

# SUSTAINABLE DEVELOPMENT STRATEGY

3

UN Sustainable Development Goals (SDGs) in Company's focus

13 out of 17

UN SDGs covered by the Company's contribution in 2018

TOP 100

of EcoVadis Business Sustainability Ratings

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02

# Sustainable Development Strategy

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Metalloinvest carries out its business activities, including sustainable development activities, in accordance with its **Development Strategy**. The Company takes a **flexible approach** to shaping the Development Strategy: it goes through **four stages of development** with a detailed analysis of the Company's effectiveness and market trends and is updated annually. This makes it possible to effectively manage risks when planning activities and implementing projects as well as optimise budget planning.

In 2018, an independent consulting company was involved in updating the Strategy based on instructions from the Board of Directors. Updates were made to the Company's development priorities as well as its long-term goals and objectives in the document taking into account key trends and current changes on the global market for iron ore, metallised, and steel products, modern technological trends in the global steel industry, and Metalloinvest's competitive advantages.

 For more details on the Company's strategy, see the 2018 Annual Report

As a supplier of high-quality iron ore and metallised products, Metalloinvest believes its strategic mission is to support global technological development with a responsible approach to environmental protection and a responsible social policy. Through efforts to improve the efficiency, innovativeness, and safety of production, the Company contributes to sustainable development by enhancing trust, reliability, and transparency in matters of occupational health and safety and environmental protection.

**The principles of responsibility and sustainability are also integrated into strategic comprehensive programmes that support the Development Strategy. The strategic comprehensive programmes aim to make the Company's business more customer-oriented, improve product quality and develop a responsible approach to environmental protection. During the reporting period, Metalloinvest created four main strategic integrated programmes:**

- › **Ural Steel:** a project to modernise the enterprise using technologies that are innovative for the Russian market, in particular the introduction of Flexible Modular Furnace (FMF) technology and the modernisation of a blast furnace plant with a transition to pellets produced by Mikhailovsky Mining and Processing Plant, which together reduces the production facility's environmental impact.
- › **Oskol Electrometallurgical Plant (OEMK):** a project to improve customer focus and the Special Bar Quality (SBQ) of premium high-quality long products. The project involves modernising the existing production facilities while simultaneously enhancing the environmental friendliness of the process as well as installing additional capacity, in particular for the heat treatment of rolled products.
- › **Lebedinsky Mining and Processing Plant (Lebedinsky GOK):** a project to improve the quality of premium products – pellets and HBI. The main objectives of the project are to increase the strength of briquettes in order to reduce the negative environmental impact as well as boost the iron content in products.
- › **Mikhailovsky Mining and Processing Plant (Mikhailovsky GOK):** a project is planned to improve the quality of iron ore products in order to increase the iron content therein and reduce the proportion of harmful impurities.

In its operations, the Company strives to meet the **quality standards** of foreign markets, where both the final product and its production process are subject to strict requirements, in order to reduce the carbon footprint within the product life cycle. Metalloinvest tries to apply these requirements to all types of products regardless of their sales markets. By offering products that meet the highest quality standards, Metalloinvest encourages positive environmental initiatives across the Russian market.


In 2019, the Company plans to develop energy efficiency metrics that will not only make it possible to track changes in its own economic performance indicators, but also compare them with the results of other market players. Assessing the efficient use of energy resources will enable Metalloinvest to competently transform and constantly improve business processes.

## EcoVadis Business Sustainability Rating

During the reporting period, Metalloinvest was recognised in the EcoVadis Business Sustainability Rating for the first time in response to the growing interest among investment funds in the management of ESG risks (environmental, social responsibility, and corporate governance risks). When compiling the rating, experts conducted a comprehensive assessment of the Company's impact on the environment, its compliance with human rights and legislation, anti-corruption measures, and the organisation of sustainable supply chains. Based on the results of the assessment, Metalloinvest was among the top 100 (11%) of the world's best producers of metal resources and steel recognised in the EcoVadis Rating (more than 900 companies). The Company was also in the top 7% of the world's most environmentally friendly metals and steel producers.

