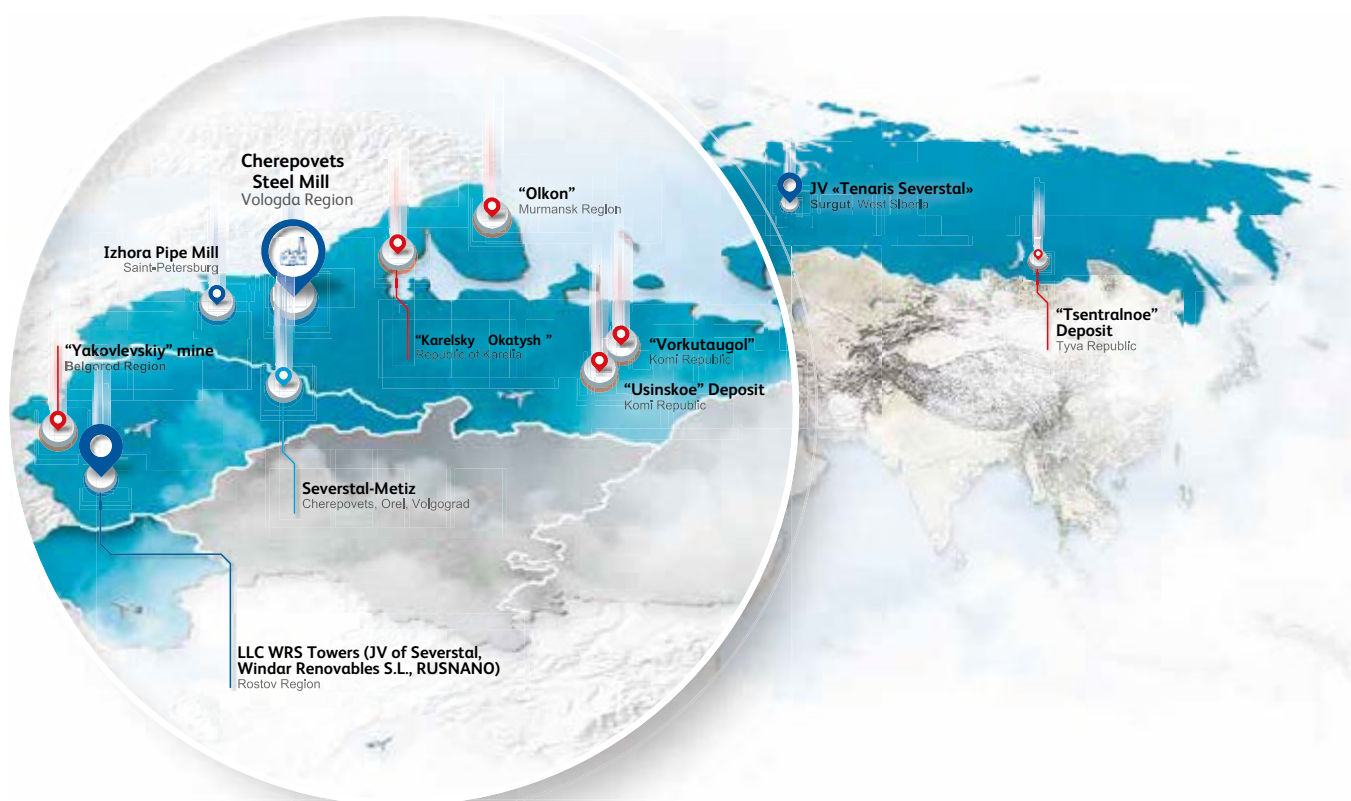
The majority shareholder of Severstal is Alexey Mordashov. Free float constitutes 21.5% of Company shares. Severstal is listed on the Moscow Exchange (MOEX), and our GDRs are traded on the London Stock Exchange (LSE). In 2019, our shares appreciated by 11%.

Moody's upgraded the long-term issuer default rating of Severstal from Baa3 to Baa2 and revised the outlook from positive to stable. Fitch Ratings and Standard&Poor's reconfirmed Severstal's rating of BBB-/Stable as of the end of 2019.

## Share capital as of 31 December 2019, %



## Major assets of Severstal

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Overall, Severstal has 70 businesses. Our core asset, Cherepovets Steel Mill, is among the most profitable steelmaking plants worldwide. Our other major assets include:

- Vorkutaugol, Komi Republic (coking and steam coal).
- Yakovlevskiy Mine, Belgorod Oblast (iron ore).
- Karelsky Okatysh, Republic of Karelia (iron ore).
- Olkon, Murmansk Oblast (iron ore).
- Izhora Pipe Mill, St. Petersburg (large diameter pipes).

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In summer 2019, Severstal finalized the sale of Severstal Long Product Mill Balakovo.

Efficient cost management helps Severstal maintain cost leadership in the industry. We have one of the highest EBITDA margins in the industry (above 30%).

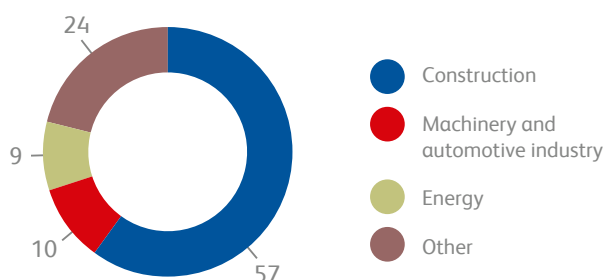
Severstal continuously works on improving productivity. We are the highest performer in Vologda Oblast by this measure.

## Productivity, tonnes per person



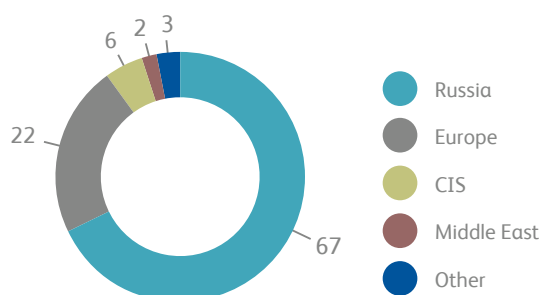
\* List of major assets is provided in the [Annual Report](#), page 90

## 2019 sales by industry, %



The majority of Severstal Resources products are destined for internal use, though Severstal also sells them to other clients in Russia, including the majority of large Russian steelmakers. The main sales market for Severstal Russian Steel is Russia. In 2019, the domestic market represented 67% of our sales, compared with 63% in 2018. The main export market for this division is Europe. The share of this region was 22% in the reporting period, compared with 24% in 2018. We sell products directly to end users, and also through Severstal Distribution, our in-house distribution network.

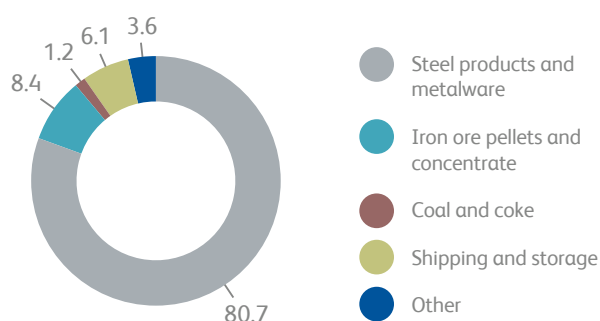
## 2019 sales by region, %



Sales of high-value-added products remain our priority. The share of high-value-added products in 2019 remained at a high level of 45%.

The construction industry remains the largest consumer of Severstal products, with a share of 57%, compared with 64% in 2018. Severstal is a major supplier to automotive and machinery industries (10%, compared with 11% in 2018). Severstal products are used by the manufacturers of cars, trucks, construction and lifting equipment, rail cars, petrochemical and nuclear machinery, and consumer packaged goods. Severstal ships large diameter pipes to major fuel and energy enterprises. Wind power is a new promising market for steel products. Our main client in this sector is WRS Towers, a joint venture of Severstal, RUSNANO and Windar Renovables S.L. manufacturing wind towers.

## 2019 sales revenue by product group, %



# Core Businesses and Corporate Structure

In 2019 we started redesigning the organisational structure of Severstal to deliver on our renewed strategy and maintain outstanding customer experience. We expect that these changes will make us into an even more steady and reliable partner for our clients, offering not just high-quality steel but also turnkey steel-based solutions for their business challenges. All our businesses have been categorised into one of two streams, Upstream or Downstream.

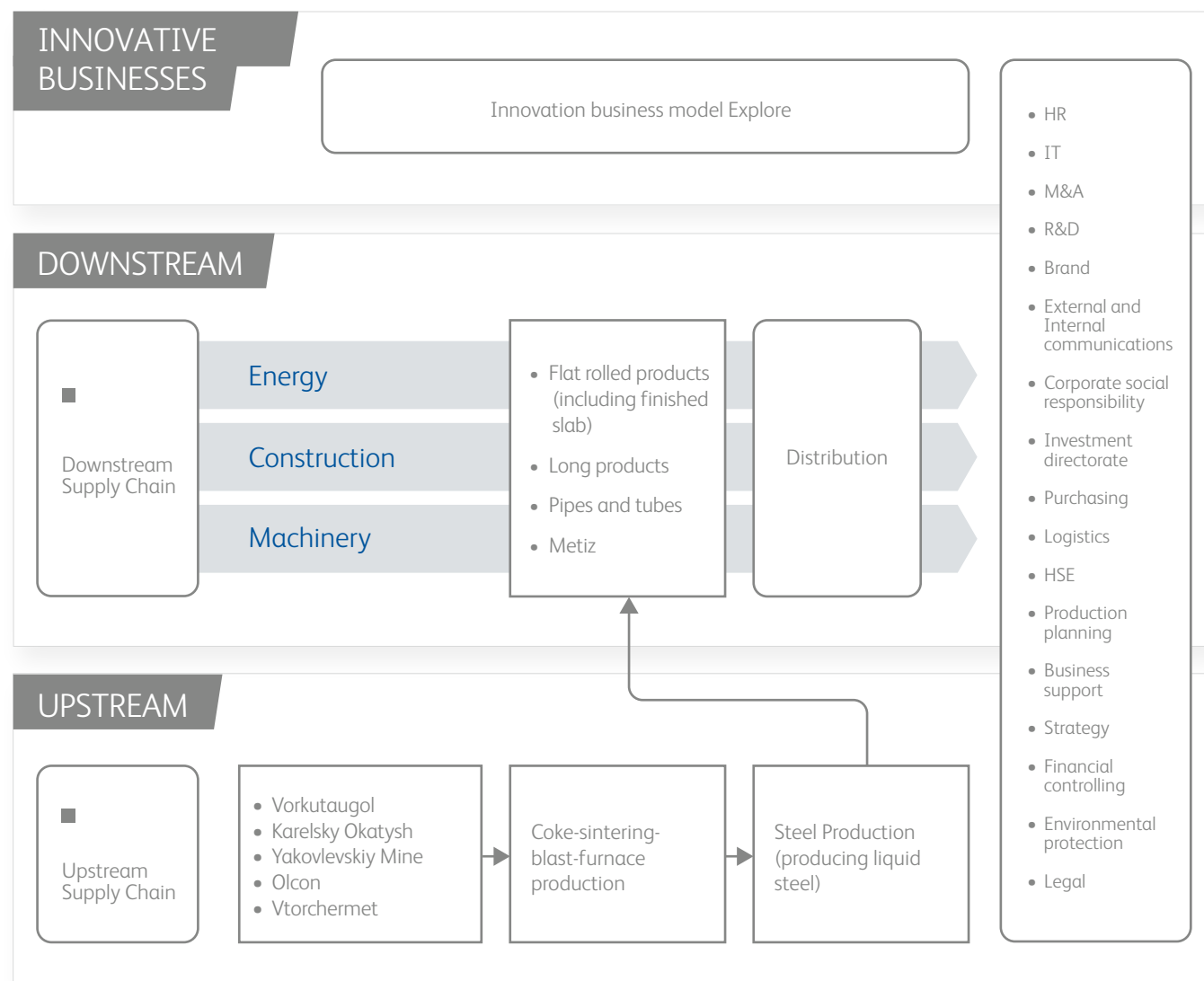
## Upstream

Upstream includes all our mining assets (Vorkutaugol, Karelsky Okatysh, Yakovlevskiy Mine, Olcon), coke-agglomeration production and steelmaking at Cherepovets Steel Mill (up to the pouring of liquid steel), as well as Vtorchermet and SPB - Giproshtakht project consulting company. These businesses generate 70% of product value, and they have been tasked to ensure our leadership in cost reduction.

## Downstream

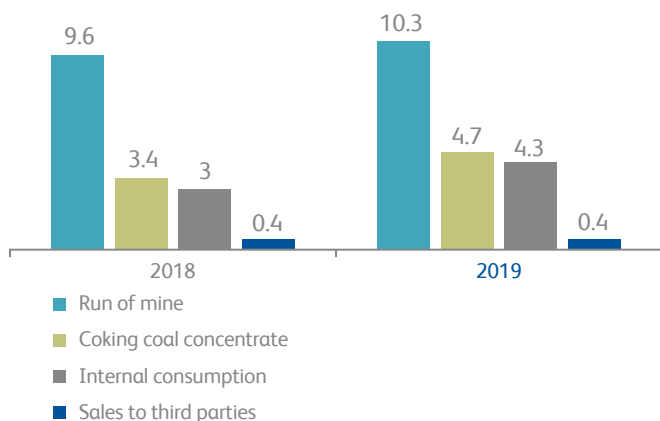
Our Downstream includes flat product, long product, and tube and pipe mills, Severstal Metiz plants manufacturing finished products, as well as sales and marketing functions, and Downstream material management. This stream is responsible for creating outstanding customer experience along the whole value chain from the production of rolled products to the addressing of customer needs. Our Downstream is split into three core areas representing main customer groups: Construction, Energy and Machinery.

These areas are covered by flexible industry-specific cross-functional teams including production, marketing and services specialists. The key objective of industry teams across all three areas is to work directly with customers, optimise a range of processes, and jointly develop and launch one-of-a-kind sales offerings.

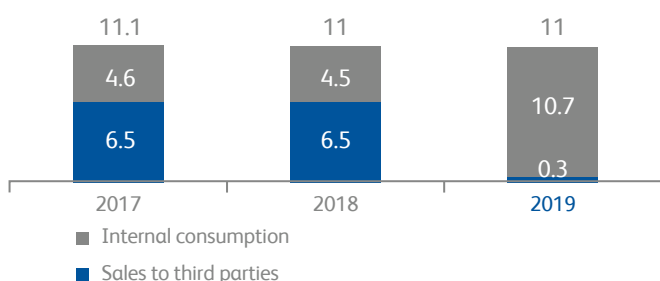




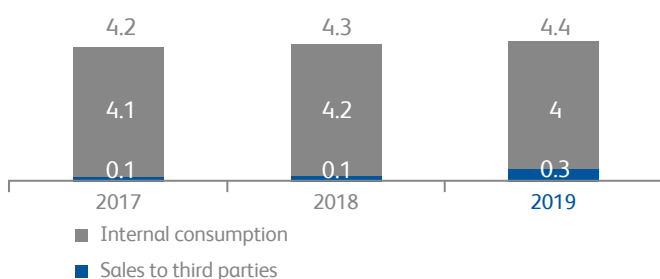
## Coal mining and coking coal concentrate production, million tonnes



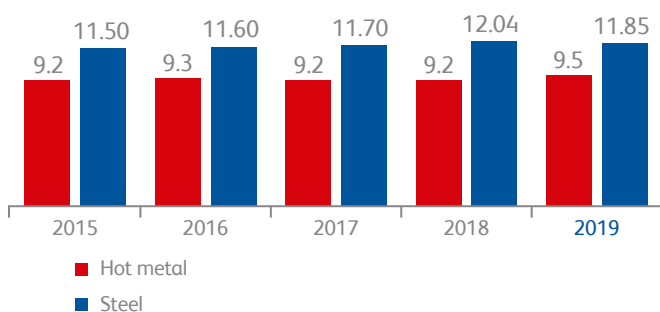
## Sales of iron ore pellets, million tonnes



## Sales of iron ore concentrate, million tonnes



## Hot metal and steel production, million tonnes



## Coal Mining and Coking Coal Production

We mine coal at Vorkutaugol, which is located in the Komi Republic in the north-western part of European Russia. Vorkutaugol is a major Russian producer of hard coking coal used as a raw material to produce coke, which is in turn used in production of hot metal. Vorkutaugol also produces steam coal for power plants and cement factories. Severstal's view on the use of fossil fuels is provided in the [Reduction of greenhouse gas](#) (GHG) emissions section and [Severstal Annual Report 2019](#) (page 24).

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## Iron Ore Production

Three assets of Severstal Resources fully satisfy the need of Severstal for iron ore. Located in Karelia in north-western part of Russia, Karelsky Okatysh is one of Russia's largest and most advanced iron ore producers. Karelsky Okatysh mines magnetite quartzite ores and produces high-quality iron ore pellets with 66.5% iron content. It manufactures approximately one third of all iron ore pellets in Russia.

Olcon mines magnetite quartzite ores in Murmansk Oblast. It produces high-quality iron ore concentrate with approximately 69% iron content.

Yakovlevskiy Mine in Belgorod Oblast develops Yakovlevskiy iron ore deposit, one of the largest deposits in the Kursk Magnetic Anomaly.

All mining facilities are designed by SPb-Giproshakht.

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## Steel Production

Severstal Russian Steel is the leading Russian steelmaker with world-class steelmaking assets. Severstal Russian Steel produces rolled and downstream products.

Located in Vologda Oblast in north-west Russia, Cherepovets Steel Mill is the second largest full-cycle steelmaking facility in Russia. This division also includes Izhora Pipe Mill (ITZ), Severstal Metiz Group, a leading metalware manufacturer, as well as scrap metal processing facilities.

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

The consumption of skip coke used in the smelting of cast iron was 335 kilograms per tonne in 2019, down from 375 in 2018.

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# Logistics

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

Our core mode of transport, covering 90% of the needs of Cherepovets Steel Mill, is rail. For water transport, we use Cherepovets Industrial Port, which operates as a shop floor of Cherepovets Steel Mill, and Neva Metal stevedoring company operating at the Big Port St. Petersburg. We use water transport for 7% of our shipments.

Road vehicles are used at Cherepovets Steel Mill and our metalware facilities to support manufacturing and internal transportation of steel products and other cargo. Our mining assets mostly use excavator and mine truck fleets to transport mined ore. Road transport only covers 3% of our product and raw material transportation needs.

Our transport assets also include Severstal Air Company. Based in Cherepovets International Airport, Severstal Air Company offers domestic and international scheduled flights, chartered flights across Russia, CIS and Europe, and facilitates business trips of Severstal employees.

# Severstal Vision and Strategy

In 2018, Severstal announced our new vision and new development strategy. We established four strategic priorities:

## 1 | Outstanding client experience

One-of-a-kind client offerings in our target markets

## 2 | Leadership in cost reduction

Significant cost advantage over competition on core products

## 3 | New opportunities

New sources of revenue generated by emerging technologies and new business models

## 4 | Developing corporate culture

Speed  
Inspiration  
Collaboration  
Sustainable development

To be the leader of future steelmaking and the first choice for our clients, employees and partners, Severstal launched a five-year transformation programme. We are committed to being the leaders in value creation for our shareholders and to doubling our EBITDA by 2023 (+\$2.1 billion adjusted for market factors).

Achieving this goal requires mobilising the effort of all our employees in three key areas:

- Sustainable development
- Smart CAPEX
- Continuous profitable growth

## Sustainable Development

The transformation process we have launched across the Company is fully consistent with Severstal's commitment to sustainable development. For the first time, our strategy directly addresses aspects of occupational health and safety, communities, and the environment.

Employee health and safety is a key priority for Severstal. All our businesses need to be verified for compliance with ISO 45001 standard by 2025. By that time, we are also planning to reduce LTIFR by 50% compared with 2017 and eliminate workplace fatalities among Severstal employees.

We set target LTIFR annually for all our individual businesses, and we have already made progress in this area. Over the last three years, our injury rates have been lower than average for the industry.

Our initiatives focus in three areas:

- Prevention of direct safety violations by employees
- Hazard identification and risk assessment with maximum involvement of our employees
- Monitoring employees' personal condition and prevention of hazards resulting from its deterioration

The new Severstal strategy includes an environmental programme as a distinct component. Severstal adopted long-term objectives in occupational health, industrial safety and environmental protection, and monitors them annually\*.

### 2025 target (2017 base)

End of  
2019:

Reduce atmospheric emissions of pollutants by 7%

41%

Reduce those effluent discharges to water bodies that are above maximum permitted amount by 12%

67%

Reduce waste disposal by weight by 20%

0% \*\*

\* Balakovo Long Product Mill was excluded from the scope following its sale in 2019

\*\* Lack of progress reflects an increase in the amount of non-hazardous waste (clean fill, reinforced concrete) in 2019 at Cherepovets Steel Mill from major investment projects, including the construction of Coke Battery 11 and Blast Furnace 3. These targets are planned for achievement in future periods prior to 2025.

Our plan to achieve these goals includes targeted environmental protection initiatives, such as upgrades to our water treatment and air cleaning facilities, and deep waste recycling, and the use of the latest technologies to reduce the environmental footprint of Severstal.

For further details, please refer to the [Environmental Protection](#) section of this report.

We believe climate change may affect our business. A key objective of the battle with climate change is the reduction of atmospheric greenhouse gas emissions.

Strategic direction of GHG emission reduction	Practical steps
<b>Quality of raw materials</b>	Increase in the use of pellets from 4.5 million tonnes to 8 million tonnes
	Increased use of converter gas reducing CO <sub>2</sub> emissions by 365,000 tonnes per year and saving 200 million tonnes of natural gas per year
<b>Energy efficiency</b>	Increase in the share of internally generated power in the overall power consumption to 95% Increase in self-sufficiency in electricity to 5.41 billion kWh by 2025 will reduce CO <sub>2</sub> emissions by 512,000 tonnes per year
	Higher quality of coke used in hot metal production reduces the overall coke consumption from 385 to 350 kilogrammes per tonne
<b>Productivity</b>	Reconstruction of solid fuel preparation units in Sinter Shops 2 and 3 will reduce CO <sub>2</sub> emissions by 118,000 tonnes per year
<b>Technology process reliability</b>	Creation of a single logistic centre to monitor and prevent additional CO <sub>2</sub> emissions
<b>Carbon separation and utilisation, using the latest technologies</b>	In development

Cherepovets Steel Mill has reduced the intensity of greenhouse gas emissions by 43% since 1990.

As a responsible company, Severstal is committed to keep looking for additional opportunities to reduce CO<sub>2</sub> emissions in steelmaking. We will keep working with Worldsteel on the evaluation of our emission trends, and participating in the Step Up programme to implement industry leading practices. For further details on our activities in this area, see [Reduction of greenhouse gas \(GHG\) Emissions](#).

Our sustainable development is directly linked to the sustainable development of our regions. Severstal has several coal mines in Vorkuta. The majority of coal we mine is coking coal, which is an integral element of our integrated business model used in steelmaking. Even though steelmaking is considered a traditional industry, blast furnace smelting and basic oxygen steelmaking processes are continuously improved. However, there is no replacement for coke in the technology process beyond pilot projects. Steam coal also mined by Vorkutaugol is mostly used by local residents for heating in winter. Severstal employees and their family members represent a significant portion of the local community. There is no realistic alternative fuel for heating in the Russian Extreme North in combination with high-quality employment. Severstal maintains the highest standards of health care, safety and emission control across our coal operations.

We plan to continue investing in the development of city infrastructure, support for small and medium businesses, development of culture environment, and development of regional tourism in our regions. We invested 2.9 billion roubles in social and charitable projects in 2019.

## Smart CAPEX

Severstal keeps maintaining a prudent approach to investments. We believe that a temporary increase in our capital expenditure will not affect our ability to pay dividends, while establishing a foundation for future growth and creating additional shareholder value. Balanced investment policy and access to favourable borrowing conditions helps Severstal maintain low debt. At 0.6, our net debt/EBITDA ratio at the end of 2019 was one of the lowest among all steelmakers worldwide.





## Continuous Profitable Growth

Severstal is planning to rely on traditional organic growth by increasing production volumes. We are planning to increase our capacity and production volumes mostly in the resources segment (+ 800,000 tonnes of steel, +2.3 million tonnes of coking coal concentrate, +4.1 million tonnes of iron ore concentrate from Yakovlevskiy Mine).

This programme also includes four major investment projects using the latest available technologies. The majority of our investment programme will be financed with our own funds.

Our 2020 investment plan is approximately 110 billion roubles.

If global steel markets are weak, Severstal is able to reduce the investment programme by 30-40% by delaying the lowest-priority projects.

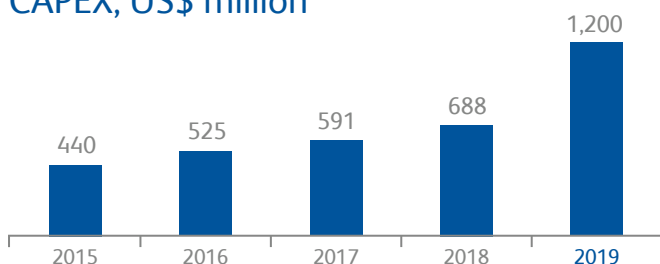
For example, in April 2020 we have already decided to suspend several investment projects, reducing the overall programme by 15%.

Strict quarantine due to the coronavirus pandemic resulted in suspension of operations of automotive manufacturers and construction projects, reducing the demand for steel products. Expectations for an economic slowdown and reduced demand for steel resulted in the weakening of steel prices starting from March 2020.

Outstanding customer experience is a key priority of the renewed Severstal strategy. To achieve this goal, we will increase our focus on the following:

- Product quality (see [Quality Management](#))
- Shipping discipline (see [Customer Care](#))
- Service quality (see [Customer Care](#))

### CAPEX, US\$ million



### Severstal's New Marketing Strategy

Our marketing strategy drives us from the sales of finished products towards unique customer service propositions and active development of our three key markets.

**In the energy industry,** Severstal continues working in the international market. We are planning to improve our presence in the oil & gas piping industry through our joint venture with Tenaris. A joint venture of Severstal, Windar and Rusnano has delivered more than 80 wind towers for wind power generation projects.

**In the industrial machinery industry,** Severstal developed and started shipping laser cutting steel that is in high demand in the industrial machinery sector in Russia and worldwide, and enhanced our high-strength steel product range.

**In the construction industry,** Severstal works with end users — developers, construction companies and general contractors — offering them turnkey solutions for the use at construction sites.

As a supplier of integrated solutions, apart from manufacturing steel products Severstal offers clients bespoke solutions, and works with customers and research institutions on the development of innovative products while using all the resources of our assets.

Our development strategy matches global trends and challenges:

Global trends	Our strategy
Circular economy and environmental issues	Focus on the environment and climate change initiatives
Emerging technologies for accelerated growth	Digital solutions and platforms
Growing customer expectations	Focus on turnkey solutions for end customers New materials with unique properties
Competing materials	Breakthrough technologies, monitoring and investments

The coronavirus pandemic created uncertainty for all market players across the globe. Severstal is committed to keeping our competitive edge and continuing to deliver on our strategy. In the new, extreme environment for the economy and people, Severstal has identified areas that need to stay in focus.

Continuously operating facilities, including Severstal's assets, continued working even during self-isolation. Therefore, it is critical that we protect our people and keep our teams. We also need to ensure continuous operation of supply chains, purchasing the required amounts of materials, and even more importantly than before, we need to support our clients and partners, understand their problems and needs, maintain the quality of our products and services, and offer integrated solutions.

Smart CAPEX, which has always been one of our highlights, is especially important in the new reality. Severstal will evaluate our financial resources responsibly to decide which of the previously planned initiatives will be completed.

In the remote working environment, the role of the corporate IT infrastructure becomes paramount as it needs to handle the increased load and ensure reliable communications and the operation of the integrated information space.

We will work even harder on reducing our costs, continue looking for new opportunities and stay true to our corporate culture.

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

### 2020 objectives

Industry-leading EBITDA margin through improved efficiency and cost management

Positive free cash flow through the cycle

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

Strong balance sheet with the aim of not exceeding the target net debt/EBITDA ratio of 1.5

Returning value to shareholders in the form of dividends amounting to 100% of the Group's adjusted Free Cash Flow for the respective reporting period as long as Net debt/EBITDA ratio remains below 1.0, and flexible to accommodate exceptional CAPEX projects while maintaining high shareholder returns.

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

	2018	2019
<b>Direct economic value generated:</b>		
Revenue	8,571	8,150
<b>Economic value distributed, including:</b>		
Operating expenses	(5,781)	(5,762)
Wages and benefits	(982)	(1,049)
Payments to providers of capital	(2,081)	(1,688)
Payments to the state	(508)	(389)
Direct community investments and donations	(44)	(45)



\* Calculation formula is provided in Appendix 2. Data is based on the consolidated IFRS financial statements of PAO Severstal and subsidiaries.

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In response to the growing demands of society, businesses pay increasing attention to matters of sustainable development, including environmental protection, social responsibility and corporate governance. Social responsibility and sustainable development are among the core pillars of our corporate culture. Our success as a Company is largely the product of our values shared by every member of our management team. It starts with respect for people, value creation for our customers, and the readiness for continuous development and self-improvement.

# Business and Social Responsibility





# Management of Social Responsibility and Sustainable Development in Severstal

Severstal has a Corporate Social Responsibility Policy in place that ensures a unified understanding of CSR by all corporate businesses and divisions. It reflects CSR principles and approaches recognised by the Russian and international business communities, and follows our mission and values.

The Business System of Severstal is our primary policy implementation engine covering all key CSR areas such as corporate governance, human rights, labour practices, environment, consumer and supplier relations, and community involvement. The projects of the Business System link together the financial, economic, social and environmental aspects of our business. As a socially responsible company, Severstal works on increasing our customer focus, improves product and service quality, ensures safety and development of our employees, and believes our sustainable development is directly related to the sustainable development of our regions and environmentally conscious operations. In implementing this policy, Severstal also takes stakeholder opinions and expectations into account, and works closely with stakeholders on addressing important social challenges.

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



Our decision making principles, structures and processes are largely compliant with the requirements of the ISO 26000 standard. The Board of Severstal oversees the delivery of integrated injury prevention, workplace improvement, environmental footprint reduction and climate change programmes. The Board approved the long-term goals of Severstal in occupational health, industrial safety and environmental protection until 2025.

Our key policies in the area of sustainable development are available on [our website](#). Our activities in this area are reflected in respective sections of this report.

## Governing bodies and functional units responsible for specific CSR aspects.

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### Executive Level

Board of Directors

Health, Safety and Environmental Protection  
Committee of the Board

Remuneration and Nomination Committee of the Board

### Management Company

AO Severstal Management Executive Authority

Human Resource Directorate

Environmental protection department

Health and safety project manager

Raw Material Sales and Purchasing Directorate

Communications and Investor Relations Department

Government Relations Department

CSR and Brand Department

Ethics Committee

BSS Development Centre

### Individual Businesses

HSE departments

HR Committees

Chief Power Engineer departments

Energy Efficiency Centre of Cherepovets Steel Mill

Occupational health, safety and environmental protection  
departments

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

We support and share the principles of a wide range of international and Russian initiatives and ratings in corporate social responsibility and sustainable development; we are their participants and signatories.

These include:


- UN Global Compact.
- UN sustainable development goals included in the 2030 Agenda for Sustainable Development
- UN Guiding Principles on Business and Human Rights
- UN Universal Declaration of Human Rights
- UN Declaration on the Rights of Indigenous Peoples
- Sustainable Development Policy of the World Steel Association (Worldsteel)
- Worldsteel Sustainable Development Charter
- Social Charter of RSPP
- Responsibility and Transparency, and Sustainable Development Vector indices of RSPP
- FTSE4Good Index Series
- Carbon Disclosure Project


To improve the quality of corporate governance, Severstal follows the principles and guidelines of the Corporate Governance Code of the Central Bank of Russia and the UK Corporate Governance Code. Our individual businesses strive to meet the requirements of international standards including the following:



- ISO 26000:2010 — Social responsibility
- ISO 14001:2015 — Environmental management systems
- OHSAS18001:2007 — Occupational health and safety management systems
- ISO 50001:2011 — Energy management systems



Severstal supports the UN Sustainable Development Goals included in the 2030 UN Sustainable Development Agenda, and together with other stakeholders, including the federal government, responsible businesses and public organisations, contributes to achieving them and tries to support their propagation along the value chain. The analysis of the impact of our operations on the achievement of the UN Sustainable Development Goals is provided on our [corporate website](#).

We identified six priority UN Sustainable Development Goals for ourselves, and then in 2019 we aligned our current and future operations with specific targets of each of these goals, and identified the indicators that would allow us to measure progress towards each target.

Goals and targets of sustainable development	Our programmes / Report section	Performance indicator
 <b>SDG 4: Quality education</b>		
<b>4.3</b> Equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university	<b>Engagement of High School and University Students and Young Professionals</b> <ul style="list-style-type: none"> <li>• Public-private partnership in talent development in our regions</li> <li>• Severstal special tracks</li> <li>• Steelmaking museum</li> <li>• Cherepovets Children — Way to Success programme focused on support and development of gifted school students</li> <li>• Quantorium Children's Technopark</li> <li>• Student internships at Severstal businesses</li> <li>• Employment of new graduates</li> <li>• Support for the Management of the Future '19 — Knowledge Economy: Opportunities for the Society, Businesses and Individuals conference at the St. Petersburg State University High School of Business</li> </ul>	<ul style="list-style-type: none"> <li>• Number of partner educational institutions</li> <li>• Number of students in special tracks</li> <li>• Number of college and vocational school graduates who completed internships at or were employed by Severstal</li> <li>• Number of teachers and students participating in the Cherepovets Children — Way to Success programme</li> <li>• Number of the scholarship programme participants</li> <li>• The amount of financial support to colleges and vocational schools</li> <li>• Number of career orientation events</li> </ul>
<b>4.4</b> Increased number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	<b>Development of Regional Potential</b> <ul style="list-style-type: none"> <li>• Cherepovets Agency for Urban Development, Business Education programme</li> </ul> <b>Training and Development System</b> <ul style="list-style-type: none"> <li>• Employee training programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Number of educational events and trained entrepreneurs</li> </ul>
		<ul style="list-style-type: none"> <li>• Employee training costs</li> <li>• Percentage of employees who received training</li> <li>• GRI Standard 404-1</li> <li>• GRI Standard 404-2</li> </ul>

Goals and targets of sustainable development	Our programmes / Report section	Performance indicator
4.7 Acquisition of knowledge and skills required to support sustainable development by the trainees, including training on sustainable development, etc.	<ul style="list-style-type: none"> <li>Environmental lessons at schools</li> <li>Environmental competitions and tours of our businesses for school students</li> </ul>	<ul style="list-style-type: none"> <li>Number of events and participants</li> </ul>
 <b>SDG 8: Decent work and economic growth</b>		
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation	<b>Managing Innovations</b>	
	<ul style="list-style-type: none"> <li>See target 9.5</li> </ul>	
8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services	<b>Development of Regional Potential</b>	
	<ul style="list-style-type: none"> <li>Cherepovets Industry Park</li> <li>Programmes of Cherepovets Agency for Urban Development: <ul style="list-style-type: none"> <li>Business education</li> <li>Social Innovations Centre</li> <li>Informational support for SMBs and promotion of entrepreneurship</li> <li>Business Consulting Programme</li> <li>Resource and Methodology Centre</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Number of businesses that became residents of the industry park</li> <li>Number of jobs created</li> <li>Number of new small or medium businesses</li> <li>Amount of investments attracted</li> <li>Number of educational events and trained entrepreneurs</li> </ul>
8.4 Improve global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation	<b>Power Consumption and Energy Efficiency</b>	
	<ul style="list-style-type: none"> <li>Energy conservation and energy efficiency programmes</li> </ul>	<ul style="list-style-type: none"> <li>GRI Standard 302-1</li> <li>GRI Standard 302-3</li> </ul>
	<b>Environmental Protection</b>	
	<ul style="list-style-type: none"> <li>Water recirculation systems</li> <li>Waste reuse and recycling</li> </ul>	<ul style="list-style-type: none"> <li>GRI Standard 303-3</li> <li>GRI Standard 301-2</li> </ul>
8.6 Reduce the proportion of youth not in employment, education or training	See target 4.3	
8.8 Protect labour rights and promote safe and secure working environments	<b>Collaboration with Trade Unions</b>	
	<ul style="list-style-type: none"> <li>Negotiations with trade unions on industry agreements and collective agreements</li> <li>Community and living standards</li> </ul>	<ul style="list-style-type: none"> <li>GRI Standard 407-1</li> <li>Share of employees who are members of trade unions</li> <li>Amount of spending on community and living standard improvement programmes</li> </ul>
	<b>Occupational Safety</b>	
	<ul style="list-style-type: none"> <li>Occupational Safety Policy</li> <li>Long-term goals in occupational health, industrial safety and environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>GRI Standard 403-1</li> <li>GRI Standard 403-2</li> <li>GRI Standard 403-3</li> <li>GRI Standard 403-4</li> <li>Achievement of long-term corporate goals</li> </ul>
8.9 Devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products	<ul style="list-style-type: none"> <li>Culture and industrial tourism development programme in Cherepovets</li> <li>Steelmaking museum</li> <li>Museums of Russian North grant programme</li> <li>Latitude 2000 tourist observation point at Cherepovets Steel Mill</li> <li>Themed culture events and festivals</li> <li>Support for regional culture institutions</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the number of tourists visiting Cherepovets and Vologda Oblast</li> <li>Number of events and guests of the Steelmaking Museum</li> <li>Amount of financial support and number of participants of the Museums of Russian North Programme</li> <li>Number of visitors to the observation point and festivals, and number of partner culture organisations</li> </ul>

Goals and targets of sustainable development	Our programmes / Report section	Performance indicator
 <b>SDG 9: Industry, innovation and infrastructure</b>		
<b>9.3</b> Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	<b>Development of Regional Potential</b> <ul style="list-style-type: none"> <li>Cherepovets Agency for Urban Development, Guarantee Center programme</li> </ul>	<ul style="list-style-type: none"> <li>Number and overall volume of loan guarantees</li> <li>Number of new suppliers</li> </ul>
	<b>Customer focus</b> <ul style="list-style-type: none"> <li>Competitive trading processes in the online trading system of Severstal</li> <li>Publishing information about purchasing plans on company website</li> </ul>	<ul style="list-style-type: none"> <li>Number of orders placed</li> </ul>
	<b>Contribution to Sustainable Development of Severstal Regions</b> <ul style="list-style-type: none"> <li>Cherepovets Agency for Urban Development, Support for Development of New Sales Markets programme</li> </ul>	<ul style="list-style-type: none"> <li>Purchasing volumes from local suppliers</li> <li>Number of local suppliers</li> </ul>
<b>9.5</b> Enhance scientific research, upgrade the technological capabilities of industrial sectors, encouraging innovation and substantially increasing the number of research and development workers and research and development spending	<b>Managing Innovations</b> <ul style="list-style-type: none"> <li>Ecosystem — a service for our employees that provides R&amp;D analysis and data</li> <li>IT development programme</li> <li>Technology development centres</li> <li>Severstal Innovations Project</li> <li>Implementation of integrated IT platforms</li> <li>Corporate expert network</li> <li>Engaging partners and independent experts in the increase of efficiency and optimisation of production processes</li> <li>Severstal Technology Park</li> <li>Severstal SteelTech Accelerator</li> <li>SteelTech LAB internal entrepreneurship development programme</li> <li>Severstal Ventures Corporate Fund</li> <li>Severstal Open Innovation website</li> </ul>	<ul style="list-style-type: none"> <li>Number of our own patents</li> <li>Number of our own inventions used in production</li> <li>Amount of R&amp;D investing and its economic impact</li> </ul>
 <b>SDG 11: Sustainable cities and communities</b>		
<b>11.4</b> Strengthen efforts to protect and safeguard the world's cultural and natural heritage	<ul style="list-style-type: none"> <li>Museums of Russian North grant programme</li> <li>Support for cultural and spiritual heritage sites</li> </ul>	<ul style="list-style-type: none"> <li>Amount of financial support and number of participants</li> </ul>
<b>11.6</b> Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality, municipal and other waste management	<ul style="list-style-type: none"> <li>Environmental protection policy</li> <li>Long-term goals in environmental protection</li> <li>Integrated plan to reduce atmospheric emissions of pollutants in Cherepovets under the agreement with the Russian Ministry of Nature, Rosprirodnadzor and the Government of Vologda Oblast</li> </ul>	<ul style="list-style-type: none"> <li>Achievement of long-term corporate goals</li> </ul>

Goals and targets of sustainable development	Our programmes / Report section	Performance indicator
 <b>SDG 13: Climate action</b>		
<b>13.1</b> Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters	<b>Reduction of greenhouse gas emissions</b> <ul style="list-style-type: none"> <li>Reduction of direct and specific greenhouse gas emissions at all stages of steelmaking</li> <li>Participation in the Step up programme of the World Steel Association</li> </ul>	<ul style="list-style-type: none"> <li>GRI Standard 305-1</li> <li>GRI Standard 305-4</li> <li>GRI Standard 305-5</li> </ul>
 <b>SDG 17: Revitalize the global partnership for sustainable development</b>		
<b>17.17</b> Encourage and promote effective public, public- private, and civil society partnerships, building on the experience and resourcing strategies of partnerships	<b>Development of regional potential</b> <ul style="list-style-type: none"> <li>Cherepovets Agency for Urban Development, Cooperation with Local Authorities programme</li> </ul>	<ul style="list-style-type: none"> <li>Number of events and participants</li> </ul>

## Participation in National Projects

Achievement of national development goals\* depends strongly on efficient public-private partnerships and the involvement of businesses in the delivery of national projects. Renewed corporate strategy and investment programme are largely aligned with nationwide projects outlined by the federal government. These include digital transformation, increasing non-primary exports, improving our competitive edge and reducing our impact on the environment. The company also works on a large number of its own initiatives aligned with national project concepts.

