PAO Severstal
and subsidiaries

Consolidated financial statements
for the years ended 31 December 2020, 2019 and 2018

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

Contents

Independent Auditors' Report

To the Shareholders of PAO Severstal and Board of Directors

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

The impact of COVID-19

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

The key audit matter	How the matter was addressed in our audit
The COVID-19 pandemic is an unprecedented challenge for the global economy. As with the overwhelming majority of businesses worldwide, the pandemic impacted the Group's business due to uncertain markets and their exceptional volatility. The potential negative effects of the pandemic on the Group's consolidated financial statements are subject to a significant degree of uncertainty. Amongst others, we have considered the following matters as part of our audit: ***Impairment of property, plant and equipment*** Management assessed the effect of the pandemic related disruption and economic volatility has had on its operations and cash flows. The forecasts for business operations have been reassessed and models supporting property, plant and equipment impairment assessment have been revised. Management has concluded that COVID-19 and the current global market conditions did not result in impairment provisions for its property, plant and equipment. Refer Note 7. Cash flow projections incorporate management's estimate relating to the impact of inherent future volatility in volumes, commodity prices, margins and demand. These calculations require the application of some key assumptions such as discount rates, inflation rates and growth rates, and include management's assessment of the potential ongoing economic impacts of the COVID-19 pandemic and the related macro-economic disruptions.	***Impairment of property, plant and equipment*** - we challenged the management regarding a list of cash generating units for which cash flows included in the value in use calculation should have been updated as a result of continuing volatilities in the markets; - we involved our valuation specialists in assessing the methodology, discount rates, long-term commodities price forecast, currency exchange, inflation rates and other inputs applied by management in the value-in-use calculation; - we compared the estimated future cash flows, including operating costs, capital expenditures with historical results and with the plan authorised by management to evaluate the consistency; - we performed sensitivity analysis of the effects to the value in use that would result from the change in significant assumptions, such as discount rate; - we considered the adequacy of the Group's disclosure in Note 7 in respect to the assessment of impairment of property, plant and equipment. ***Measurement of trade receivables*** - we examined the effect arising from the impact of COVID-19 on the Group's processes and internal controls, including any changes in credit terms agreed with customers, customers' financial conditions and any other factors which might result in revisions of the allowance matrix; - we analysed the average repayment period of trade receivables and compared them with prior year; on a sample basis, we obtained trade receivable confirmations and considered ageing to identify collection risks; - we also assessed the adequacy of the Group's disclosure on the trade receivables and the related credit risks in Note 26.

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

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Pataraya G.E.

JSC "KPMG"
Moscow, Russia

3 February 2021

PAO Severstal and subsidiaries

Consolidated income statements
Years ended 31 December 2020, 2019 and 2018
(Amounts expressed in millions of US dollars, except as otherwise stated)

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

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

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

PAO Severstal and subsidiaries

Consolidated statements of comprehensive income
Years ended 31 December 2020, 2019 and 2018
(Amounts expressed in millions of US dollars, except as otherwise stated)

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

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

PAO Severstal and subsidiaries

Consolidated statements of financial position
31 December 2020, 2019 and 2018
(Amounts expressed in millions of US dollars, except as otherwise stated)

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

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

PAO Severstal and subsidiaries

Consolidated statements of cash flows
Years ended 31 December 2020, 2019 and 2018
(Amounts expressed in millions of US dollars, except as otherwise stated)

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

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

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

PAO Severstal and subsidiaries

Consolidated statements of changes in equity
Years ended 31 December 2020, 2019 and 2018
(Amounts expressed in millions of US dollars, except as otherwise stated)

	Attributable to the shareholders of PAO Severstal							Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Translation reserve	Retained earnings	Other reserves	Total		
Balances as at 31 December 2017	2,753	(206)	308	(1,679)	2,195	12	3,383	15	3,398
Profit for the period	-	-	-	-	2,051	-	2,051	-	2,051
Translation to presentation currency	-	-	-	(666)	-	-	(666)	-	(666)
Other comprehensive income/(loss)	-	-	-	-	6	(4)	2	-	2
Total comprehensive (loss)/income for the period				(666)	2,057	(4)	1,387	-	1,387
Dividends	-	-	-	-	(1,977)	-	(1,977)	-	(1,977)
Conversion of bonds	-	73	-	-	-	-	73	-	73
Other	-	-	-	-	(1)	-	(1)	(1)	(2)
Balances as at 31 December 2018	2,753	(133)	308	(2,345)	2,274	8	2,865	14	2,879
Profit for the period	-	-	-	-	1,766	-	1,766	1	1,767
Translation to presentation currency	-	-	-	363	-	-	363	-	363
Other comprehensive loss	-	-	-	-	(12)	-	(12)	-	(12)
Total comprehensive income for the period				363	1,754	-	2,117	1	2,118
Dividends	-	-	-	-	(1,545)	-	(1,545)	-	(1,545)
Conversion of bonds	-	26	-	-	-	-	26	-	26
Balances as at 31 December 2019	2,753	(107)	308	(1,982)	2,483	8	3,463	15	3,478
Profit for the period	-	-	-	-	1,016	-	1,016	-	1,016
Translation to presentation currency	-	-	-	(534)	-	-	(534)	-	(534)
Total comprehensive (loss)/income for the period				(534)	1,016	-	482	-	482
Dividends	-	-	-	-	(1,219)	-	(1,219)	-	(1,219)
Conversion of bonds	-	3	-	-	-	-	3	-	3
Balances as at 31 December 2020	2,753	(104)	308	(2,516)	2,280	8	2,729	15	2,744

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

1. Operations

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

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

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

The Group comprises the following segments:

- *Severstal Resources* – this segment comprises three iron ore complexes, JSC Karelsky Okatysh, JSC Olcon in northwest Russia, OOO Korpanga (Yakovlevskiy mine) in southwest Russia and a coal mining complex, JSC Vorkutaugol in northwest Russia.