Being part of the rating enabled the Company to identify its strengths and areas for improvement in the Strategy and activities that were outlined in the roadmap.

In 2019, once this Report has been published, we will have opened a green credit facility and have signed a loan agreement with ING. The interest rate on this loan (Sustainability Improvement Loan) may be reduced if assessments show that the Company has improved its corporate social responsibility indicators.

 More details on the results of the green financing project will be presented in the 2019 report

# Achieving the UN Sustainable Development Goals

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Modern society expects companies to be reliable, transparent, safe, and accountable in their business. This means organisations need to integrate the principles of sustainable development into their business strategies, which should further contribute to improvements in the efficiency and long-term sustainability of business.

Metalloinvest's strategic goals are consistent with global trends in sustainable development, and the set of strategic initiatives that the Company is implementing not only helps to solve business problems, but also contributes to the achievement of the UN Sustainable Development Goals (UN SDGs).

The Company's top sustainable development priorities involve ensuring employee safety, environmental protection and social responsibility throughout the entire value creation process:

- > continuous efforts to reduce emissions and waste from in-house production;
- > providing customers with raw materials that help to improve environmental impact;
- > ensuring employees have safe working conditions, decent wages, vacation, and treatment;
- > making a social contribution in our regions of operation (with the support and participation of local employees).

During the reporting period, Metalloinvest focused on the following UN SDGs: Goal 3 Good Health and Well-Being, Goal 8 Decent Work and Economic Growth, and Goal 9 Industry, Innovation, and Infrastructure. The Company covers a range of targets in Goals 1, 4, 5, 6, 7, 10, 11, 12, 16, and 17 as part of its Development Strategy.



## Priority UN SDGs and Metalloinvest's activities

### Goal 3

#### Ensuring healthy lives and promoting the well-being for all at all ages

##### Targets within the SDG

**3.4** By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.

##### Metalloinvest's contribution

Metalloinvest employees were granted access to healthcare and health resort treatment.

For more details, see the section **Social Support for Employees** (p. 105).

A programme was implemented to reduce occupational morbidity among Metalloinvest employees by identifying early signs of occupational diseases (signs before symptoms appear).

Preventive measures were carried out to prevent the development of occupational diseases.

For more details, see the section **Employee Health** (p. 84).

**3.8** Achieve universal health coverage, including <...>access to quality essential health-care services <...>.

A strategy was implemented to improve the quality of healthcare for residents in the regions where the Company operates by providing access to medical services at the Company's clinics.

For more details, see the section **External Social Programmes and Philanthropic Activities** (p. 112-116)

### Goal 8

#### Promote inclusive and sustainable economic growth, employment, and decent work for all

##### Targets within the SDG

**8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors

##### Metalloinvest's contribution

The Company increased the output of iron ore and metallurgical products, including products with high added value, which is a resource for the further production of high-tech equipment, vehicles, etc.

For more details, see the section **Financial and Operational Results** (p. 42-47).

A digital transformation programme was implemented as part of an ambitious initiative to automate key business processes as well as to find technological solutions that increase the efficiency and safety of production while simultaneously reducing environmental risks.