Severstal initiatives:	National projects
Cost reduction programme	Productivity and employment support
IT development programme; implementation of integrated IT platforms	Digital economy
Occupational health & safety, sports and wellness programmes	Demographics National Project
Health care system improvement	Health Care National Project
Technology development centres, Severstal Innovations, Severstal Technology Park	Science National Project
Reduction of atmospheric emissions, municipal landscaping	Ecology National Project

Severstal directly participates in certain national projects. Under the Clean Air initiative of the Ecology National Project, Severstal is designing a set of investment projects focused on the reduction of atmospheric emissions in Cherepovets. This commitment is included in the agreement between Severstal, Russian Ministry of Nature, Rosprirodnadzor and the Government of Vologda Oblast. The Comprehensive Action Plan for the reduction of emissions in the city of Cherepovets for 2019–2024 developed under the Ecology National Project includes 15 Severstal businesses and is expected to reduce emissions by more than 30,000 tonnes per year.

Gestamp Severstal Vsevolozhsk joined the Productivity and Employment Support National Project in Leningrad Oblast. The goal of this project is to achieve annual 5% productivity increases in regional medium and large businesses until 2024. The production flow at this plant was transformed to follow the Toyota production system. This will allow us to produce as many products as needed and when needed, reducing our costs. Severstal is a productivity leader in Vologda Oblast, and a participant of the Federal Productivity Improvement programme of the Russian Ministry of Economic Development.

Severstal helps equip the Quantorium Mobile Technology Park that is under development in Vologda Oblast as a part of the Success for Every Child initiative of the Education National Project.

Virtual and augmented reality technologies have a special place in the Digital Economy National Project. Severstal actively deploys virtual simulators for worker training. The steelmaking plant of Cherepovets Steel Mill is finishing the development of such simulators for steelmaker apprentices. Another simulator is used to deliver safety and emergency behaviour training in our mining businesses. Earlier we developed a virtual tour of Cherepovets Steel Mill.

\* Decree of the President of Russia dated 7 May 2018 No. 204 "On the national goals and strategic development targets of the Russian Federation until 2024".



We expect that in the short term, a significant increase in construction driven by the Residential and Municipal Infrastructure National Project may drive the demand for construction materials, including steel. Public infrastructure

projects, and the Comprehensive Plan for Upgrading and Expanding Core Infrastructure in particular, may also support the internal demand for steel, and Severstal is ready to meet these challenges.

# Stakeholder Engagement

## Principles and Forms of Engagement

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

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

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

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We review stakeholder lists annually. In 2019, our Corporate Social Responsibility and Sustainable Development Report work group did not make any changes to the list of key stakeholders, which includes the following:

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

Common principles of our engagement with key stakeholders are established in several corporate documents, including regulations, codes and policies. These documents are available on our [corporate website](#).

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

## Shareholders and Investors

Severstal is fully compliant with applicable laws protecting interests of shareholders and investors. We follow Russian and international governance standards and international best practices in corporate disclosures to help investors and partners receive comprehensive information about our financial and operational performance in a timely manner. Our [corporate website](#) has a special section for investors. We were one of the first companies to publish international reports, and we regularly organise analyst teleconferences and investor meetings.

Our annual Capital Markets Day in London is one of our key communication forums for existing and potential investors. In November 2019, Severstal executives told the CMD participants about our renewed strategy and presented our operational outlook on shareholder value creation in volatile markets. To make Severstal the leader of the steel industry of the future, we developed a clear action plan to generate \$2.1bn of additional EBITDA in 2018–2023, adjusted for market factors. Safety remains our key priority, and ESG is becoming increasingly important. At the same time, Severstal stays committed to smart CAPEX. A temporary increase in our



capital expenditures will not affect our dividend payments, while establishing a foundation for future growth and creating additional shareholder value. We offered a live broadcast of this event via our website.

According to 2019 data of the [Centre for Corporate Information Disclosure](#) we published 136 RNS disclosures. By request from our stakeholders, including investors and analysts, Severstal organises tours of our businesses to show the quality of our assets and introduce our management teams. Severstal puts a strong emphasis on communication with professional corporate governance associations and investors. We are a member of the Russian Institute of Directors.

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

## Business Partners and Consumers

### Cooperation with Suppliers and Vendors

Severstal is committed to building long-term mutually beneficial relationships with business partners based on fair, open and ethical cooperation principles that are integrated in our Code of Business Partnership. The Code includes business ethics provisions as well as requirements for industrial and environmental safety, meeting our Anti-Corruption Policy, and informing employees who work with Severstal of the rules and principles of Severstal Code of Business Partnership.

In 2019 Severstal had 7,645 suppliers (compared with 7,279 in 2018). Severstal spent \$8 billion on purchasing in 2019. Out of that amount, 60% was spent on goods, equipment and services

(including third-party transportation services), and 40% was spent on raw materials, scrap metal and energy. All these purchases were made to ensure continuous operation of our mining and steelmaking divisions. There were more than 100 categories of items (ferroalloys, refractory materials, core technology equipment, plant equipment, construction and repair services, etc.). On average, we have three to four large suppliers in every major product group covering approximately 60% to 90% of our purchases.

All Severstal businesses use automated Electronic Trading System to manage suppliers. We also invite local suppliers, small and medium businesses to use this system (see also: [Contribution to Sustainable Development of Severstal Regions](#)). We publish our purchasing plans on the [company website](#).

Severstal tries to build strategic partnerships in order to work closer with suppliers and sign long-term contracts. In addition to meeting contractual commitments and improving product quality, Severstal expects that our suppliers also help us identify and deploy new technology solutions, alternative products, demonstrate flexibility, and bring new service offerings helping us reduce costs and work more efficiently. We also list our priority R&D areas on a special portal. Also on our corporate website, there is a link for our vendors and suppliers to submit innovative ideas so we can evaluate the potential of their joint implementation. In 2019–2020, we developed special publications (Vendor Handbook and Supplier Handbook) with important information about the Company that is required when we start working together, including the key principles of Severstal environmental protection policy that is mandatory for anyone to work with Severstal.

In 2019, we reviewed our approach to supplier evaluation. We automated this process to be able to receive the required information in a timely manner and use it to develop corrective action plans.



We audit the quality management systems of our partners to improve the expertise of our suppliers and find mutually beneficial cooperation opportunities. We use audit results to prepare a report with recommendations for quality improvements for both suppliers and buyers upon the conclusion of the audit. Under our Reliable Suppliers project, Severstal is implementing a unified management system for suppliers participating in our investment and repair projects at Cherepovets Steel Mill. This system measures the achievement of operational performance indicators, quality and timeliness of supplier services, supplier compliance with health and safety requirements, and their investments in their own development. We audit our vendors twice a year and provide them with recommendations for further development.

We rate our suppliers based on the results of their evaluation, and link the conditions of our cooperation to this rating.

Severstal also builds a list of businesses ready to help with new or high-demand work so that they potentially can become core suppliers.

In August 2019, Severstal hosted the Vendor Day conference in Cherepovets for small and medium businesses who work on contracts for Cherepovets Steel Mill. At this conference, our partners received information on our current projects and programmes, and an overview of our Online Business Cooperation project. This Internet resource supported by the Agency for Urban Development helps businesses sell their products and services, and get information about purchases made by large enterprises.

## Customer Relations

Severstal sells our products to more than 80 countries all over the world. Our customers include some of the largest enterprises in Russia and worldwide. 50 key customers generate almost 80% of Severstal's profit. Strong intellectual and technological portfolio gives Severstal an opportunity to find quick solutions to complex research and development challenges and implement innovative projects per requirements of our key customers. The key objective of the transformation of our manufacturing, sales and marketing assets that we started in 2019 is to align them with our customer needs, to develop new sales and cooperation principles according to customer demands at all phases of order delivery, and to develop a new customer service format whereby our clients would be able to get not only products, but also turnkey solutions for their business objectives.

We have a multifunction Central Service Centre in Yaroslavl that is responsible for all transactional operations. The Central Service Centre hosts customer interaction services, including employee call centre and hotline, call centre for internal and external customers, and support for self-service functions. CSC Centre handles approximately 5.5 million transactions, more than 320,000 phone calls, 500 self-service requests and 20,000 reports per year.

## Key areas of customer engagement

### Research of customer preferences

- Business negotiations, interviews and surveys
- Arrangement of introductory tours of our facilities
- Creation of special committees and coordination groups for long-term strategic accounts

### Joint projects

- Our objective is to reduce the cost of end products and improve their usability

### Development of new products

- Focus on specific projects and customer requirements

### Claim management

- Quick decision making on defective products
- Complaint management and reimbursement of losses
- Cross-functional teams designed to adjust our internal processes to customer requirements
- Development of corrective actions to address root causes of complaints

We use an automated SAP system to monitor the management of notifications and claims, and utilise a simplified review process for claims up to 300,000 roubles. Our businesses have switched to electronic management of internal documents. We have successfully achieved our objectives related to our performance, notification and complaint response times, and payment times for validated claims.

Severstal conducts customer satisfaction surveys on a regular basis. Survey results are provided in the [Customer Care](#) section.

We put significant effort in communicating with our clients. In 2019 Severstal organised the first extended New Technology Horizon conference in St. Petersburg for more than 60 technical experts of our business customers.

More than 80 representatives of 37 companies participated in our conference for steel traders. We told them about the changes in our strategy in the Construction segment and our new positioning in the construction market where Severstal starts to work more closely with developers and manufacturers of construction materials and components.

# Employee Dialogue

## Internal communications system

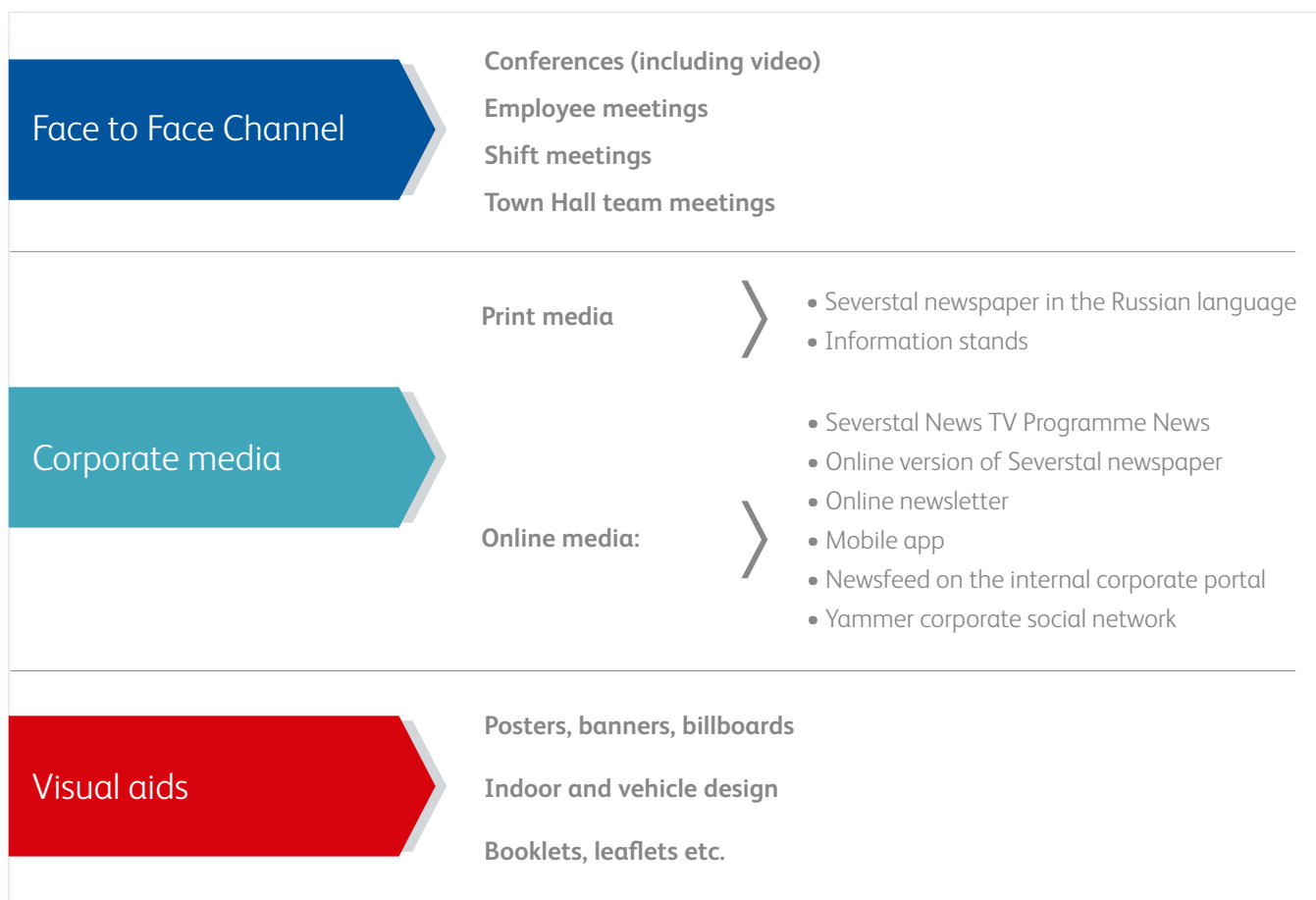
Our internal communications system establishes a unified information space and ensures that we maintain an ongoing discussion with our employees. We develop this system in alignment with Key Provisions and Standards of Internal Communications at Severstal.

The most popular communications medium in Severstal is the weekly Severstal newspaper. Approximately 74% of our employees read the newspaper, and over half of them use it as the preferred source of company news.

67% of our employees watch the Severstal News TV programme. More than 80% of our employees read our email newsletter, and about the same number read our newscast on the internal corporate web portal. We have developed a mobile application that includes Severstal newspaper, Severstal News TV programme, and the portal newscast.

We also use official Severstal pages on Facebook and VK communicate information and receive feedback from our employees and local communities. In 2019 we launched new communication channels, including the Yammer corporate social network and several messengers.

## Unified internal media communications system of Severstal



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## Feedback Channels

The Company has a comprehensive feedback system linking employees to their managers and facilitating information exchange between departments. Our dedicated hotline is available 24x7. Employees can make their submissions, including anonymous submissions, over phone, email or our corporate web portal. In 2019 we received 457 submissions, compared with 406 in 2018. The most popular areas were HR (wages, bonuses and other payments, vacation,

sick leave — 18%) and site development (cleaning, lighting, parking, etc. — 14%). 12% of submissions were information requests related to current employment, and the rest were about violations of ethical standards and wrong behaviours, catering, health care, benefits, etc.

All submissions are logged into a unified database, and a responsible person and a due date are assigned to every submission. We were able to help 91% of employees who contacted our hotline.

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We use Issue Rosters and SMS Centres in individual departments and businesses to address current issues and problems experienced by our employees. Besides that, CEO receptions are available in some of our businesses. At the corporate level, we have the Ethics Committee headed by the Chairman of Severstal Alexey Mordashov. In 2019, the Committee reviewed 48 employee submissions, compared with 42 in 2018. Of those, 21 submissions were partially or fully corroborated, and we took administrative actions on them.

Our corporate communications system includes direct communication channels. Every year, the CEO of Severstal conducts several video conferences with all our industrial sites offering everyone an opportunity to ask a question, whether personally over the video or anonymously via the WhenSpeak platform. In May 2019, Chairman of the Board Alexey Mordashov visited our mining assets, Karelsky Okatysh and Vorkutaugol. During this visit, he hosted a video conference with Severstal employees.

Severstal conducts the Severstal Pulse survey annually to measure the satisfaction of our employees and their engagement with Severstal strategy. For further details, please refer to the [Severstal Pulse Survey](#) section.

More than 5,000 Severstal employees use the Severstal Info mobile app that provides access to their personal accounts and provides an opportunity to consult their colleagues promptly on business matters in the form of a survey.

#### Informing our Employees about the Coronavirus Pandemic

During the coronavirus pandemic, Severstal takes care of the physical well-being of our employees and also strives to maintain the appropriate level of transparency: we inform our employees of the latest developments and of the actions we take internally. This is particularly important in the remote working environment and work under stress.

As the pandemic evolved rapidly, we established a Commission conducting global pandemic news monitoring and offering support and advice to our employees on minimising the risk of contracting the virus. Severstal Info mobile app provides a comprehensive coverage of all company news and allows getting complete information about steps taken to prevent the spread of COVID-19.

A large amount of verified information on COVID-19 matters is available at our central corporate portal, #OnlineTogether. The portal provides contact information for enquiries related to the coronavirus, answers to common questions, links to the sections of the knowledge base on COVID-19 and working under new conditions. We send newsletters to our employees regularly and have a coronavirus hotline.

#### Collaboration with trade unions

Between 20% and 66% of the employees of Severstal's core businesses are members of GMPR (Miners' and Metallurgical Workers' Union of Russia), Rosugleprof (Russian Independent Union of Coal Workers) or NPG (Independent Miner Union), who have their representation in our businesses. Trade unions are our key partners in the delivery of social and labour security to our employees.

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

As a member of the Mining Industry Employer Association (OORUP) and Metallurgy Employer Association (AMROS), Severstal negotiates industry agreements with trade unions. Employers sign collective bargaining agreements with local trade union representatives.

In 2019 Vorkutaugol and Severstal Project signed new collective agreements, Karelsky Okatysh extended its existing collective agreement, and Severstal Vtorchermet amended its collective agreement to make it more beneficial for our employees. Our 2019 agreements include all employee benefits that were present in the previous agreements, and some of them provide additional benefits.

In 2019 Severstal won the Staff Development nomination of the Socially Efficient Mining and Steelmaking Enterprise industry contest, and the CEO of Severstal Russian Steel V. E. Germanov received the Social Partnership badge of the Miners' and Metallurgical Workers' Union of Russia.

#### Trade union involvement at the core businesses of Severstal in 2019, %

Business	Union membership
Cherepovets Steel Mill	66
Vorkutaugol	66
Karelsky Okatysh	42
Olcon	31
Yakovlevskiy Mine	20

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

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

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

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

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

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

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

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

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

## Government Authorities

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

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

Our representatives work in commissions and workgroups of the Ministry of Industry and Trade of the Russian Federation, participate in advisory and coordination committees of the Ministry of Economic Development, participate in workgroups of other ministries and authorities.

Chairman of the Board of PAO Severstal Alexey Mordashov participates in the following advisory bodies:

- Public Council of the Federal Customs Service of Russia, Council Member

- Expert Consulting Council on the Implementation of Customs Policy of the Federal Customs Service, Presidium Member
- Investment Council under the Patronage of the Chairman of State Duma, Council Member

Severstal has representatives in the Expert Council on Steelmaking and Mining of the State Duma Committee on Economic Policy, Industry, Innovative Development and Entrepreneurship, participates in several intergovernmental commissions, in the Russian International Affairs Council and the Alexander Gorchakov Public Diplomacy Fund.

In 2019 as a part of the Clean Air federal initiative of the Ecology National Project, Severstal Management, Ministry of Natural Resources and the Environment of the Russian Federation, Federal Service for Environmental Control and Vologda Oblast Government signed a four-way cooperation agreement. The agreement defines a series of steps focused on the reduction of atmospheric emissions in Cherepovets, and the approach to their implementation.

Severstal works on strategic cooperation policies with the regions and cities where we work, and signs social and economic partnership agreements. Parties to these agreements include regional governments, municipal administrations, PAO Severstal and its subsidiaries. As a rule, local authorities commit to supporting Severstal's business interests, while Severstal commits to investing in regional social and economic development, creating stable jobs for local residents and working on projects to improve the environment and ensure occupational health and industrial safety.

In 2019, four-way cooperation agreements with Karelia, Komi Republic, Khanty-Mansi Autonomous Okrug, Murmansk Oblast and Belgorod Oblast, and the three-way agreement with PhosAgro and Vologda Oblast were extended automatically for another year.

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

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

## Local Communities

Severstal develops multi-party cooperation channels to work with the federal government, local authorities and communities in our regions. We develop productive partnerships to develop the social potential of our regions and address specific social issues. Our primary focus is the diversification of the Vologda Oblast economy to make it less dependent on steelmaking. Together with government authorities, Severstal is working on a comprehensive programme of social support of Vologda Oblast districts.

Over the 15-year history of our Way Home corporate charitable fund, we were able to expand our family and child support practices to eight Severstal regions. This success largely resulted

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from our cooperation with government authorities, non-profits and expert community at the regional level. We consider the opinions of all stakeholders on all projects with potential impact on local communities. (For further details, please refer to the [Social Projects and Social Investments](#) section of this report.)

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Our local community feedback and grievance management system is an important component of our community engagement. Severstal has internal regulations in place to govern these processes. All individual and collective submissions are filed and forwarded to responsible managers for review.

Being open and transparent in the area of environmental responsibility is a necessary part of our stakeholder engagement. Severstal supports informational transparency of our environmental protection initiatives and their results. We raise awareness of Cherepovets residents, including young adults and school students, organise environmental competitions and events, round tables, field trips and site visits. Public discussions with representatives of stakeholders and the Company are a part of our environmental footprint evaluation process for any planned business and other operations with potential direct or indirect environmental impact.

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## Businesses and Non-Governmental Organisations

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

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

In 2019 Severstal joined the Renewable Energy Development Association, a non-profit organisation representing the interests of the renewable energy sector. The association unites a large group of stakeholders, including power generation businesses, renewable project developers, equipment manufacturers and suppliers, research centres and financial institutions.

The Chairman of the Board of Severstal represents our company in several reputable Russian and international organisations. (For further details, please refer to the biography of Alexey Mordashov in [Annual Report 2019](#), page 38.)

Severstal is also represented in the following organisations:

- Association of Russia's Managers
- Donor Forum
- Association of Russia's Directors

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

In 2019, Severstal representatives of Severstal presented at many international and industry events and forums.

## Science, Culture and Arts Organisations

Severstal works with specialised universities and research institutions including St. Petersburg Polytechnic University, MISIS National University of Science and Technology, St. Petersburg State Mining Institute, A. D. Papanin Institute of Biology of Inland Waters of the Russian Academy of Sciences, G. I. Nosov Magnitogorsk State Technical University, Cherepovets State University, Bardin Steelmaking Research Institute, Kurchatov Institute — TSNII KM Prometei, Institute of Problems of Chemical Physics of RAS, and the Research Centre of Construction. This helps Severstal ensure constant intake of specially trained experts, increase quality and embrace new technologies and offer competitive products. For these purposes Severstal uses resources of 20 laboratories and more than 150 scientists involved with those science and education centres. Severstal collaborates with science centres under federal special purpose programmes, helping them to secure state financial support of their R&D initiatives while Severstal offers them an opportunity to use survey results under mutually beneficial license agreements.

Severstal has representatives in the following boards of trustees:

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



# Severstal Awards and Rankings in 2019

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



- Institutional Shareholder Services Inc. (ISS), an agency providing the investor community with information on the companies committed to investing in sustainable development, upgraded Severstal's Social Quality rating from 4 to 3; 1 being the highest.
- Sustainalytics, an international ESG agency, upgraded the rating of Severstal in 2019 from 70 to 74 points (out of 100 possible).
- RobecoSAM DJSI Annual Review (in January 2020 acquired by S&P Global), an international company focused on investments in sustainable development, upgraded Severstal rating to 41 points from 36 points a year ago.
- Severstal is one of the leaders in the RSPP Responsibility and Transparency, and Sustainable Development Vector indices.
- 19th in RAEX ESG rating.
- 9th in the Productivity: Russia's Industry Leaders 2020 industry competition.
- Severstal placed highest among Russian steelmakers, finishing 6th in the sustainable development ranking published by the Expert business magazine.
- Forbes named Severstal a TOP 500 employer worldwide.
- Severstal won the High-Quality Sustainable Development Reporting Award of the Russian Business Leaders: Agility and Responsibility 2019 Contest of the Russian Union of Industrialists and Entrepreneurs (RSPP).
- Severstal won the Corporate Report Evaluation competition in the Best Disclosure of Social Impact nomination of the Russian annual Change Management — Visionaries award established by Project +1.
- Severstal Corporate Social Responsibility and Sustainable Development Report 2018 received an award of the 22nd Annual Moscow Exchange Annual Report Competition in the Best Corporate Social Responsibility and Sustainable Development Report nomination.
- The Building the Industry-First Contact Centre to Support Steelmaking Mill Clients and Distribution Network project of Severstal won the PEOPLE INVESTOR 2019 award in the Building Relationships with Partners and Clients nomination. In addition to that, Severstal received an award in the Environmental Performance nomination for our Decommissioned Computer Hardware Recycling project and an award in the Development of Local Communities nomination for our Health Family for a Child project.
- Severstal is one of the leaders of the Leading Corporate Donors ranking, placing 6th out of 40 companies. We received a Special Award for our long-term commitment to the development of non-profits, charitable activities and volunteering in our regions.
- Severstal placed 6th out of 40 participants of the Russian Mining and Steelmaking Environmental Transparency Rating of the World Wildlife Foundation (WWF) and the National Rating Agency. The Company also received a special award "For Achievements in the Conservation of Biodiversity".
- Severstal's project for the development of cultural and industrial tourism in Cherepovets won the Best Partner Programme in Sustainable Development nomination of the Leading Corporate Donors in Sustainable Development 2019 competition. This competition is a joint project by Donors Forum, Vedomosti business newspaper and PwC, an international audit and consulting network.
- For the first time, the TOP 1,000 Russian Managers award of the Association of Russian Managers was presented in the Best Corporate Social Responsibility Director category, and the winner was Natalia Poppel, Head of Corporate Social Responsibility and Brand Department at Severstal.
- Severstal finished first in the Russian national GRADUATE AWARDS competition in the "Programmes and Projects Focused on Work with Young Employees Under 30 Completed in 2017—2018" nomination.





- The Committee of the CCI France Russie Industry of the Future Forum presented the award for outstanding success in French-Russian cooperation to Severstal and its technology partner, Fives Group, for their joint production deployment of the Eyeron automated quality assurance system.
- Severstal Ventures, our subsidiary focused on supporting and developing venture projects on emerging technologies and materials, was a runner-up in the Best Corporate Fund nomination of the Russia VC Awards at the 7th Russian Venture Investor Forum.
- The coalbed methane utilisation project of Vorkutaugol won the Best Project on the Reduction of Atmospheric Emissions of Pollutants nomination of the nationwide Reliable Partner in Environmental Protection competition.
- The mentoring framework of Development Centre of the Business System of Severstal won the 2nd Nikita Izotov mentoring competition among Russian enterprises. The competition was organised by the Yekaterinburg Central Labour Institute and Tyumen Business Club.
- Severstal's Steel Cashmere roofing material received the Top 100 Russian Products national award in the Industrial and Technology Products nomination, and was included in the Golden Hundred 2019 list.
- Four of our designs received awards of the Idea — Innovation — New Product iENA fair that took place in Nuremberg (Germany).



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



# Corporate Governance



# Standards of Corporate Governance

Severstal meets the highest standards of corporate governance and the following guidelines:

- Corporate Governance Code (2014) of the Central Bank of Russia
- UK Corporate Governance Code
- [Severstal Code of Corporate Governance](#) (new revision of 4 February 2019)
- Moscow Exchange requirements for Russian issuers included in quotation lists

Severstal ensures high quality of management decisions, protection of shareholder interests, and consideration for all stakeholder interests. Severstal is a member of the Russian

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

In the 14th National Director of the Year Competition of the Association of Independent Directors, four independent directors of Severstal were included in the Top 50 Independent Directors ranking for 2019. The Corporate Secretary of Severstal was included in the Top 25 Directors of Corporate Governance / Corporate Secretaries, while one of our Board members, Alun Bowen, was the winner of the Chairman of the Audit Committee of the Board nomination.

## Governing Bodies

### General Meeting

The Annual General Meeting is the supreme corporate body of Severstal. Shareholders exercise their governance rights by the virtue of voting in General Meetings of Shareholders. The competence of the General Meeting of Shareholders is established by Severstal Charter and applicable Russian laws.

Board of Directors reviews and approves the Annual Report of the Company that, apart from other topics, also covers our economic, environmental and social agenda including our impact, risks and opportunities.

On 26 April 2019, our Annual General Meeting of Shareholders elected the Board of Directors of PAO Severstal, approved the auditor of PAO Severstal, made changes to the earlier decision on the approval of the amount of compensation and reimbursements paid to the Board members, and made a decision on the dividend payment for the full year 2018. At the Extraordinary Meetings of Shareholders on 7 June, 6 September and 22 November 2019, which took form of proxy votes, decisions on dividend payments were made.

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

### Board of Directors

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

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

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

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

The Board operates according to applicable Russian laws, [Company Charter](#) (revision of 23.11.2018) and the [Regulations for the Board of Directors](#) (revision of 23.11.2018), which are published on the Company website.

The Board consists of ten members, including five Independent Non-Executive Directors, one Non-Executive Director and four Executive Directors. The ratio of Independent Non-Executive Directors to the total number of directors on the Board guarantees equal protection of the interests of all shareholders. Severstal has separate roles for the Chairman and the Chief Executive.

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Chairman of the Board of Severstal Alexey Mordashov works on matters of strategic development and talent management. Information about the composition of the Board, biographies of Board members and their professional experience are provided in the Composition of the Board of Directors section of the Severstal [Annual Report 2019](#).

In 2019, the Board met ten times, including four in-person meetings, and reviewed the following matters:

- Occupational health, safety and environmental protection
- Annual report, IFRS and RAS financial statements
- Non-audit services policy, risk management and internal control policy
- New revisions of the Corporate Governance Code, Regulations for Board Committees, Anti-Corruption Policy and Insider Dealing Regulations
- Achieving Company goals in priority areas
- Financial statements and reports of the Company
- Company risks and their mitigation
- Results of the internal assessment for the Board and its committees' performance
- Issues related to the composition of the Board and its committees
- External auditor's fee
- Company budget for 2020
- New contractual terms and conditions with the Company's registrar
- Matters related to the General Meeting of Shareholders
- Related-party transactions, etc.

The Board undergoes an annual self-evaluation of its performance based on the individual contribution of each Board member, and an external evaluation once every three years. In 2019 an external independent evaluation of the Board was held. The evaluation was facilitated by the Association of Professional Directors (previously known as Association of Independent Directors) in cooperation with Oliver Wyman.

The results of this evaluation indicate significant improvements in Company governance practices compared with the previous evaluation (2016) in such areas as succession planning, corporate culture development and monitoring, talent reserve development, occupational health and safety.

The General Meeting of Shareholders may decide to compensate Directors. Severstal may reimburse business expenses, including transportation, lodging and postal costs as well as fees for translation of documents and other materials, to Directors.

The amount of compensation paid to the Directors and reimbursement of their costs are decided upon by the General Meeting of Shareholders. It is linked to their individual contribution to Severstal's achievement of strategic objectives. Other interested parties are not involved in the determination of remuneration and compensation.

The General Meeting of Shareholders of PAO Severstal of 26 April 2019 set, starting from 1 May 2019, the following monthly compensations: independent directors who are Chairpersons of any Board Committees — €11,700; all other independent and non-executive directors — €5,900 (or equivalent in another currency).

The compensation of the key leadership team in 2019, including the Chief Executive and their deputies, and Board Members, consisting of salaries and bonuses, reduced from the previous period to US\$ 9 million (2018: US\$ 11 million).

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Board members must refrain from any actions that would or could lead to a conflict between their interests and the interests of Severstal, and disclose such conflicts to the Board whenever they arise. This is one of the requirements of the Related-Party Transactions Regulations of PAO Severstal.

## Board Committees

Severstal receives advice and recommendations from the following Board Committees:

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

The Health, Safety and Environmental Protection Committee assists the Board in obtaining assurance that systems in place to deal with the management of associated risks operate appropriately. The Committee has the following members: Philip Dayer (Chairman), Alexey Mordashov, Alexander Shevelev, Alexander Auzan, Agnes Ritter.

The Health, Safety and Environmental Protection Committee had four meetings in 2019 and reviewed the following matters:

- Lost time work-related injuries
- Occupational safety and environmental protection
- Climate action

Detailed information about the results of the evaluation of the Board in Environmental Committee is provided in the Annual Report 2019.

## Management Company

AO Severstal Management is the sole executive authority of Severstal. Its employees include Chief Executive Officer of Severstal Management, their deputies, management teams of all Severstal's core manufacturing businesses, employees of the General Directorate providing services to divisional departments, as well as employees of value chain planning, inter-segment planning, external procurement, analytics, expertise, innovations, standardisation and standard compliance control departments. Alexander Shevelev has been the Chief Executive Officer of Severstal Management since December 2016.

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## Risk Management

The risk management system of Severstal is focused on comprehensive approach and early risk identification. Risk management process involves executives, managers and employees of Severstal at all levels.



### Board of Directors

- Responsible for maintaining a sound risk management and internal control system

### Audit Committee of the Board

- Monitors the efficiency of risk management system

### Risk Management Committee of the Board

- Manages key risks and the risk management system, implements the appropriate policy and monitors the efficiency of controls

### Risk Management and Internal Control Department

- Coordinates risk identification, assessment and mitigation measures
- Designs internal control policies and procedures
- Accumulates and processes risk assessment data

### Internal Audit Department

- Independent evaluation of Internal Control and Risk Management System

### Risk owners

- Identify specific risks and initiate risk management measures



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

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

## Risk factors

## Actions taken to mitigate risk

### Occupational safety and environmental protection risks

Workplace hazards, outages, emissions of pollutants, violation of storage and utilisation regulations for waste that can affect the health of employees and local residents, damage their property or harm the environment, driving costs related to long-term injuries of employees, financial penalties for violations of environmental regulations, damages awarded to other parties, and other similar items

The competent authorities have imposed, are imposing and could in the future impose specific requirements for Severstal to reduce its environmental footprint

- Compliance with occupational health, safety and environmental protection regulations
- Compliance with Occupational Health and Industrial Safety Policy of Severstal, and the Environmental Protection Policy of Severstal and Affiliates
- Monitoring by the Occupational Health, Safety and Environmental Protection Department
- Investments in environmental protection initiatives, equipment and process upgrades
- Organization of industrial environmental control at facilities with the involvement of specialized accredited organizations to monitor emissions, discharges and waste composition
- Monitoring the technical condition of environmental facilities

### Social risks

Possible increase in social tensions among employees related to their pay, work content and conditions, or the release of human resources resulting from technology development or digital transformation of our business

- Availability of an efficient communications framework and feedback system
- Continuous, fair and constructive dialogue with our employees, protection of their freedom of association, and regular meetings with trade union leaders
- Decent wages consistent with local environment, social benefits and creation of good living environment for our employees and their families
- Discussing all headcount optimisation initiatives with trade unions with full protection of employee rights
- Providing employment at our other businesses for employees whose services are no longer needed, or creating conditions for them to be able to start their own businesses

Possible increase in social tensions in local communities caused by labour market trends, social or economic changes. Development of a social environment unfavourable for the operation of our businesses

- Productive cooperation with local authorities and communities
- Investments in the development of regional potential and quality of life programmes
- Programmes on small and medium business development, local talent development, and municipal development and landscaping
- Helping to address specific social issues contributes to sustainable development. For further details, please refer to the [Social Investments and Social Partnership](#) section of this report

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Full list of risks that Severstal is exposed to is provided in the Risk Management section of the [Annual Report 2019](#) which was updated on 11 May 2020 by the directors of Severstal and is available on our [website](#).

