

# COMPANY PROFILE

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# Nº2

in terms of iron ore reserves globally

# Nº1

producer of merchant hot briquetted iron globally

# Nº1

pig iron exporter globally

# Nº2

producer of pellets globally

# Nº5

producer of commercial iron ore globally

# 01

Company Profile

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Environmental Responsibility

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# Company at a Glance

102-1 Holding Company Metalloinvest (hereinafter Metalloinvest or the Company) and its subsidiaries comprise a group of mining and metallurgical companies whose profile includes the production of high-quality iron ore, metallised products, and high-quality steel products.

- 102-2
- 102-3
- 102-4
- 102-45
- Holding Company Metalloinvest main assets include:**
- 102-2 > Lebedinsky Mining and Processing Plant Joint-Stock Company (hereinafter Lebedinsky GOK)
  - 102-3 > Mikhailovsky Mining and Processing Plant Public Joint-Stock Company (hereinafter Mikhailovsky GOK)
  - 102-4 > Oskol Electrometallurgical Plant Joint-Stock Company (hereinafter OEMK)
  - 102-45 > Ural Steel Joint-Stock Company (hereinafter Ural Steel)

The aforementioned assets are managed by Management Company Metalloinvest, which is headquartered in Moscow and has functional units based in the Belgorod Region city of Stary Oskol. The Company has set up a shared services centre in Stary Oskol – the subsidiary MKS LLC, which provides administrative support for the Company's activities, specifically accounting, tax, and personnel administration.

The Company operates in Russia. It has production facilities in three regions of the Russian Federation – the Belgorod, Kursk, and Orenburg Regions.

### Metalloinvest's mission:

To support global technological development with a responsible approach to the environment through the high-quality production of iron ore and metallised products.

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## Metalloinvest's operations are divided into two key segments: mining and metallurgy

The Company's **mining and processing plants** develop unique deposits within the Kursk Magnetic Anomaly, which primarily consist of magnetite ores with an average iron content of 34–39%. The Company has the second largest proven iron ore reserves in the world at around 14 billion tonnes according to the international classification JORC,<sup>1</sup> which guarantees about 138 years of operations at the current level of production. Most of the iron ore concentrate produced is processed into products with high added value – mainly pellets and hot briquetted iron (HBI), which are shipped to external customers and further processed at the enterprises of the Company's metallurgical segment.

Metalloinvest's **metallurgical plants** produce direct reduced iron (DRI), pig iron, and steel products: semi-finished products (square billet, rail and shaped billets, and billets for the production of pipes and hardware), long products (coil and bars, including Special Bar Quality premium quality steel), and sheet metal (strips, bridge steel, and steel for shipbuilding).

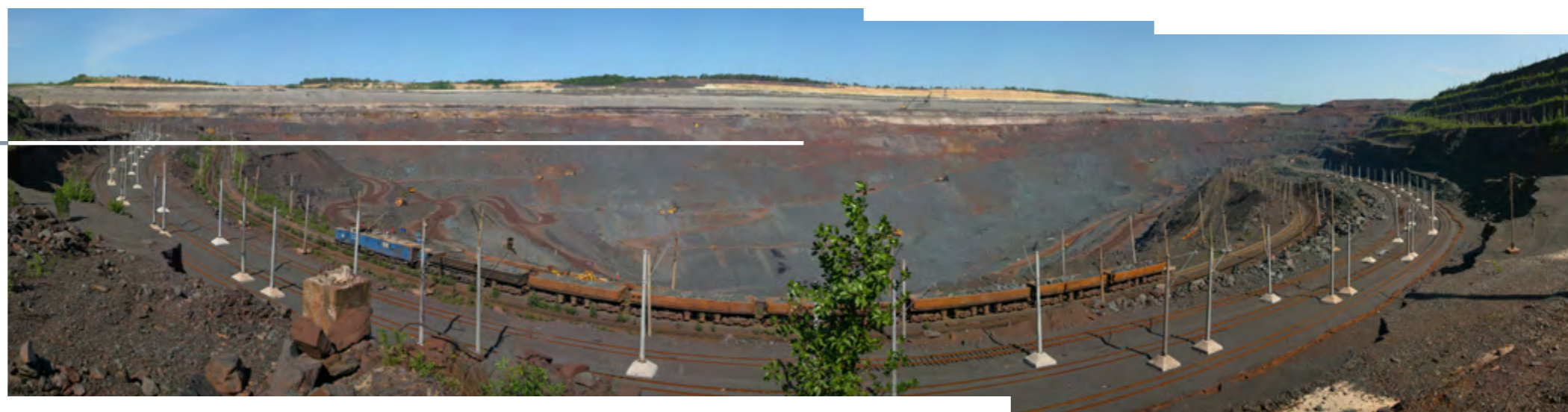
## Snapshot of Metalloinvest's operations and key indicators in 2018