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





## Goal 8 (continued)

### Promote inclusive and sustainable economic growth, employment, and decent work for all

Targets within the SDG	Metalloinvest's contribution
<b>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation &lt;...&gt;</b>	Metalloinvest implemented its development strategy, which aims to improve production efficiency through the introduction of strategic comprehensive programmes, digital transformation, and the optimisation of business processes and boost the productivity of employees and their well-being through their training and development.
<b>8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead</b>	<p>The Company introduced best available technologies (BAT) in the stages of production facility construction and modernisation and took part in the drafting of scientific and technical reference guides to assist industry companies in reducing their environmental impact.</p> <p> For more details, see the section <b>Management of Environmental Responsibility</b> (p. 57-58).</p> <p>Production facilities were modernised and technological solutions were introduced to significantly improve the efficient use of resources (including water and electricity) and reduce the carbon footprint from their operation.</p> <p> For more details, see the sections <b>Water Consumption and Protection, Emissions, Air Protection and Climate Strategy, and Energy Consumption and Efficiency</b> (p. 62-73).</p>
<b>8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value</b>	<p>A responsible HR policy was built on the principles of equality and non-discrimination. Employees were provided with decent wages that exceed average wages in the regions of operation.</p> <p> For more details, see the sections <b>Personnel Management System</b> (p. 96-97) and <b>Remuneration System</b> (p. 104).</p>
<b>8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training</b>	<p>The Company collaborated with specialised higher and secondary educational institutions and provided internship opportunities at its enterprises.</p> <p>Individual annual development programmes were implemented for young professionals in order to comprehensively develop the skills needed for their future careers.</p> <p> For more details, see the section <b>Personnel Recruitment</b> (p. 100).</p>
<b>8.8 Protect labour rights and promote safe and secure working environments for all workers &lt;...&gt;</b>	<p>Advanced technological solutions were introduced to enhance the efficiency of the occupational health and safety system, with a transition to automated processes in order to minimise the human error factor that may cause injury.</p> <p>Metalloinvest enterprises took steps to exchange experience in occupational health and safety among each other and with third-party companies to ensure the best practices.</p> <p>Internal corporate coaching projects were implemented to educate leaders about occupational health and safety.</p> <p> For more details, see the section <b>Occupational Health and Safety</b> (p. 74-87).</p>

## Goal 9

### Build resilient infrastructure, promote sustainable industrialisation, and foster innovation

Targets within the SDG	Metalloinvest's contribution
<b>9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</b>	<p>The Company has invested in programmes to develop and maintain the development of social infrastructure in regions of operation, including medical, sports, health, educational and cultural institutions.</p> <p> For more details, see the sections <b>Relations with Regions of Operation and External Social Programmes and Philanthropic Activities</b> (p. 110-117).</p>
<b>9.2 Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and gross domestic product &lt;...&gt;</b>	<p>Production volumes of high-quality iron ore and metallurgical products were consistently increased. The introduction of advanced digital solutions and improvements to the safety of production processes have made the metallurgical industry more attractive.</p> <p> For more details, see the sections <b>Company's Approach to Innovation</b> (p. 16-17) and <b>Financial and Operational Results</b> (p. 42-47).</p>
<b>9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes &lt;...&gt;</b>	See the description of the contribution to Target 8.4.
<b>9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries &lt;...&gt;</b>	<p>The Company engaged in scientific cooperation with MISIS National University of Science and Technology and conducted joint research in the scientific and technical laboratory. It also participated in the development of scientific and technical reference guides for BAT.</p> <p> For more details, see the sections <b>Personnel Recruitment</b> (p. 100) and <b>Management of Environmental Responsibility</b> (p. 57-58).</p> <p>Research projects were implemented within the Company, in particular projects to find solutions to enhance energy efficiency.</p> <p> For more details, see the section <b>Energy Consumption and Efficiency</b> (p. 70-71).</p>

 For more details on the Company's contribution to the achievement of other UN SDGs, see the Appendices (pp. 126-137).

# Stakeholder Engagement

## Principles and Mechanisms for Stakeholder Engagement



Balancing the interests of stakeholders is an integral part of business sustainability and responsibility, which in turn ensures its environmental stability. When selecting an area of strategic development, the Company strives to actively engage all stakeholders and take into account each of their opinions while adhering to common principles, but selecting an individual approach to each group.

The key mechanisms for engagement are enshrined in the corporate policy on stakeholder engagement and are based on the five basic principles described below:

- › consistency: regularly informing the public about the impact of the Company as well as its decisions and activities on society, the economy, and the environment and taking the necessary steps to minimise the negative impact taking into account the expectations and positions of stakeholders;
- › transparency: providing comprehensive and reliable information about its activities, using various methods to keep stakeholders informed and collecting feedback;
- › materiality: integrating the interests of all stakeholders into the Company's Strategy based on their priorities;
- › completeness: constant interaction and comprehensive coverage of the views, needs, and concerns of stakeholders;
- › response: the obligation to respond to significant issues and stakeholders' expectations.