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



# Managing Innovations

Severstal is the industry-leading developer and supplier of new technologies. We finance multiple R&D programmes every year. Severstal has several businesses offering project design and construction services.

**542** valid patents in Russia in 2019

**109** of our own inventions we used in production

Severstal developed and deployed the Ecosystem, an employee service that analyses and provides information from external sources using specialised software and databases. Severstal together with research centres and universities, industrial enterprises and start-ups works on an innovative strategy, and conducts R&D, design and technology activities to create new products and technologies, reduce costs, and address environmental issues. More than 90 Severstal employees work in R&D. Deployment of innovations is the responsibility of Business Development and Corporate Venture Project Directorate.

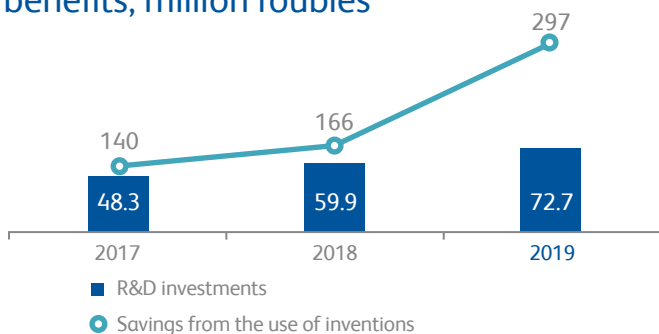
Some 980 partners and more than 70 experts work on operating efficiency and production process optimisation.

## Innovation Strategy



Severstal Technology Park offers third-party developers an opportunity to use actual production equipment, infrastructure and services of Cherepovets Steel Mill to work on innovative ideas in steelmaking. In 2019 four new projects were added to the Technology Park portfolio, two of which progressed to implementation phase.

## Innovation financing and economic benefits, million roubles



Severstal puts significant emphasis on process modeling. In 2019 we delivered 31 modeling projects. A prototyping approach involving laboratory simulation of actual production processes is used to design an increasing number of products. In 2019 we used this approach to make 79 prototypes of new steels. By the end of 2019, the prototyping process was reduced to just 32 days. We also achieved a record-fast development cycle with one of the prototypes which only took 13 days.

As Severstal is moving towards the open innovations model, we need access to new technology solutions available on the market. The company actively works with start-ups. In 2019 Severstal launched the Severstal SteelTech Accelerator programme for technology start-ups in the steelmaking industry. At the same time, Severstal was the first Russian steelmaker to deliver a similar internal project. Our [SteelTech LAB](#) internal entrepreneurship development programme supports and rewards the initiatives of our employees focused on development of innovative business projects, helping with their development, testing and implementation with support from our professional experts and the Company in general.

Severstal Ventures is our corporate fund investing in new material and innovative steelmaking technology projects. Severstal became a partner of the TekhUspek 2019 rating. This rating includes Russian technology companies with high leadership potential that will get an opportunity to work on joint projects with Severstal and to pilot their designs on Severstal industrial sites.

In 2019 we launched the Severstal Open Innovations website that lists all the ways Severstal works with start-ups, innovative teams and industry experts. The website shows current list of challenges with which we could use help from experts or innovation teams, allows submitting an application to Severstal Ventures, and offers an overview of the capacity of Severstal Technology Park and the information about the new intake in the Steel Tech accelerator.

In 2019 we participated in 40 joint R&D projects, and successfully completed 13 of them. The actual economic benefit from joint R&D with third parties was over 700 million roubles in 2019.

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

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## Quality Management

Severstal was one of the first companies in the industry to develop a Quality Management System (QMS) meeting international standards and the needs of our key customers, and approved by independent certification authorities.

In 2019 Severstal once again successfully passed the inspection audit of its QMS for compliance with the requirements of ISO 9001:2015 and the IATF 16949:2016 standard of the automotive industry. Representatives of DQS Holding GmbH, an international certification authority, visited our production facilities and functional departments, and evaluated our processes, supporting documentation and how we achieved the goals we set for ourselves. In 2019 Severstal QMS successfully passed the inspection audits of compliance with STO GAZPROM 9001:2018 standard and revalidated its business reputation index according to SDS INTERGAZCERT regulations.

Our products are approved by various international and Russian authorities including the Marine Register of the Russian Federation, LRQA, American Bureau of Shipping, Det Norske Veritas, Germanischer Lloyd, Bureau Veritas, Russian River Register and others.

Our goals in the areas of product quality and QMS improvement are based on our [Quality Policy](#) revised in 2018.

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All our businesses have multi-stage quality control ensuring high product quality at various production steps. All raw materials pass laboratory tests to confirm their quality and compliance with technology requirements. Product acceptance and certification are performed by shift personnel. We subject our products to all tests mandated by applicable standards and ship them with quality certificates confirming their compliance with regulatory requirements.

Our products for domestic market are certified for compliance with voluntary GOST R standard, while our export products are certified with organisations approved by our customers. All products of Cherepovets Steel Mill ship with electronic quality certificates, completely eliminating paper documentation. Severstal together with several other Russian steelmakers supported an initiative to establish a single industry-wide steel product certificate registry based on blockchain technology. This system will establish a transparent and fair competitive environment, and will help battle counterfeit products in the Russian steel market.

Today high-quality steel products require digital tools. Digital transformation of Severstal that went into active phase in 2019 also affected our Technical Development and Quality Department. Its teams working on product quality control using various digital instruments were merged in the Digital Certification project. For the project management tool, we used Scaled Agile Framework (SAFe) that ensures transparency for all process participants, allows identifying interrelationships and improve the coordination among the project teams and between the project teams and external process participants. We used the Digital Certification project to design and validate our 2020 CAPEX programme in excess of 1 billion roubles.

We are rolling out an EVE neural network at the flat rolling plant of Cherepovets Steel Mill to categorise surface defects of steel products. One of our coating plants deployed Sherlock automated product quality assurance system based on SAP products. 80% of decisions on steel product quality are made without the involvement of human. We also launched a measurement system prototyping centre.

**In 2019 we achieved our First Time Through target of 90%\*.**

The number of new products developed by the Technical Development and Quality Directorate together with our production departments and plants was 115% higher than in 2018, rising from 80 to 169. Shipments of products from new grades of steel increased from 146,000 to 475,000 tonnes, representing 4% of the overall shipments (2.6 percentage points up from 2018).

**Our basic 2020 First Time Through target is 91% (ambitious target — 93%).**

\*Calculation formula was adjusted in the reporting year.

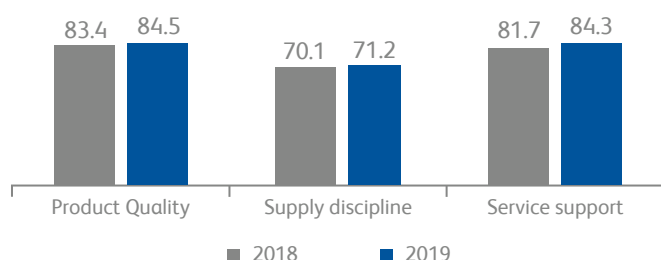
# Customer Care

Severstal strives to satisfy the needs of our consumers to the fullest extent and to be the best seller of steel products. In 2019 we kept our customer care focus and worked on multiple initiatives in the following areas:

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

We regularly conduct customer surveys on product quality, shipping discipline and service quality. The survey methodology was revised in the reporting year to improve the quality of customer satisfaction data collection and processing. We used phone interviews instead of online surveys to collect feedback. We also increased the survey population and achieved a higher response rate. The net promoter score (NPS) of our online store increased in 2019 from 41% to 56%; it was 62% among the clients using traditional channels.

## Customer satisfaction, %\*



Based on the results of the quarterly customer survey conducted by EPSI in Q2 2019. Survey data for 2018 has been restated from the previous reporting period due to changes in survey methodology.

Our eCommerce platform grows fast. We are working on improving the responsiveness and stability of Severstal online shop. In 2019, it received orders for approximately 2.5 million tonnes of steel products. We launched an official Severstal channel on WhatsApp together with our partners, Infobip and JivoSite. This allows our clients get in touch with our contact centre promptly, and also check the status of their orders.

Our key projects planned for 2020 focus not only on addressing the shortcomings adversely affecting customer satisfaction, but also on reinforcing the factors that define our strong sides and ensure outstanding client experience in steelmaking.

**Our target: offer one-of-a-kind service solutions to our customers while maintaining required quality.**

### 2020 Plans:

Comprehensive shipping discipline improvement programme 2019–2020, increasing the share of products shipped on time in full (OTIF)

Deployment of a proactive notification system informing customers of order status and expected changes

Service development (online store, client accounts, electronic data interchange services)

Development of a feedback loop system that would allow timely linking of the information flow from customers with the corresponding corrective actions

Delivery of client projects to create differentiating factors and offer one-of-a-kind customer experience

Complaint management process improvement



\* Severstal Russian Steel.

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# Prevention of Corruption and Violations of Laws and Internal Regulations

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The [Anti-Corruption Policy](#) of Severstal and Affiliates is consistent with international best practices, including the guiding principles of Transparency International. The new edition of policy was approved by the Board of Severstal in February 2019 and is available on our website.

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102-12

The policy focuses on achieving maximum compliance with Russian and international anti-corruption regulations and regulates our operations exposed to high risk of corruption. These activities include cooperation with partners, acquisition of corporate securities, establishment of joint ventures, mergers and acquisitions, conflict of interest evaluation procedures, sponsorships and charities, gifts and entertainment, etc.

102-34

This Policy is aligned with other anti-corruption standards and processes. Its provisions are implemented under our comprehensive anti-corruption programme. We require registration of gifts, sponsorship and charity programmes, and use other corporate processes detailing the application of this Policy. Severstal Employee Behaviour Standard defines key behaviour rules, and responsibilities of employees towards each other, our company and business partners. Every employee, regardless of status or role, is familiarised with this standard at the beginning of their employment. Failure to comply with the standard constitutes grounds for disciplinary sanctions up to and including termination. Zero tolerance for corruption is one of the 12 rules established by the Standard.

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Severstal Code of Business Conduct extends our anti-corruption requirements to our complete supply chain. The operation of our anti-corruption programme is coordinated by the Risk Management and Internal Audit Department of Severstal Management, which is also responsible for annual efficiency assessments of our anti-corruption processes. In 2013 Severstal joined the Anti-Corruption Charter of Russian Business.

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

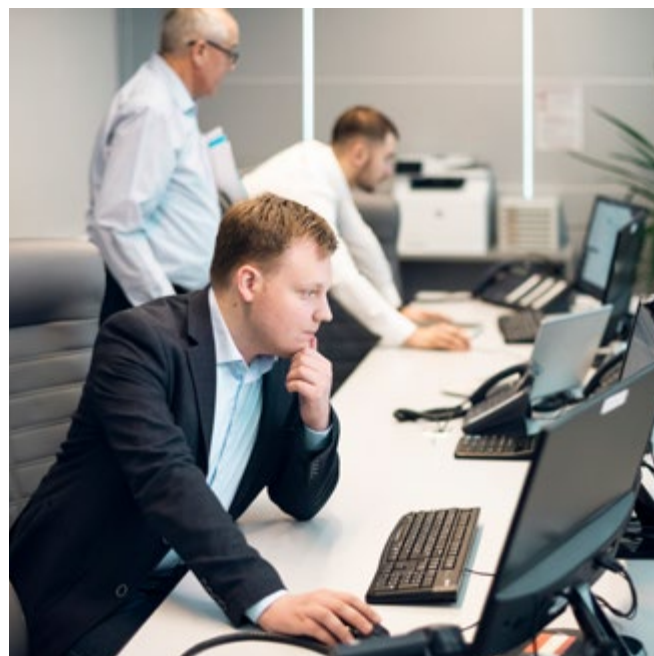
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The comprehensive culture transformation programme underway in Severstal follows the principle of zero tolerance for corruption and abuse of authority. Our employees regularly receive anti-corruption training, and we developed an online training course that all our managers, office employees and specialists are required to take once every year. In 2019, 13,000 employees received training, compared with 11,000 in 2018.

Our executives and employees having impact on commercial and financial decisions undergo regular anti-corruption checks. In 2019, these checks in Severstal Russian Steel division showed that more than 30% of our managers received corrupt offers from third parties, mostly suppliers lobbying the interests of their businesses. One of the most criminalised areas in steelmaking has traditionally been the sales and purchasing of scrap metal. One out of every three employees of Severstal Vtorchermet was subject to criminal pressure from scrap suppliers.

In 2019, our Business Support Service (BSS) received 34 messages about attempted bribing of our employees (compared with 29 in 2018). Our research has shown that the control system that Severstal uses is efficient in reducing criminal risks in this area. In 2019 our Business Support Service identified seven cases of criminal corruption, including five cases of commercial bribery, one case of bribery, and one case of abuse of authority. Six criminal cases were initiated in response to these findings.

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



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# Transparency

In line with international best practices, Severstal demonstrates high financial and operational transparency. We release quarterly RAS (Russian Accounting Standards) and consolidated IFRS (International Financial Reporting Standards) financial statements.

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

Severstal regularly organises meetings with analysts, investors and journalists. (For further details, please refer to [Stakeholder Engagement](#).) Information on environmental protection, social responsibility and corporate governance (ESG) for the investor community is published on a [dedicated page](#) of our website. This page also features news articles of our individual businesses and offers an opportunity to subscribe to RSS feeds published by some of them.

Severstal informs our employees, clients and local communities about our production developments, environmental protection initiatives and social projects via publications in mass media, public events and public reports.

Company pages in social media are an important communication tool under active development. Each of our production assets has its own page, so that we can focus our news streams on employees and local residents in the regions where our individual businesses are located. Top executives and area managers have personal accounts in social media. Severstal accounts on VK Facebook, Instagram, OK, Twitter and YouTube show a steady growth of subscriber base. In 2019 we had 77,500 subscribers\*.

Severstal is a top three steelmaker in media presence ratings prepared under the Interfax SCAN project. In 2019 our number of citations and visibility index both improved by 3.3% and 8.3% respectively\*\*.

# Human Rights

Severstal respects human rights and took a range of unconditional commitments as it joined the UN Global Compact.

We respect and protect internationally declared human rights, and follow the UN Universal Declaration of Human Rights, and UN Guiding Principles on Business and Human Rights. The issues of areas associated with human rights are the responsibility of our Human Resources director. Severstal's approaches and principles in respecting, supporting and developing human rights are indicated in our [Human Rights Policy](#) approved by the Board on 18 October 2018.

## Number of Media Publications about Severstal

	2018	2019
Total number of publications in Russian media, including:	48,630	46,494
Negative	680	531
Positive and neutral	47,950	45,963
Total number of publications in foreign English-language media	580	523

## Key Priorities in Corporate Social Responsibility and Sustainable Development. Quality of governance.

### 2020 objectives

Building an efficient infrastructure that would allow deploying technologies coming through Severstal Ventures and Open Innovation: response time with solution for external start-ups is 14 days; L2/L3+ time for 80% of external innovations going through fast-track is less than 50 days with \$29 million value

Support for business model transformation through the implementation of Agile in innovation centres

Digital Mini-T (Mini-Transformation) implementation in our production segments. Expected effect: \$20 million

Development of knowledge exchange system in the Company

We identified salient human rights issues associated with our operations, and the most vulnerable groups. These include our employees, residents of communities located near our operations, and employees of our contractors who work on our sites.

Salient human rights risks requiring special attention from us include the following:

- Right to healthy environment
- Right to safe working conditions
- Right to decent work with decent pay
- Right to equal pay for work of equal value
- Freedom of association and credible recognition of employees' right to collective bargaining

\* <https://www.metalinfo.ru/ru/news/112198>

\*\* <https://www.metalinfo.ru/ru/news/113453>



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We inform our business partners of our approaches to the protection of human rights. We do not want to be involved in any human rights violations, and we carefully watch that our supply chain has no such violations and fully protects the labour rights of employees, especially when it comes to performing work on Severstal sites. Use of forced labour is absolutely prohibited in Severstal. Even though it is not possible to use child labour in our operations, we still support full abolition of child labour.

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We support freedom of association and real recognition of employee's right to collective bargaining as per ILO Freedom of Association and Protection of the Right to Organise Convention. Severstal respects employees' freedom of association and the right to collective bargaining. We work with trade unions on the basis of mutual accountability and respect, trust, social partnership and full compliance with labour laws. Rights and guarantees of trade unions working with our businesses are established by respective sections of industry agreements and collective bargaining agreements. (For further details, please refer to [Collaboration with Trade Unions](#).)

We support full abolition of discrimination in employment. In the matters of employee selection and promotion, Severstal follows the UN Guiding Principles on Business and Human Rights, and ILO Convention concerning Discrimination in Respect of Employment and Occupation.

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Severstal prohibits discrimination on any characteristics in job posting and selection processes. There is no discrimination either in promoting, awarding or providing access to training and other benefits that Company offers to its employees according to its internal social policy.

[Severstal Code of Business Partnership](#) does not allow any "harassment or abuse of our employees or partners, including any improper or insulting remarks, humiliating jokes or psychological pressure". Similar requirements are integrated in the Severstal Employee Behaviour Standard that includes the rule, "We treat others the way we want them to treat us". This standard also requires zero tolerance for any harassment.

To protect human rights and freedoms, including the right to individual, personal and family privacy, Severstal Management and the entities it manages follow the [Personal Data Processing and Protection Policy](#).

The Company regularly engages with stakeholders, receives feedback and pays special attention to the process we use to monitor human rights and review complaints and requests. For further details, please see [Employee Communications](#).

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We also use our annual Severstal Pulse survey (for survey results, see [Severstal Pulse Survey](#)) to understand the employee perception of human rights, including any cases of intimidation or age, gender, ethnic or religious discrimination, sexual harassment, verbal attacks, humiliation or physical attacks, including those by the management. When taking the survey, employees may leave comments on survey contents or make suggestions about its process. Survey results are delivered to our top executives, including the CEO and the Board of Directors.

Severstal guarantees that our operations will not cause violations of human rights in local communities. Severstal offers confidential communication channels for our employees and local communities to be able to inform us of human rights violations. These include a telephone hotline and special email addresses. In 2019, 10% of hotline submissions were related to violations of business ethics and the Employee Behaviour Standard.

3% of submissions (fifty percent down from the previous period) related to security policies and access to our sites. Physical security, including security of our offices and industrial sites, and the pass / ID access policy at Severstal is provided by a private security firm. All their employees are familiarised with internal instructions and Severstal Access and Facility Control Policy, which include provisions for human rights protection in delivery of physical security.

We are committed to keeping our employees informed of various human rights aspects. Training programmes for production managers, shop managers and foremen also include the training on employer compliance with employee labour rights. For example, in 2019 there were approximately 3,000 hours of training in legal aspects of employee management alone. Our Foreman Academy programme includes an eight-hour Legal Aspects of Human Relations module. This module offers important knowledge of human rights, including labour rights, and an opportunity to work on practical cases and difficult scenarios. This is a regular module: 368 employees took it in 2019.

In 2019 Severstal as a global top 200 company was included in the Corporate Human Rights Benchmark with the score of 15.3%. This is the best result among Russian steelmakers, however we understand this is an area of development for us and we need to work on it.

Severstal recognizes the importance of protection of rights of indigenous people who live on their ancestral lands. Vorkuta, where Severstal has operations, is home to several indigenous communities (Komi, Nenets and Khanty). Severstal follows the principles of the UN Declaration on the Rights of Indigenous Peoples and provides ongoing support to events focused on preservation of ethnic heritage and development of regional cultural potential.

Severstal acknowledges our responsibility for the environment in our regions. We are committed to protecting the right of local communities to a healthy environment. We support the precaution-driven approach to environmental protection and take actions to increase the responsibility for the environment while supporting the development and deployment of environmentally safe technologies. (For further details, see [Environmental Protection](#).)

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# 4

We are committed to becoming the leaders of future steelmaking. Achieving this goal requires engaging our employees and expanding their responsibility, developing and motivating them, and building professional training and social support programmes. We think of our employees as our key asset and a key competitive advantage, and we strive to offer them decent and safe working conditions.

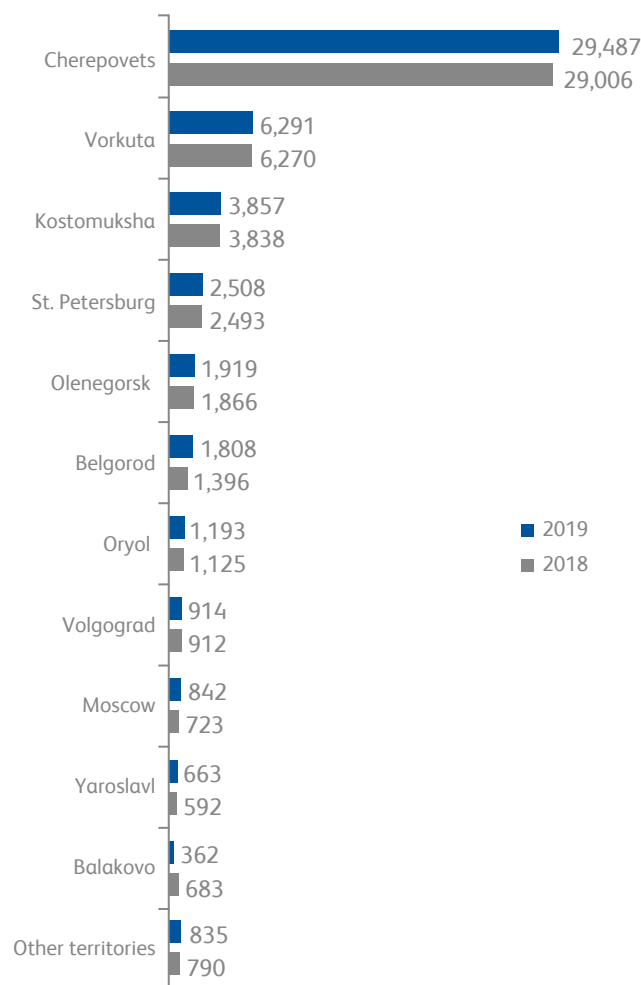
# Employees



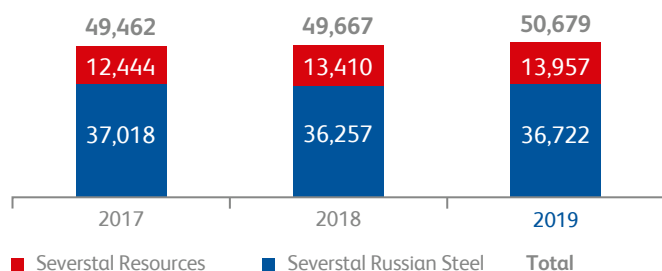
# Staff Profile

In 2019, the average headcount of Severstal increased by 2% to 50,679 employees. Divisional distribution of our employees remained the same. The majority of employees (72%) work in Severstal Russian Steel. Geographically, most employees (58%) work in Cherepovets where we have our core manufacturing facilities. Our second largest location by the number of employees is Vorkuta (12%).

## Average staff headcount by region

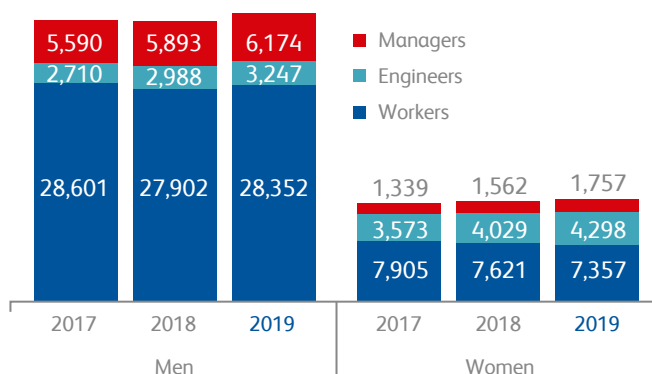


## Average staff headcount by division



Reflecting the transformation initiative taking place in Severstal, by the end of 2019 the share of workers reduced from 71% at the end of the previous period to 70%, the share of managers remained the same at 15%, while the share of specialists and office personnel increased from 14% to 15%.

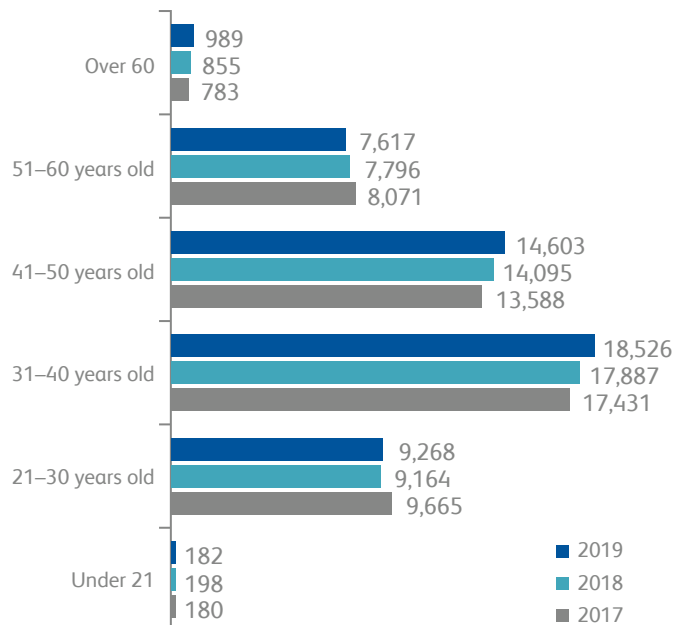
## Staff composition by category and gender at the end of the year



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

The share of women among managers increased from 21% to 22% from the previous period. Women still constitute the majority of our engineers and technology specialists (57% versus 43%). Three quarters (79%) of our workers are men.

## Staff composition by age at the end of the year



More than a third of our employees (36%) are between 31 and 40, the age group that combines high expertise with good physical condition. The number of our employees in this age group and in the group between 41 and 50 increased in the reporting year. The breakdown of our staff by age group is almost the same as in the previous reporting period, and the average age stayed flat from the previous year, at 40 years.

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We hired 6,481 new employees (13% of the overall headcount), including 4,520 men and 1,961 women, in the reporting period.

Our overall staff turnover increased marginally in the reporting period, to 4.7%, compared with 3.7% in 2018 and 3.3% in 2017.

We streamline our overall headcount every year to ensure high efficiency of our business processes while maintaining safety and quality of our technology process. There were no staff reductions in Severstal in 2019.

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## Policy and Management

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

General management and supervision of the HR function is the responsibility of the Board of Severstal. Key HR decisions on the management team are made by the Remuneration and Nomination Committee of the Board. HR management at the corporate level is the responsibility of Severstal HR Director, and at departmental level it is provided by heads of functional departments and individual businesses.

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

In 2019, our HR department had the following priorities:

- Support the innovative transformation of Severstal with HR tools and processes; develop the culture of urgency, inspiration and collaboration

- Reinforce customer focus, and improve sales and marketing efficiency, including professional development of our employees
- Continued development of engaging leadership culture by:
  - Supporting goal-setting and motivation system for employees, including industry and product Agile teams, and improve employee engagement
  - Developing our performance evaluation and feedback system, working with key employees and high-potential (HiPo) employees
  - Streamlining company management, including the transformation the organisational structure of individual departments during the implementation of innovation projects (agile structures), and creating innovative technology development centres
- Improving the efficiency of the HR function (including simplifying, automating, digitising and standardising processes, and using predictive analytics).

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## Motivation and Engagement

### Severstal Pulse Survey

Severstal Pulse is an annual corporate social survey we conduct to measure the level of involvement of our employees in improvement of their productivity and the overall performance of Severstal. The survey is conducted anonymously in the local languages of the regions where assets are located, including Russian, English, Latvian and Polish.

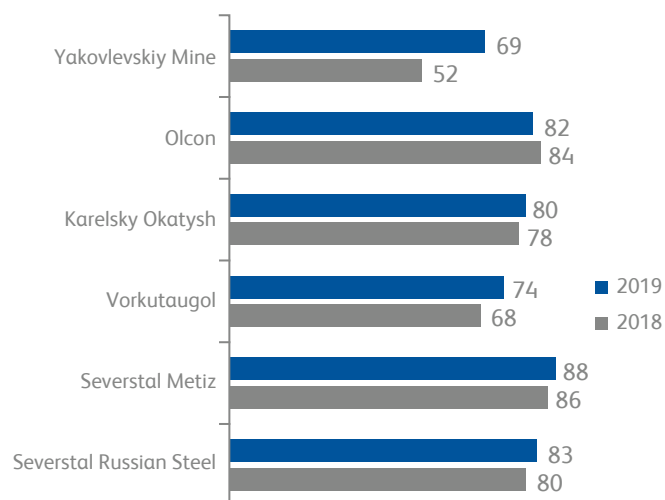
The results of this survey are communicated to the executive team of Severstal and are discussed at Board meetings. All businesses receive reports with key findings, and this information is communicated to our employees. Managers review the results of Severstal Pulse survey and team results in focus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

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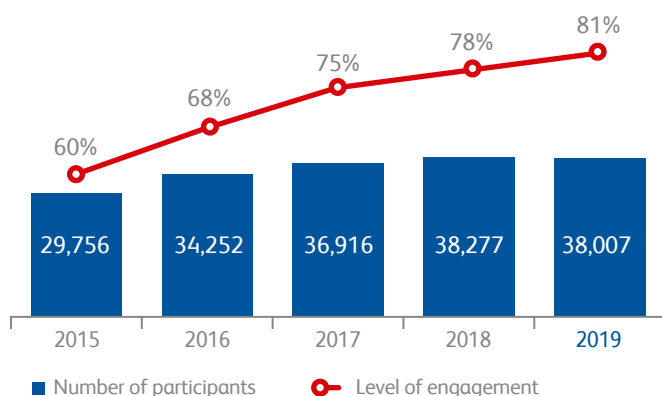
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## Participation in Severstal Pulse survey by division, %



## Severstal Pulse Survey Results



In 2019, 76% of our employees participated in the survey. Engagement increased by 3 p. p. from the previous year and reached 81%. This is a very high number for industrial enterprises both in Russia and internationally. These results show that the majority of our employees (8 out of 10) care about their work and are willing to put effort and help achieve Company goals. There was a significant improvement in business units that scored low in 2018. The highest growth of the engagement index (+23%) was among the participants of the leadership programme.

### Employee engagement across Severstal increased to 81% in 2019.

In addition to traditional topics, such as customer focus, working conditions or safety, the survey also included two additional blocks of questions related to the strategy and strategic priorities of Severstal. We asked employees how well they understand our strategic priorities and what needs to change in their work, and also asked them to evaluate the extent to which the new strategy is accepted and supported in their team. All 4 questions received high scores (73–77%).

“Severstal Pulse gives every leader, from a foreman or a team lead all the way to the plant manager, an opportunity to understand how much their team is engaged in achieving the set objectives, and see what helps our employees take responsibility and initiative, and what demotivates them and harms our efficiency”.

Alexander Shevelev,  
CEO of Severstal



# Talent Selection and Promotion System

Severstal selects and promotes employees in alignment with our Employee Selection and Onboarding Regulations that meet the requirements of the Labour Code of Russia, and the provisions of certain internal and international documents. (For further details, please refer to the [Human Rights Protection section](#).)

All managers of Severstal receive basic and advanced training on employee selection and evaluation to ensure they make high-quality and unbiased decisions.

Information about our job openings is available to all our employees on our corporate portal. We give preference to candidates with higher qualifications and motivation. It is also important that they match Company values. More than 99% of our openings are filled by our Human Resource department without support from recruitment agencies.

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

Every company employee regardless of age, education or role can participate in the “Career. Restart” career development programme. Depending on their choice, the employee can either join the talent reserve, get training and become a part of the

succession plan, or gets a direct appointment to one of the available roles based on the results of their interview.

**In 2019 almost 900 employees participated in the “Career. Restart” programme, one out of ten got new appointments.**

The investment projects of Severstal Russian Steel and the modernisation of Cherepovets Steel Mill created demand for additional talent. Severstal is an attractive employer, and we do not face serious difficulties with recruitment. However, Severstal competes with other major players for talent for certain roles. In 2019, Cherepovets Steel Mill enacted the New Hire Bonus Regulations that introduce bonuses for company employees who recommend their friends for jobs in high demand in the steelmaking division. Severstal is also planning to hire more than 200 IT and digital technology specialists in 2020 to support our digital transformation.

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## Compensation

The principles of our compensation, salary structure and salary controls are established in local regulations of our individual businesses in alignment with the corporate compensation policy. The fixed part, which includes basic pay for the fulfillment of job duties and additional compensation per labour laws and collective agreements, constitutes at least 80% of the monthly pay. All roles are assigned grades and pay ranges. Approximately 20% of the monthly pay is the variable part, which includes regular bonuses to reward our employees for achieving their monthly or quarterly objectives. All employee categories are eligible for annual bonuses based on the achievement of annual objectives. The composition of the annual bonus depends on the types of objectives and job categories and roles, and bonus amounts are established in local regulations of the individual businesses.

Severstal Compensation and Benefit Competence Centre determines the salary ranges using a variety of sources, including salary reviews for various roles and regions prepared by independent companies, recruiter and management data, and information collected in cooperation with other companies.

We strive to make Severstal an attractive employer and offer decent salaries to our employees. Today we offer the leading average monthly pay among steelmakers, and our salaries

are significantly higher than average salaries in our regions. Our salaries depend on the role, qualification and actual performance.

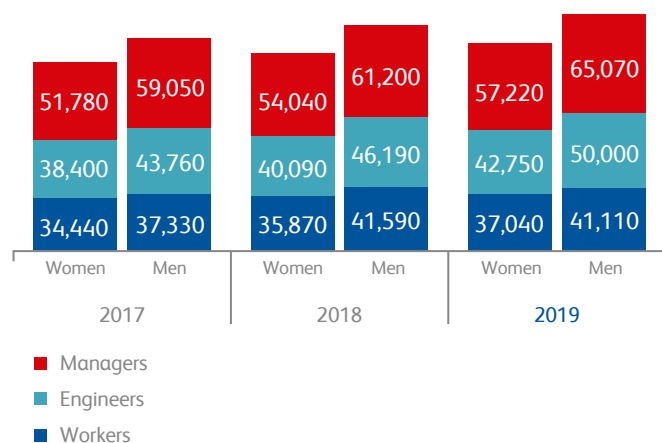
We index our salary to the official inflation rate. At some of our businesses, mandatory salary indexation is a part of our collective agreements. The final decision on salary indexation is made by the Chairman of the Board of Directors in consultations with Severstal Chief Executive.

On 1 April 2019, Company management and trade unions agreed to make a 4.3% overall increase in payroll, and every employee got a salary review in line with their individual performance in 2018. Severstal follows the pay for results principle where employees who achieved the highest results in the previous year can expect larger salary increases. We also made similar increases in our benefits for Company veterans; these include monthly support payments and early pensions.

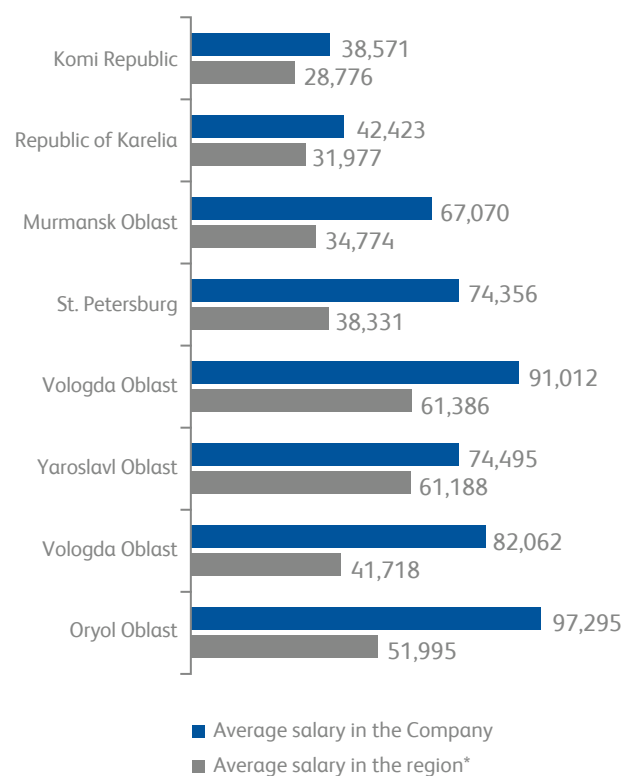
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## Standard entry-level wages by gender and job family, roubles

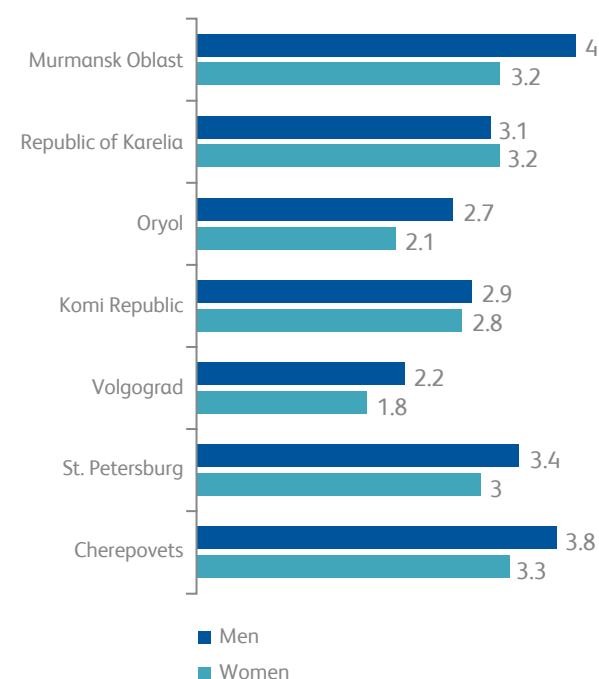


## Ratio of average wage in Severstal to the regional average in 2019, roubles,

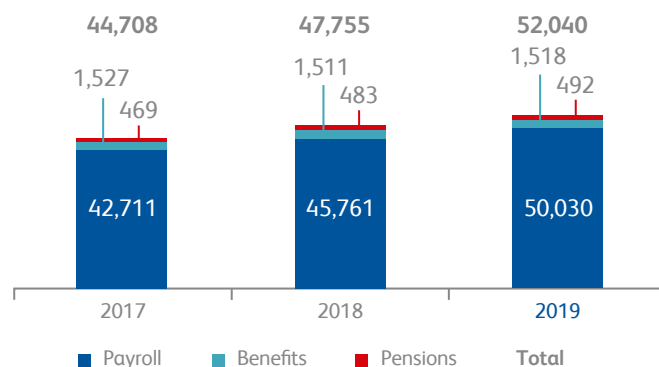


\* The data of the State Statistics Committee of the Russian Federation.