<sup>1</sup> Company data as of 1 January 2019 based on the Mineral Expert's Report of IMC Group Consulting Ltd prepared in 2010.

# Business Model

The existing business model ensures that the Company maintains its leading position and key advantages on the market.



## METALLOINVEST IS:

### A global player on the iron ore market:

- › **Number two** in terms of iron ore reserves globally
- › **Number five** in terms of iron ore production globally

### A company with a high level of vertical integration:

- › the **world leader** in the production of value-added products: **number one** producer of commercial HBI and **number two** producer of pellets;
- › a **high degree of raw materials processing**: pellets and HBI account for 71% of its total shipments of iron ore products, while steel products with high added value make up 29.6% of all shipments of metallurgical products.

### A supplier with diversified clientele and a focus on emerging markets:

- › direct sales to the **world's largest steel producers**;
- › advanced **logistics**.

### A company with sound financial indicators:

- › stable profit margin indicators

### Integration

The integration of iron ore mining, its processing into high value-added iron ore products, and the production of high-grade steel products are all key competitive advantages of the Company. The Company's mining and processing plants supply feedstock to meet the iron ore and metallised raw material needs of its metallurgical plants.

### Coordination and centralisation


Coordinating the production policy of enterprises and centralising sales and marketing functions makes it possible to effectively manage the production costs of enterprises and the risks associated with fluctuations in global prices for raw materials and metal products.

### Diversification

A diversified system of product sales enables the Company to flexibly respond to market demand and take advantage of opportunities that arise on the domestic and foreign markets.

### Digital transformation

The ongoing transformation of the Company's business with a transition to Industry 4.0 standards in the future will provide significant competitive advantages due to lower production costs and improved business efficiency based on the digitalisation and automation of production processes at the Company's mining and metallurgical plants.

 For more details, see the section **Company's Approach to Innovation** (pp. 16–17).

 For more details on the Company's business model, see the section **Business Model of the 2018 Annual Report** (pp. 36–37).

# Corporate Governance

The Company's effective corporate governance system serves as the foundation for building trust-based relationships with shareholders, investors, employees, and other stakeholders, which provides a major contribution to the Company achieving its sustainable development goals.