- *Severstal Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets; rolling mill 5000 and large-diameter pipe mill in Kolpino, all in northwest Russia; a metalware plant located in Russia; a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various supporting functions for trading, maintenance and transportation, located in Europe.

Economic environment

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

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

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

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

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

2. Basis for preparation of the consolidated financial statements

Statement of compliance

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

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

Basis of measurement

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

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

Critical accounting judgments, estimates and assumptions

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

Useful lives of property, plant and equipment

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

Impairment of assets

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

Taxation

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

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

Allowance for expected credit losses

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

Decommissioning liabilities

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

Retirement benefit liabilities

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

Litigation

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

Functional and presentation currency

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

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

3. Summary of the principal accounting policies

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

a. Exploration for and evaluation of mineral resources

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

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

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

b. Development expenditure

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

c. Stripping costs

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

- Stripping activity asset;
- Current stripping costs.

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

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

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

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

d. Property, plant and equipment

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

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

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

e. Leases

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

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

f. Intangible assets (excluding goodwill)

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

The table below presents the useful lives of intangible assets:

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

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

g. Impairment of non-current assets

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

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

h. Inventories

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

i. Dividends payable

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

j. Other taxes and contributions

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

k. Income tax

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

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

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

l. Provisions

Employee benefits

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

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

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

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

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

Decommissioning liabilities

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

m. Share capital

Ordinary shares

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

Repurchase of issued shares

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

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

n. Revenue recognition

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

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

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

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

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

o. Earnings per share

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

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

p. Segment reporting

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

4. Revenue

Revenue by product was as follows:

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

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

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

Revenue by delivery destination was as follows:

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

5. Staff costs

Employment costs were as follows:

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

Key management personnel include the following positions within the Group:

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

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

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

6. Foreign exchange (loss)/gain

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

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

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

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

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

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

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

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

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

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

Severstal Resources segment

JSC Olcon

2018

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

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

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

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

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

Other units

2020

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

2018

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

Severstal Russian Steel segment

Other units

2019

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

2018

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

8. Net other non-operating expenses

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

9. Taxation

The following is an analysis of the income tax expense:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Related party transactions

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

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

11. Related party balances

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

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

12. Cash and cash equivalents

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

13. Trade accounts receivable

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

14. Inventories

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

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

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

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

15. Long-term financial investments

	31 December		
	2020	**2019**	**2018**
Financial assets at FVTOCI	26	19	3
Loans	7	7	5
	33	26	8

16. Property, plant and equipment

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

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

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

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

Other productive assets include transportation equipment and tools.

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

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

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

17. Intangible assets

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

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

18. Debt finance

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

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

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

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

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

Bonds issued

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

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

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

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

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

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

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

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

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

19. Other current liabilities

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

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

20. Retirement benefit liabilities

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

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

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

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

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

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

The movements in the defined benefit obligation were as follows:

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

*In the year ended 31 December 2018 service cost additionally included the effect of the retirement age increase in Russia.
**Actuarial losses/(gains) arise primarily from changes in financial assumptions.

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

21. Other non-current liabilities

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

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

Decommissioning liabilities

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

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

The movements in the decommissioning liabilities were as follows:

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

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

22. Shareholders' equity

Share Capital

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

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

All shares carry equal voting and distribution rights.

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

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

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

Earnings per share

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

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

Dividends

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

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

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

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

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

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

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

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

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

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

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

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

23. Subsidiaries, associates and joint ventures

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

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

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

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

[3] – Merged with OOO Korpanga.

Acquisition of subsidiary

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

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

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

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

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

Investments in associate and joint venture

Investment in 2020

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

Investments in 2019

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

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

Disposal of subsidiary

AO Severstal LPM Balakovo

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

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

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

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

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

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

24. Segmental analysis

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

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

25. Alternative performance measures

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

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

[1] EBITDA margin is equal to EBITDA divided by Revenue;
[2] Net Debt is equal to the total debt finance less cash and cash equivalents.

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

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

Twelve months ended 31 December 2020:

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

Twelve months ended 31 December 2019:

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

Twelve months ended 31 December 2018:

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

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

Twelve months ended 31 December 2020:

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

Twelve months ended 31 December 2019:

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

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

Twelve months ended 31 December 2018:

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

26. Financial instruments

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

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

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

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

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

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

Concentration of credit risk

2020

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

2019

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

2018

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

Allowance for expected credit losses

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

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

31 December 2020

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

31 December 2019

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

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

31 December 2018

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

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

Currency risk

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

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

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

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

Sensitivity analysis

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

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

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

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

Commodity price risk

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

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

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

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

Fair value hierarchy

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

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

The description of the levels is presented below:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3 – inputs for the asset or liability that are not based on observable market data.

27. Commitments and contingencies

a. For litigation and liabilities

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

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

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

b. Capital commitments

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