## Ratio of standard entry-level work wage to the legal minimum wage in our major regions in 2019

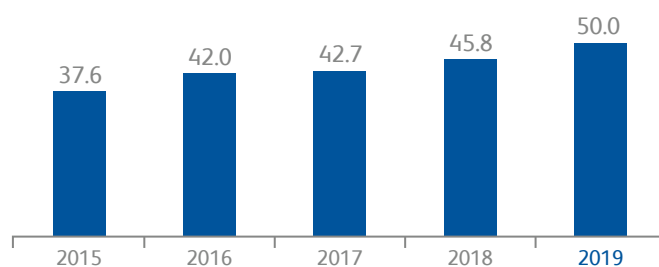


## Payroll composition, million roubles



In 2019, our employee cost increased by 4.3 billion roubles from the previous period and reached 52 billion roubles. The largest component of our overall employee cost (97%) is our payroll. The rest is benefits and pensions.

## Payroll change, billion roubles



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# Employee Performance Evaluation

All Severstal workers, managers, engineers and specialists undergo regular performance evaluations. We use three main tools for employee evaluation. Almost all managers, specialists and workers participate in annual Discussions of Goals that are designed to evaluate their performance in the previous period, set the goals for the next period and discuss personal development plans.

The Company also uses a 360-degree feedback process to collect feedback from managers, specialists and functional experts. The results of the 360-degree evaluation are used in HR Committees and Discussions of Goals. There is a system of HR Committees in place that is used for multi-angle discussions of personal development, career growth and talent retaining. Every six months, the Chief Executive Officer and the Board of Directors evaluate the executive team.

## Annual evaluation of Severstal employees

### 360 degree

- Peer feedback: two strengths and two areas for improvement
- 13,146 managers and specialists received evaluation
- 37,517 employees provided feedback as experts

### Discussions of Goals

- Evaluation of last year's goal achievement
- Evaluation of behaviour in context of Company values
- Setting goals and personal development plans for the next period
- participants: 16,481 managers and specialists, and 35,293 workers

### HR Committees

- Evaluation of feedback on values and competencies
- Performance evaluation
- Planning development actions
- Inclusion in succession plans
- 450 HR committees took place
- 4,200 employees reviewed

The Remuneration and Nomination Committee discussed the management succession pool of Severstal at every meeting (for further details about this committee, see [Annual Report 2019](#), pages 52–52).

Succession planning and talent pool development are the responsibility of our HR Committees that work together to ensure objective and transparent decision making. The Central HR Committee responsible for the appointment of key executives includes the following: CEO, Business Unit Directors, and HR Business Partner. Our HR Committees work at various levels up to foremen. The committees approve the final succession lists, profiles of successful succession pool candidates, development programmes, and personal development plans for talent on succession list.

The Remuneration and Nomination Committee of the Board discusses our management succession pool at every meeting (for further details about this committee, see Annual Report

2019, pages 52–53). In 2019, our top management team was 94% covered by our succession pool, which is 14% higher than in 2018. Each CEO-1 level job has two potential successors on average, with readiness between 1 and 2 years. At least one of them has strong management potential confirmed using our Second Opinion tool. All succession pool members have personal development plans covering their career development and preparation for future roles. In 2019, 100% of vacant CEO-1 roles were filled from within our succession pool.

Cherepovets Steel Mill conducts quarterly employee evaluation taking into consideration employee development and their impact on the core business objectives of the mill. Evaluation results are presented on special Engagement Boards that clearly show the impact of every employee on key production initiatives.

## Idea Factory and Innovator Support

Severstal uses a dedicated system to collect and implement ideas of our employees on business process optimisation, reduction of losses and improvements in quality, safety and workplace environment. All ideas submitted by the employees to the Idea Factory are filed and reviewed by the Technical Council. Acceptance of new ideas for implementation is rewarded with tokens that programme participants can use to purchase gifts or social services.

**More than 68% of Severstal employees participated in Idea Factory in 2019**

Authors of technology or organisational solutions generating significant economic, technical or other positive effect receive monetary rewards upon the implementation of their proposals. In the reporting year, we launched the Idea Factory at Yakovlevskiy Mine.

**More than 10,000 idea authors received rewards**

**Total amount of rewards was more than 20 million roubles**

**More than 38,000 ideas implemented**

Inventors and submitters of innovation proposals receive various honorary titles, such as Best Innovator, Best Young Innovator or Honorary Innovator. Combined value of innovation awards in 2019 was 8.33 million roubles.

In 2019 we also launched an internal entrepreneurial programme. We use SteelTech LAB as a tool for detailed design and implementation of promising ideas and projects proposed by our employees (for further details, see [Managing Innovations](#)).

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## Training and Development System

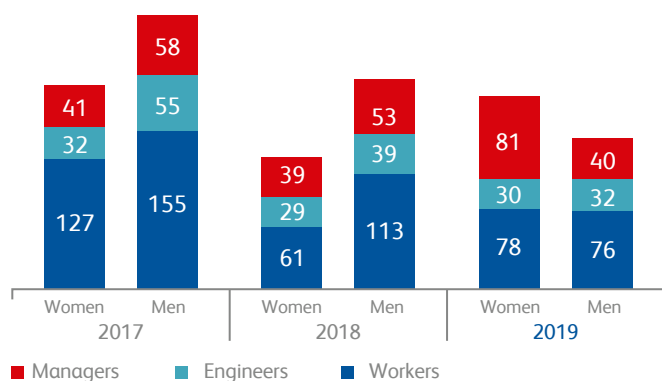
The comprehensive employee training and development system of Severstal covers all functional areas, departments and employee categories.

Key areas covered by corporate training programmes:

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

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

### Training duration by gender and job category, hours



A significant increase in the training of our women managers reflects the work of our Women's Club that was actively involving women in training activities in the reporting year. The amount of men worker training reduced in 2019 compared with 2018 because in 2018 Severstal conducted training that takes place once every three years, such as work at height training.

In 2019 Severstal continued offering a large number and a wide range of employee training. 58.6% of our employees, including managers, participated in training activities. The average length of training programmes was 50.31 hours per employee. Average satisfaction of our employees with training in 2019 stayed flat at 9.4 out of 10.

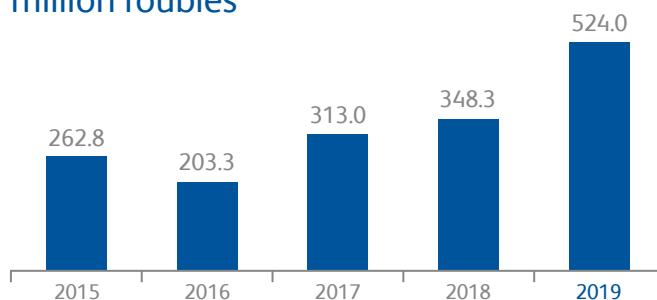
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## Employee Training Costs

In 2019 our employee training costs increased by a half from the previous reporting period, to 524 million roubles. This increase mostly reflects training programmes for various groups of specialists and managers.

### Cost of employee development programs, million roubles





## Management Training Programmes

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Our management training programmes help the managers to adjust their behaviour, improve their personal efficiency, and develop their leadership skills. We use a variety of training methodologies for the three highest levels of management, including coaching, mentoring and teamwork sessions. Our management programmes help our managers to search for new growth points more actively and inspire their teams to productive work. Our training curriculum for production unit directors, plant managers and foremen is based on mandatory programmes ensuring that our employees at each of these levels acquire the right management and leadership skills. These programmes also include the training on employer's compliance with employee's labour rights. For example, in 2019 there were approximately 3,000 hours of training in legal aspects of employee management alone.

### Management Training Programmes

#### Achieve More Together

Shop floor and department managers, senior managers and team managers

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

228 employees trained

#### Severstal Business Academy

Executive management

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

134 employees trained

#### Severstal Leadership Lab

Top 100 Managers

- New corporate strategy
- Renewed leadership model
- Transformational initiatives

160 employees trained

## Specialist Training Programmes

In 2019 Cherepovets Steel Mill launched the Long Product Academy employee development programme focused in enriching the professional competencies of the management team of our long product mill, including shop managers, foremen and their deputies. The training programme augments the fundamental knowledge of steelmaking and rolled products, and includes modules on product quality, production economics and equipment maintenance.

We keep working on the Top Technologist programme. The purpose of this programme is to build a world-class expert team to solve manufacturing challenges. The programme offers access to mentors and a range of opportunities for personal development. Specialists take internal training courses and internships, participate in Russian and international conferences, and learn the best practices from Russian and international experts. Programme participants work on individual assignments in new product development, product quality improvement and product cost optimisation. In 2019, 54 employees participated in this programme.

We offer a range of opportunities to learn foreign languages, and pay half of the cost of a foreign language course if an employee completes it successfully.

## Distance Education

Our distance learning system creates an opportunity for large-scale training regardless of employee location. All Severstal employees can choose any training programme available in the catalogue. The catalogue includes a variety of educational material on a range of competencies. We offer a range of opportunities to learn foreign languages, and pay half of the cost of a foreign language course if an employee completes it successfully.

My Education and Development portal contains online courses dedicated to teamwork, public speaking, negotiating and persuading, personal efficiency and organisation, and so forth. Approximately 5,000 employees use the materials from our online library.

All our employees have access to the Knowledge Base service. This digital platform accumulates our data on business transformation, business system, employee engagement and safety. It contains presentations, links to articles, useful advice from employees and experts, and business cases of Severgroup companies. Every employee may submit their story of business case implementation or problem solution and get Idea Factory chips.

**The share of our employees who received distance training increased in the reporting year from 53.6% to 55.7% of the overall headcount.**

## Foreman and Worker Education

For our new foremen and workers, we have a Foreman Academy programme in place that includes three mandatory and several optional training courses specific to production area and individual student needs. Our Foreman Academy trained 368 students in the reporting year, compared with 612 in 2018.

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

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70.5% of Severstal Russian Steel workers received professional training and improved their skills in 2019. 2,793 employees of Severstal Russian Steel received training in second (complementary) trades, compared with 1,405 in 2018.

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



In 2019, more than 3,200 previously selected and trained mentors participated in onboarding and development of Severstal Russian Steel employees.

**The mentoring system of the Business System of Severstal was named the best in Russia at the third mentor congress in Tyumen.**

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

## Onboarding of Young Employees

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

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

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

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

**605 recent university and vocational school graduates joined Severstal in 2019. 2,328 students completed internships.**

Severstal has a Youth Council that includes representatives of the majority of our businesses. In 2019, members of Severstal Russian Steel Youth Council took a series of communications trainings for the first time. This training was a part of the 70–20–10 competency evaluation and development programme.

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

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## Severstal Leadership Programme

The Severstal Leadership Programme is designed to train future Severstal Leaders from within new graduates and young professionals with professional or business education, or strong management potential. Current company employees also may join the Leadership Programme. At the shortlisting phase, the participants go through tests, video interviews and assessments\* in our Moscow office with Severstal managers. For two years, programme participants get practical experience working with operational and project assignments in our key areas including operations, finance, purchasing, sales and the Business System of

Severstal. Within five to seven years, they could join the TOP 100 Severstal executive team. The first and the second cohorts of the programme graduated in 2019. 17 out of 22 young specialists successfully completed the programme and were appointed to management and senior management roles. Overall, starting from February 2017, there were 68 participants in the programme. In 2019, their number increased from 20 to 26.

**In 2019, we received more than 4,000 programme applications from students and graduates of more than 100 universities. We selected and accepted 26 young professionals.**

## Severstal Women's Club

Severstal Women's Club helps overcome cultural stereotypes about women in the management and supports career development of our female employees through advice, training and the use of best practices. Any employee of Severstal may join Severstal Women's Club. In 2019, more than 1,000 female employees of Severstal and 81 male employees participated in club activities. Club participants share their professional experiences, discuss the development of sustainable careers, and work-life balance. Our Women's Club also has expert communities available for consultations. Every participant of the Mentor programme can become a mentor or a mentee of a colleague from another department.

In 2019 the Club had seven meetings with discussions of career development without adverse effect on the family, work-life balance, stress management, and the use of various networking practices that allow quickly building a network of business contacts in different areas.

Severstal launched the Pro-Woman programme in our flat production. The programme supports the development of management skills of female employees. It includes meetings with the management team, trainings and practical classes helping our women employees to develop their personal development plans and determine their career ambitions. One of goals of the programme is to familiarise its participants with various manufacturing processes.



\* метод комплексной оценки персонала

# Engagement of High School and University Students and Young Professionals

Recruitment of high-potential young talent helps Severstal to satisfy our long-term need for skilled professionals. Severstal believes it is important to raise interest in mining, steelmaking and science among the youth, and invests significant amounts in the development of education, and works with secondary schools, vocational schools, universities and colleges.

Severstal partners on talent development with approximately 20 specialised universities, six vocational schools and several high schools offering specialised Severstal programmes in Cherepovets and Vorkuta. Every year, approximately one hundred new university graduates are offered employment in the Company.

## Career Orientation for School Students

Educational institutions of Cherepovets and Vorkuta offer Severstal special tracks. This programme is designed for grade 9 to 11 students and prepares them for technology colleges. In Cherepovets, these are two-year high school programs in electric power engineering and steelmaking. There are four special tracks in the city with approximately 100 students. We are planning to add two more tracks in September 2020. This will increase the number of students to 150.

The programme includes deeper coverage of math, physics and IT, and the foundations of engineering and project management. The modular format of the programme also includes a common segment: meetings with Company managers, classes in Severstal labs, and visits to partner universities. Besides that, any

student may attend any courses at Quantorium, in Cherepovets State University, and in the Steelmaking Centre. All student achievements are reflected in a cumulative rating. The most successful graduates who join Cherepovets State University can sign student agreements with us and get scholarships.

### Goals

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

### Projects

- Special-purpose tracks
- Industry-specific subjects
- School competitions
- Youth Perspective Festival
- Severstal World of Trades game

Severstal Career Orientation Centre — the Steelmaking Museum and the Quantorium Children's Technopark became our new educational facilities. Our experts created engaging interactive environments helping students to develop competency in technologies.

In Vorkuta, 10th and 11th grade special track students study advanced programmes in physics and mathematics, attend lectures of specialised university professors, and visit Severstal businesses in different cities.

In 2019 our employees organised a field trip for the students of engineering tracks in Cherepovets and Vorkuta high schools to the cities of Severstal. Students visited the Steelmaking Museum, joined master classes in Quantorium Children's Technology Park, and a round table at Cherepovets State University. In Moscow, future engineers visited MISIS National University of Science and Technology. They saw the Mining Institute Museum and the Steelmaking School Lab, and visited the headquarters of Severstal.

**In 2019, 127 grade nine students joined Severstal special tracks (compared with 58 in 2018).**

In Kostomuksha, Karelsky Okatysh helped organise career orientation master classes for grade eight students. Students get to know about the work of open pit mining equipment operators,





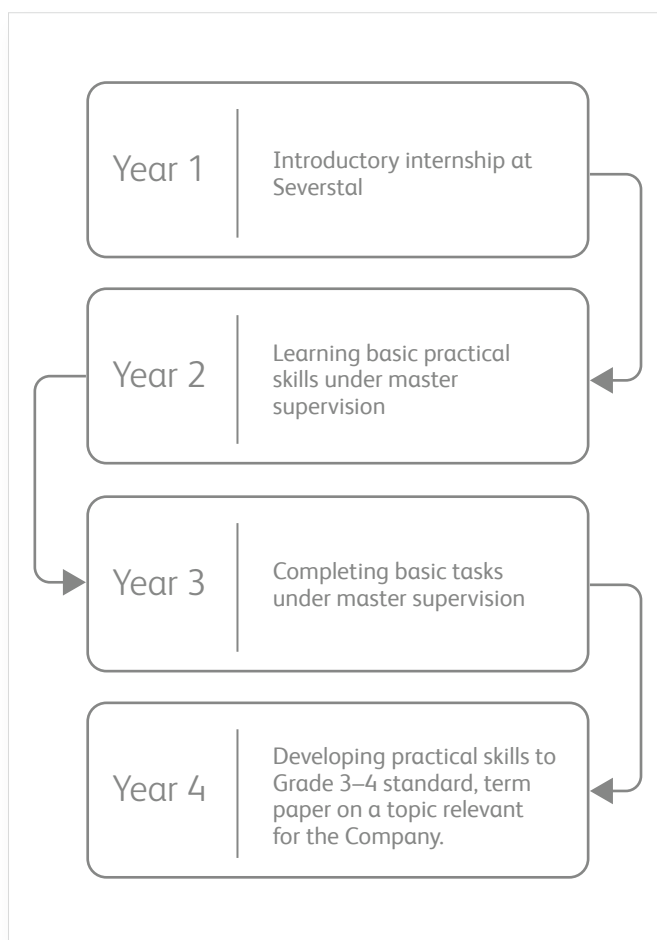
mining fleet repair technicians, as well as repair and maintenance mechanical engineers and electrical engineers. This project is a joint initiative of Perspektiva Educational Centre and Stalker Career Orientation Centre.

Every year, Severstal offers internships to school and university students during summer break. We help young students to make career choices using their familiar formats, including social networks. In 2019, Severstal organised and participated in career orientation events for students:

- Regional stage of the Metal Cup International Technology Strategy Competition
- School-Mine-Chance Festival (Vorkutaugol)
- One Day in the New Place regional career orientation event in Murmansk Oblast (Olcon)
- Young Adult Career Day in Cherepovets (Cherepovets Steel Mill)

## Vocational Education

Severstal has been working with regional departments of education for many years on the training of talent pool for steelmaking and mining industries. Severstal helps to train highly skilled personnel under partner agreements. Individual businesses of Severstal are trying to make sure that vocational education is as close to the real workplace environment as possible.



### Goals

- Generate a flow of applicants for worker positions

### Projects

- Targeted vocational education
- Participation of Severstal experts in the education process
- High-volume internships
- Teacher development: internships in the Company, distance learning
- Student participation in professional competitions
- Professional Development Centre (Severstal Russian Steel)

Every year, Severstal helps industry educational institutions open new modern labs and workshops. For example, in 2019 Severstal helped the Ivan Bardin Cherepovets Steelmaking College open a new lab, Materials Science and Heat Treatment of Metals and Alloys. Severstal donated 1.75 million roubles to support renovations and equipment purchases. The new laboratory will serve more than 200 students every year. We have also opened a 3.4 million rouble TEM-2 Switcher lab.

**Severstal spends more than 20 million roubles every year on college support.**

Students receive protective clothing during their internships, and Severstal picks up the cost of medical examination and also pays scholarship of 1,500 to 4,000 roubles per month depending on internship results.





## Universities

We cooperate with Russia's leading engineering, mining and steelmaking universities.

### Goals

- Make Severstal a more attractive employer for young adults
- Make the engineering and steelmaking education more attractive
- Generate a flow applicants for foreman and key specialist positions (future participants of manager succession plans)

### Projects

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

Our core partner in this area is Cherepovets State University (ChSU). Every year, Cherepovets State University and Severstal jointly develop a road map to improve the quality of training of future employees. The road map includes several initiatives focused on improving the quality of student training, developing the faculty, and other aspects. We agreed to sign a project roadmap with a list of events for 2020.

In the reporting year, Severstal signed a new cooperation agreement with Cherepovets State University on a three-year plan for joint educational projects. Severstal launched a new scholarship programme for full-time baccalaureate students with concentration in metallurgy, and signed a cooperation agreement with the department of information security of Cherepovets State University. Department students will work with our information security experts on a regular basis.

In March 2019, Severstal signed a three-way cooperation agreement with Cherepovets State University and the City of Cherepovets. We strive to motivate the graduates of engineering high school tracks to continue their studies in industry universities so that they join Severstal later. With this in mind, we established Severstal scholarship groups in universities. Participants of our programme get personal corporate scholarships.

In September 2019, 144 graduates from engineering tracks joined these groups (compared with 47 graduates a year before). The competition for spots in Severstal scholarship groups increased to 2:1.

**2,328 university and college students completed internships in Severstal in 2019.**

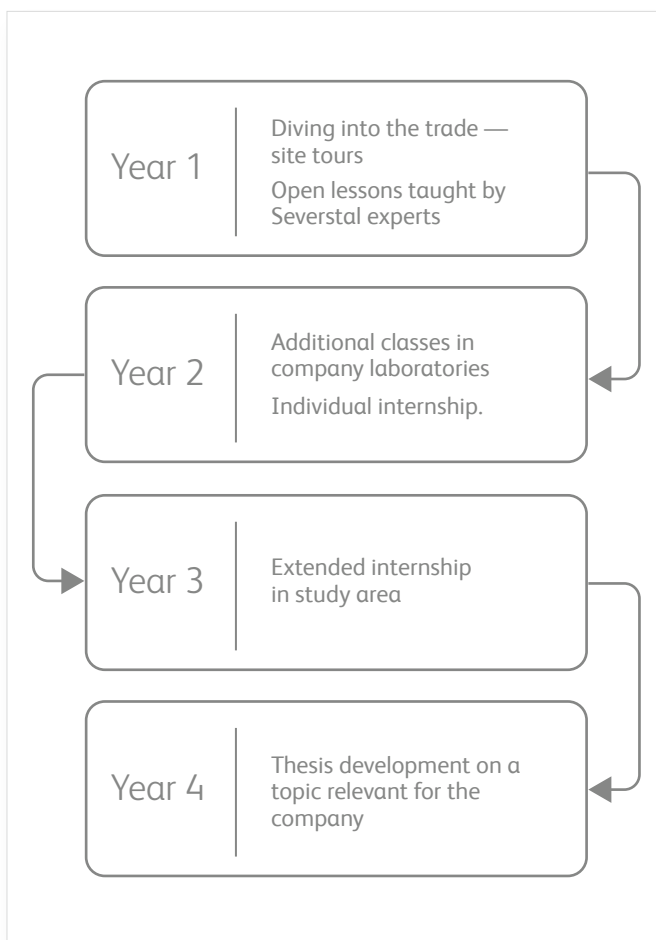
**605 new graduates joined Severstal.**

**119 university graduates that came from high school special tracks have already been employed in Severstal.**

Internships were extended from four to ten weeks, giving students an opportunity to study our complete production cycle and the operation of other departments. Site tours educate young adults about the mining and steelmaking industry, and the opportunities it presents. Every year, Severstal runs a two-day Severstal Business School workshop for students.

In 2019 Severstal launched the Young Engineers project focused on recruiting new graduates in engineering and technical professions. Representatives of our production units together with HR professionals selected top candidates meeting our requirements, such as motivation to grow in an industrial enterprise, strong analytical skills, system thinking, participation in case competitions and science and technology conferences, etc. Young engineers complete internships in Severstal and defend their own projects. 12 participants have already started working in our businesses: Karelsky Okatysh, Izhora Pipe Mill, Cherepovets Steel Mill and Olcon.

Severstal representatives participate in case competitions, forums, master classes, conferences, quests and other career orientation events for students and young professionals to



promote and develop our brand. In 2019 they attended more than 20 such events in St. Petersburg, Tomsk, Yekaterinburg, Chelyabinsk, Novosibirsk, Sochi, Moscow, Cherepovets and Krasnoyarsk.

In 2019, Severstal organised or participated in multiple student events:

- SteelTech Intern Case Competition: a joint project of Severstal Business System Development Centre and Global Venture Alliance focused on addressing energy and transportation challenges
- “Metal Cup. 4th Industrial Revolution” International Technology Strategy Competition
- Joint session of Severstal Business System Development Centre and the Graduate School of Management of St. Petersburg State University: high-intensity workshops in design thinking and development of innovative solutions for Severstal

- SMARTY — Digital Steelmaking nationwide competition of youth projects on the digital development of the steelmaking industry (the final stage of the competition took place in Moscow office of Severstal)
- Severstal partnered with Profstazhirovka 2.0 project where more than 70 real business cases were presented to students, who worked on them with distance coaching
- Nordhack Great Northern Hackathon based in Murmansk Arctic State University

## Work Environment

Severstal has a Unified Social Standard designed to guarantee decent working conditions in office spaces and on shop floors. Cherepovets Steel Mill is working on organising workspaces based on 5C methodology. Rational approach helps optimise workspace and make it more comfortable and safer while reducing unnecessary movements and reducing the time spent on searching required tools.

Our social and living condition improvement programmes for employees include renovation of our industrial and social spaces (resting rooms, canteens, showers, toilet rooms, water stations and training classes), workspace lighting and ventilation improvements, road network repairs and development, and landscaping.

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

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

We organise corporate contests for the cleanest social or recreational facility and run employee surveys to understand their satisfaction with such facilities.

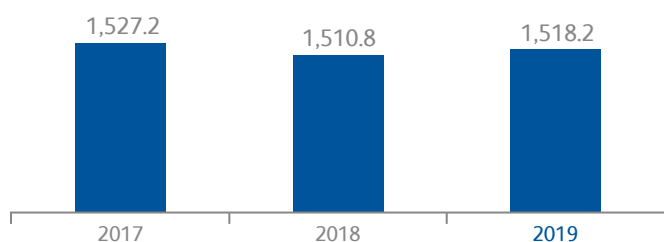
**In 2019, our steel division alone significantly increased its investment in the improvement of our social and recreational facilities, bringing them 465 million roubles (+10%).**

- We installed new dust separators near power files and bench grinders in the long product plant of Cherepovets Steel Mill to reduce dust content in the air. Air conditioners were installed in the cabins of ten overhead cranes.
- Severstal purchased 30 X-soft exosuits to improve working conditions and reduce injury rates in the production plants of Cherepovets Steel Mill. They compensate up to 30% of the load without limiting the range or freedom of movement. Exosuits help ensure safe operation of heavy equipment and reduce the strain from loading, unloading and installation activities.
- Severstal invested approximately 100 million roubles in air conditioner installation and replacement at Cherepovets Steel Mill in 2019. We are planning to install more than 700 new air conditioners in administrative and social spaces, utility rooms and resting rooms. Our first priority are industrial air conditioners operating in machinery and server rooms.
- We updated water stations in Steel Wire Plant 2 of the Cherepovets facility of Severstal Metiz.
- Karelsky Okatysh received three shift buses with ergonomic seats, air conditioning and heating. We opened a new canteen at Tsentralny open pit.
- A resting room was added to the finishing and loading section of our roll plant in Kolpino.

# Employee benefits

All employees of Severstal receive benefits, although benefit packages vary between our individual businesses. The main areas of employee support are embedded in our collective agreements and reflect the nature of our businesses and regional needs. In addition to benefits and support payments included in collective agreements, our packages also include supports required by law.

## Employee benefits, million roubles



Our employee benefits include:

- Collective agreement payments
- Private health insurance
- Support for company retirees
- Health resort and wellness programmes
- Sports and culture events
- Social and community projects
- Other projects

## Employee Health

Severstal Health integrated programme in place at Cherepovets Steel Mill focuses on expanding the first aid system, delivering efficient outpatient services using the latest technologies, and preventing diseases.

Severstal Medical Unit serves more than 75,000 people, which is approximately 30% of the adult population of Cherepovets. Severstal Medical Unit at Cherepovets Steel Mill is a state-funded health care institution and one of the leading health care service providers in Northwest Russia. It has approximately 1,500 employees, including 935 health care professionals. The medical unit operates 28 medical stations (12 of them open 24x7), two outpatient clinics and one hospital. Our female employees have access to a unique maternity centre with an obstetrics, maternity and gynaecology clinic. We also have seven dental clinics ensuring Severstal employees have the most convenient access to dental care.

Severstal invests approximately 25 million roubles in the development of Severstal Medical Unit every year.

We offer our employees free tick-borne encephalitis vaccinations, and seasonal flu shots from September till December. Approximately 16,000 Severstal employees in Cherepovets received vaccinations in 2019.

Our medical stations are funded through private health insurance. The Olcon private health insurance programme



includes outpatient and inpatient services, dental coverage as well as rehabilitation and recovery treatments. All employees of our Cherepovets site have health insurance policies in place.

Sick leave in 2019 were at the same level as the year before in Severstal Russian Steel.

## Other Severstal Business Units

Vorkutaugol employees receive high-quality company-paid health care services in Vorkuta, and their workplace injuries are treated in the leading health care institutions of Komi Republic, Moscow and St. Petersburg. High-quality health care services are available both to miners and their children. 3,580 employees, approximately 59% of the overall number of insured, used health services under the corporate programme in 2019.

The Olcon private health insurance programme includes outpatient and inpatient services, dental coverage as well as rehabilitation and recovery treatments. Health care services were provided in Murmansk, Vologda and St. Petersburg. 400 employees used private health insurance last year.

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

Our private health insurance policies were made available to Yakovlevskiy Mine employees for the first time in the reporting year.

## Health Resort Packages for Employees and their Children

Our employees have access to health, wellness and rehabilitation programmes of health resorts across North-Western Russia, Caucasus Mineral Waters and along the Black Sea coastline. More than 20,000 steelmakers and their families enjoy recreational and wellness programmes at Severstal's Torovo corporate vacation complex.

Severstal subsidises 90% of the package cost, so employees only pay 10%. The same principle applies to wellness programmes for children between seven and 16 years old. Certain groups of our employees, such as those working in hazardous conditions and approaching retirement, receive wellness resort packages free of charge. We also fully cover the cost of programmes for children from large families and children from foster families.

In 2019 we purchased more than 3,800 recreational, wellness and sports resort packages for our employees and more than 3,000 wellness resort packages for their children. In addition to that, 806 employees received "Mother and child" packages.

## Individual businesses of Severstal Russian Steel invested more than 243 million rubles in 2019 wellness campaign, including 120 million roubles in children's recreational packages.

Karelsky Okatysh employees pay 20% to 50% of the cost of wellness resort packages for themselves, and only 20% of the cost of health care and recreational packages for children between six and 16 years. 573 persons used our private health insurance policies to get wellness and rehabilitation resort packages in 2019 (including 299 current employees, 235 of their children and family members, and 39 former employees in retirement). Our private health insurance paid 18.6 million roubles for these activities in 2019.

Rehabilitation and recovery treatments were provided to 100 employees of Olcon. Our private health insurance programme for employee children paid for 56 trips to Vita summer wellness camp in Anapa.

## Social Support for our Employees during the Coronavirus Pandemic

Severstal management is considerate of the issues our employees may be facing in the new circumstances. By resolution of the Chairman of the Board of Severstal, in April 2020 we paid all employees with exception of our top executives a one-time support payment of 10,000 roubles in addition to their salaries. This payment is meant to help offset extra food, transportation, medicine and disinfection costs during the pandemic. Total amount of payments was 500 million roubles. We also made an annual 3% salary increase.

## Support for Retirees and Veterans

Severstal offers corporate pension plans and retiree benefits. Severstal Russian Steel pays monthly pension benefits to its retirees depending on years of service through Blago charitable foundation. Laid off employees and employees with medical conditions preventing their employment are eligible for early pensions as well. The amount of early pension depends on years of service in Severstal (at least 10 years), and these pensions are indexed together with the wages of Severstal employees.

In 2019 Cherepovets Steel Mill adjusted its corporate pension programme to reflect the changes to the pension legislation. Changes affected certain provisions of one-time and monthly recurring supports for retired employees. The mill will make payments to all employees who have worked in Severstal for at least five years and voluntarily retired no later than three months after they reached the age of retirement. Additionally, we consider participation in the Future Private Pension Fund programmes. Changes also affected support payments for our



employees who were laid off prior to 31 December 2018 and employees who left the company voluntarily or as the result of the transfer of their function to another organisation. There is now a new opportunity for early retirement in case of a Group 1 or Group 2 disability.

### Approximately 20,000 veterans of the Cherepovets site of Severstal Russian Steel receive monthly payments from Severstal.

We offer more than 20 forms of support to non-working retirees. They receive support payments and targeted charitable aid. More than 7,300 of Severstal veterans use health care services of Severstal Medical Unit. Under our social benefit programme, we also make one-time support payments to retired employees on anniversaries and special occasions.

### Severstal invested 444.5 million roubles in social support of its non-working retirees in 2019.

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

Karelsky Okatysh also provides retirement benefits. Every year, our non-working retirees get Gornyyak health resort wellness packages. Leaders of recreational clubs receive quarterly benefits from Karelsky Okatysh.

Severstal offers our retired employees a variety of spiritual, intellectual, cultural, sports and wellness opportunities. We create an environment for communication, sharing of life skills and knowledge, and realisation of creative potential. During the year, we actively promote sports among our veterans; in 2019 our veteran sports events had 6,546 participants.

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## Family Security and Benefits

Support for families is a major component of Severstal social policy. Severstal employees can take maternity leave as soon as they register with a maternity clinic. Severstal pays them their average salary until they get the state pregnancy and birth benefits. We have a variety of family bonuses for employees, with bonus depending on particular business:

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Employees on parental leave may work part-time if they wish. In 2019, all employees remained with Severstal after their parental leave. The share of employees who remained with the company after parental leave was 53% among men and 73% among women.

Our employees receive the following benefits:

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

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

## Active Lifestyle and Sports

In 2019 approximately 46% of Cherepovets Industrial Site employees participated in sports and fitness events. Our employees have access to convenient time slots at the city's sports facilities for their corporate sports activities including trainings in game sports, corporate contests and celebrations. Every year the division organises a Spartakiad in 10 sports. We also organise 14 championships in various game sports.

### 8,681 employees participated in corporate sports events, Spartakiad and championships of the Russian Steel division.

In addition to core competitions, our employees can attend swimming pools, a variety of water programmes, fitness sessions and gym with 50% discount (704 employees per month on average).

Severstal Russian Steel organised more than 40 sport events in the reporting year, including several major sport festivals. 3,431 employees of our Cherepovets site participated in these events.

Our resources division undertakes similar initiatives. Vorkutaugol has several corporate sports halls equipped for various sports. Our employees have access to Olympus Sports Centre and the volleyball hall of the Miners' Palace of Culture. Vorkuta Mechanical Plant has a mini football stadium on its premises. Olcon Sports Centre hosts various sports events. In 2019 Olcon included alpine skiing and snowboarding events in our corporate Spartakiad for the first time.





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

Yakovlevskiy Mine organises annual corporate Spartakiad, a corporate bike ride, a mini-football tournament and several other events.

## Key Priorities in Corporate Social Responsibility and Sustainable Development. Human Resource Management

### 2020 and short term objectives

Develop organisational potential in four areas critical for the implementation of our strategy and achievement of business goals: Customer Experience, Innovations, Investments and Digital

Develop corporate culture and behaviours supporting the achievement of our strategic priorities

Transform our HR function to support the highest priorities in organisational development and corporate culture:

- New HR organisational model
- HR Business Partner development model

Adjust the existing governance system to the new business needs in response to changes in the external markets

5

# Occupational Safety and Environmental Protection



# Occupational Safety

SDG 8

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

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## Policy and Management

Our strategic decisions in the area of occupational health and industrial safety are made by the Occupational Health, Safety and Environmental Protection Committee headed by Independent Director Philip Dayer. For further details, please see the information about this committee and its performance in the [Annual Report 2019](#), pages 53–55). The implementation of these decisions is the responsibility of OHS and Environmental Protection Director, heads of business units and heads of respective services. Each of our businesses has an occupational health management system including a risk management system, emergency and disaster recovery plans, an information distribution system for emergencies and lessons learned, employee training courses meeting the requirements of applicable laws, a corporate distance learning system with training courses, and other components.

In 2019 we reviewed our [Health, Safety and Environmental Protection Policy](#) to reflect the adjustments to state legislation. We added the Responsibilities section to the Policy. This section contains provisions for discussions of OHS matters with employees, stakeholder engagement, and the accountability of the management team for Policy implementation.

In December 2019 Severstal reconfirmed the compliance of our OHS policy with OHSAS 18001 requirements. In 2020 Severstal will switch to the new ISO 45001:2018 Occupational Health and Safety Management System standard that will replace OHSAS 18001.

Severstal businesses use a standardised approach to analyse injuries, micro injuries and near misses, and to handle violations, and a standardised set of tools to identify and manage hazards and involve employees in safety management.

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

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

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

## Occupational Safety Objectives

Severstal's long-term goals in occupational health, industrial safety and environmental protection were approved by the Board in 2018. We also require that all our partners comply with stringent occupational health, industrial safety and environmental sustainability standard in their work, and respective provisions are included in the Code of Business Partnership of Severstal and Affiliates.

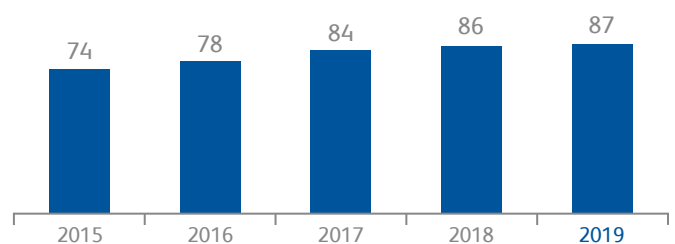
**By 2025, reduce LTIFR by 50% compared with 2017 and eliminate workplace fatalities among Severstal employees.**

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

## Safety Leadership and Culture

The results of the company-wide Severstal Pulse survey indicate that a growing number of employees understand and share Severstal's safety policy. The number of employees receiving safety instructions, if needed, from their immediate managers has been increasing in the last five years. High marks in the Safety department is the result of consistent transition from oversight to partnership, along with rewarding and supporting safety initiatives.