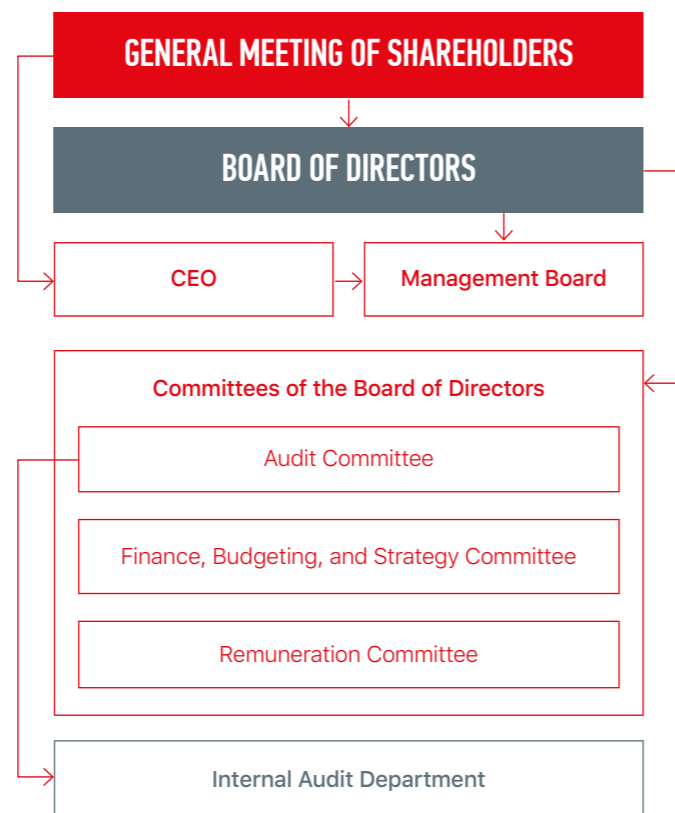
## Corporate Governance Structure

Sustainable development management is integrated into the corporate governance structure and carried out at all organisational levels in accordance with best international practices.

Metalloinvest's main corporate governance bodies are the General Meeting of Shareholders, the Board of Directors, the Management Board (collective executive body), and the CEO.

The **General Meeting of Shareholders** is the Company's highest governing body.

The General Meeting of Shareholders elects members of the **Board of Directors** – a collective body that handles the day-to-day management of the Company's activities and determines its corporate development strategy. The Board of Directors' main role is to create conditions for the Company's sustainable development through a regular review of its strategic priorities. The Company's sustainable development objectives are determined at the level of the **Management Board**, which is chaired by the CEO.



As of 31 December 2018, the Board of Directors was comprised of eight members, three of whom were recognised as independent:

- › Ivan Streshinsky, Chairman of the Board of Directors, Non-Executive Director.
- › Galina Aglyamova, Independent Non-Executive Director
- › Andrey Varichev, Executive Director
- › Valery Kazikayev, Independent Non-Executive Director
- › Gleb Kostikov, Non-Executive Director
- › Irina Lupicheva, Non-Executive Director
- › Pavel Mitrofanov, Non-executive Director
- › Dmitry Tarasov, Independent Director

Ivan Streshinsky, who has been a member of the board since February 2013, was elected Chairman of the Board of Directors and is a member of the Remuneration Committee.

In 2018, the Board of Directors held seven meetings in person and 55 meetings in absentia where a number of major decisions were adopted concerning different areas of the Company's activities, including business transformation and progress in achieving sustainable development. The Board paid special attention to social issues such as social projects and collaboration with secondary and higher educational institutions.

All members of the Board of Directors undergo regular performance evaluations, including in terms of managing economic, environmental, and social issues.

**102-18** The **Management Board** serves as the Company's collective executive body. It is comprised of the CEO, deputy CEOs, the managing directors of four enterprises as well as directors in charge of strategy, development, transformation, corporate affairs, finance, economics, and investment (11 directors in total). The Management Board is responsible for coordinating the work of the services and units of the Management Company and the Company's enterprises and adopting decisions on major issues related to day-to-day activities. In addition, the Management Board is in charge of preparing proposals for the Board of Directors on promising areas for the Company's development and plans for their implementation and also on developing strategies and policies for economic, environmental, and social issues.

The sole executive body is the **CEO**, who handles the operational management of the Company's day-to-day activities. The CEO acts on behalf of the Company and represents its interests.

Three permanent **committees** have been set up under the Management Company's Board of Directors:

- › Audit Committee
- › Finance, Budgeting, and Strategy Committee
- › Remuneration Committee

The committees under the Board of Directors conduct a preliminary review of and prepare recommendations on the most important issues within the remit of the Board of Directors, including on economic, environmental, and social matters. Certain issues related to ensuring sustainable development are submitted to the Board of Directors for review through the Committees. General approaches to resolving issues are approved by the Board of Directors, while the Management Board and the CEO ensure their implementation.