Metalloinvest's engagement with stakeholders involves a regular dialogue between the Company and stakeholders, which can be initiated by any of the parties.

The Company regards the following as its stakeholders:

- › shareholders;
- › customers;
- › suppliers, contractors, and other market participants;
- › the government authorities, including:
  - federal executive bodies;
  - regional authorities and local governments;
- › investment community;
- › employees;
- › local communities (local residents, non-profit organisations, and municipal institutions).

The list of stakeholders is given in the Stakeholder Engagement Policy and is updated as changes occur.

Stakeholder engagement is conducted across multiple interactive channels. Suggestions and criticisms are recorded and discussions are held on topics that are important to stakeholders.

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Key engagement channels include:



### Internal channels:

- › corporate radio;
- › information boards and booklets;
- › 'Your Voice' feedback boxes;
- › hotline;
- › meetings with employees;
- › corporate Internet portal.



### Combination of internal and external channels:

- › media;
- › Annual Report;
- › Sustainable Development Report;
- › social media;
- › web-based information portals in cities where the Company operates;
- › corporate website.



### External channels:


- › dialogues and events with external stakeholders.

The communication channel is selected depending on the group of stakeholders and the type of interaction.

## Methods and Results of Engagement with the Main Groups of Stakeholders

One of the results of stakeholder engagement was the identification of key issues for each of the stakeholders and the prompt response to these issues.

Group of stakeholders	Engagement channels	Key engagement measures	Questions and interests of the stakeholder	Company's response to questions raised
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>› General Meeting of Shareholders</li> <li>› Publishing corporate reports</li> </ul>	<ul style="list-style-type: none"> <li>› Meetings of shareholders</li> <li>› Collection of feedback from shareholders and the submission of key issues to meetings of the Board of Directors</li> <li>› Regular informing of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>› Stable dividend income and return on equity for shareholders</li> <li>› Risk management</li> </ul>	<ul style="list-style-type: none"> <li>› Implementation of the Development Strategy</li> <li>› Implementation of a multi-tiered corporate-wide risk management and internal control system (CRMICS)</li> <li>› Implementation of the Industry 4.0 digital transformation programme</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>› Long-term contracts</li> <li>› Regular meetings with clients</li> <li>› Public events</li> </ul>	<ul style="list-style-type: none"> <li>› Face-to-face meetings with customers and the collection of feedback on product quality</li> <li>› Customer surveys</li> <li>› Informing customers about product quality standards</li> </ul>	<ul style="list-style-type: none"> <li>› Product quality</li> <li>› Satisfaction with service</li> <li>› Understanding customer needs and how they are influenced by new industry trends</li> </ul>	<ul style="list-style-type: none"> <li>› Implementation of a comprehensive programme to improve the customer focus in the sale of steel products</li> <li>› Conducting an annual consumer survey</li> <li>› Conducting on-site customer interviews</li> <li>› Holding coordination councils and working meetings with customers</li> <li>› Business trips to customers' enterprises</li> <li>› Visits to production sites by customers</li> <li>› Introducing customers to the production process</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>› Training programmes</li> <li>› Corporate website</li> <li>› Monitoring of employee engagement</li> <li>› Corporate media and radio</li> <li>› 'Your Voice' feedback boxes</li> <li>› Hotline</li> </ul>	<ul style="list-style-type: none"> <li>› Corporate assessment of the Company's management regarding the personal, business, and professional potential and other skills necessary for managers of this level to solve the tasks facing the Company and market practices</li> <li>› Launch in September of a four-modular nine-month Comprehensive Corporate Development Programme for key Company employees</li> <li>› Launch of corporate training programmes for key employees based on the results of professional certification starting from December 2018</li> <li>› Creation of a top 100 talent pool</li> <li>› Launch in May 2018 of a five-module annual corporate training program called Institute of Production Leaders</li> <li>› Launch of the Experience Sharing corporate programme starting from May 2018</li> </ul>	<ul style="list-style-type: none"> <li>› Labour relations</li> <li>› Salary and social support</li> <li>› Training and development</li> <li>› Safe working conditions</li> </ul>	<ul style="list-style-type: none"> <li>› Signing collective agreements to ensure social support for employees, their families, and retirees (former employees)</li> <li>› Corporate events</li> <li>› Corporate social programs for employees</li> <li>› Employee training on occupational safety</li> <li>› Assessment of occupational risks and hazards</li> <li>› Taking measures to reduce the risk of accidents at hazardous production facilities</li> </ul>