**Share of employees receiving safety instructions, if needed, from their immediate managers, %**

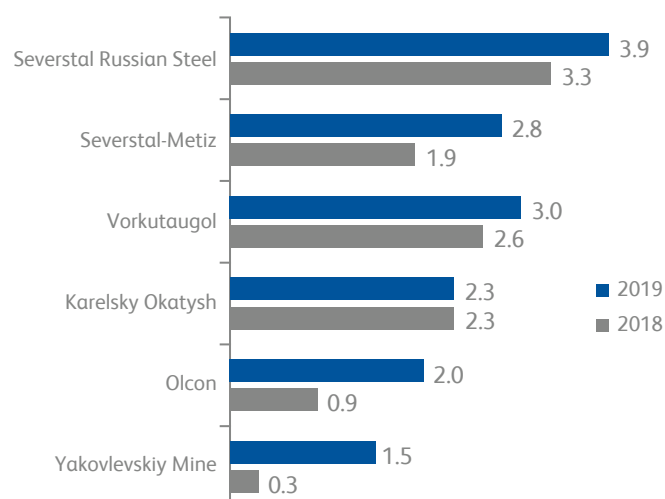




Accident Prevention System (APS) audit deployed across all our business units is the most powerful motivation tool in the development of management leadership. We use APS audit to get a quantitative assessment of system development, which helps us manage the occupational safety system efficiently, set clear goals and monitor their achievement. The assessment covers five areas and uses a five-point scale reflecting five levels of system development. In 2018 we included the evaluation of supplier management, and in 2019 — evaluation of electrical safety.

In 2019 our occupational health auditors evaluated the development of occupational health and industrial safety systems at 306 of our production sections. The average score across the Company increased from 1.9 to 2.6 points in the reporting period. The highest APS audit scores were achieved in Severstal Russian Steel where they increased from 2 to 3.9 in the last five years.

## Average APS audit scores across our cores businesses



## Training

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

### Number of employees trained in 2019

	2018	2019
Occupational health	4,392	4,372
Industrial safety	3,326	5,180
Occupational health for office personnel (a training course in the corporate distance learning system)	460	8,361

- Severstal Russian Steel implemented a per-shift employee testing system. Both workers and managers are tested. We installed special terminals in our production facilities, and computers installed in some of our plant shops automatically start the Pre-Shift Test software when a user logs in. Tests for workers include general OHS questions, as well as question on fire safety and trade-specific safety questions. For managers, tests are selected based on their role requirements. More than 13,000 workers and approximately 5,000 managers take these tests today.
- Cherepovets Steel Mill introduced a new type of training implemented as 3D games with situational assignments. One of such games, "3D Track: Moving Loads with Overhead Cranes" was demonstrated in May 2019 at the regional stage of the Russian Federal Social Insurance Fund (FSS) competition that was held as a part of the VISION ZERO concept. We received a letter of commendation from FSS in recognition of this practice.
- Domnaremont Centre built a training facility to teach equipment installation and work at heights. The facility is equipped with realistic simulators of day-to-day working conditions. Our employees can use the work at heights simulators to learn and try the basic skills of use of safety equipment, and will learn to choose the right devices and personal protective equipment.
- The employees of Severstal-Metiz HSE department organised a training room to teach our steelmakers our corporate occupational safety methodologies. This room will also be used for other training, employee testing, and review of violations committed by our contractors. The room has computers, a TV panel, a white board, several information stands and a library of reference materials.
- The OHS department of Cherepovets Steel Mill equipped a safety training room in Cherepovets Steelmaking College in 2019. We use multimedia equipment to educate students about industrial site dangers and hazards, ways to protect from them, and also about our corporate safety requirements to teach our potential employees to work safely.

## Hazard Management and Creating a Safe Environment

As a part of hazard management, we analyse injuries, including micro injuries and near misses, and identify and manage risks. In 2019 we launched specialised tools 'Hazards Identification', 'Safe Environment' and 'Targeted Questionnaire' across all our business units to help prevent accidents and injuries. These tools allow identifying potential hazards, evaluating the probability of their materialisation, and manage them, all while involving our workers in addressing the safety issues.

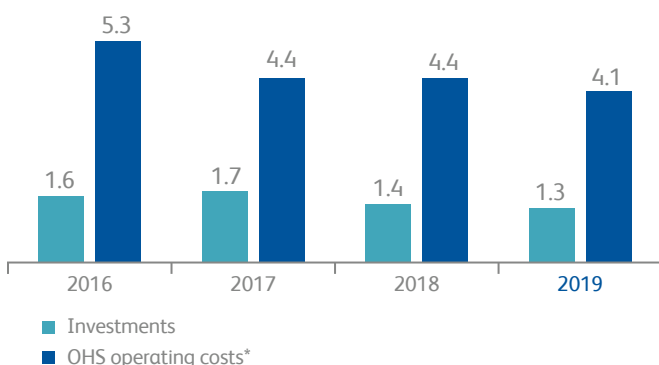
The Company also actively implements innovative technologies (computer vision, control systems, etc.). This work is focused in three areas:



1. Prevention of direct safety violations by employees
  2. Prevention of employee presence in dangerous areas (hazard mitigation)
  3. Monitoring employees' personal condition and prevention of hazards resulting from its deterioration
- One of our computer vision projects has been implemented at Cherepovets Steel Mill. It uses a model to identify the presence of humans in a dangerous area near oxygen supply machines. The system analyses CCTV feed and determines in real time whether an employee is in a dangerous area when the oxygen is blown. If a violation is detected, the model automatically sends an email with an image to the shop manager and the foreman.
  - Vorkutaugol can use a mobile app with their personal or corporate devices to enter information about violations and mismatches identified during production control, and also the results of behavioural safety audits.
  - In 2019 Cherepovets Steel Mill deployed the Equipment Overhaul Safety Evaluation System. All phases of large repairs, including planning, implementation and completion, are evaluated on a 5-point scale. The purpose of this system is to prevent violations, rather than identify them. In 2019 we evaluated 109 major repairs (100%). We met our 2019 repair safety targets with the average score of 4.0.

In 2019 Severstal participated in the research of best safety and OHS practices used by companies operating in Russia that was organised by the Operating Risk and Sustainable Development Group of KPMG. The results of this research were presented at the All-Russia OHS Week. Severstal's Repair Safety Assurance System project was named one of the top OHS practices in Russia in the reporting year.

### Spending on occupational health and safety initiatives, billion roubles



\* Including costs associated with PPE, special evaluation of working conditions, sanitary control, OHS trainings, disease prevention, etc.

In 2019 Severstal invested 5.4 billion roubles in OHS initiatives.

The most significant investment was made in the following areas:

- Development of an integrated safety system in Vorkutaugol mines
- Automated fire suppression installation programme (Severstal)
- Renovation of aspiration, ventilation and air conditioning systems (Severstal)
- Ensuring safe operation of lifting equipment (Severstal-Metiz)
- Crushing and preparation plant conveyor upgrades (Olcon)
- Replacement of electrical substations and installation of electrical room access control system (Karelsky Okatysh)
- Installation of underground radio communications and positioning system (Yakovlevskiy Mine)

## Increasing Staff Involvement in Occupational Safety Matters

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

- All business units conducted hazard evaluation audits and Workers' Memorial Day celebrations. We played videos, hosted quizzes and conducted express employee surveys in our administrative and social buildings, canteens and buses.
- Severstal businesses organised the annual Safety Formula competition. During the preliminary stages of the competition, participants demonstrated their knowledge of OHS practices, completed quests and worked on creative and practical assignments. The final stage of the competition took place in Cherepovets and saw the KVN teams of Severstal Russian Steel, Severstal Metiz, Vorkutaugol, Olcon and Karelsky Okatysh compete for the main award.
- In 2019 Severstal-Metiz started the Safe Hands project to bring the attention of our employees to work procedures that pose hand injury hazard and make these procedures as safe as possible. With direct participation of our employees, we identified hazardous areas and dangerous procedures, and took actions to eliminate them.

## Ensuring Employee Safety during the Coronavirus Pandemic

Our main priority during the COVID-19 coronavirus pandemic is minimising employee health risks. Severstal introduced a range of prevention and protection protocols to reduce the risk of virus spread. In particular, some employees were transitioned to remote work.

To reduce on-site contacts, Cherepovets Steel Mill took action to separate people flows. We limited the movement of our employees on sites until the situation with the pandemic improves. Similar actions were taken at other Severstal businesses, and these requirements also apply to our contractors.

We enhanced sanitary and hygienic requirements, introduced regular preventive treatment and disinfection in all facilities, and check our employees for fever when they arrive at work. We suspended mandatory entrance testing for alcohol.

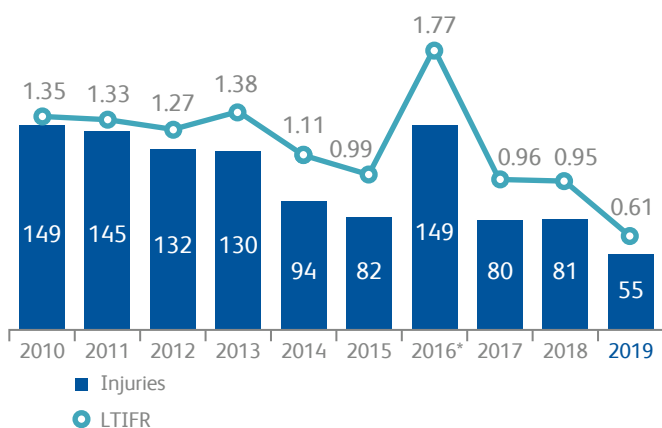
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## Results of Injury Prevention Initiatives

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

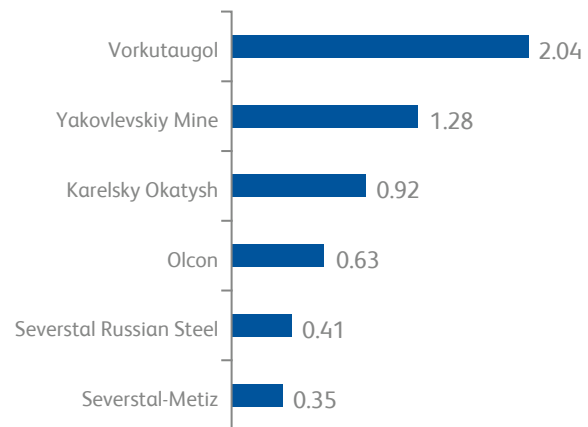
In the last ten years, the number of injuries reduced by a factor of 4.4 while LTIFR improved from 1.84 to 0.61.

### LTIFR across Severstal



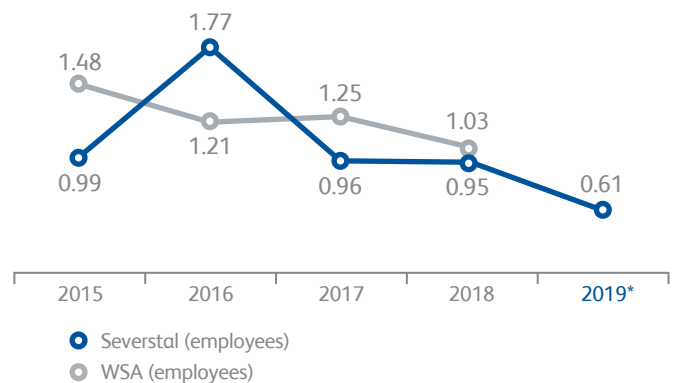
\* 2016: Severnaya Mine Disaster

### LTIFR by business unit in 2019



In 2019 all our business units achieved our injury rate targets. The lowest LTIFR was achieved in Severstal-Metiz and Severstal Russian Steel (0.35 and 0.41 respectively).

### LTIFR in Severstal compared with World Steel Association average

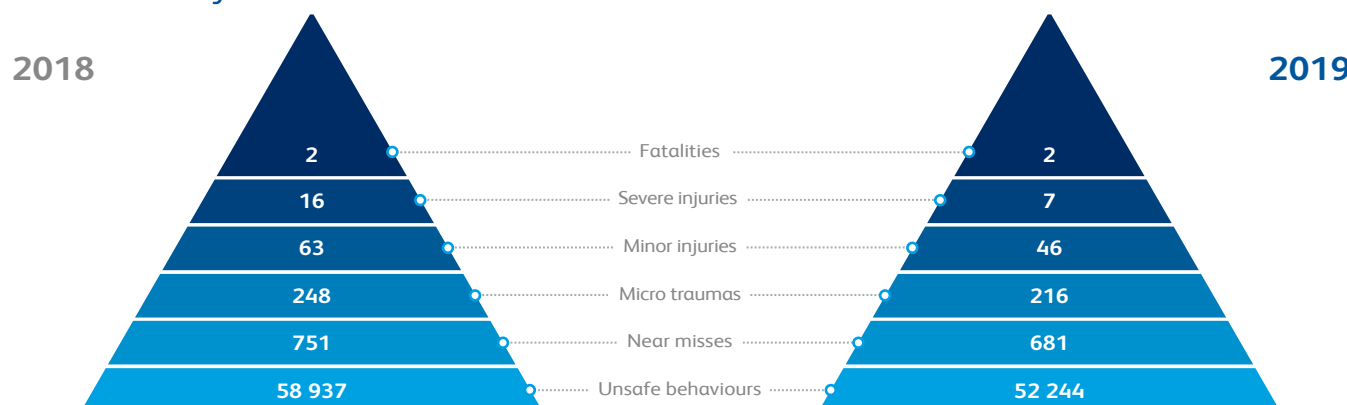


\* 2019 World Steel Association data was not available at the time of preparation of this report



## Number of injuries

2018



2019

Unfortunately, during 2019, we had two fatalities among our employees and three fatalities among contractor employees. We have investigated each of these cases to prevent their reoccurrence in the future.

## Investments in health care and fitness initiatives, million roubles

	2015	2016	2017	2018	2019
Cherepovets Steel Mill	158	166	191	191	211
Severstal-Metiz	13	14	15	16	20
Vorkutaugol	127	163	127	117	76
Karelsky Okatysh	66	47	54	37	37
Olcon	20	24	25	28	25

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## Occupational Morbidity

Vorkutaugol works in an industry with generally high occupational morbidity associated with hazardous work environment. However, the incidence of occupational diseases reduced by 40% in 2019 compared with 2018. Severstal uses a comprehensive set of organisational, sanitary, health care and technology tools to reduce the exposure of our employees to workplace hazards, create comfortable workplaces and reduce the labour intensity of their work, in particular in Vorkutaugol.

- Buying, and monitoring the distribution and use of respiratory protective equipment (we purchased 367,000 respirators for our employees in 2019).
- Installing dust suppression equipment in mining operations.
- Buying modern equipment to make work less labour intensive (Sharf and Ferit locomotives, diesel switchers, Stone Duster, Tornado and Buran stone dusters).

In 2019, there were no cases of occupational diseases in Severstal Metiz or Olcon.

## Incidence of occupational diseases

	2015	2016	2017	2018	2019
Cherepovets Steel Mill	6	9	7	9	7
Severstal-Metiz	0	0	0	0	0
Vorkutaugol	138	176	204*	100	60
Karelsky Okatysh	3	13	6	9	8
Olcon	3	1	1	1	3
Yakovlevskiy Mine **	—	—	—	2	0

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

\*\* This entity became a part of Severstal in 2018.

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## Collaboration with Trade Unions on Occupational Safety

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

We perform special assessments of workplace conditions together with trade union representatives. The results of these special assessments in each department are available on our [corporate website](#).

Cherepovets Steel Mill has an occupational safety coordinator organisation that includes 486 employees. Their engagement in 2019 was at 43%. We developed an evaluation and reward system for our occupational safety coordinators to increase their involvement in safety matters. A special commission including line managers, chairs of trade union committees and OHS specialists will evaluate the contribution of occupational safety coordinators on quarterly basis. We set priority areas for our occupational safety coordinators at joint meetings with department managers based on key OHS priorities. In addition to getting mandatory education in legal safety requirements delivered by special

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training organisations, our occupational safety coordinators take our internal courses on corporate safety methodologies. 24 occupational safety coordinators of Cherepovets Steel Mill received the Top Occupational Safety Coordinator award in 2019.

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## Supply Chain Responsibility

All on-site contractors have to comply with Severstal safety requirements. These requirements and sanctions for failure to meet them are set in our Production Safety Assurance Agreements.

In 2019 there were six more cases of injuries with our contractors than in the previous reporting period (35 compared with 29). This reflects the significant increase in the number of contractors working on Severstal sites as we are delivering major investment projects.

To change this situation, Severstal Russian Steel implemented an external control system at our large investment sites, including the construction sites of Coke Battery 11 and Blast Furnace 3. An important feature of this system is that it actively involves the leaders of our contractors in ensuring production safety and proactive approach to accident prevention on site. The main principle of this system is that the responsibility comes not from violations, but from failure to honour the agreements (failure to

complete planned activities). We conduct periodic audit of the accident prevention system with our contractors to determine current situation with occupational safety and evaluate the development potential.

In 2019 Severstal Russian Steel continued voluntary corporate OHS certification of our permanent contractors. The number of organisations that successfully passed our certification doubled from 2018 (from 5 to 10).

- The Cherepovets site of Severstal Metiz hosted the Top Contractor safety competition. Its participants included our largest contractors who are involved in construction, installation and transportation in our investment projects. The employees of our contractors needed to demonstrate theoretical knowledge of safety and present creative works for the Safe Hands project.
- Eleven major contractors of Vorkutaugol implemented Severstal's corporate occupational safety tools. These include behavioural safety audits, safe behaviour basics training, incident investigation, and more.
- Yakovlevskiy Mine, which became a part of our company in 2018, made a strong step forward in its engagement with contractors: responsibilities and accountabilities of process participants were split clearly, production leaders involved actively in audits, and the Contractor Violation Review Commission has been put in place.

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

### 2020 objectives

Objective	Reduce workplace injuries and eliminate workplace fatalities
Highlights	<ul style="list-style-type: none"> <li>• 0 workplace fatalities</li> <li>• Identify key deadly hazards (based on the root cause analysis of prior workplace fatalities in the Company)</li> <li>• Design and launch a risk control system capable of eliminating fatal injuries (evaluated against set metrics)</li> <li>• LTIFR under 0.58</li> <li>• 0 workplace fatalities and reduction of injuries among contractor employees</li> </ul>
Objective	Foster a safe production culture
Highlights	<ul style="list-style-type: none"> <li>• KPI-driven risk-oriented tools are in steady operation across all business units</li> <li>• Unmanageable risks eliminated across all evaluated processes and types of work (risk management coefficient of 1)</li> <li>• All business units passed ISO45001 certification</li> <li>• 100% of our "transactional" contractors (36 entities) working on our investment projects and our "permanent" contractors (99 entities) meet the requirements for the desired state</li> <li>• The desired state is indicated in addenda to our safety agreements</li> </ul>
Objective	Deployment of OHS tools based on digital technologies
Highlights	<ul style="list-style-type: none"> <li>• Projects of our pilot processes allocated additional budget and included in our General Investment Plan 2020–2021</li> <li>• Each business unit delivered at least one pilot (priority based on lessons learned) automation project (excluding a human from a hazardous process)</li> <li>• Computer vision covers at least 80% of our most dangerous areas where its use is efficient and justified</li> </ul>

# Environmental Protection

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In response to the growing social demand for safe environment and tightening regulatory requirements for the environmental protection, we continuously develop environmental footprint reduction programmes. We take environmental factors in consideration in our facility development and upgrade programmes. Environment being one of our top priorities, Severstal tries to involve all our employees in this work.

## Policy and Management

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In all aspects of our operations, we focus on maintaining a healthy balance between our economic goals and environmental and social responsibility. [Environmental Protection Policy of Severstal and Affiliates](#) (2018 revision) states that environmental protection is a key priority for the Company in all aspects of our operations.

To implement our environmental protection policy, we set long-term goals in occupational health, safety and environment until 2025. As we develop our operations, Severstal is working on comprehensive environmental footprint reduction programmes. We strive to prevent and minimise our environmental footprint, improve waste water quality and monitor biodiversity, while ensuring compliance with the requirements of Russian environmental law and meeting international environmental standards at the highest level.

Severstal shares and contributes to UN Sustainable Development Goals (SDG). The priority SDG that we identified for Severstal include climate action, and the improvement of global resource efficiency in consumption and production and endeavouring to decouple economic growth from environmental degradation (For further details, see [Severstal's documents and initiatives in the areas of sustainable development and corporate social responsibility](#)).

Five businesses of Severstal, jointly employing 63% of our employees, are certified for compliance with ISO 14001:2015 "Environmental Management System. Requirements with Guidance for Use" international standard. Two of our businesses, Vorkutaugol and Severstal Metiz, committed to passing the environmental management certification in 2020.

All our businesses have environmental controls in place, including laboratory examination of emissions, effluent discharges, and waste by specialised organisations, as well as environmental protection facility monitoring. Businesses certified for compliance with ISO 14001:2015 undergo annual external audits conducted by international organisations. All audits completed in 2019 confirmed that our existing environmental management systems meet the requirements of the international standard. The cost of external audits was 1 million roubles.

The environmental matters of Severstal Russian Steel are the responsibility of our Health, Safety and Environmental Protection Department. Each one of our businesses has one or several





experts dedicated to environmental protection. Directors of individual businesses and line managers are also accountable for our performance in this area.

In 2019 we started the deployment of an automated environmental protection system at Cherepovets Steel Mill. The system will automate the collection, management and preparation of all types of environmental reports at more than twenty production sites of Cherepovets Steel Mill, allow planning and evaluating our environmental protection initiatives, and help the HSE department of Severstal Russian Steel work more efficiently.

We take environmental factors in consideration when we plan the expansion of our production. We invite all stakeholders to a public discussion of potential environmental outcomes of our projects. In 2019 we submitted the project documentation of the new Severstal industrial landfill to the public discussions organised by the Environmental Protection Committee of the City of Cherepovets.

Environmental safety is covered in our employee training programmes. In 2019 we provided environmental protection training to more than five thousand employees. More than 500 employees took our distance courses on environmental management.

## Supply Chain Responsibility

We also expect our suppliers to comply with all environmental laws and regulations, and we include respective provisions in our contracts. The system we use to monitor the environmental compliance of our suppliers is similar to the system we use to monitor their occupational safety performance.

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

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We utilise a consistent approach in managing our suppliers of raw materials, equipment and services. This approach includes several stages such as preliminary qualification, audit, and supplier performance evaluation. Severstal implemented the "Purchasing. Supplier evaluation and development" standard. Before signing an agreement, we verify the contractor's business reputation, financial health and practical ability to deliver on contractual commitments. Contractors can also be evaluated in environmental aspects, such as ISO 14001 certification, availability of environmental policy, environmental objectives, licenses and permits for the use of natural resources, energy conservation programme, absence of fines for environmental violations, etc.). We evaluate 100% of our raw material, equipment and service providers in this manner. We pay extra attention to contractors receiving hazardous waste that we are not able to utilise (neutralise) ourselves. If we have any doubts about the information we received, we conduct an on-site audit of the contractor.

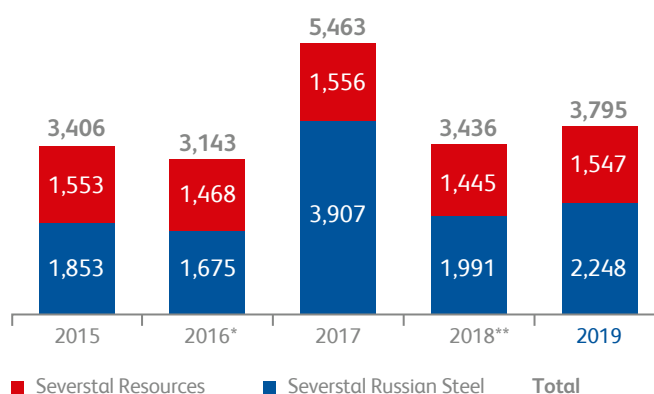
Severstal participates in the voluntary Environmental Product Declaration (EPD) programme. For certain types of products, we evaluate suppliers using an additional set of sustainable development and environmental protection criteria. Severstal gives preference to "green suppliers" who use these principles in their operation and demonstrate positive trends in environmental efficiency, including the following:

- Reduction of pollution of surface water bodies, air and soil with toxic chemicals, and removal of the most toxic chemicals from the production
- Reduction of waste stored in landfills, increased waste recycling, and general reduction of production waste
- Reduction of greenhouse gas emissions, increased use of renewable resources in the production of goods and services

## Investments in Environmental Protection Initiatives

In 2019 Severstal increased environmental protection spending, including operational costs and investments, by 10% from the previous year, to 3.8 billion roubles. Investments in environmental projects were 0.75 billion roubles, including 0.67 billion roubles worth of projects at Cherepovets Steel Mill. In 2020 we are planning to double these investments to 1.4 billion roubles.

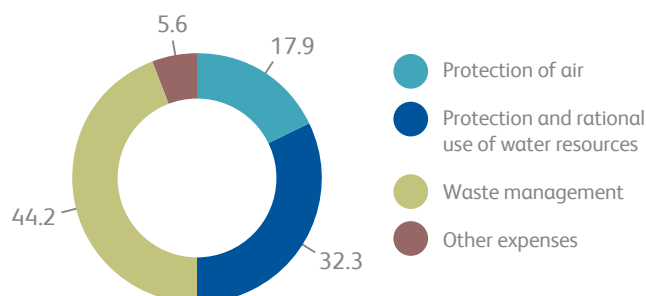
### Environmental protection spending, million roubles



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

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

## Key areas of environmental protection spending, %



There were no significant changes in the structure of our environmental spending. Slightly less than a half of the overall spending was related to waste management; about a third went to the protection and responsible use of water resources. The share of air protection spending was 17.9%.

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In 2019, the share of over limit fees in the overall amount of our environmental impact payments reduced to 11.4%. This reduction reflects lower atmospheric emissions of pollutants from Cherepovets Industrial Site and absence of over limit waste storage at Karelsky Okatysh as we received additional quota on overburden storage.

	2017	2018	2019
Share of over limit fees in the overall amount of environmental impact payments, %	38	31.6	11.4

## Atmospheric Pollution

In 2019 total emissions of atmospheric pollutants across all businesses of Severstal reduced by 5.1% from 2018. Severstal Russian Steel reduced emissions by 7.1% through the Comprehensive Action Plan for reducing emissions, which was a part of the Clean Air federal project, including the reduction in specific consumption of coke breeze in agglomerate baking following the reconstruction of the solid fuel unit at Sinter Plant 2. Overall waste reduction also reflects the sale of Severstal Long Product Mill Balakovo in the first half of 2019, and exclusion of its data from reporting starting from the second half of 2019.

Specific atmospheric emissions reduced by 7% to 23.4 kg per tonne of steel from 25.1 kg per tonne of steel in 2018.

Severstal Resources reduced emissions of pollutants in 2019 by 2.5% from the previous period, mostly due to greater methane utilisation in Vorkutaugol mine's boilers.

Levels of SO<sub>2</sub>, NO<sub>x</sub> and particulate matter emissions were 78%, 55% and 48% of permitted maximums.

## Atmospheric emissions of pollutants, thousand tonnes\*



\* Hereinafter, Severstal Long Product Mill Balakovo data is only included for the first half of 2019 due to the sale of this asset in the second half of the year.

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

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

## Atmospheric emissions of material pollutants, tonnes

	Severstal Russian Steel		Severstal Resources	
	2018	2019	2018*	2019
Nitrous oxides	12,260	11,883	5,695	5,068
Sulphur dioxide	26,407	27,458	70,122	69,860
VOC	444	449	495	441
Particulate matter	14,900	14,248	10,755	9,329
Carbon monoxide	246,790	225,603	4,106	4,090
Other	894	676	128,556	124,523
TOTAL	301,695	280,317	219,729	213,311

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

As the renovated Coke Battery 4 was in operation for the full year 2019, Severstal Russian Steel increased VOC emissions marginally (1%). Severstal is working on a gas treatment and aspiration system replacement programme at Cherepovets Steel Mill. Gradual replacement of this equipment will help improve working conditions and reduce atmospheric emissions of dust. Between 2021 and 2024, Cherepovets Steel Mill is planning to complete several projects to reduce its pollutant emissions, including VOC emissions, as a part of the Integrated Plan to Reduce Emissions in Cherepovets.

We will retrofit gas treatment systems at the agglomeration production of Cherepovets Steel Mill by 2024. Severstal will invest 2.5 billion roubles in this project. Once the new emission control equipment is installed at agglomeration units 10 and 11, Cherepovets Steel Mill will be able to achieve a 66.8 thousand tonne reduction in its overall emissions by 2025. A new air recirculation system will return off-gases to the agglomerate baking process, instead of sending them to the atmosphere. Gas recirculation will also help reduce solid fuel consumption, thereby reducing GHG emissions. This project will also include the replacement of dust removal systems used for gas treatment. Replacement of coke battery cyclones with electric filters will bring down dust content from 170 mg/m<sup>3</sup> to 30 mg/m<sup>3</sup>.

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## Air protection initiatives in 2019

### Coke-Agglomeration Plant of Cherepovets Steel Mill

- Renovation of Coke Battery 4 at Coke Plant 1 (transition to dust-free coke discharge and construction of new aspiration systems with bag filters). Emission reduction — 690 tonnes.
- Renovation of solid fuel preparation unit at Agglomeration Plant 2. Emission reduction — 7,764 tonnes\*.
- Series of technology initiatives to automate agglomeration technology and reduce carbon monoxide emissions by 688 tonnes.
- Renovation of electric filter 1 in the aspiration unit of Agglomeration Plant 3. Dust content in off-gas dropped from 170 to 17 mg/m<sup>3</sup>.

### Cherepovets Steel Mill Tyazhmash

- Installation of a modern aspiration system in the serial production shop. Emission reduction — 260 tonnes.

### Karelsky Okatysh

- Design of an atmospheric sulphur dioxide emission reduction programme. In 2019, we designed an operational prototype of a pilot unit and its automation model.

### Olcon

- To reduce the dusting of Olcon tailing pond in high winds, we treat dusting surfaces of active tailing pond sections with a special chemical agent. We stabilise the banks of worked out sections by seeding them with *Leymus arenarius* and planting young pines.
- 20 magnetic separators were installed.

### Severstal Metiz

- By changing the production technology (transition to heat treatment of wire in liquid lead), we eliminated two sources of nitrous oxide emissions and reduced them by 1,292 tonnes.

### Environmental Protection Objectives:

- Reduce atmospheric emissions of pollutants by 7% by 2025
- Completion by the end of 2019: 41%

## Reduction of Greenhouse Gas (GHG) Emissions

### Strategy

The process of making steel from ore generates significant CO<sub>2</sub> emissions that, according to World Steel Association estimates, constitute 7% to 9% of all emissions worldwide. This is why the steelmaking industry has a very important role in the reduction of greenhouse gas emissions. Together with other responsible industry players, Severstal views climate change as a material aspect affecting our operations, carefully analyses all risks and opportunities associated with this global challenge, supports voluntary recommendations of the Target Group of the Council on Financial Stability on financial disclosures in the area of climate action.

Increasing social and regulatory pressure on the industry challenges the future of traditional steelmaking processes. The steelmaking industry can achieve the global target of zero emissions by 2050 if it switches from fossil fuels to hydrogen. Use of hydrogen in production instead of burning coal reduces a large part of pollutant emissions. In 2019 Severstal established a new competency centre on the use of hydrogen technologies. Our objective is to research existing hydrogen production technologies for the future blowing of hydrogen to replace carbon fuel in blast furnaces. However, most likely green steel production may become competitive no earlier than next decade.

Until then, there is no real alternative to the use of coking coal in the steelmaking process. However, reduction of CO<sub>2</sub> emissions is an important component of Severstal's development programme, and we will continue this work. As a highly integrated steelmaker, Severstal sets common targets for our mining and steelmaking assets in looking for opportunities to reduce specific carbon emissions in steelmaking at all stages of production so that we can contribute to global climate action. According to expert evaluation, the most prominent effect may come from the deployment and development of innovative technologies, efficient power generation, reduction of raw material consumption in blast furnace and steel melting processes, and the use of higher-quality raw materials.

As a part of the new strategy, Severstal will continue detailed research of the potential impact of risks and opportunities related to climate change, including their economic impact, and legislative changes targeting the slowdown of global warming. (Risks and opportunities in the area of climate change are listed in Severstal [Annual Report 2019](#), page 24).

### Management

Our climate action is driven by the Board of Directors. Climate change is a standing item on the agenda of each meeting of the Health, Safety and Environment Committee, as required by the [Regulations for Board Committees](#). Committee members Chief Executive Officer Alexander Shevelev and Agnes Ritter lead the review of proposals on short-term and medium-term actions in this area and develop an action plan for the review by the

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\* The equipment was operational between Q2 and Q4, 2019.

Committee and the Board. The Audit Committee makes sure that the information relevant to climate change that is disclosed in the public reports of Severstal and published on corporate website meets the best practices in transparency, including the recommendations of the Task Force on Climate Related Financial Disclosures. In October 2019, the Board had a detailed discussion of climate action at its meeting.

**“Climate change has become a key area for us, not only in terms of the risk that climate change could have on our business but Severstal’s corporate responsibility to ensure it has the minimal contribution to climate change. The HSE Committee is responsible for overseeing Severstal’s climate change strategy and this is a standing item at every HSE Committee meeting.”**

**Philip Dayer,**

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

Severstal is one of the first Russian enterprises to join the global greenhouse GHG emission reduction programme of the World Steel Association. The objective of the Step Up programme is to reduce the impact on the environment and the climate. Over the past few years, we were providing Worldsteel with data on our GHG emissions.

Our joint project with Worldsteel, smartsteel-site, will allow us to benchmark ourselves against industry peers and identify opportunities to reduce CO<sub>2</sub> emissions. In September 2019, Worldsteel representatives visited Cherepovets Steel Mill and met with Severstal experts and executives. We agreed on a specific CO<sub>2</sub> emission calculation methodology, analysed emission sources and factors that affect them, and built a forecast for CO<sub>2</sub> emissions until 2025 with consideration for our production development strategy.

In November 2019, Cherepovets Steel Mill completed the development of the decarbonisation roadmap with international experts. It is already clear now that a significant reduction in GHG emissions would not be possible without CO<sub>2</sub> capture and storage technologies. Existing technologies are so expensive that collaboration with the governments, investors and research institutions is the only way to reduce the cost of these technologies and expedite the decarbonisation process.

Worldsteel places Severstal in the first quartile of steelmakers by intensity of GHG emissions. Specific GHG emissions from Cherepovets Steel Mill in 2019 were 2.08 tonnes of CO<sub>2</sub> per tonne of molten steel (scopes 1–3).

**Severstal gained three spots in Worldsteel rating of specific GHG emissions and finished 13th among 64 comparable companies.**

In 2020 Severstal started a project to design Scope 1 and Scope 2 GHG emission calculation methodology for 17 business units.

Cherepovets Steel Mill has already accounted for the main CO<sub>2</sub> emission sources, developed an emission map, and measured carbon content in raw materials and slag to calculate the GHG emission coefficients more precisely.

In 2019 Cherepovets Steel Mill established a workgroup to research solutions for the reduction of CO<sub>2</sub> emissions.

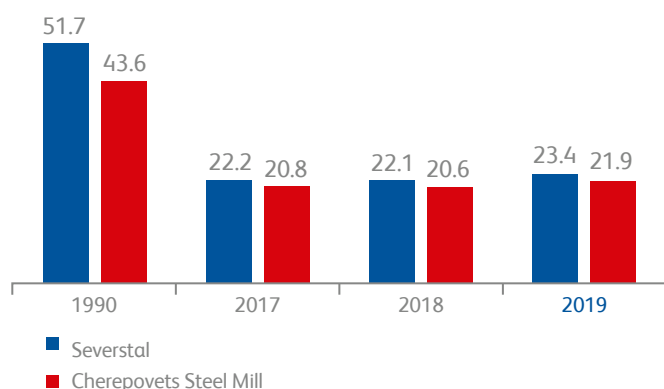
In 2019 Russian Federation became a full participant of Paris Agreement on Climate Change and voluntarily accepted long-term commitments in decarbonisation through the creation of stimuli to redistribute the investments towards low-carbon technologies. Severstal significantly exceeded Russia’s preliminarily declared contribution to the overall climate action — reduction of emissions to 70% of the 1990 level — by achieving 58% of the 1990 level of GHG emissions in 2019.

The leading power engineers and environmental experts of Severstal and Air Liquide, our strategic partner and supplier of technology gas, discussed the opportunities to reduce CO<sub>2</sub> emissions at Cherepovets Steel Mill during the science conference in Cherepovets in December 2019.

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## 2019 Events and Results

**Direct greenhouse gas emissions, million tonnes\***



The major part of Severstal’s GHG direct emissions comes from Cherepovets Steel Mill. In 2019 our overall greenhouse gas emissions increased by 6% due to the larger volume of coke production and 4% increase in hot metal output. Also, the shutdown of Turbine Generator 5 for scheduled maintenance and upgrades led to increased gas flaring.

\* Scope 1 of the Greenhouse Gas Protocol.

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Severstal keeps working on initiatives to reduce GHG emissions by technology process improvements, including the following:

- Reduced limestone and solid fuel consumption in agglomerate production, saving 53,187 tonnes of CO<sub>2</sub> emissions
- Reduced use of natural gas
- Switching several power boilers from solid to gaseous fuel

Vorkutaugol uses coalbed methane as boiler fuel at Vorkutinskaya, Komsomolskaya, Zapolyarnaya and Vorgashorskaya mines. Heat produced from methane burning is used in mine operations to heat and ventilate buildings and site facilities. In 2019 we used 63.7 thousand tonnes of methane (2018: 40.3 thousand tonnes), reducing our GHG emissions by 19,203 thousand tonnes of CO<sub>2</sub> equivalent.

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## Waste Management

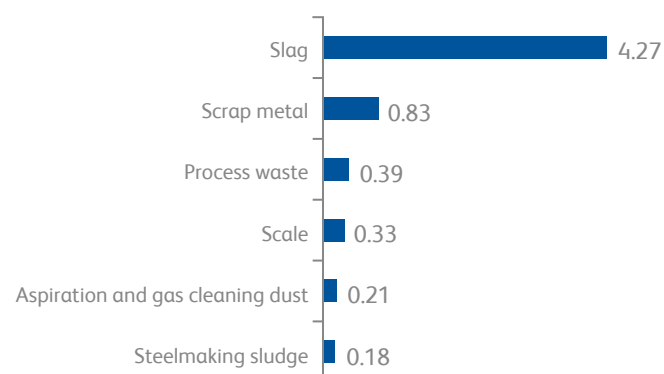
Severstal Resources generates 96% of all waste in Severstal. The majority of this amount (over 99%) is non-hazardous mining waste such as overburden and tailings. This waste is not in demand for public use, and we use some of it internally (production of crushed stone, road maintenance and dam reinforcement).