For more details on corporate governance, see the section **Corporate Bodies' Structure and Performance Results of the 2018 Annual Report** (pp. 80–90).

## Sustainable Development Management

The following operational committees handle sustainable development issues:

- › Risk Committee
- › Environment, Health and Safety Committee

At the level of the Management Company's structural units, sustainable development activities are coordinated by the Social Policy and Corporate Communications Director, who reports directly to the CEO.

The relevant structural units of the Management Company are responsible for handling specific sustainable development tasks:

- › Social Policy Department
- › HR Department
- › Organisational Development Department
- › Security Department
- › Environment, Occupational Health and Safety Division
- › Health Division
- › Internal Audit Department
- › Corporate Communications Department

In addition to the aforementioned departments that are responsible for sustainable development at the highest level throughout the Company, production units also manage issues in this regard by handling specific tasks for each individual plant. These tasks are coordinated by special structural units that are created at each of the Company's enterprises – Social Affairs Directorates.

Metalloinvest also has a Social Council that includes representatives of trade unions and Company employees that ensure the implementation of socially-oriented activities at the local level.

For more details on Metalloinvest's corporate governance system, see the section **Corporate Bodies' Structure and Performance Results of the 2018 Annual Report** (pp. 80–90).

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# Company's Approach to Innovation

During the reporting period, Metalloinvest entered into the active phase of an ambitious initiative to transform its entire business for which it formulated a unified approach to the introduction of innovations as well as new production and management solutions.



The comprehensive digital transformation programme is a large-scale initiative to automate core business processes as well as to find technological solutions that enhance production efficiency and safety while also reducing environmental risks. The programme encompasses 18 functional areas, including the management of production, procurements and inventory, maintenance and repair, sales, personnel and contract management, volume planning, and budgeting.

 For more details on the objectives of the Programme, see the Metalloinvest 2017 Corporate Social Responsibility Report (pp. 20-21).

Implementing the programme is a strategic priority for Metalloinvest. The Strategy and Transformation Directorate is in charge of managing the process, with different tasks distributed among four departments responsible for strategic development, risk management, transformation, and the immediate introduction of the Industry 4.0 agenda. All the leaders of the functional areas encompassed by the programme are involved in its implementation.

## An innovative approach means:


- › the digitalisation of production;
- › a policy of improving the efficiency and safety of business processes through research and introducing the best available technologies;
- › improving planning accuracy through the continuous monitoring of activities, automation of analytics, and improved forecasting;
- › implementing an energy efficiency strategy that creates opportunities to scale up production while reducing resource expenses and humans' impact on the environment;
- › increasing employees' expertise and knowledge in matters concerning Industry 4.0 in order to participate in the transformation processes;
- › continuous engagement with stakeholders and collaboration to promote digitalisation and technological modernisation.


## Results of digital transformation as of the end of 2018

**18**  
functional areas covered

**>30,000**  
organisational changes made

- › Starting development of a unified information space for all the Group's enterprises supported by an ERP system to replace 100 local systems.
- › Launching an integrated management system for financial and economic activities for more than 4,000 users at Lebedinsky GOK and Mikhailovsky GOK to replace more than 100 production and management systems.
- › Initiating the second wave of Industry 4.0, which involves OEMK and Ural Steel, and is scheduled for completion in mid-2019.
- › The Company continued to implement the SAP S/4HANA system – an intelligent ERP system that is able to provide full information in real time about all business processes at the Company. The solution consolidates all the trends of Industry 4.0: hyper-connectivity and the ability to work with In-memory technologies and big data in real time, which makes it possible to implement the concept of Real Time Enterprise.

 For more details on the results of digital transformation, see the section Industry 4.0 Programme of the 2018 Annual Report (pp. 42-43).

 For more details on innovation and digital transformation in specific segments of operations, see the relevant sections of the Report.