 For more details on the employee engagement events, see the section **Responsibility to Employees** (pp. 92–105).


Group of stakeholders	Engagement channels	Key engagement measures	Questions and interests of the stakeholder	Company's response to questions raised
<b>Local communities</b>	<ul style="list-style-type: none"> <li>› Coordination councils in the course of implementing external social programmes</li> <li>› Dialogues with representatives of the local population</li> <li>› Public consultations with representatives of the local population as part of the implementation of investment projects</li> <li>› Charity programmes</li> </ul>	<ul style="list-style-type: none"> <li>› Dialogues with representatives of the cities of Gubkin and Stary Oskol in 2018</li> <li>› Feedback on the implementation of social programmes</li> <li>› Provision of Metalloinvest grants as part of the implementation of social programmes</li> <li>› Review of appeals by local residents received through various channels</li> </ul>	<ul style="list-style-type: none"> <li>› Socioeconomic development of the regions where the Company operates</li> </ul>	<ul style="list-style-type: none"> <li>› Implementation of charitable and social programmes in the regions where the Company operates with the following focuses:                             <ul style="list-style-type: none"> <li>› support for education;</li> <li>› development of the social and cultural environment;</li> <li>› improving the quality of healthcare services;</li> <li>› support for amateur and children's sports;</li> <li>› support for vulnerable segments of the population.</li> </ul> </li> </ul>
<b>Federal and regional authorities</b>	<ul style="list-style-type: none"> <li>› Face-to-face meetings and negotiations</li> <li>› Working and expert groups, commissions, and committees</li> <li>› Public events (conferences, forums, and roundtables)</li> <li>› Corporate development programmes and social infrastructure support and development programmes</li> </ul>	<ul style="list-style-type: none"> <li>› Face-to-face negotiations and meetings with senior officials</li> <li>› Industry-wide conferences and meetings</li> <li>› Conferences</li> <li>› Signing of an action plan as part of socioeconomic partnership agreements</li> </ul>	<ul style="list-style-type: none"> <li>› Compliance with the orders of the State Council of the Russian Federation</li> <li>› Implementation of the initiatives of the federal executive authorities</li> <li>› Implementation of best industry practices</li> </ul>	<ul style="list-style-type: none"> <li>› Analysis of the impact of initiatives on the Group's day-to-day and financial activities</li> <li>› Preparation of the Group's proposals and positions on initiatives and draft amendments to regulatory acts</li> </ul>
<b>Investment community</b>	<ul style="list-style-type: none"> <li>› Conferences and forums</li> <li>› Meetings in different formats</li> <li>› Investor Day</li> <li>› Site visits</li> <li>› Non-deal roadshow</li> <li>› Deal roadshow</li> </ul>	<ul style="list-style-type: none"> <li>› Participation in seven investment conferences and forums in Russia and abroad (USA, UK).</li> </ul>	<ul style="list-style-type: none"> <li>› Financial indicators</li> <li>› Corporate social responsibility</li> </ul>	<ul style="list-style-type: none"> <li>› Publication of reporting</li> <li>› Participation in industry-wide forums and conferences</li> </ul>
<b>Suppliers and contractors</b>	<ul style="list-style-type: none"> <li>› Tenders for the purchase of goods and services</li> <li>› Specialised conferences and exhibitions</li> <li>› Holding dialogues with suppliers</li> </ul>	<ul style="list-style-type: none"> <li>› Face-to-face meetings with suppliers</li> <li>› Conducting an initial assessment of suppliers for compliance with tender criteria</li> <li>› Obtaining feedback from suppliers</li> </ul>	<ul style="list-style-type: none"> <li>› Transparent bidding procedures for the purchase of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>› Automation of the procurement process</li> <li>› Interaction with suppliers as part of commercial negotiations</li> </ul>

 For more details on the community outreach activities, see the section **Contribution to Social Development** (pp. 110–111).