In 2019, our resource businesses generated marginally more waste (+4.9%) compared with the previous period due to a larger volume of overburden at Karelsky Okatysh and Olcon.

Severstal operates four tailings facilities. Two of them are at Olcon, and two are at Karelsky Okatysh. We also have Vorkutaugol overburden storage in Komi Republic, and Cherepovets Steel Mill tailing pond in Vologda Oblast. All of them are located at significant distances from residential areas. However, we take safety seriously and regularly monitor their condition. Information about all our tailings facilities is published in the Sustainable Development section of our corporate website.

Cherepovets Steel Mill generates 96.6% of the overall waste of Severstal Russian Steel.

### Main types of waste from Cherepovets Steel Mill, million tonnes



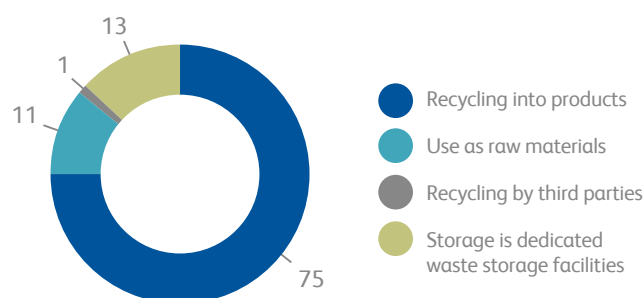
All this waste is processed internally. We also recycle oil, rolling mill emulsion, office equipment, sludge, tar and other materials. Cherepovets Steel Mill has 15 waste management and neutralisation units.

We recycle 100% of steel scrap produced at Cherepovets Steel Mill. The share of scrap in blast furnace charge at Cherepovets Steel Mill is 25.87%.

Increased production led to increased amounts of waste at Severstal Resources (+4.9%) and a marginal increase at Severstal Russian Steel (+1%).

At the same time, Severstal Russian Steel increased the amount of waste disposal fourfold in 2019. This reflects the increase in waste from Cherepovets Steel Mill: mostly construction waste (clean fill, reinforced concrete, construction waste, bricks), as well as waste from investment and repair projects (782,000 tonnes), and previously accumulated zinc bearing dust from the fugitive emission control system and EAF gas cleaning system (41,000 tonnes) and zinc bearing blast furnace slag following the launch of zinc bearing slag dehydration system (26,000 tonnes). A part of this waste was stored in an open steelmaking waste and blast furnace slag landfill of Cherepovets Steel Mill that we started using in 2019.

### Waste recycling in production, %\*



\* Excluding heavy mining waste

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## Waste management, tonnes

	Severstal Resources		Severstal Russian Steel	
	2018*	2019	2018	2019
Produced, total including:	193,033,710	13,894,253	7,345,232	7,419,241
overburden:	160,067,916	307,901	—**	—**
tailings	31,609,079	1,447	—**	—**
Recycled, total including:	23,379,775	1,186	6,865,008	6,434,889
in production	23,279,866	261	6,760,273	6,337,264
by third parties	99,910	189,039,666	104,735	97,626
Neutralised, total including:	87	166,482,544	29,755	37,170
in production	0	21,430,144	27,418	33,183
by third parties	87	189,034,066	2,337	3,987
Total placement including:	169,533,565	5,600	271,332	1,142,054****
overburden:	147,975,834	189,005,459	—**	—**
tailings	20,371,511	34,207	—**	—**
at our own WSF***	169,528,412	189,034,066	260,998	1,133,342
at third party waste storage facilities	5,153	5,600	10,334	8,712
Within established limits	162,441,968	189,005,459	271,242	1,142,054
Beyond limits	7,091,597	34,207	4	0

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

\*\* No waste produced

\*\*\* Waste storage facility

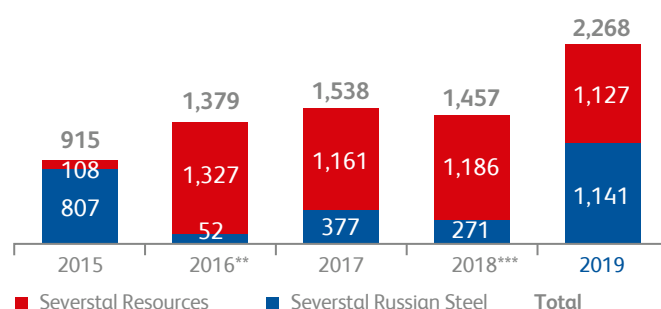
\*\*\*\* Including waste accumulated earlier

## Hazardous waste by class, %

Type of waste	Overall share
Hazardous (Classes 1–3)	0.03
Low Hazard (Class 4)	2.58
Marginal Hazard (Class 5)	97.39



## Waste disposal\*, thousand tonnes

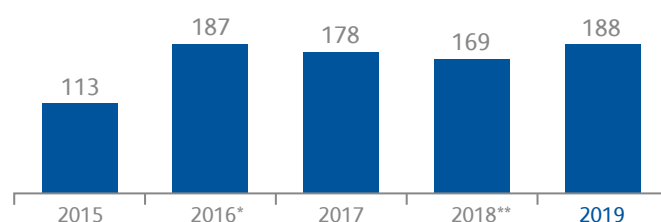


\* Except heavy waste of Severstal Resources (overburden and tailings)

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

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

## Overburden and tailing disposal, Severstal Resources, million tonnes



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

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

Increased mining volumes at Olcon and Karelsky Okatys resulted in higher volume of mining waste, which is classified as marginally hazardous. Overburden was partly processed into crushed rock. In 2019 Olcon doubled the crushed rock plant capacity. We are planning to produce up to 600,000 tonnes of crushed rock.

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

### Environmental Protection Objectives:

- By 2025, reduce the waste disposal by weight by 20% compared with 2017\*

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## Waste reduction and processing, and land rehabilitation initiatives\*\*

### Cherepovets Steel Mill

- We are piloting the technology to separate thermal cutting fluid used in rolling production. Use of polysaccharide micro gels will allow us to process all types of thermal cutting fluid completely, getting recycled water out of it and minimising waste. This technology was developed by Russian innovation company NPO BioMicroGel.
- We launched a briquetting line for zinc bearing dust from steelmaking gas cleaning systems of Cherepovets Steel Mill. This line will help us reduce the amount of waste, as well as process and reuse in production up to 30,000 tonnes of dust per year. The line will reach its full capacity in 2020.
- Severstal is rolling out a recycling technology for reinforced concrete waste from demolished facilities of Cherepovets Steel Mill. Steel scrap is recycled in steel production, crushed rock is used in road maintenance, landscaping and construction of causeways. We processed 5,304 tonnes of reinforced concrete waste.
- We developed project documentation for the construction of the new industrial waste landfill. Preparation of construction site was completed.
- Waste sorting at Cherepovets Steel Mill resulted in utilisation of 333 tonnes of plastic waste and 264 tonnes of paper and cardboard waste in 2019. We utilised 96,363 tonnes of

clean fill, prevented the creation of 971 tonnes of slag from decomposed cutting fluid, sold 712 tonnes of oil waste, and processed 372 tonnes of zinc bearing dust.

- Cherepovets Steel Mill is searching for innovation in the use and processing of steelmaking co-products and waste, and keeps working with start-ups on the removal of oil products from scale.
- In 2019 we transferred 30 tonnes of PCB-containing capacitors and transformers to a specialised treatment organisation.
- Severstal established the Midstream industry team focused on deep waste and co-product processing, and the development of new products for internal use in production or sale in the market. We set the strategic goals for the team, determined the development scenarios and identified problematic waste. We also prepared a request for the search of waste and co-product processing technologies outside Severstal.

### Olcon

- In 2019 Olcon doubled the amount of overburden processing into crushed rock at our crushed rock plant. We are planning to keep increasing processing volumes.

### Disturbed to rehabilitated area ratio\*, hectares

	2015	2016	2017	2018	2019
Disturbed soil area	11,829	11,982	12,034	12,229	12,292
Rehabilitated soil area*	1 (20)	1 (20)	1 (20)	0 (20)	0 (20)

\* Data indicated according to the government statistical reporting requirements. Amounts in brackets are actually rehabilitated areas that have not yet been accepted into the State Land Registry.

The Decommissioned IT Equipment Recycling project of Severstal (Cherepovets Industrial Site in partnership with Severstal Vtorchermet) finished in the Top 5 in the Environmental Efficiency nomination of the 12th PEOPLE INVESTOR 2019 competition of corporate projects. We prevented the storage of more than 33 tonnes of IT equipment waste in 2019.

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\* Excluding heavy waste of Severstal Resources (overburden, tailings, limestone waste)

\*\* Information about the condition of our tailing facilities and our approach to their monitoring is available on our [website](#)

## Use of Water Resources

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The management team of Severstal recognises our accountability for responsible use of water resources. Our individual businesses developed standards and regulations for water supply, discharge and responsible use. We are planning to develop a single policy for responsible use of water resources.

Severstal continuously monitors the use of water resources and the quality of waste water according to our programmes, and the results of this monitoring are sent quarterly and annually to government authorities responsible for the oversight of the use and protection of water bodies. Monitoring results indicate that Severstal complies with the conditions of water use and discharge permits and its quotas.

Our regions (Vologda Oblast, Murmansk Oblast) have high water availability. We do not take water from wetlands protected by the Ramsar Convention. Water intake from surface water bodies does not have a significant impact on water sources.

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Our businesses use a comprehensive approach to water resource protection, gradually moving towards optimum and responsible use of water in production. Implementing local water cycles is mandatory for all new production facilities and all renovation and rehabilitation projects in Severstal.

Severstal does not have operations in areas with water shortage. Our regions (Vologda Oblast, Murmansk Oblast) have high water availability. We do not take water from wetlands protected by the Ramsar Convention. Water intake from surface water bodies does not have a significant impact on water sources.

The majority of water we take from surface water bodies is used by Cherepovets Steel Mill (98%). In 2019, our water intake was 50 million cubic metres, same as in the previous reporting period.

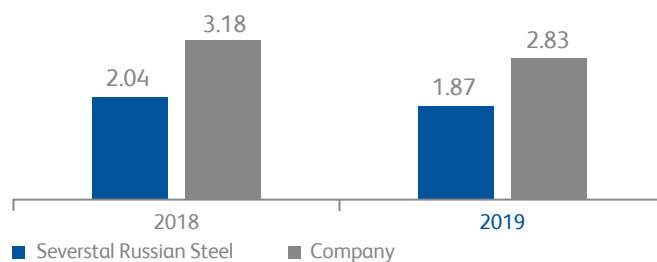
The impact of water intake by Cherepovets Steel Mill on the water source is negligible at 0.068%, compared with 0.07% in 2018. Today we have an optimum balance of water intake and water discharge, as shown by specific indicators of irrevocable water consumption.



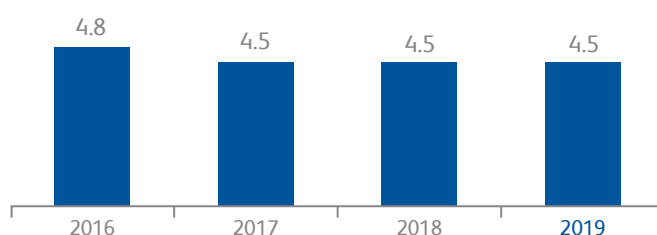
Water from surface natural sources is only used to replenish local recycling loops and the integrated water supply system. It constitutes 1.7% of the overall water intake; while the remaining 98.3% is recycled water.

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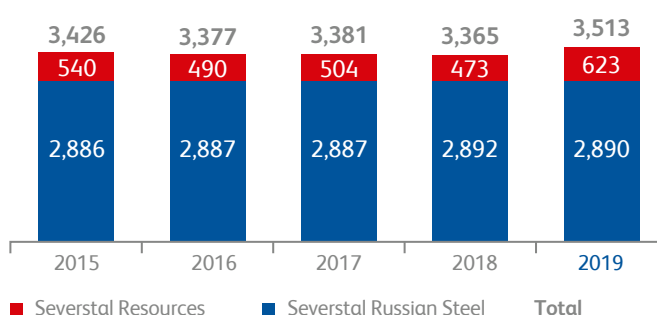
### Specific irrevocable water withdrawal from natural water bodies, m<sup>3</sup>/tonne of steel



### Specific water consumption for production purposes from surface water bodies, Cherepovets Steel Mill, m<sup>3</sup>/tonne of steel



### Total amount of reused water, million cubic metres

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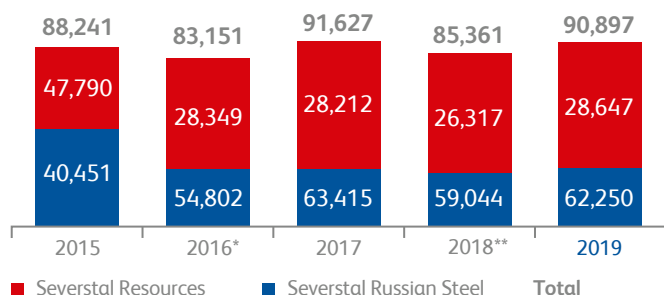
The increase in water recycling was largely achieved after the completion of the construction of the second tailing pond section at Karelsky Okatysh, as now tailings go through the condensing process, and treated water is recycled.

Severstal does not have operations in areas with water shortage, and strategic focus in the management of our impact on water bodies is the reduction of our negative impact by reducing effluent discharges, while the risk of water shortage is considered insignificant.

# Effluents and Water Body Protection Initiatives

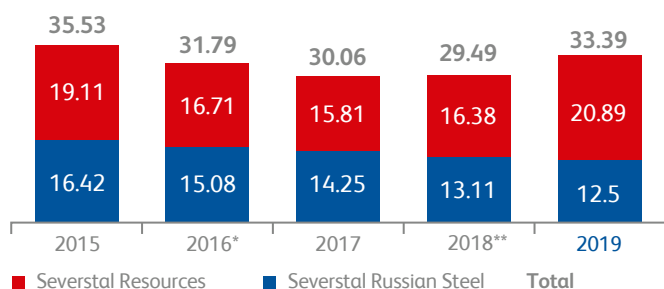
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## Water discharge, thousand cubic metres



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

## Wastewater discharge in water bodies, thousand tonnes



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

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### Severstal Resources

The overall volume of effluent discharges from Severstal Resources in 2019 increased by 5.4%, while the discharges of pollutants increased by 11.3% from 2018. The increase in overall discharges reflects the 24% greater volume of rainfall in 2019 compared to 2018 in the region of Karelsky Okatysh (a high water year).

### Severstal Russian Steel

Cherepovets Industrial Site produces 99% of the overall pollutant discharges from Severstal Russian Steel. We have programmes in place to ensure continuous monitoring of the amounts of pollutant discharges in water bodies. In 2019 this volume reduced by 4.5% from the previous year, to 12,500 tonnes, which is within the limits set by the regulatory authority. Despite the 8.8% increase in the volume of effluent discharges due to high rainfall, we reduced the discharges of pollutants. This was the result of our earlier initiatives (see Water protection initiatives in 2019). Our water withdrawal from the water body did not increase.

## Environmental Protection Objectives:

- By 2025, reduce effluent discharges to water bodies\* beyond maximum permitted amount\*\* by 12% from 2017.
- Completion by the end of 2019: 67%.

Our businesses work on projects to ensure our compliance with maximum permissible limits of pollutants.

## Water Protection Initiatives in 2019

### Cherepovets Steel Mill

- Cherepovets Steel Mill has two tailing ponds. 80% of water from the first tailing pond, after the settling of sediments and treatment, returns into production. 20% of water is transferred to the second tailing pond for the removal of nitrous pollutants and metals, and after that this water is discharged to Koshta River. For the final treatment of waste water we use biofilters — artificial floating islands with plants. We work on selecting the plants that can absorb heavy metals, ammonia, nitrates and nitrites from waste water together with Papanin Institute of the Biology of Inland Waters. In the reporting year we installed new biofilter modules in tailing pond 2 and increased biofilter surface 10x to improve biofilter efficiency. All plants that we use demonstrate strong potential for the bioaccumulation of NO<sub>3</sub>, NO<sub>2</sub> and metals.
- Cherepovets Steel Mill is building the second hydrochloric acid processing unit together with the construction of the new pickle line NTA-4. This unit will regenerate used hydrochloric acid and return it into production. The new equipment will have a positive environmental impact: it will eliminate the discharge of pollutants from the pickle plant into water treatment facilities, directly affecting the quality of water discharged into Koshta River.
- We installed a sponge filter treatment unit in the wastewater collection system of the TPP-SS (Thermal Power Plant & Steam Station) of Cherepovets Steel Mill. This unit removes oil products from wastewater, and will cut their content by half in water discharged from TPP-SS. Oil products collected from water are sent for regeneration.

### Torovo Recreation Centre

- Start-up and adjustment was completed at the biological treatment facilities of Torovo Recreation Centre.

### Severstal Metiz

- Transition to heat treatment of steel wire in liquid lead that Severstal Metiz completed in 2019 will reduce the content of nitrites and nitrates in wastewater by the end of the next year.

\* Ammonium cation, nitrites, manganese, copper, nickel, sulfates, fluorides, zinc, oil products, iron  
 \*\* Maximum Permissible Limit (MPL) is the maximum weight of pollutant that is allowed for discharge into a water body, which, if met, allows maintaining the quality of the environment required by the Federal Law of the Russian Federation on Environmental Protection dated 10.01.2002 No. 7-FZ.

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### Oryol Steel Plant

- Feasibility studies were completed for five possible versions of water recycling facilities at Oryol Steel Plant. This project will reduce water withdrawal and pollutant discharges to water body by 2025.

### Yakovlevskiy Mine

- Yakovlevskiy Mine is working on reducing pollutant discharges and researching the opportunities for phytoremediation together with Papanin Institute of the Biology of Inland Waters. The construction of mine water intake from the sediment dam for the use in production is underway.

### Karelsky Okatysh

- The second tailing pond is now in operation. We identified and started using two chemical agents to improve the quality of treated water sent back into production. Tailing management infrastructure development continues with the construction of a closed-loop tailing pond.

### Olcon

- Kirovogorsky sediment dam has been using a phytoremediation system since 2014. By 1 January 2020 biofilter surface increased to 45% of the overall pond area, including the sections located on the shores of the filtering dam and the pond embankment. In 2019, the discharges of ammonia ions reduced by 68%, and nitrates by 22%.

## Biodiversity

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In July 2019 Severstal signed an agreement with Darwin Reserve located 30 kilometres away from Cherepovets Steel Mill. Artificial water bodies of Cherepovets Steel Mill that are a part of our water cycle form a unique ecosystem. Large-area surface water bodies and their marshy shorelines and floating mats create favourable conditions for waterfowl and rare predatory birds included in the Red List. Technogenous areas are extremely important for scientific research. They offer an opportunity to understand the creation of natural and technogenous ecosystems, urbanisation and domestication of certain species,

management of urbanised populations, and finding ways to optimise the relationship between the enterprise and the elements of nature.

This agreement includes the research of bird fauna and its seasonal variations within and around Cherepovets Steel Mill, and the financial support for the development of infrastructure for environmental tourism in the reserve (design and construction of an environmental path, and construction of observation towers).

This work helped identify a range of favourable physical and nutritional factors attracting birds to the Company areas and promoting their nesting and breeding. During the research conducted between July and December 2019 on Company site, 81 species of birds (from 13 different orders) were located; nesting was confirmed for 37 species and is probable for 24 more species. The presence of 11 species from the Vologda Oblast Red List and five species from Russian Red List was confirmed, including a population of approximately 20 white-tail eagles.

Severstal will allocate 16.7 million roubles to this project over the next three years; more than 6 million roubles of that amount was allocated in 2019. This money was used to purchase field equipment for the research of predatory bird migration. We also completed the maintenance of an access road to the reserve.

Starting from 2019 Severstal has been monitoring the biodiversity of the Koshta River in our impact areas in collaboration with Papanin Institute of the Biology of Inland Waters. A wide range and large presence of phytoplankton, zooplankton, macrozoobenthos and fish was confirmed upon our work in 2019. The presence of more than 200 species was confirmed in these communities. Comparison with the previous research did not indicate any reduction in biodiversity or structure of these species. The biodiversity and structure of the fish community in the Koshta River is similar to other tributaries of the Rybinski Reservoir. We plan to continue this work in the following years.

In 2020 we are planning to develop a unified biodiversity monitoring policy for all our regions.

**Severstal's support for the research of our impact on land and water ecosystems, and regional biodiversity was nominated for the Achievements in Conservation of Biodiversity award in the Russian Mining and Steelmaking Environmental Transparency Rating of the World Wildlife Foundation (WWF) and the National Rating Agency.**

Karelsky Okatysh signed a three-way cooperation agreement with Kostomuksha Reserve and Kostomuksha municipal administration. Under this agreement, we will work together on the development of the Metsola Biosphere Reserve, preservation of regional natural and cultural heritage, and design of the framework for responsible use of regional natural resources. The agreement also covers the design of several environmental protection initiatives. The newly established Coordination Council includes a representative of Severstal.





## Key Priorities in Corporate Social Responsibility and Sustainable Development. Environmental Component

### 2020 and short-term objectives

#### Atmospheric air protection

Cherepovets Steel Mill	Agglomeration Plant 3:
	<ul style="list-style-type: none"> <li>• Retrofit solid fuel preparation unit</li> <li>• Replace electric filter 2</li> </ul>
	Out-of-furnace converter steel treatment plant:
Olcon	<ul style="list-style-type: none"> <li>• Retrofit UPK-1 gas treatment system</li> </ul>
	Converter steel plant:
Karelsky Okatysh	<ul style="list-style-type: none"> <li>• Retrofit of Converter 2 gas treatment system</li> </ul>
	<ul style="list-style-type: none"> <li>• DOF-2020: Replacement of Aspiration Systems project</li> </ul>
	<ul style="list-style-type: none"> <li>• Programme to reduce atmospheric emissions of sulphur dioxide (completion in 2023)</li> </ul>

#### Protection and rational use of water resources

Cherepovets Steel Mill	<ul style="list-style-type: none"> <li>• Continued research on the use of vegetation for final treatment of water discharged from Outlet No. 3 to Koshta River — plant selection and adaptation. Development of innovative technology for final treatment of waste water using molluscs</li> </ul>
	<ul style="list-style-type: none"> <li>• Monitor the biodiversity of Koshta River around Severstal assets (Cherepovets Industrial Site)</li> </ul>
	<ul style="list-style-type: none"> <li>• Construction of the final wastewater treatment system at Outlet 3 and construction of local wastewater treatment systems in individual departments (2020–2026)</li> </ul>
Olcon	<ul style="list-style-type: none"> <li>• Complete the deployment of bioremediation technology to treat nitrous pollutants in quarry waters</li> </ul>
	<ul style="list-style-type: none"> <li>• Construction of the 15th Anniversary of October pit wastewater outlet due to pit reconstruction</li> <li>• Construction of Komsomolsky Pit wastewater outlet under the pit upgrade project following the revaluation of mineral resources</li> </ul>
Severstal Metiz	<ul style="list-style-type: none"> <li>• Improving the quality of wastewater drained into Severstal tailing pond to achieve 90% discharge reduction by weight by 2025</li> </ul>
Vorkutaugol	<ul style="list-style-type: none"> <li>• Complete the projects to improve the efficiency of existing treatment systems at Vorkutinskaya Mine</li> <li>• We expect to reduce pollutant discharges to Vorkuta River by 1,767 tonnes per year (starting from 2021)</li> </ul>
	<ul style="list-style-type: none"> <li>• Development of project documentation for the construction (renovation) of pit water treatment systems at Komsomolskaya, Vorgashorskaya and Zapolyarnaya mines and VMZ</li> </ul>
Karelsky Okatysh	<ul style="list-style-type: none"> <li>• Preparation for the implementation of closed-loop circuit of the new tailing pond section</li> </ul>
	<ul style="list-style-type: none"> <li>• Increasing the area of sediment dam above the discharge to Bezmyanny Stream for biological treatment of nitrous pollutants to comply with maximum permissible limits for fisheries</li> </ul>
OSPAZ	2020–2021:
	<ul style="list-style-type: none"> <li>• Renovation of fire and tap water piping between floor shops; stage 3</li> </ul>
	2019–2024:
Yakovlevskiy Mine	<ul style="list-style-type: none"> <li>• Construction of a closed loop water system connecting surface outlets 2 and 3</li> <li>• Construction of a new water intake system (Oka River), including piping</li> </ul>
	2020–2024:
	<ul style="list-style-type: none"> <li>• Phytoremediation system design, construction and testing</li> <li>• Complete the construction of waste water and drainage treatment facilities by the pit</li> </ul>
	2019–2020:
	<ul style="list-style-type: none"> <li>• Construction of water intake from sediment dam to use pit water in the making of mine stowing material</li> </ul>

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## 2020 and short-term objectives

## Waste management, soil protection and rehabilitation

Cherepovets Steel Mill	<ul style="list-style-type: none"> <li>Research of waste specialised technologies for the oil-emulsion section of the Flat Product Plant, and for zinc bearing blast furnace slag</li> <li>Continued construction of the new industrial landfill, briquetting of zinc bearing dust and recycling of reinforced concrete</li> <li>Creation of Science Experiment and Technology Centre of Excellence to accelerate new waste processing technology research and testing</li> <li>Transfer PCB-containing capacitors and transformers to a specialised treatment organisation (to be completed in 2024)</li> </ul>
Karelsky Okatysh	<ul style="list-style-type: none"> <li>Design of a hard surface storage area for decommissioned railroad ties impregnated with antiseptic agents (Class 3 hazardous waste)</li> </ul>
Vorkutaugol	<ul style="list-style-type: none"> <li>Continue rehabilitation of Yunyaginsky pit; complete the technology phase of rehabilitation</li> </ul>
OSPAZ	<ul style="list-style-type: none"> <li>Replacement of mercury bulbs with LED light sources in business units to reduce the amount of Class 1 hazardous waste (2019–2023)</li> </ul>
Severstal Steel Ropes	<ul style="list-style-type: none"> <li>Replacement of 90 street lights with Ferex LED light sources to reduce the amount of Class 1 hazardous waste</li> </ul>
Severstal Metiz	<ul style="list-style-type: none"> <li>Replace mercury bulbs with LED light sources in service rooms to reduce the amount of Class 1 hazardous waste (to be completed in 2022)</li> </ul>
Yakovlevskiy Mine	<ul style="list-style-type: none"> <li>Complete the replacement of mercury bulbs with LED light sources to reduce the amount of Class 1 hazardous waste</li> </ul>

# Power Consumption and Energy Efficiency

## Management of Energy Efficiency

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Reduction of power consumption is a tangible contribution of Severstal to the rational use and conservation of energy resources. Severstal has an [Energy Conservation Policy](#) in place and works on a comprehensive energy conservation programme. Our energy conservation effort is led by the Technology Development Centre of the Chief Power Engineer Department of Severstal, as well as all production departments of Cherepovets Steel Mill and Centre for BSS Development. Dedicated cross-functional teams coordinate the activities of individual directorates in this area. Severstal fully complies with the ISO 50001:2011 — Energy management systems standard.

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

## 2019 highlights

### Cherepovets Steel Mill

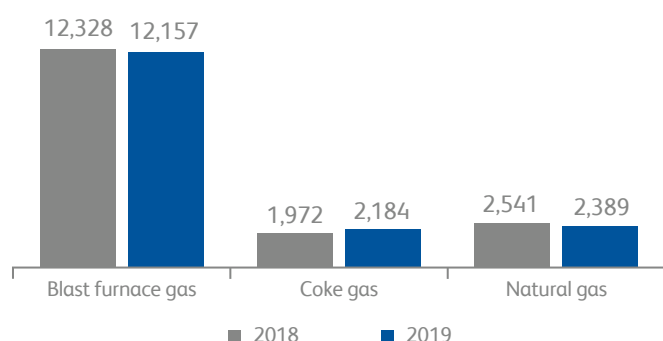
The majority of electric power required by Cherepovets Steel Mill is provided by TPP-SS (Thermal Power Plant & Steam Blowing Station) and TPP-PS-2 (Thermal Power Plant & Power Blowing Station). They also provide all heat required by Cherepovets Steel Mill and 80% of all industrial consumers in the city. In 2019 TPP-SS and TPP-PS-2 produced 93.2 percent of all power that we generated internally.

### Fuel mix in 2019, %



Heat is produced by burning a fuel mix that consists of by-products of coke production (coke gas) and hot metal production (furnace gas), and natural gas. In 2019 the share of furnace gas reduced marginally (by 0.6%) from the previous year due to the reduction of furnace gas output per tonne of hot metal. The use of coke gas, however, increased to 6.1% following the launch of Coke Battery 4 after its renovation in November 2018. After the major overhaul of Turbine Generator 5 at TPP-SS the share of natural gas in the overall consumption reduced to 18%, which is 5.4% lower than the indicators of the previous period. We did not use steam coal as a fuel in the reporting period.

## Fuel consumption, million cubic metres



Consumption of natural in 2019 reduced by 6% year-on-year, to 2,389.4 million cubic metres. This 12.1 million cubic metre reduction reflects the change in the mix of raw materials in blast furnace production (starting from December 2018 we have been using a new type of solid fuel, IPUS), reduced power generation and increased coke output.

A major overhaul of Turbine Generator 5 reduced the consumption blast furnace gas at TPP-SS by 171.5 million cubic metres to 12,156.5 million cubic metres. However, gas flaring increased from 1.04% to 2.57% due to the repair of gas consuming equipment.

Coke gas consumption increased by 211.9 million cubic metres (10.7%) from the previous period as we relaunched Coke Battery 4 in November 2018 after its renovation. Specific output of coke gas was 379 cubic metres per tonne of charge, down from 380 in 2018.

We also utilise our own non-compressor gas recovery turbines, and turbine generators at our coke quenching plant. Our waste heat recovery plants produced 296.3 million kWh of electricity in 2019, compared to 288.1 million kWh in 2018.

Our internal power generation in 2019 reduced by 3.8% from 2018, to 4,389.7 million kWh. This reduction was mainly driven by repairs.

By 2025 we are planning to increase the share of internally generated power in the overall power consumption to 95%. We are planning to use by-product energy sources, such as coke and blast furnace gas, that result from our production, to fuel our new power generation sources. Cherepovets Steel Mill has already completed this step. Severstal is currently selecting a technology solution for the utilisation of the energy of secondary gases. We are planning to increase the share of secondary fuel in power generation from the current 27.9% to 33.9%.

**Our project focused on increasing power generation through the use of recycled resources meets three out of the 17 UN Sustainable Development Goals that we accepted as we signed the UN Global Compact: Affordable and clean energy, Responsible consumption and production, and Climate action.**

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

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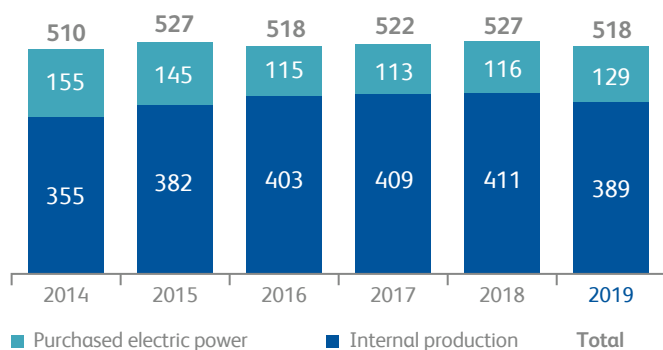
## Power generation and consumption by Cherepovets Steel Mill, thousand kWh

	2015	2016	2017	2018	2019
Total consumption, including	6,166,370	6,077,806	6,096,821	6,280,738	6,274,316
External sources	2,018,372	1,686,531	1,655,118	1,714,917	1,884,579
Internal production including	4,147,998	4,391,275	4,441,703	4,565,820	4,389,735
TPP-SS	2,361,336	2,602,942	2,623,499	2,661,744	2,494,701
TPP-PS	1,477,480	1,456,400	1,509,456	1,616,004	1,598,709
GNCT	187,637	199,477	191,765	158,274	166,399
TSC	121,545	132,455	116,983	129,798	129,926
Use in shops	5,649,626	5,574,273	5,610,497	5,809,378	5,795,592
Process consumption	5,716,107	5,641,968	5,666,700	5,860,781	5,844,529
Losses	66,480	67,695	56,203	51,403	48,937
Sales to third parties	447,268	432,650	426,542	416,376	426,074
Non-process consumption	2,995	3,188	3,579	3,582	3,713

In 2019 overall power consumption at Cherepovets Industrial Site reduced marginally (–0.3%) to 5,848 million kWh (excluding third-party consumers) due to the renovations at the cold rolling plant and TPP-SS. The share of internally generated power in the overall consumption was 75.1%.

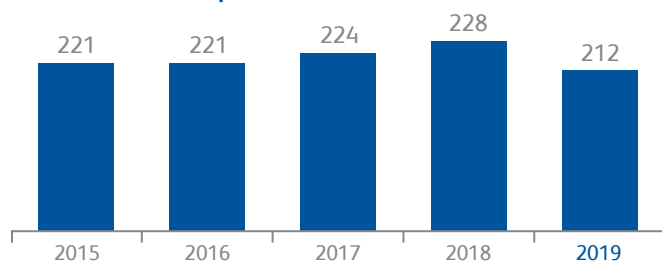
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## Specific power consumption, kWh per tonne of steel



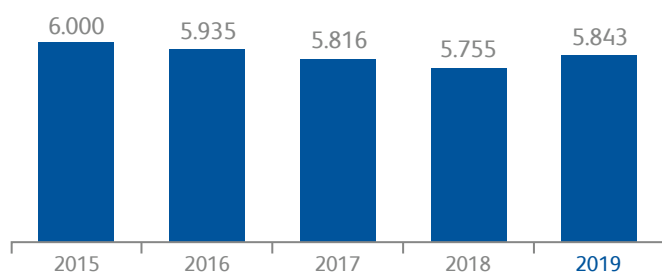
Specific power consumption in the reporting year reduced from 2018 by 2% to 518 kWh per tonne of steel. The strongest results were achieved in coke-agglomeration production where we reduced power losses by 6.3 million kWh (2019 — 0.85%; 2018 — 0.96%).

## Natural gas consumption, cubic metres per tonne of steel



Specific natural gas consumption in 2019 reduced from 2018 by 7% due to the change in raw material mix in blast furnace production, reduced power generation at TPP-SS (turbine generator renovations), and completion of the renovation of Coke Battery 4.

## Specific energy consumption, Gcal per tonne of steel



In 2019 our specific power consumption was 5.843 Gcal per tonne of steel, which is 1.5% higher than in 2018. The largest portion of this increase is attributable to coke-agglomeration production. The following factors contributed to this change:

- 0.084 Gcal per tonne of steel increase in power consumption in coke production. Our production volume hiked 9% after we launched Coke Battery 4 in November 2018.
- Even though blast furnace production achieved a reduction in specific power consumption per unit of hot metal, net power consumption (consumption less generation and utilisation) increased by 0.054 Gcal per tonne of steel due to lower output of blast furnace gas.
- Increased gas flaring due to lower power generation resulted in 0.02 Gcal increase in consumption per tonne of steel.

## Power consumption at other key businesses of Severstal, thousand kWh

	2016	2017	2018	2019
Vorkutaugol	536,799	519,410	533,477	553,693
Olcon	388,630	391,975	426,555	446,915
Karelsky Okatysh	1,592,631	1,626,482	1,604,139	1,584,548
Severstal Metiz	155,157	152,509	160,117	149,891
Severstal Steel Ropes, Volgograd Branch	32,914	35,181	37,287	36,131
OSPAZ	25,020	26,507	23,867	22,419
Yakovlevskiy Mine	35,678	40,123	45,427	50,472
Izhora Pipe Mill	57,602	61,062	58,605	51,096

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## Key Initiatives in 2019

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- Upgrades of several air compressors in the air separation unit at Cherepovets Steel Mill resulted in more than 25% reduction in specific power consumption for compressed air production.
- Cherepovets Steel Mill installed a new steam-water heat exchanger that uses the thermal energy of low-potential steam from secondary energy resources, reducing the consumption of natural gas in the water heating boiler of the thermal power plant.
- During the upgrades of 12 substations, Karelsky Okatysh replaced obsolete current limiting reactors with modern vacuum circuit breakers. This will save up to 7 million kWh of electricity per year. In 2019 Karelsky Okatysh also launched a new automated steam boiler. It will reduce specific consumption of fuel oil, saving 1,100 tonnes of raw materials per year and reducing carbon monoxide emissions.

- Karelsky Okatysh is completing a large-scale project to reduce the consumption of compressed air in pneumatic raw material delivery system. Central compressor station that currently has four compressors with high power consumption will be replaced with two smaller local stations. New stations will use compressors that are twice more efficient than current ones.
- Olcon launched a new automated dredger control system at its crushing and preparation plant. The dredgers are used to transport production waste, and the new equipment will save up to 900 kWh on each of the seven pumps.
- Yakovlevskiy Mine replaced all of its incandescent and mercury lamps with LED lighting sources. This will reduce power consumption approximately by a factor of ten.
- Severstal-Metiz saved 65.5 million roubles in 2019 thanks to its energy efficiency initiatives. The largest contribution came from the replacement of ceiling lamps with LED light sources.

Severstal actively develops technologies for renewable energy sources. Since 2014 our service center in Kolpino has been producing and supplying semi-finished steel products for wind farm construction. SMC-Kolpino makes these products from rolled steel from the Rolling Mill 5000 of the pipe steel plant of Severstal. In December 2018 Severstal together with RUSNANO and Windar Renovables S.L. launched a WRS Towers factory in Taganrog, Rostov Oblast. The factory was built under the national renewable energy development programme that focuses on localising the renewable energy equipment and establishing a new branch of high-technology industrial machinery.



### Key Priorities in Corporate Social Responsibility and Sustainable Development:

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

In 2020 we launched a new project, Managing the Integrated Budget of the Energy Department, that will cover all Severstal assets. The purpose of this project is improving energy efficiency and designing a general strategy for the centralised management of energy flows (purchasing, producing and consuming energy resources). The project team has an objective to achieve a 1,086 million rouble increase in energy efficiency.

## Key Priorities in Corporate Social Responsibility and Sustainable Development. Power Consumption and Energy Efficiency

### Plans for 2020

Cherepovets Steel Mill	<ul style="list-style-type: none"> <li>• Increase internal power generation by 220.8 million kWh (5%)</li> </ul>
Karelsky Okatysh	<ul style="list-style-type: none"> <li>• Reduce specific power consumption in compressed air production to 0.080 kWh per thousand cubic metres by modernising the air transport of charge materials</li> <li>• Increase internal power generation to 2,900 kWh/year by adjusting water heating in the Central Water Boiler</li> <li>• Reduce fuel oil consumption by 490,000 tonnes per year by ensuring heat consumption monitoring and analysis during the installation of additional heat meters</li> <li>• Switching the power receivers of the crushing and preparation plant to reliability category 1 will save us 22 million roubles per each power shut down at the plant</li> </ul>
Olcon	<ul style="list-style-type: none"> <li>• Steam pipe renovation — 4%</li> <li>• Adjustments to heating circuit; switch from steam to water — 4.6%</li> </ul>
Vorkutaugol	<ul style="list-style-type: none"> <li>• Energy conservation initiatives saving 17.3 million roubles per year</li> <li>• Reduction of specific power consumption per 1 tonne of mined rock by 3.75%</li> </ul>
Izhora Pipe Mill	<ul style="list-style-type: none"> <li>• Design and development of energy and electric power audit generating up to 5 million roubles of savings</li> </ul>
Yakovlevskiy Mine	<ul style="list-style-type: none"> <li>• Reduction of power consumption by 5.3 million roubles</li> </ul>
Severstal Metiz	<ul style="list-style-type: none"> <li>• Energy efficiency improvement initiatives saving 24 million roubles per year</li> </ul>



# 6

Severstal contributes to sustainable development of our regions by creating jobs, paying taxes and improving the quality of life of our employees and their families. Favourable social environment is a crucial factor ensuring long-term success of our corporate development strategy. Severstal investments focus on the development of social infrastructure of the cities where our assets operate, and on the development of the potential of local communities. We support small and medium businesses, assist in resolving pressing social issues, help preserve cultural heritage and develop culture, and support fitness and sport.

# Social Projects and Investments



# 2019 highlights

## Contribution to regional economic development

Contribution to regional economies

Our tax and non-tax payments to the budget and extrabudgetary funds were approximately 68.9 billion roubles (+13% from 61 billion roubles in 2018)

Development of cooperation with local suppliers

Purchasing from local suppliers — 41.1 billion roubles (20% of our total purchasing\*, +4 pp from 16% in 2018)

## Development of regional potential

Support and development of small and medium businesses and social entrepreneurs

Cherepovets:

- 59 new businesses established (–38%, 95 in 2018)
- 261 new jobs created (+4%, 251 in 2018)
- 1,237 jobs preserved (+765%, 143 in 2018)

Vorkuta:

- More than 100 SMBs trained in the development of business competencies
- Grant provided for the creation of the first children's animation studio in Komi Republic

Kostomuksha:

- More than 100 people trained in various business management programmes

Making the regions more attractive for investors

- Our programmes attracted 2.9 billion roubles of investments to Cherepovets (–22% from 3.7 billion roubles in 2018)

## Development of local communities and charitable activities

Supporting mothers and children; helping socially vulnerable groups; supporting and developing culture, education, health care and sports; construction and maintenance of social infrastructure

- 2.9 billion roubles (+7.4% from 2.7 billion roubles in 2018) spent on social and charitable projects
- More than 200 social projects delivered

Development of corporate volunteering

- More than 120 events (+20% from 2018) organised with more than 1,000 volunteers

\* Purchasing volume hereinafter indicated without VAT, excluding internal purchases and purchases of raw materials, scrap metal and ferroalloys

# External Social Programmes of Severstal: Policy and Management

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Our unified approach to the management of external social programmes across all Severstal businesses is established by our [Social Responsibility Policy](#), [External Social Programme Management Policy](#) and the [Corporate Standard for the Management of Sponsorships and Charitable Activities](#).

We select the key areas of our social investments in alignment with the needs and expectations of our stakeholders. By developing multi-party partnership infrastructure, Severstal fosters partnerships with government authorities and

non-governmental organisations. The principles of cooperation and commitments of stakeholders are usually included in the social and economic agreements between Severstal, regional authorities and municipal administrations. Our cooperation reflects regional aspects such as job market for local residents, education and career orientation of youth, health care, prevention of child neglect and social orphanhood, and support and development of culture, education and sports. We extend successful social practices to all our regions and other regions of Russia as well.

## Management of External Social Programmes in PAO Severstal

### Severstal management

Definition of goals and strategy of social investments



### CSR and Brand Department

Negotiation and approval of nationwide social investment plans, delivery of federal and coordination of corporate social programmes, as well as identification and replication of best practices across our businesses



### Directors of individual businesses

Review and approve social plans and budgets for individual businesses



### HR Directorates of individual businesses, CSR and Brand Department, Communications and Investor Relations Department

Implementation of Severstal's social investment policy, regional projects and programmes

## Contribution to Sustainable Development of Severstal Regions

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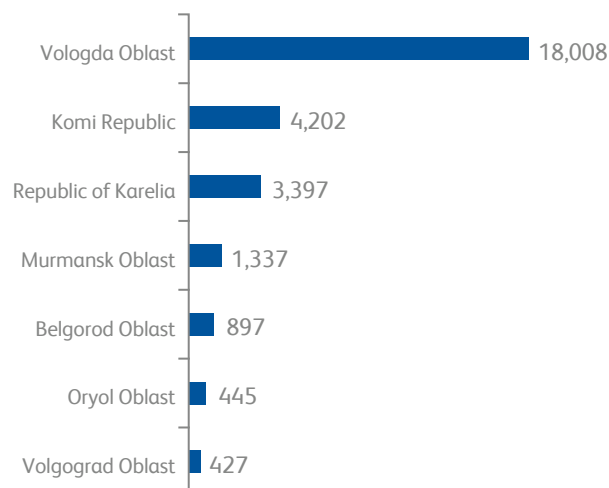
Severstal is a major employer in the main regions of our presence. Success of Severstal and our local partners has a huge impact on the well-being of a large share of local residents, as well as social and economic environment in these regions. All key subsidiaries of Severstal are members of a consolidated taxpayer group and consistently pay taxes.

In 2019, Severstal Russian Steel and Severstal Resources divisions paid approximately 68.9 billion roubles in various budgets and extrabudgetary funds, compared to 61 billion roubles in 2018. Of those:

- Taxes – approximately 53.8 billion roubles
- Mandatory non-tax payments — approximately 283.2 million roubles
- Payments to extrabudgetary funds — approximately 14.8 billion roubles

As the majority of Severstal assets with largest headcount and production facilities are located in Vologda Oblast, this is where we pay the largest portion of our taxes. In 2019, we paid 18 billion roubles of taxes to the consolidated budget of Vologda Oblast.

### Taxes, mandatory non-tax payments to the state, million roubles



Severstal's sales organisations outside Russia also make tax and non-tax payments and contributions according to local legislation.

## Taxes, mandatory non-tax payments and social contributions to the main foreign states of presence, thousand euros

Country	Taxes	Mandatory non-tax payments	Social contribution	Total
Latvia	1,916	3,260	1,948	7,124
Poland	7,128	5,594	583	13,305
Estonia	207	66	—	273
Finland	11,124	73	70	11,266
Lithuania	142	—	—	142
Germany	283	—	99	382
Switzerland	2,219	34	1,527	3,779
Belarus	7,562	2	58	7,622

Collaboration of small, medium and large businesses is an efficient development driver. Other things equal, we choose domestic suppliers and purchase from local producers and service providers.

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

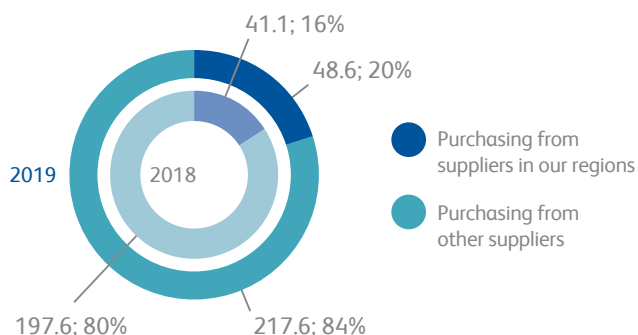
Severstal is interested in long-term, mutually beneficial relationships with regional suppliers that are located near our facilities, have an opportunity to study our needs in great detail, and are able to show flexibility and respond faster to our needs.

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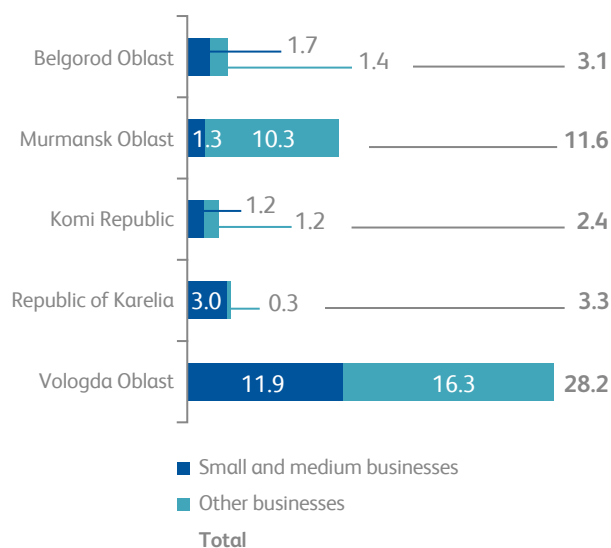
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In 2019 the share of our purchases\* from suppliers in the regions where key assets of Severstal are located increased from 16% to 20%. Such purchases totaled 41.1 billion roubles; the largest portion of this amount is attributable to Vologda Oblast where Severstal businesses purchased 28.2 billion roubles worth of goods and services, including 11.9 billion roubles worth of purchases from small and medium businesses (compared to 25 billion roubles and 9.5 billion roubles in 2018).

## Share of Purchases from Local Suppliers, billion roubles



## Severstal's Purchases from Local Suppliers in our major regions, billion roubles



\* Purchasing volume hereinafter indicated without VAT, excluding internal purchases and purchases of raw materials, scrap metal and ferroalloys



The increase in repair and construction purchases primarily reflects the investment programme of Cherepovets Steel Mill that is covering almost all production stages. Cherepovets Steel Mill is the largest buyer from Vologda businesses (25.5 billion roubles). The largest growth is attributable to the transportation services where purchases increased five-fold year-on-year (from 1.8 billion roubles to 9.3 billion roubles).

Our supplier base includes more than 3,800 organisations registered in Vologda Oblast. The number of partners of Cherepovets Steel Mill increased by 360 year-on-year. Our regional partners on some of the largest projects include AO KHM-1, SK Vector, OOO Cherepovetsstroy, OOO SK EKS-ENGINEERING, OOO Promyshlennoe Stroitelstvo and others. We purchase approximately 150,000 stock-keeping units of materials and equipment, and 40,000 of those represent regular purchases. Many materials, types of equipment and services are purchased centrally for several assets of Severstal.

We made 11.6 billion roubles worth of purchases from suppliers in Murmansk Oblast in 2019, compared with 10.2 billion roubles in 2018. The majority of these purchases were made by Cherepovets Steel Mill (9.2 billion roubles) and Olcon (1.7 billion roubles). Compared with 2018 when Olcon purchased goods and services from 132 regional businesses, in 2019 we purchased from 143 suppliers. Most often, regional contractors helped us service certain types of equipment, make spare parts and install new machines.

Vorkutaugol employs one out of every eight residents of Vorkuta. In 2019 our purchases from businesses in the Komi Republic totaled 2.1 billion roubles, and more than half of that amount is attributable to small and medium businesses. Close cooperation with Vorkutaugol is a guarantee of stability for 43 local suppliers. Other Severstal businesses made 500 million roubles worth of purchases in Komi Republic.

Karelsky Okatysh helps protect jobs. In 2019 Karelsky Okatysh purchased 2.8 billion roubles worth of products and services from local suppliers, which is the same as the year before. Of this amount, 2.5 billion roubles are attributable to small and medium businesses. Karelsky Okatysh had 134 local suppliers.

## Support for Local Communities during the Coronavirus Pandemic

The coronavirus pandemic that affected lives of millions of people also makes adjustments to the social plans of various businesses. Severstal takes additional actions and initiatives to fight the consequences of this severe disease. Severstal managers participate in the activities of municipal COVID-19 response centres in the cities where we work. Severstal businesses help secure the supply of body temperature measurement devices and ventilators to the health care institutions of Cherepovets, Vorkuta, Olenegorsk and Kostomuksha, as well as several other cities, finance the purchases of personal protective



equipment and disinfectants for health care workers and other municipal response teams as well as volunteers. We started producing face masks and respirators at our industrial sites.

The Way Home Charitable Fund operates a psychological support hotline. Hotline operators are professional helpline psychologists and lawyers. Fund beneficiaries — families with children — get deliveries of food and essential articles. We provide notebooks to educational institutions to facilitate distance learning for children from vulnerable families. Financial support has been allocated to help senior citizens and big families in Moscow Oblast. Families in need in our major regions received food certificates.

We engaged small and medium construction businesses located in Vologda Oblast in Severstal's investment projects in Cherepovets.

## Development of Regional Potential

Severstal actively participates in the development of Cherepovets where one of our businesses is a major employer. With support from Severstal, Cherepovets got the High-Growth Area status that provides access to special tax rates for resident businesses. Severstal and the City of Cherepovets established the Cherepovets Investment Agency Non-Profit Organisation in 2010 to attract investments in priority areas of municipal development. Cherepovets Industry Park is a strategic development project of the agency. Resident businesses receive preferential tax treatment and have access to non-competitive leases. Nine businesses already have the status of Cherepovets Industry Park residents. The industry park has already created 545 jobs and attracted 2.73 billion roubles of investments in 2019.

Severstal supports active development of industrial tourism in Vologda Oblast, and Cherepovets has a pilot site status in the tourism development programme. In terms of the speed of industrial tourism development, Cherepovets is the leader both in the local region and in North-Western Russia. It had almost half a million tourists in the past year. One of the key attractions of the Central Waterfront tourism and recreation cluster in Cherepovets is the Steelmaking Centre build with Severstal's support.

SDG 4

SDG 8

SDG 9

SDG 17

In 2019 the museum had more than 10,000 visitors and hosted more than 500 culture, education and career orientation events.

In 2019 Cherepovets Steel Mill hosted the introduction of a new tour presenting several points of interest. In addition to the museum, tourists will be able to see the operation of the Hot Rolling Mill 2000. A special observation gallery with glass walls was equipped in the plant for this tour.

One of the core objectives of the museum centre is the promotion of professional trades among the young generation. The Steelmaking Museum is both a tourist attraction and a career orientation centre for school students.

Severstal participates in the operation of the Quantorium federal project on the development of children's technology parks. These parks feature high-technology equipment and promote a new form of supplementary education, promoting highly skilled engineering careers. The first Quantorium Children's Technopark in the region was built in Cherepovets with support from Severstal under a private-public partnership programme. In 2019 this educational facility was used to train more than 1,800 learners in technology and science programmes. Severstal helped organise a high-intensity summer workshop for industrial design students in Cherepovets Quantorium Technopark. In 2020 Severstal financed the creation of mobile Quantorium. The mobile children's technopark will help provide supplementary education to children from rural areas of Vologda Oblast.

Severstal's project for the development of cultural and industrial tourism in Cherepovets won the Best Partner Programme in Sustainable Development nomination of the Leading Corporate Donors in Sustainable Development 2019 competition, a joint project of Donor Forum, Vedomosti business newspaper and PwC, an international audit and consulting network.

## Development of Small and Medium Businesses and Social Entrepreneurs

To improve the sustainability of our regions, Severstal works on a range of projects focused on diversifying their economy and reducing monotown dependencies. Severstal contributes to the development of support infrastructure for small and medium businesses, social entrepreneurs and investor organisations, using special-purpose vehicles.

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

Agency programmes, supported by Severstal, successfully work in Vorkuta and Kostomuksha as well. For example, 355 new small and medium businesses were established in Vorkuta in the reporting year, bringing their overall number to 2,121.

In Kostomuksha, Agency programme in partnership with Kostomuksha Municipal Administration and Karelsky Okatysh helps identify high-potential entrepreneurs among local residents and help them acquire additional competencies. By the end of the three-year period, unemployment reduced in Kostomuksha. The rise in employment partially comes from the creation and development of small and medium businesses.



## SDG 9 Programmes and Key Results of Cherepovets Agency for Urban Development in 2019

Area Projects	Key results
<b>Business education</b>	
Development of entrepreneurial competencies and training individuals who are willing to start their own business	Educational events 44 (+3) Number of learners trained 844 (+98)
<b>Cooperation with local authorities</b>	
Public-private partnership initiatives including the Coordination Council, meetings with the mayor, their deputies, etc.	Events 20 (–12) Participants 284 (–73)
<b>Support for development of new sales markets</b>	
Development of the Electronic Business Cooperation project, networking events, and business partnership events, including international partnerships	Events 15 (–5) Participants 472 (+302) Total goods and services purchases from small and medium businesses of Vologda Oblast 19.42 billion roubles (+5.42)
<b>Social Innovations Centre</b>	
Support for establishing and developing social entrepreneurs, including informational and counselling support	562 consultations, including support with development of document packages and business plans to apply for subsidies 68 Time for Good Deeds regional competition. Social Entrepreneur Day — meeting with the mayor
<b>Informational support for SMBs and promotion of entrepreneurship</b>	
Development and distribution of SMB press releases, web site support, identification and support for top entrepreneurs, media support for entrepreneurial projects, etc.	Events 654 (+244) Participants (excluding mailing list recipients) 201 (+105)
<b>Business networking</b>	
Organisation and management of forums, conferences and round tables	Major business events 5 (+3) Participants: 648 (+211) Key events: 3rd International Industry Forum; Creative Business Changing the City Conference; Women's Business: Success Secrets discussion forum; Monotown Development Academy conference
<b>Resource and Methodology Centre</b>	
Organisation and management of educational and business events in the regions with Severstal assets (Kostomuksha, Vorkuta, Norilsk)	Educational and business events 17 (+8) Participants 181
<b>Business Consulting</b>	
Business and support programme counselling and advice	More than 5,000
<b>Guarantee Centre</b>	
Provision of guarantees on entrepreneur loans	Loan guarantees extended 28 (+12) for the total of 285.533 million roubles (+178.933) out of the total amount of 813.78 million roubles (+553.18)

In 2019 the Agency for Urban Development helped establish 59 new businesses, creating 261 new jobs and preserving 1,237 existing jobs in Cherepovets.

GRI  
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# Social Investments and Social Partnership

GRI  
203-1

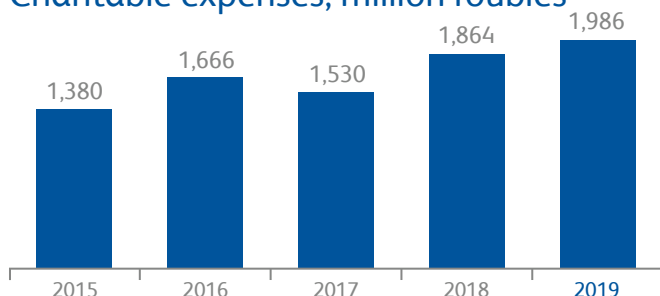
Severstal is interested in supporting social stability in our regions and makes significant investments in improving the quality of life of local residents.

We invest in the development of municipal infrastructure, finance the construction and operation of social facilities, roads, educational and sports institutions, culture and health care facilities. Our priorities in charitable activities include small and medium business and social entrepreneurship development programmes. Severstal actively participates in the development of local communities, paying special attention to vulnerable groups. We support veterans, mothers and children, and work on a large-scale social orphanhood prevention programme. We continuously monitor our projects and ask the leading experts to measure the impact of our activities on local communities.

Severstal consistently works with interested stakeholders, developing social partnerships and building close relationships with regional and municipal authorities and non-governmental organisations.

In addition to traditional charitable activities, Severstal tries to implement Russian and international best practices.

## Charitable expenses, million roubles



As the core operations of the Company are in Russia, the majority of our social projects are in Russia as well. In the reporting year we also invested three million roubles in charitable projects in Latvia, home to Severstal Distribution.

### Our charitable expenses include the following:

- Free labour / services
- Financial and material support to organisations and foundations
- Participation in non-profit and self-regulating organisations
- Other projects

Support from Severstal ensures access to Severstal Health, a comprehensive health care programme, to Severstal employees and their families, as well as other local residents.

### Infrastructure Development Programmes, 2019 Highlights

#### Cherepovets

In Cherepovets, Severstal invests in municipal development, as well as construction and operation of significant social and culture facilities every year. We financed the construction of Raduzhny Water Park, Steelmaking Museum, several playgrounds and sports grounds, parks and other facilities. We support Severstal Medical Unit and Municipal Children's Hospital, organisations of people with disabilities, veteran associations, children's educational institutions, sports clubs and schools, and host regional and municipal festivals and celebrations. Severstal supports support steelmaking industry veterans, vulnerable communities, people with disabilities and low-income residents through Blago Charitable Foundation (since 1999) and I. A. Milyutin Charitable Foundation (since 1999).

In 2019 we completed more than 190 million roubles worth of projects, including the following:

- Landscaping of the south aspect of the Metallurgist Palace
- Renovation of the Vereshchagin Memorial Museum building
- Renovation of the roof of sports and wellness centre at Stalevarov street
- Repair of seating and replacement of heating system at the Metallurgist stadium
- Construction of three sports workout parks
- Joint financing of the construction of indoor sports and wellness centre in Zasheksninsky district
- Development of the Health Walkway in Zasheksninsky district of Cherepovets
- Planting of approximately 500 trees in the city

#### Vorkuta

Vorkutaugol and Vorkuta municipal administration have been signing social and economic partnership agreements since 2007. Over this period, our mining asset invested approximately 200 million roubles in development of social environment and quality of life projects for the residents of the Extreme North. In 2019 Vorkutaugol invested 23 million roubles in the development of municipal infrastructure, landscaping, and support of sports and culture. Apart from that, Vorkutaugol invested approximately 60 million roubles in the maintenance of the two largest social venues in the city: Olympus Sports Centre and Miners' Palace of Culture.



### Kostomuksha

Every year, 90,000 guests attend shows, concerts, sports clubs and other events at Druzhba Culture and Sports Centre supported by Karelsky Okatysh every year (more than 30 million roubles in 2019). Our 2019 events also include the repair of the Out-of-School Educational Centre in Kostomuksha, construction of a pedestrian walkway and a park near the Medical and Maternity Centre in Zarechny, and support with municipal celebrations and city cleaning.

### Olenegorsk

Every year Olcon helps sponsor social venues of Olenegorsk, including a health resort, a dormitory, a sports centre and the Palace of Culture. In 2019 we financed the construction of a playground and the repair of the children's gym in the Ice Palace.

### Belgorod Oblast

In 2019 Yakovlevskiy Mine spent more than 47 million roubles on municipal infrastructure development. Main projects:

- Construction of a skate park in Stroitel
- Renovation of a building to set up a family doctor practice in Yakovlevo.
- Stage and heating system repair in the Zvezdny Culture Palace in Yakovlevo
- Development of Yakovlevo stadium
- Construction of playground in Yakovlevo
- Sand delivery for the construction of social facilities, and safe maintenance of pedestrian walkways in winter period, and provision of snow ploughs to the district

### Charitable activities and social partnership in 2019

- Severstal gifted a new EMR truck to Severstal Medical Unit in Cherepovets. The surgery unit of Severstal Medical Unit reopened after a major renovation supported by Severstal. Cherepovets Children's Hospital received a donation of 500,000 roubles for a newborn phototherapy unit.
- Olcon financed the purchase of an X-Ray machine for municipal hospital.
- Karelsky Okatysh donated more than one and a half million roubles to municipal schools and kindergartens to help them prepare for the new school year.
- Vorkutaugol and Employment Centre organised a summer sports and work camp for youth at the Olympus Sports Centre.
- Yakovlevskiy Mine donated funds to support public celebrations at Stroitel and Yakovlevo, and to develop gifted children in Stroitel. Families who lost their apartments due to the gas explosion in an apartment building in Yakovlevo received one-time supports of 500 thousand roubles each.
- In 2020 Olcon and Olenegorsk Municipal Administration are planning to conduct the first grant competition of social projects called My Olenegorsk! among the non-governmental and municipal organisations in the city.

## Way Home: Social Partnership for Children

One of the most successful social initiatives of Severstal is the Way Home programme designed to battle social orphanhood and youth delinquency. This program focuses on helping families in hardship overcome their challenges, and creating supportive environment for a child to keep them in the family and prevent secondary orphanhood.

The success of this programme is driven by efficient partnership of the state, businesses, the society and the media. Municipal administrations, young offender and youth rights commissions, juvenile delinquency sections of police departments, custody authorities, social institutions, businesses and non-profits work together on these initiatives. Focused expert effort together with the use of modern recovery and mediation technologies generates significant social benefits.

Chairman of Severstal Board of Directors Alexey Mordashov personally oversees the programme coordinated by the Way Home Charitable Foundation established by Severstal in 2005.

Programme Expert Council held its annual meeting chaired by Alexey Mordashov in December 2019 in Cherepovets. Meeting participants reviewed the activities of the foundation and the key results of the Way Home Programme in 2019. 36 projects were delivered in 8 cities in partnership with 205 government institutions with involvement of 307 experts in 2019. We replicated our best practices in social work across 45 regions, and 17,858 citizens received free professional psychological, legal and financial support.

The programme prevented 58% of newborn refusals, 100% of voluntary transfer of children to foster care by parents, and 85% of the returns of children to foster care. There were no suicides among school students in 2019. Family support resource and methodology centre of the foundation received high evaluation from the expert community.





## 2019 Highlights of the Way Home Programme

- Approximately 18,000 people received some form of support (psychological, legal, social, humanitarian or financial)
- 1,708 children stayed in their birth families
- Delinquency risk reduced with 883 adolescents
- Safe conditions for minors established in 1,339 families
- Risk of return to state care eliminated for 78 adopted children in foster families
- Volunteers performed renovations in nine residences of families in hardship with children

## 2020 Development Plan

- Programme expansion to Oryol
- Programme enhancement to support senior foster parents and restoration of birth families
- Development of juvenile violence prevention programme
- Design and deployment of an online database of benefactors, donors and volunteers
- Team development and preservation: development of competencies and expertise, and addressing the issue of specialist overextension

In 2019, Severstal presented our social investment projects at 63 Russian and international public events, conferences and round tables. Severstal Corporate Centre alone supported more than 100 events in 17 regions of Russia.

## Cherepovets Children — Way to Success Programme

Cherepovets Children — Way to Success Programme focuses on supporting and developing gifted and talented school students. Programme participants include representatives of research and education communities, local organisations and municipal authorities. The Supervisory Council of the programme includes representatives of government authorities, Severstal, secondary and vocational educational institutions, universities of Cherepovets, the Steelmaking Museum and Quantorium.

In 2019, with financial support from Severstal, eleven grade 9 to 11 students from Cherepovets attended chemistry-biology and physics-mathematics educational programmes in Sirius Educational Centre in Sochi.

Severstal helped organise master classes for talented and gifted children in Cherepovets. Grade 8 and 9 students had discussions with biotechnology and space technology experts. Lectures in chemistry, biology, physics and mathematics were organised for high school students.

More than 230 teachers and 683 children participated in programme events in the reporting year (150 and more than 200 in 2018 respectively).

## 2020 Development Plan

- Identification and comprehensive support of gifted and talented children
- Development of teachers who have professional skills required to work with gifted children



## SDG 8

# Support for Culture

Support for culture and arts is a priority area of charitable activities for Severstal. Severstal has been supporting the leading federal and regional culture organisations, including museums, art galleries, music and drama theatres, for many years. For the list of our culture and arts partners, please refer to our [website](#). Our businesses also organise municipal celebrations of professional (Metallurgist Day, Miner Day) and state (Victory Day, New Year) holidays, as well as concert performances and festivals.

In Moscow, St. Petersburg and Cherepovets alone in 2019 Severstal supported approximately ten major culture events. We also support annual regional music and art festivals every year. These include:

- Eco-Heart of Steel municipal environmental festival (Cherepovets)
- Vremya Kolokolchikov Rock Festival (Cherepovets)
- Music Journey classical music festival (Vologda Oblast)
- Regional Military Song Festival (Olenegorsk)
- Wider Circle Children's Art Festival (Olenegorsk)
- Morozko New Year's Fairy Tale Festival (Olenegorsk)
- Total Dictation educational event (Vorkuta)
- Nord Session international art festival (Kostomuksha)
- Spring Rhythms Dance Festival (Kostomuksha)
- Kanteletar International Folklore Festival (Kostomuksha)

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Vorkuta, where Severstal has operations, is home to several indigenous communities (Komi, Nenets and Khanty). Severstal respects the rights of indigenous people and provides ongoing support to events focused on preservation of ethnic heritage and development of regional cultural potential. Severstal is a partner of the North Celebration in Vorkuta (Deer Breeder Day).



## Golden Mask Theatre Festival

For the past 15 years Severstal has been a partner of the Russian National Theatre Award and the Golden Mask Festival that celebrated its 25th anniversary in 2019. Severstal supported the performance of the best plays of the year in Moscow and the festival awards ceremony. Our initiative and support give the residents of Cherepovets, Kostomuksha, Petrozavodsk, Riga and several other Latvian cities an opportunity to enjoy outstanding performances of the leading Russian theatres. All performances shown in the regional Golden Mask programmes are noted by the festival experts. Each of them is either one of the most notable premieres of the year, or an award nominee or winner.

## Museums of Russian North

Museums of Russian North is a grant programme of Severstal focused on preserving and updating the historical and cultural heritage of the Russian North, developing museum operations, and supporting the professional development of museum workers. The programme takes place in nine regions of the North-Western Federal District, as well as in Perm Krai, Kirov Oblast and Kostroma Oblast among state and municipal art museums and galleries, as well as other museums with arts collections.

The expert council of the competition includes historians, arts experts and museum professionals. The jury composed of representatives of Karelia, Komi, Vologda and Murmansk regional administrations selects winners from the shortlist created by experts. Overall budget of the Museums of Russian North programme in 2019 was 7 million roubles.

SDG 8

SDG 11





Programme events are concentrated in four areas:

**Open grant competition of museum projects** is directed at identifying and supporting the best culture initiatives of the museums, including projects in tourism and the development of social and cultural reserves and potential of the Northern areas of Russia. In 2019 the competition received financial support from TUI Russia and Sveza (members of Severgroup). The competition had 28 applications from 10 northern regions of Russia, and seven projects received financing.

**Made in Museum Lab** concludes the first stage of the competition of museum projects. This lab is an on-site training workshop for the participants of the grant competition. It helps museum workers improve the quality of their projects, share

experiences and learn new museum technologies. In 2019, 22 museum employees from ten regions participated in this programme.

**Travel grant competition** helps museum workers secure financial support for participation in professional events (conferences, workshops, forums, etc.) as well as internships and professional development courses in Russia. In 2019 we supported applications of 26 museum workers. In addition to that, ten individuals received professional development training.

For further details about this programme and the 2019 winners, please visit the [Programme website](#).

## Style of Steel Children's Art Competition



Every year, Severstal organises the Style of Steel annual workshop and competition of children's and youth art projects in Cherepovets. The purpose of this competition is to boost children's and youth interest in technical and design thinking.

The 2019 competition was dedicated to the 190th anniversary of Ivan Andreyevich Milyutin, an industrialist, public figure and the mayor of Cherepovets from 1861 to 1907. School students participated in a discovery quest and visited the House of I. A. Milyutin exhibition. Then first stage winners had a museum tour and attended master classes, and the third stage was dedicated to the design of a collage for the museum guide cover.

More than 100 school students participated in the competition; and the winners of the overall competition and special nomination received certificates for tours of Russia from TUI Russia and memorable gifts.

## Journey to the World of Science and Art project



Severstal and several Severgroup companies helped the Russian Museum organise the Journey to the World of Science and Art educational and exhibition project to promote the artistic and creative development of children and adolescents in North-Western Russia.

In 2019 this project included a regional arts competition for children whose participants included both creative groups and individual competitors from a range of educational institutions of Cherepovets, Kostomuksha, Olenegorsk and Vorkuta. The competition concluded with the Art and Science in my Life exhibition. Winner works were showcased in the halls of the Eastern Pavilion of Mikhailovsky Palace in St. Petersburg.

Olenegorsk, Kostomuksha, Vorkuta and Cherepovets hosted a series of lectures and master classes for high school students and teachers of math and arts. The purpose of these events was to support the creative development of children and adolescents with a fusion of exact sciences, paintings and drawings.

# Corporate volunteering

Corporate volunteering is a foundational component of our social responsibility. Severstal conducts a wide range of charitable activities in our regions. Our employees help us support orphans, people with disabilities, elderly citizens, etc. These events include marathons, auctions, Christmas fairs, lotteries and master classes. Our employees participate in nationwide events, work on their own social projects, and provide pro bono professional advice within their competencies.

All business units of Severstal organised regular volunteering events in 2019. They included volunteers from among both our employees and local residents. Overall more than 120 events took place. The number of events and participation increase every year.

Some of our events are corporate in scale and take place across all our key businesses. These include:

- Helping children from vulnerable families prepare for the new school year
- New Year raffles and fairs to support charitable funds, and collection of presents for the Present for Every Child project
- #GivingTuesday International Day of Giving events
- Donor Day
- Support of schools, kindergartens and foster care institutions
- Support for animal shelters

Since 2016 Cherepovets Steel Mill employees have been volunteering to help vulnerable families with children and senior citizens with apartment renovations. Families in need are identified by the Way Home corporate foundation. Our volunteer steelmakers received the Open Heart national award for this project. Our Hockey Without Borders project gives citizens with disabilities, supported by Severstal volunteers, an opportunity to visit the games of Severstal and Almaz teams and also meet the athletes and participate in joint training sessions.

Severstal's Hockey Without Borders project won the Good Deeds Champions 2019 corporate volunteering award in the Health nomination.

Severstal actively involves employees in environmental protection initiatives, including volunteering events. Our businesses organise annual volunteer events to clean our facilities, remove waste from river banks, and help with municipal landscaping. The number of environmental volunteering events in our businesses increases every year.

Key projects of our corporate volunteers in 2019 are listed in our [website](#).



## Key Priorities in Corporate Social Responsibility and Sustainable Development. Social Component

### 2020 and short term objectives

Support sustainable social and economic development of our regions

Improve the efficiency of external social programmes

Expand the geographic reach of successful projects that proved to be efficient

Support vulnerable communities

Support sustainable operation of small or medium businesses in our regions

Ensure comprehensive stakeholder engagement in the discussion of external social programmes

Design and implement a corporate volunteering programme



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This document is the Corporate Social Responsibility and Sustainable Development Report of PAO Severstal and its subsidiaries and affiliates ("Severstal", "Company") for the year 2019. Severstal has been publishing this report on an annual basis since 2010.



# About This Report



The Report provides information about the strategy and mission of Severstal, about key events and performance results, about the guiding principles of Severstal's initiatives in the areas of corporate social responsibility and sustainable development, about Severstal's impact on the economy, society and the environment, and about its stakeholder engagement. The Report also provides short-term and medium-term goals and key objectives in the key areas.

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This report complies with GRI 2016 Standard, Comprehensive option, with Mining & Metals Sector Supplement. We also used certain Sustainability Accounting Standard indicators for iron & steel producers, and metals & mining. Considering the complexity of our operations, we will consider the possibility of using additional SASB indicators, including those for coal operations, for disclosures in our future reports. We also considered the recommendations of the Russian Union of Industrialists and Entrepreneurs (RSPP) on the use of indicators, and the recommendations of RSPP Council for Non-Financial

Reporting that we received upon the public affirmation of our previous report. This document uses data collected with our corporate reporting system, including the information received from individual departments in response to requests based on the aforementioned GRI Standard, as well as Basic Performance Indicators developed by RSPP.

In preparation of this document, Severstal followed our understanding of CSR, which is consistent with the provisions of the ISO 26000 — Guidance on Social Responsibility international standard that links corporate social responsibility with the contribution of these corporations to sustainable development of the society. This report covers all major aspects of corporate social responsibility as defined in this standard. The index of information on individual aspects of CSR according to ISO 26000 guidelines is provided in Appendix 1. The Report also provides information on Severstal's contribution to the UN Sustainable Development Goals, and on our participation in the Russian National Projects.

## Approach used to evaluate the materiality of individual topics for inclusion in this Report

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102–46

This Report covers issues that are significant for subsidiaries, stakeholders and the general public. To define the contents of this Report in accordance with GRI Standard, we evaluated the significance of the key topics and issues that should be reflected in the Report. We conducted a survey of both internal (employees of Severstal) and external stakeholders. We received 55 survey responses, including 29 responses from local communities, non-profits, business partners, investor community, government authorities and local administrations. We also received 26 survey responses from employees of key departments of Severstal involved in the matters of sustainable development. The respondents used the survey to evaluate the significance of each aspect on a scale from one to ten. They considered the most complete list provided in the GRI Standard. We calculated an average score for each material aspect and respondent category, and determined the final score for each aspect. We then used survey results to rank the aspects and build the materiality matrix. Aspects with final scores over 8 were highlighted as the most material ones. Aspects with final scores between 7 and 8 were considered less material. Aspects with final scores under 7 were considered immaterial. We also analysed the following sources to identify material aspects for our stakeholders:

- Requests for information and reporting of the World Steel Association (Worldsteel)
- Requests for information from rating agencies and financial institutions
- Federal, local and corporate media publications, including the Severstal newspaper

- Employee feedback and results of employee satisfaction surveys
- Letters from non-profit organisations and local communities in our regions
- Materials from events where social projects of Severstal were discussed

To understand the materiality of these aspects, our workgroup considered their materiality for Severstal, our key stakeholders, social context and business responsibilities, including responsibilities listed in international and Russian documents such as UN Global Compact, Worldsteel Policy on Sustainable Development, and the Social Charter of RSPP. Based on this analysis, our workgroup approved the following list of aspects for inclusion in the report.