 For more details on engagement with the investment community, see the section **Investor Relations of the 2018 Annual Report** (pp. 55–56).

 For more details on the interaction with suppliers see the section **Supply Chain** (p. 48).

In addition to regular interaction with stakeholders on the topics and issues listed above, a survey was also conducted to determine material topics for the current report and to form a materiality matrix.

 For more details on the materiality matrix, see the section **Materiality Matrix**.

# Corporate Communications

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The Company adheres to a policy of transparency when interacting with employees as well as other stakeholders. Metalloinvest actively cooperates with MediaCentre LLC, which has various media channels in the cities where the Company operates, including print newspapers that cover both in-house and municipal audiences, television and radio channels, and websites.

The internal communications tools that have been introduced help to inform employees about developments in the Company's day-to-day activities, including changes to its strategy and the release or updating of corporate documents, best manufacturing practices, key projects, and issues concerning corporate culture and social policy. All channels have feedback mechanisms through which both employees and external users can ask questions and give suggestions.

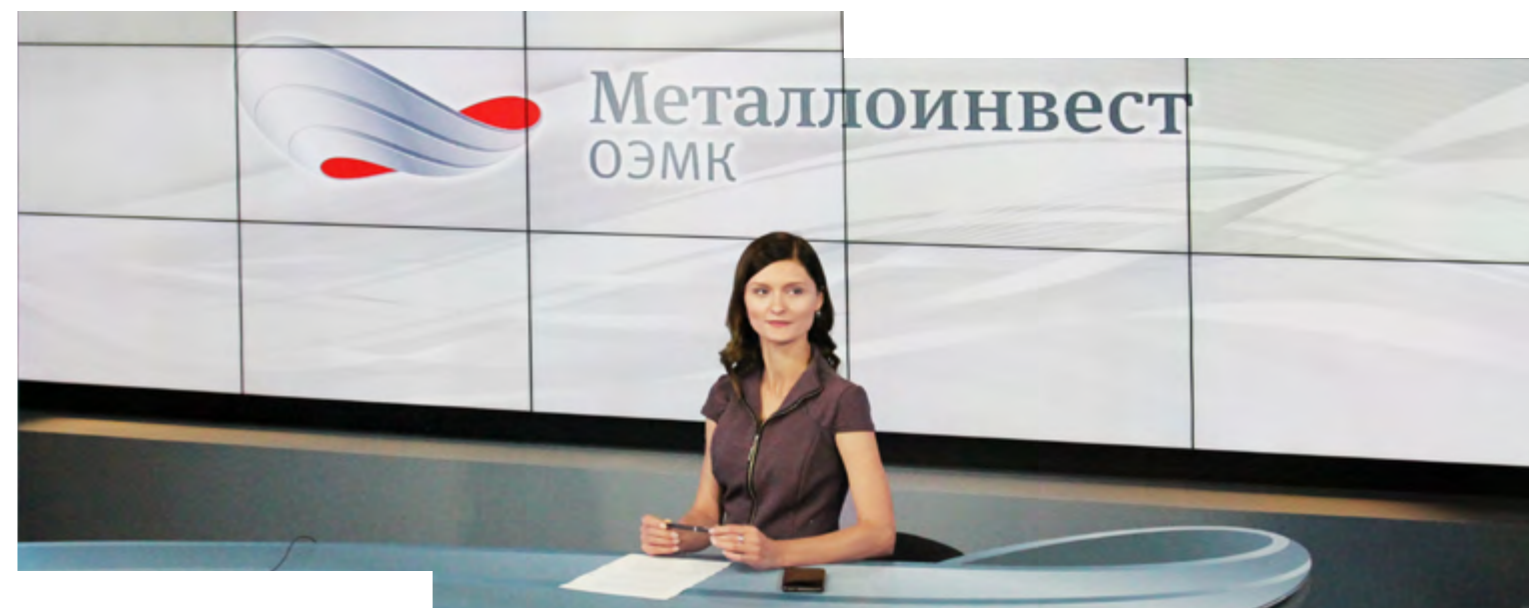
The Company takes a progressive approach when interacting with stakeholders and, in addition to conservative sources of providing information and collecting feedback, is actively working on engagement through social media. During the reporting period, the Company relaunched its pages on Facebook, VKontakte, Instagram, and Odnoklassniki. The Company interacts with 3.5 million members of its audience using social networks.