### The most material aspects

1. Occupational health and safety
2. Atmospheric emissions, including greenhouse gases
3. Financial performance
4. Effluents and waste, including waste reuse and recycling
5. Employee compensation (by region) relative to the market
6. Use of water resources
7. Compliance with environmental protection laws
8. Employment

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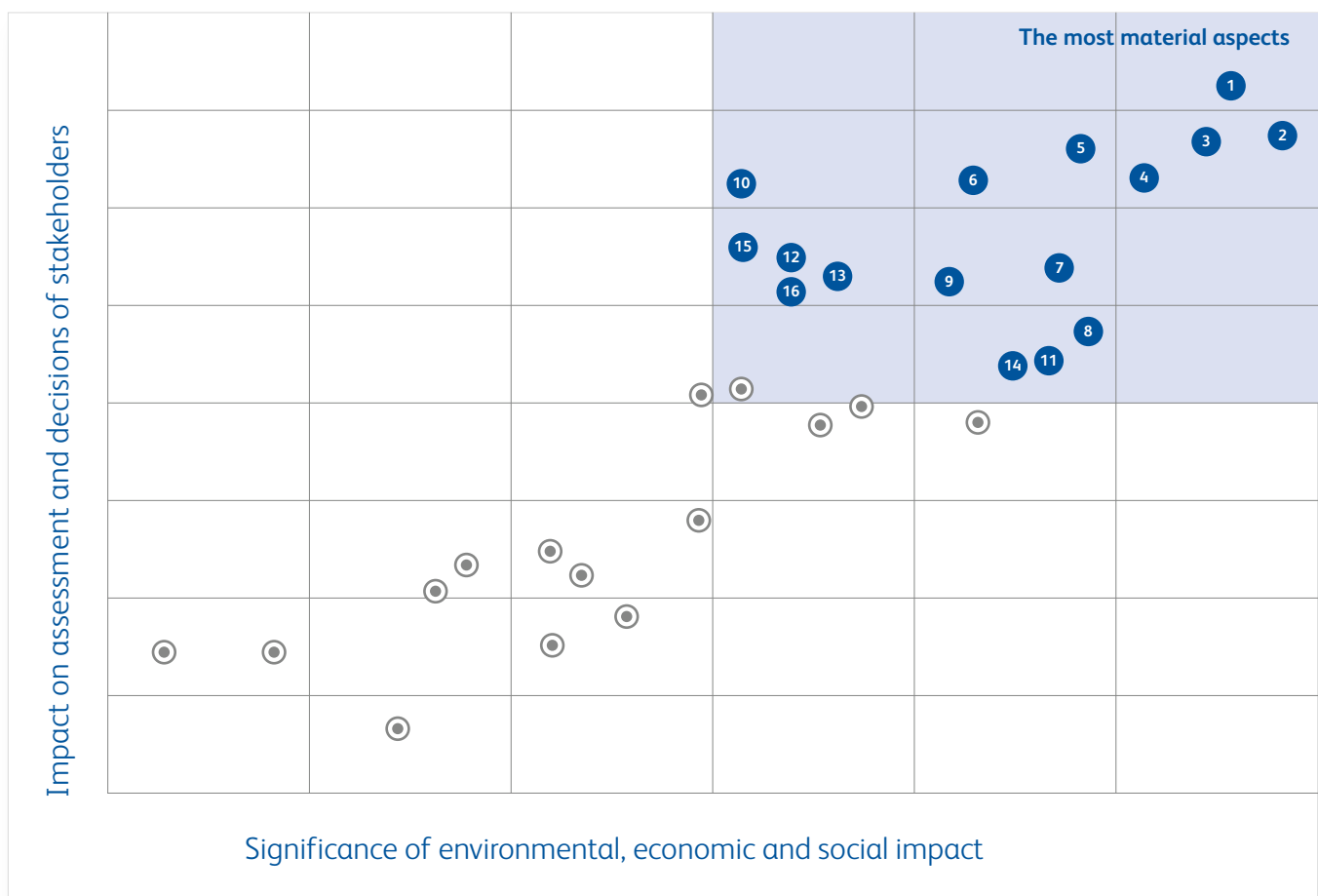
9. Employee education and training
10. Power consumption and energy efficiency
11. Impact on local communities, including cooperation and development programmes
12. Land use and impact on biodiversity
13. Anti-corruption
14. Investments in transportation and social infrastructure, and indirect impact on the economic development of our regions
15. Informing employees of material changes in Company operations
16. Use of raw materials

#### Less material aspects

- Compliance with laws and regulations
- Assessment of environmental aspects of supplier operations

- Assessment of human rights compliance in the Company, including employee training
- Non-discrimination of employees and consumers
- Anti-monopoly compliance
- Equal management opportunity and equal remuneration for women and men
- Product marketing and labelling
- Freedom of association and collective bargaining
- Assessment of supplier compliance with labour rights and human rights
- Purchasing, including purchasing from local suppliers
- Public policy, lobbying and political donations
- Forced or compulsory labour
- Indigenous rights

## Materiality Matrix



Disclosures of material aspects in this Report provide a detailed account of management approaches and performance indicators. Severstal also decided to provide disclosure on a number of less material aspects and topics recommended by the workgroup.

# Description of the Information

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This report contains data for the calendar year 2019, mostly with comparative data for several years. Information beyond the reporting period is also provided where deemed important. This report outlines financial and operating results using consolidated data of PAO Severstal. This report was compiled using management reports and audited financial statements.

GRI

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Details of social activities and labour relations, as well as environmental protection data, were accumulated and organised using a corporate information system and data queries defined according to GRI guidelines. The boundaries of materials aspects did not change from the previous reporting period. The Report offers an overview of management approaches and all the most significant types of Company impact. Material aspect boundaries within Severstal are defined in Appendix 3. The set of financial performance indicators used in the report matches the scope of financial statements.

The list of the most significant subsidiaries, associates and joint ventures of the Company included in the scope of financial statements is provided in the [Annual Report](#) (page 90). Other indicators of sustainable development, including those pertaining to our environmental performance, mostly cover the companies listed in Appendix 3. Several indicators in this Report are provided for individual divisions of Severstal. Following the sale of Severstal Long Product Mill Balakovo in the first half of 2019, its data was excluded from reporting starting from the second half of 2019.

Material aspects beyond Severstal include occupational safety, and contractor compliance with environmental regulations. Details are available in the [Supply Chain Responsibility](#) section. The anti-corruption aspect as applicable to our contractors is disclosed in the [Business Partners and Consumers](#) and the [Prevention of Corruption and Violations of Laws and Internal Regulations](#) sections. Our disclosures on these topics mostly provide information on our actual management systems with unit-specific examples. The structure of this Report is very similar to the previous Report.

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There were no significant changes in the Scope or Aspect Boundaries in 2019 compared with the previous reporting periods. Data sources used to compile the Direct Economic Value Generated and Distributed table are listed in Appendix 2 to Severstal Corporate Social Responsibility and Sustainable Development Report 2019. Some indicators have been

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recalculated for greater precision. Footnotes are provided whenever revised calculation methodologies are used.

This Report contains no other significant redefinitions or restatements of data for the previous periods as published in earlier reports. To ensure authenticity of data in the Report, we use standardised data collection and consolidation procedures and double check data with responsible departments. Data passes internal consistency checks, and its completeness and accuracy are verified at the level of individual contributing departments, and at the level of the functional departments of Severstal divisions and the General Directorate.

At the time of preparation, the report is reviewed by independent directors, including the Chairman of the Remuneration and Nomination Committee, the Chairman of the Health, Safety and Environmental Protection Committee and the Chair of the Audit Committee.

References are provided for all external data. Medium-term and long-term plans indicated in the report are forward-looking statements. They are subject to a large number of factors many of which are beyond Severstal's control and could cause actual results to differ materially.

Since 2011, Severstal has been submitting these Reports for public affirmation to RSPP Council for Non-Financial Reporting. This Report has undergone the public affirmation procedure as well. Council opinion is provided in Appendix 4 to this Report. Severstal does not host face-to-face stakeholder engagement events.

For further details about the topics covered in this Report, and to submit your feedback on this publication or suggestions on future improvement of Severstal's non-financial reporting, please contact our Corporate Headquarters: PAO Severstal, 127299 Russia, Moscow, Clara Zetkin 2, phone: +7 (495) 926–77–66 (CSR and Brand Department, PAO Severstal).

Registered office of PAO Severstal: Mira 30, Cherepovets, Vologda Oblast, Russia, 162608

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# Appendices

## Appendix 1

### Index of Standard Disclosures in this Report with Reconciliation to GRI Standards, RSPP Key Performance Indicators and ISO 26000 Guidelines

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
<b>General standard disclosures</b>			
<b>1. Organisational Profile</b>			
102-1	Name of the organisation	Page 8	
102-2	Activities, brands, products and services	Pages 8, 12	
102-3	Location of headquarters	Page 108	
102-4	Location of operations	Page 9	
102-5	Ownership and legal form	Page 9	
102-6	Markets served	Page 10	
102-7	Scale of the organisation	Page 8	
102-8	Information on employees and other workers	Pages 8, 48 RSPP 3.1.1 RSPP 3.1.4 ISO 26000 Responsible Labour Practices	
102-9	Supply Chain	Pages 26, 93 ISO 26000 Fair Business Practices	
102-10	Significant changes to the organisation and its supply chain	Page 9	
102-11	Precautionary principle or approach	Page 41 ISO 26000 Environmental Protection	
102-12	External initiatives	Pages 21, 43 RSPP 1.1 ISO 26000 Organisational Governance	
102-13	Memberships of associations	Page 31	
<b>2. Strategy</b>			
102-14	Statement from senior decision-maker	Pages 2, 4	
102-15	Key impacts, risks, and opportunities	Pages 38, 40 See also Severstal <a href="#">Annual Report 2019</a> , pages 26–29	



Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
<b>3. Ethics and Integrity</b>			
102-16	Values, principles, standards, and norms of behaviour	Pages 8, 25, 26, 49	
102-17	Mechanisms for advice and concerns about ethics	Page 28	
<b>4. Corporate Governance</b>			
102-18	Governance structure	Page 36	
102-19	Delegating authority	Page 18	
102-20	Executive-level responsibility for economic, environmental, and social topics	Page 18	
102-21	Consulting stakeholders on economic, environmental, and social topics	Page 25	
102-22	Composition of the highest governance body and its committees	Page 37 <a href="#">Annual Report 2019</a> , pages 38–43 RSPP 3.1.12	
102-23	Chair of the highest governance body	Page 37 <a href="#">Annual Report 2019</a> , page 38	
102-24	Nominating and selecting the highest governance body	Severstal Charter, page 10 RSPP 3.1.12	
102-25	Conflicts of interest	Page 38	
102-26	Role of highest governance body in setting purpose, values, and strategy	Page 36 <a href="#">Annual Report 2019</a> , pages 36–41	
102-27	Collective knowledge of highest governance body	Regular development of memoranda for Severstal executives on economic, environmental and social topics	
102-28	Evaluating the highest governance body's performance	Page 37 <a href="#">Annual Report 2019</a> , page 47	
102-29	Identifying and managing economic, environmental, and social impacts	<a href="#">Annual Report 2019</a> , page 46	
102-30	Effectiveness of risk management processes	Page 38	
102-31	Review of economic, environmental, and social topics	Page 36 <a href="#">Annual Report 2019</a> , page 44	
102-32	Highest governance body's role in sustainability reporting	Page 36, 108	
102-33	Communicating critical concerns	Page 49 RSPP 3.1.12	
102-34	Nature and total number of critical concerns	Pages 68, 74	
102-35	Remuneration policies	Page 37 <a href="#">Annual Report 2019</a> , pages 52–53	
102-36	Process for determining remuneration	Page 37 <a href="#">Annual Report 2019</a> , page 53	
102-37	Stakeholders' involvement in remuneration	Page 37	

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
102-38	Annual total compensation ratio	Not disclosed due to personal data protection considerations.	
102-39	Percentage increase in annual total compensation ratio	Not disclosed due to personal data protection considerations.	
<b>Stakeholder Engagement</b>		ISO 26000 Fair Business Practices	
102-40	List of stakeholder groups	Page 25	
102-41	Collective bargaining agreements	Page 29	
102-42	Identifying and selecting stakeholders	Page 25	
102-43	Approach to stakeholder engagement	Page 25	
102-44	Key topics and concerns raised	Pages 25, 28, 30	
<b>6. Reporting Practice</b>			
102-45	Entities included in the consolidated financial statements	<a href="#">Annual Report 2019</a> , page 90	
102-46	Defining report content and topic Boundaries	Page 106	
102-47	List of material topics	Page 106	
102-48	Restatements of information	Page 108	
102-49	Changes in reporting	Page 108	
102-50	Reporting period	Page 108	
102-51	Date of most recent report	Third quarter of 2019	
102-52	Reporting cycle	Page 104	
102-53	Contact point for questions regarding the report	Page 108	
102-54	Claims of reporting in accordance with the GRI Standards	Page 106	
102-55	GRI Content Index	Appendix 1	
102-56	External assurance	Page 108	
<b>Экономика</b>			
<b>201</b>	<b>Financial performance</b>		
103-2	Management approach	Page 40, 41, 42	
201-1	Direct economic value generated and distributed	Page 17 RSPP 1.2, 1.3, 1.4, 1.6, 1.7	
201-2	Financial implications and other risks and opportunities due to climate change	Page 77	
201-3	Defined benefit plan obligations and other retirement plans	<a href="#">Annual Report 2019</a> , page 74 RSPP 1.8	
201-4	Financial assistance received from the government	There were no significant payments from the government	
<b>202</b>	<b>Market presence</b>	ISO 26000 Responsible Labour Practices	

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
103-2	Management approach	Page 51	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		
202-2	Proportion of senior management hired from the local community	In this context, our senior management includes Chief Executive, his Deputies, and Directors of Business Units, and while local communities are thought to comprise all Russian citizens. 95.2% of senior management are hired from the local communities.	
203	Indirect economic impacts	ISO 26000 Community Involvement and Development	
103-2	Management approach	Page 92	
203-1	Infrastructure investments and services supported	Pages 93, 98	
203-2	Significant indirect economic impacts	Page 93	
MM8	Number (and percentage) of company operating sites where artisanal and small-scale mining (ASM) takes place on, or adjacent to, the site; the associated risks and the actions taken to manage and mitigate these risks	Artisanal or small-scale mining not present	
204	Procurement Practices	ISO 26000 Fair Business Practices	
204-1	Proportion of spending on local suppliers	Page 94	
205	Anti-corruption	ISO 26000 Fair Business Practices	
205-1	Operations assessed for risks related to corruption	Page 43	
205-2	Communication and training about anti-corruption policies and procedures	Page 43	
205-3	Confirmed incidents of corruption and actions taken	Page 43	
206	Anti-competitive Behaviour	ISO 26000 Fair Business Practices	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practice	None	
<b>Environment</b>			
301	Materials		
301-1	Materials used by weight or volume	Page 12	EM-IS-000.B EM-IS-000.C EM-MM-000.A
301-2	Recycled input materials used	Page 79, 81	
301-3	Reclaimed products and their packaging materials	Page 81	
302	Energy	ISO 26000 Environmental Protection	
103-2	Management approach	Page 86	
302-1	Energy consumption within the organisation	Pages 87, 88 RSPP 2.2	

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
302-2	Energy consumption outside of the organisation	Energy consumption outside of the organisation is not measured due to the large number of partners.	
302-3	Energy intensity	Page 88 RSPP 2.2.1	
302-4	Reduction of energy consumption	Page 88 RSPP 2.2.1	
302-5	Reductions in energy requirements of products and services	Not applicable, considering product specifications	
<b>303</b>	<b>Water</b>	<b>ISO 26000 Environmental Protection</b>	
103-2	Management approach	Pages 74, 82, 83	EM-MM-160a.1
303-1	Water withdrawal by source	Page 82 RSPP 2.3	EM-IS-140a.1
303-2	Water sources significantly affected by withdrawal of water	Page 82 RSPP 2.3	
303-3	Water recycled and reused	Page 82 RSPP 2.4	
<b>304</b>	<b>Biodiversity</b>	<b>ISO 26000 Environmental Protection</b>	
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Our businesses do not operate in environmentally sensitive areas, including protected areas, Ramsarsky Grounds, and World Heritage sites. Karelsky Okatysh is adjacent to Kostomuksha Natural Reserve See MM2	
304-2	Significant impacts of activities, products, and services on biodiversity	There is no significant impact of water effluents from our core assets on water bodies. See also: Biodiversity page 84	
304-3	Habitats protected or restored	Page 84	
304-4	Total number of IUCN red list species and national conservation list species	Page 84	
MM2	The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place	A site owned by AO Severstal Distribution and located in Cherepovets District (Dmitrovo Village Authority, Vaskovo hamlet, Momotskoye forestry) is identified as a protected area. Permitted use of the land parcel: hunting grounds. There are no production operations.	
<b>305</b>	<b>Emissions</b>	<b>ISO 26000 Environmental Protection</b>	
103-2	Management approach	Pages 74, 76	EM-MM-160a.1 EM-IS-110a.2 EM-MM-110a.2
305-1	Direct (Scope 1) GHG emissions	Page 78	
305-2	Energy indirect (Scope 2) GHG emissions	Measurement methodology is under development	
305-3	Other indirect (Scope 3) GHG emissions	GHG data is not collected due to the large number of partners	
305-4	GHG emissions intensity	We are working on defining the scope of GHG emission measurements for our resources subsidiaries that we would use to calculate the emissions for final products (molten steel). The Reduction of Greenhouse Gas Emissions section provides emission data for Cherepovets Steel Mill.	

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
305-5	Reduction of GHG emissions	Pages 77, 79	
305-6	Emissions of ozone-depleting substances (ODS)	None	
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Page 76 RSPP 2.6	EM-MM-120a.1
<b>306</b>	<b>Effluents and waste</b>	<b>ISO 26000 Environmental Protection</b>	
103-2	Management approach	Pages 74, 79	EM-MM-160a.1
306-1	Water discharge by quality and destination	Page 83 RSPP 2.7, 2.7.2	
306-2	Waste by type and disposal method	Page 80 RSPP 2.8	EM-MM-150a.1 EM-MM-150a.2 EM-MM-150a.3
306-3	Significant spills	None in 2019 RSPP 2.9	
306-4	Transport of hazardous waste	There is no cross-border waste transportation See also: page 81	
306-5	Water bodies affected by water discharges and/or runoff	Pages 83, 85	
MM1	Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated	Page 81	
MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks	Page 80	
<b>307</b>	<b>Environmental Compliance</b>	<b>ISO 26000 Environmental Protection ISO 26000 Fair Business Practices</b>	
103-2	Management approach	Page 74	
307-1	Non-compliance with environmental laws and regulations	Page 76	
<b>308</b>	<b>Supplier Environmental Assessment</b>		
308-1	New suppliers that were screened using environmental criteria	Page 75 We are currently conducting technical audits of our suppliers to determine the availability of ISO 14001 certifications. We are planning to increase the range of environmental assessment criteria as we deploy the new supplier assessment system in SAP.	
308-2	Negative environmental impacts in the supply chain and actions taken	Page 75	EM-IS-430a.1
<b>Social</b>			
<b>401</b>	<b>Employment</b>	<b>ISO 26000 Responsible Labour Practices</b>	
103-2	Management approach	Page 49	
401-1	New employee hires and employee turnover	Page 49 RSPP 3.1.2, 3.1.3	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Pages 56, 64	



Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
401-3	Parental leave	Page 64	
<b>402</b>	<b>Labour/Management Relations</b>	<b>ISO 26000 Responsible Labour Practices</b>	
402-1	Minimum notice periods regarding operational changes	Page 29	
<b>403</b>	<b>Occupational Health and Safety</b>	<b>ISO 26000 Responsible Labour Practices</b>	
103-2	Management approach	Page 68	
403-1	Workers representation in formal joint management-worker health and safety committees	Page 72	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of workplace fatalities	Page 71 RSPP 3.1.5, 3.1.6, 3.1.7, 3.1.8	EM-IS-320a.1
403-3	Workers with high incidence or high risk of diseases related to their occupation	Page 72	
403-4	Health and safety topics covered in formal agreements with trade unions	Page 72	
<b>404</b>	<b>Training and Education</b>	<b>ISO 26000 Responsible Labour Practices</b>	
103-2	Management approach	Page 54	
404-1	Average hours of training per year per employee	Page 54 RSPP 3.1.10	
404-2	Programmes for upgrading employee skills and transition assistance programmes	Page 54	
404-3	Percentage of employees receiving regular performance and career development reviews	Page 53	
<b>405</b>	<b>Diversity and Equal Opportunity</b>	<b>ISO 26000 Responsible Labour Practices</b> <b>ISO 26000 Human Rights</b>	
405-1	Diversity of governance bodies and employees	Pages 36, 48	
405-2	Ratio of basic salary and remuneration of women to men	Page 51	
<b>406</b>	<b>Non-Discrimination</b>	<b>ISO 26000 Human Rights</b>	
406-1	Incidents of discrimination and corrective actions taken	None See also: Human Rights	
<b>407</b>	<b>Freedom of Association and Collective Bargaining</b>	<b>ISO 26000 Human Rights</b> <b>ISO 26000 Responsible Labour Practices</b>	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Pages 29, 45 RSPP 3.2.1	EM-MM-310a.1
MM4	Number of strikes and lock-outs exceeding one week's duration, by country	Page 30	EM-MM-310a.2
<b>408</b>	<b>Child Labour</b>	<b>ISO 26000 Human Rights</b>	
408-1	Operations and suppliers at significant risk for incidents of child labour	Page 45	
<b>409</b>	<b>Forced or Compulsory Labour</b>	<b>ISO 26000 Human Rights</b>	

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	None See also: page 45	
<b>410</b>	<b>Security Practices</b>	<b>ISO 26000 Human Rights</b>	
410-1	Security personnel trained in human rights policies or procedures	Page 45	
<b>411</b>	<b>Rights of Indigenous Peoples</b>	<b>ISO 26000 Human Rights</b>	
411-1	Incidents of violations involving rights of indigenous peoples	None RSPP 3.2.3	
MM5	Total number of operations taking place in or adjacent to indigenous peoples' territories, and number and percentage of operations or sites where there are formal agreements with indigenous peoples' communities	Pages 45, 101	
MM6	Number and description of significant disputes relating to land use, customary rights of local communities and indigenous peoples	There were no disputes relating to land use	
MM7	The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and indigenous peoples, and the outcomes	Page 31	EM-MM-210a.3
<b>412</b>	<b>Human Rights Assessment</b>	<b>ISO 26000 Human Rights</b>	
412-1	Operations that have been subject to human rights reviews or impact assessments	A question on potential human rights violations is included in the Severstal Pulse annual survey covering almost every business unit of Severstal. See also: page 45	EM-MM-210a.3
412-2	Employee training on human rights policies or procedures	Pages 45, 55	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Not in place	
<b>413</b>	<b>Local Communities</b>	<b>ISO 26000 Community Involvement and Development</b>	
103-2	Management approach	Page 92	EM-MM-210b.1
413-1	Operations with local community engagement, impact assessments, and development programmes	Page 98 RSPP 3.3.3	
413-2	Operations with significant actual and potential negative impacts on local communities	Page 39 RSPP 3.3.3	EM-MM-210b.1
MM9	Sites where resettlements took place, the number of households resettled in each, and how their livelihoods were affected in the process	None	
MM10	Number and percentage of operations with closure plans	None	
<b>414</b>	<b>Supplier Social Assessment</b>	<b>ISO 26000 Fair Business Practices</b>	
414-1	New suppliers that were screened using social criteria	Page 73	

Standard disclosures of GRI with Mining & Metals Sector Supplement		Location in the report / comment / reconciliation with ISO 26000 guidelines / reconciliation with RSPP key performance indicators	Sustainability Accounting Standard
414-2	Negative social impacts in the supply chain and actions taken	Page 73	EM-IS-430a.1
<b>415</b>	<b>Public Policy</b>	<b>ISO 26000 Fair Business Practices</b>	
415-1	Political contributions	None in 2019	
<b>416</b>	<b>Customer Health and Safety</b>	<b>ISO 26000 Consumer Issues</b>	
416-1	Assessment of the health and safety impacts of product and service categories	Severstal products and services themselves do not have any negative health or safety effects	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	None	
<b>417</b>	<b>Marketing and Labelling</b>	<b>ISO 26000 Consumer Issues</b>	
417-1	Requirements for product and service information and labeling	Page 41	
417-2	Incidents of non-compliance concerning product and service information and labeling	None	
417-3	Incidents of non-compliance concerning marketing communications	None	
<b>418</b>	<b>Customer Privacy</b>		
418-1	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None	
<b>419</b>	<b>Socioeconomic Compliance</b>	<b>ISO 26000 Fair Business Practices</b>	
103-2	Management approach	Pages 39, 43	EM-MM-510a.1
419-1	Non-compliance with laws and regulations in the social and economic area	Page 43 There were no corruption-related fines in the reporting year	

## Appendix 2

### Comments to the calculation of direct economic value generated and distributed

Sources: Consolidated financial statements of PAO Severstal and its subsidiaries for years ending 31 December 2018, 2017 and 2016 and Consolidated financial statements of PAO Severstal and its subsidiaries for years ending 31 December 2019, 2018 and 2017

Line	Comment
<b>Revenue</b>	
Net sales	Consolidated income statements, Line: Revenue
Cash flow from financial activities	Note: Financing income and costs /Net financing costs, Lines: Interest income, Dividend income
Gain on disposal of assets	Consolidated income statements, Line: Loss on disposal of property, plant and equipment and intangible assets
<b>Operating expenses</b>	
Cash payments to third parties	Consolidated income statement, Lines: Cost of sales, General and administrative expenses, selling costs, Share of profits / (losses) of associates and joint ventures, Other net operating (expenses) / income / Other net operating income Operating expenses include employee salaries and benefits
<b>Salaries and benefits</b>	
Payroll	Note: Payroll costs, except Cost of post-employment benefits
Total amount of payments.	Note: Payroll costs, Line: Cost of post-employment benefits
<b>Payments to providers of capital</b>	
Dividend payments to all shareholder categories	Consolidated statements of changes in equity, Line: Dividends
Interest payable to creditors	Note: Financing income and costs /Net financing costs, Line: Dividend expense
<b>Payments to governments</b>	
All taxes	Note: Income tax, Lines: Current tax, Income tax adjustments for previous periods recognised in the reporting period. Consolidated income statements, Line: Other taxes and contributions
<b>Direct community investments and donations</b>	
Infrastructure investments	Note: Net other non-operating (expenses) / income / Net other non-operating income / (expenses), Lines: Social expenses, Charitable donations, Depreciation of infrastructure assets
Direct community investments and donations	

# Appendix 3

## Material aspect boundaries

	Cherepovets Steel Mill and Cherepovets Industrial Site	PAO Severstal, Belorucheykoye Mine Authority	OOO Severstal TPZ Sheksna	ZAO Izhora Pipe Mill	AO Severstal-SMC-Vsevolozhsk	ZAO Neva Metal	OOO Severstal Vtorchermet	OOO Severstal Airlines	AO Severstal Distribution	AO Severstal Steel Solutions	OOO Severstal Metiz	OOO Oryol Steel Plant	AO Severstal Steel Ropes, Volgograd Branch	AO Vorkutaugol	AO Olcon	AO Karelsky Okatysh	AO Yakovlevskiy Mine	ZAO Severstal Long Product Mill Balakovo
Health and safety	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Compensation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Regional development	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employment	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial performance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Training and education	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Water Resources	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Emissions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Effluents and waste	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Land assets and biodiversity	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Power consumption and energy efficiency	✓			✓			✓		✓		✓	✓	✓	✓	✓	✓	✓	
Local Communities	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Environmental compliance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Anti-corruption	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employee communications	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Raw materials and other materials	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	



## Appendix 4

### Opinion of RSPP Council on Non-Financial Reporting on Severstal Corporate Social Responsibility and Sustainable Development Report 2019 Submitted for Public Affirmation

The Council on Non-Financial Reporting ("Council") of the Russian Union of Industrialists and Entrepreneurs ("RSPP") established by the Bureau of RSPP Executive Team (Resolution of 28.06.2007) has reviewed Severstal ("Company", "Group", "Severstal") Corporate Social Responsibility and Sustainable Development Report 2019 ("Report") at request of Severstal.

The Company requested RSPP Council to conduct the public affirmation of its report. The Council provides an opinion on completeness and significance of the information about Severstal performance presented in the report in the context of the Social Charter of RSPP and its responsible business practices, UN Global Compact, as well as Russian and international social responsibility standards.

Council Members reviewed the Report submitted by Severstal between 17 April and 6 May 2020 and prepared this Opinion according to the Public Affirmation Regulations for Corporate Non-Financial Reporting adopted by the Council.

Council Members possess the required competencies in corporate social responsibility, sustainable development and non-financial reporting, and comply with the business ethics requirements of independence and impartiality of their evaluations, and express their personal expert opinions as opposed to the opinions of organisations they represent.

This Report was evaluated using the following information completeness and significance criteria:

Information is deemed significant if it reflects the activities of the Company on the implementation of responsible business practices recognised by the Social Charter of RSPP ([www.rspp.ru](http://www.rspp.ru)).

Information is deemed complete if the Company provides a comprehensive picture of its activities in the Report, including its values and baseline strategic objectives, governance systems and structures, achievements and key results, and stakeholder engagement system.

Use of international reporting systems by the Company is taken in consideration during the public affirmation of the Report. However, certifying compliance of the Report with the international reporting guidelines is outside the scope of this Opinion.

Responsibility for the information and statements provided in the Report remains with the Company. Accuracy of factual data in the Report is outside the scope of public affirmation.

This Opinion was prepared for PAO Severstal. It is entitled to use this Opinion in its original form in its internal corporate communications and external communications with stakeholders.

#### Findings

Upon the analysis of this Report and information publicly available on the official corporate website of the Company, and group discussion of the results of independent Report assessments performed by individual Members of RSPP Council for Non-Financial Reporting, the Council affirms the following:

**Severstal Corporate Social Responsibility and Sustainable Development Report 2019 provides coverage of the key areas of responsible business practices consistent with the principles of the Social Charter of RSPP, offering sufficiently complete disclosure of Company activities in these areas.**

**Recommendations of RSPP Council upon the public affirmation of Severstal's report for the year 2018 are reflected in the 2019 Report. Specifically, the Report provides a more consistent view of the Company contribution to the UN Sustainable Development Goals, expands the use of environmental indicators and includes specific measurements. The Report also includes several performance indicators for the Company's social investments.**

The 2019 Report contains significant information covering the following aspects of responsible business practices:

#### Economic freedom and responsibility

The Report provides information on the key results and indicators of operational and financial activities of the Company in the reporting year, and shows the productivity trends. It reflects Company role in the global market as the largest manufacturer of steel products, and its contribution to the Russian economy. The Report offers information on the transformation of organizational structure to implement the renewed strategy and make the Company more customer-centric, and on the creation of Russia's first corporate venture investment fund, Severstal Ventures. It includes information about Company action on reducing GHG emissions. The Report discusses the digital transformation of the Company. The Report presents information about the corporate policies and governance bodies, on the management of risk, innovation and quality, and on the prevention of corruption. The Report discusses the management of social responsibility and sustainable development, and includes documents and initiatives that the Company follows. The Report discusses the contribution of Severstal to the UN Sustainable Development Goals (SDG 2030). Specific examples of Company participation in national projects are provided. The Report presents the key guidelines for 2020 on the key aspects of Company operations and sustainable development.

## Business Partnerships

The Report presents the principles and policies of Severstal in stakeholder engagement. The Report informs the reader about Severstal's cooperation with federal, regional and local authorities. It provides information on Company cooperation with Russian and international partners, its participation in the international community, and its initiatives in various areas, including climate action. The Report mentions how the Company informs investors of the key results of the new strategy implementation, and presents operational aspects of shareholder value creation in volatile markets. The Report explains how the Company works with employees, including the aspects of employee motivation, social security, occupational health and safety, and professional development. The Report notes that employee communications are delivered via an integrated internal communications system, that includes feedback channels such as the annual employee survey. The Report presents performance indicators for the central Hotline. The Report gives an overview of social engagement with trade unions. The Report includes information on the extension of corporate OHS requirements on contractors working on Company sites, and on the anti-corruption activities motivating partners to follow ethical business practices. The Report presents the results of the customer satisfaction survey and discusses conferences that the Company organises for customer staff. The Report includes information on Severstal cooperation with industry colleges and research organisations under Federal Special Purpose Programs. The Report shows how Severstal engages with local communities and non-profits on initiatives focused on social and environmental sustainability.

## Human Rights

The Report states that Company has zero tolerance for any forms of employee discrimination. The Report provides information on the protection of employee rights and on Company practices in social and labor relations, including fair wages, improving work conditions, freedom of association and collective bargaining, as well as creating conditions for professional development. The Report indicates that the annual employee survey includes a question on employee opinion on the situation with human rights in the Company. The Report notes that Severstal respects indigenous rights and supports protecting their cultural heritage.

## Environmental Protection

The Report includes information on Severstal's progress with integrated programmes focused on 2025 long-term targets in industrial safety, employee health, and environmental protection. The Report discusses the deployment of the environmental management system at Cherepovets Steel Mill, voluntary environmental certification of Severstal products, and the audits that confirmed the compliance of management systems deployed at five Severstal businesses with the ISO 14001:2015 standard. The Report notes the Company focus on climate action and discusses the consideration for the voluntary recommendations of the Target Group of the Council

on Financial Stability on the disclosure of financial information associated with climate change. The Report provides information about the initiatives in atmospheric air protection, reduction of greenhouse gas emissions, waste management, improvement of the ratio of disturbed to rehabilitated land, as well as impact on water resources and water conservation. The Report offers environmental footprint data with breakdown by divisions and key businesses. The Report includes information about joint environmental protection initiatives with nature reserves, explains how Severstal supports the research of the impact of its operations on land and water ecosystems and the biodiversity of its regions, and shows how Severstal supports the development of environmental tourism. The Report provides information on the management of energy efficiency. The Report includes the key results of the comprehensive energy conservation programme. The Report notes that Severstal fully implemented the requirements of the ISO 50001:2011 Energy management systems standard.

## Development of Local Communities

The Report provides information on Severstal's partnerships with regional and municipal authorities under the social and economic cooperation agreements. The Report includes data on Severstal's contribution to the sustainable development of its regions, including information about its tax contributions, jobs, share of purchasing from local suppliers, and support for the development of small and medium businesses and social entrepreneurs. The Report covers programmes and events delivered in collaboration with non-governmental organisations and focused on the development of social infrastructure, prevention of social orphanhood, support for youth employment and career orientation, education, health care, culture and sports. The Report shows the social results of Severstal's long-term programmes, such as Way Home or Children of Cherepovets — Road to Success. The Report discussed support for culture and arts is a priority area of charitable activities for Severstal. The Report lists key corporate volunteering events that took place in the reporting year. The Report includes information about the investments in local communities and charitable donations.

## Conclusion

Overall, the Report provides a comprehensive view of the strategy, governance systems, organisation and performance results of PAO Severstal in the context of sustainable development and corporate social responsibility as they relate to SDG-2030 and the National Project targets. The Report offers a wide range of data demonstrating responsible business practices, Company impact on the economy, society and the environment, and its stakeholder engagement. The Report provides short-term and medium-term goals in the key areas.

The Report follows the recommendations used in Russian and international reporting practices (Sustainability Reporting Standards of the Global Reporting Initiative, version, and the Mining & Metals Sector Supplement), ensuring comparability of

information in this Report with information in reports of other companies. UN Global Compact, SDG-2030 and ISO 26000:2010 were taken into account in the preparation of the Report. Performance indicators are provided in relation to the most material issues as identified in stakeholder communications.

The 2019 Report is the eleventh corporate non-financial report of Severstal, demonstrating its consistency developing its public reporting and increasing its transparency.

### Recommendations

Recognising the strengths of this Report, the Council would like to note certain aspects of information significance and completeness that are important for shareholders and are recommended for consideration in future reporting cycles.

The Council suggests that its recommendations provided upon the analysis of previous Severstal reports would still be useful for future reporting periods.

The detailed Report information on the relationship between Company operations and specific targets of the six UN Sustainable Development Goals 2030 that are a priority for Severstal, together with the description of indicators used to evaluate its progress towards each of this targets, should be considered a successful practice in information disclosure. It is recommended to continue developing in this direction, including the quantitative data on the performance indicators described in the Report to show the progress in the reporting period, and providing the targets for the upcoming period.

The Report provides information about Company operations using both aggregated data and, selectively, data on individual business segments and key assets. It is advisable to try to follow a consistent approach to data presentation, covering all key assets and business segments, to build a holistic view of Company operations and its impact on the society, the environment, and the development of its regions. For example,

it would be meaningful to show the labour productivity across all segments, indicating the results of both asset technology upgrades and professional development of Company employees and efficiency of the management team in this area, as this would be an indicator of Company sustainability.

The Report offers a wide range of indicators with historical trends, which is an important aspect of the quality of disclosures. To enhance the informational value of this data, it is suggested that the future reports provide the data for the comparable periods for a minimum of three years.

Severstal consistently develops its reporting practices. Moving forward in this direction, it would be advisable that Severstal include such practices as stakeholder consultations and public discussions in the report development process. This would help maintain the relevance of disclosures and identify issues deserving special attention in any particular reporting year. Setting priorities will help balance and focus Report contents.

Data presented in the Report demonstrates Severstal's strong experience in working with partners in multiple areas of sustainable development. It is advisable that the non-financial reports of Severstal include testimonials of the representatives of key stakeholder groups on social, economic and environmental impact of Severstal businesses.

RSPP Council for Non-Financial Reporting gives a positive opinion on this Report, supports Severstal's commitment to responsible business principles, notes consistent development of its reporting process, and hereby confirms that the 2019 Corporate Social Responsibility and Sustainable Development Report of Severstal has successfully received public affirmation.

### RSPP Council for Non-Financial Reporting





Российский союз промышленников и предпринимателей

# СВИДЕТЕЛЬСТВО

об общественном заверении  
корпоративного нефинансового отчета

## Отчет о корпоративной социальной ответственности и устойчивости развития ПАО «Северсталь» за 2019 год

прошел общественное заверение в Совете РСПП  
по нефинансовой отчетности

Развернутое заключение Совета РСПП об общественном заверении Отчета о корпоративной социальной ответственности и устойчивости развития ПАО «Северсталь» за 2019 год направлено в Компанию, которая может публиковать его без каких-либо изменений и использовать как для внутрикорпоративных целей, так и в целях коммуникаций с заинтересованными сторонами.

Регистрационный номер 153.01.019.03.19

Президент РСПП

 Шохин

Москва, 2020



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