In addition, the Company has a digital mechanism for collecting employee feedback through its Self-Service and corporate website.

## 'Your Voice'

Metalloinvest has a feedback box called 'Your Voice', which the Company's employees can use to anonymously or publicly address any question to management. All the inquiries are sent to the communications office, which distributes them to the responsible departments and structural units. Feedback on the issues in question is provided both personally to the applicant and publicly through mass communication tools depending on the nature of the issue.

A total of **96 feedback boxes** have been set up at the Company's enterprises and helped to resolve **218 disputes** during the reporting period.



## Internal and external corporate communications

Each of the Company's enterprises has up to four information sharing channels.

- Lebedinsky GOK
  - > The Working Tribune newspaper, with a circulation of 16,465 copies
  - > The Gubkin.city website
  - > The Lebedinsky Express local interest programme for STS channel
  - > The Lebedinskaya Wave radio station for the town of Gubkin
- Mikhailovsky GOK
  - > The Kurskaya Ore newspaper, with a circulation of 12,050 copies
  - > The Zhel.city website for the town of Zheleznogorsk
- OEMK
  - > The Metallurg newspaper, with a circulation of 13,459 copies
  - > The Oskol.city website for the town of Stary Oskol
  - > The OEMK-TV local interest programme for Ren-TV channel
  - > The Radio OEMK station
- Ural Steel
  - > The Elektrostal newspaper, with a circulation of 16,000 copies
  - > The ntr.city website for the town of Novotroitsk

As at the end of 2018, the Metallurg and Elektrostal newspapers ranked 17th and 18th, respectively, and were among the top ten in the Metallurgy segment, according to a rating compiled by the Production Management portal.

## Plans for 2019

In order to improve the efficient processing of information obtained via feedback, the Company plans to launch a new corporate portal in the coming year, which will include an automated and centralised feedback platform.

In order to raise the level of awareness and involvement among the Company's employees, it is developing an Employee Awareness and Support System, including in the following segments:

- > development of a line of thematic souvenir and printed products;
- > holding internal corporate events;
- > support for corporate sports teams;
- > support the volunteer movement in the regions.

**3.5 million**  
Total number of interactions with the audience using social networks

# Sustainability Risk Management

Company Profile  
Sustainable Development Strategy  
Economic Performance  
Environmental Responsibility  
Occupational Health and Safety  
Human Rights  
Responsibility to Employees  
Contribution to Social Development

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Risk management is one of the key processes that ensures the stability of business. Metalloinvest strives to proactively manage risks before they materialise and thus introduces risk management components into each business process.

As part of the **Corporate Risk Management and Internal Control System**, each functional unit performs risk management. The Management Company's Internal Control and Risk Management Department serves as the main methodologist and is responsible for developing and improving procedures used to identify, assess, and monitor risks. Risks identified at the level of structural units are evaluated, ranked, and documented in the unified risk register. The Board of Directors monitors the response measures and ongoing status of key risks.

The Risk Committee of the Management Board handles the operational management of the Corporate Risk Management and Internal Control System. The Risk Committee, which includes the heads of functions at production facilities, meets at least once a month to discuss day-to-day risk management matters. The committee may meet more frequently if there are issues requiring urgent resolution. The Risk Committee met 15 times in 2018. Feedback from business units directs the meeting agenda. The Risk Committee develops its main conclusions and recommendations on the issues in question and refers the most significant matters to the Audit Committee for consideration. The Audit Committee also monitors quarterly reporting on the status of the risk management and internal control system, reports on risks that have materialised, and compliance with the Group's risk appetite. It approves the Corporate Risk Management and Internal Control System Strategy and key initiatives to develop this function. The Board of Directors is the final authority that reviews and approves reports and the Corporate Risk Management and Internal Control System Strategy. The current status of the CRMICS is reported by the Chairman of the Audit Committee of the Board of Directors.

**In 2018, Metalloinvest approved the Strategy for the Corporate Risk Management and Internal Control System**, which has become a top-level document within the risk management system that is complemented by the existing Corporate Risk Management and Internal Control System standard and the regulation on the management of business processes (risk management and internal control). The approval of the Strategy has become part of the implementation of the recommendations obtained during an independent audit of the maturity of the Risk Management System that was carried out in 2017.

According to the Strategy, one of the priority areas for developing the risk management and internal control system is the development and introduction of targeted risk management programmes for occupational health and safety and environmental safety, the development of the compliance function and an integral compliance programme, and conducting an assessment of compliance with the ISO 37001:2016 Anti-bribery management systems. As part of its strategy, the Company establishes zero tolerance for any manifestations of the risk of corruption, fraud, harm, or damage to the health of workers and the environment.

 For more about the risk management system and regulatory documents, see the 2018 Annual Report.

## Key measures carried out in 2018

- › One of the key roles of the risk management and internal control function in the **transformation and automation of the Group's business processes**.
- › **Active participation in the work of the Transformation Office**, a structural unit headed by the Director for Strategy, Development and Transformation, which manages over 20 related automation and transformation projects with methodological support from the Internal Control and Risk Management Department.
- › **The introduction of the automated SAP GRC Access Control module** as part of the first deployment phase of the mining segment's integrated management system for financial and economic activities (IMS FEA). The module separate access rights and reduce the risk of errors and personnel misconduct.
- › **The creation of a process model of the Company and the coordinated development of regulations for automated business processes, including risk and control matrices**.

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## Key risk groups relevant to the Company's sustainable development

Non-financial risks groups	Brief description of risks	External factors	Internal factors	Possible implications	Risk mitigation measures
<b>Risks related to changes in legislation</b>	› Government decisions that have a direct significant impact on the Company's operations	› Changes to external economic and political factors and lobbying		› Additional costs for business; civil and administrative liability for management of the Company	› Monitoring of changes in legislation and quarterly compilation of a report on the impact these changes have on the Company's operations  › Decision-making on the Company's response to changes and the notification of the responsible units
<b>Risks associated with personnel management</b>	› Lack of qualified personnel  › Outflow of key employees  › Workplace tensions and employee dissatisfaction		› Lack of employee motivation  › Ineffective personnel training system	› Worsening of discipline and manageability  › Financial damage  › Slowdown and decline in the efficiency of production processes	› Modernisation of the corporate employee training system  › Development of a system to hire young employees and the creation of a talent pool  › Development of a system of financial and non-financial incentives for employees as well as a system of social support
<b>Risks related to corporate governance</b>	› Shortcomings in corporate governance	› Lack of human resources on the market	› Redundancy of job functions  › Lack of expertise  › Gaps in regulation  › High transaction costs  › Shortcomings in training programmes	› Slow pace of decision-making and implementation  › Poor decision-making by management  › Negative impact on ratings	› Periodic evaluation of activities, including in terms of managing economic, environmental, and social issues



For more details on engagement with employees, see the section Responsibility to Employees (pp. 92-105).



For more details on the corporate governance system, see the section Corporate Governance (pp. 14-15).

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Key risk groups relevant to the Company's sustainable development (continued)


Non-financial risks groups	Brief description of risks	External factors	Internal factors	Possible implications	Risk mitigation measures
<b>Cyber risks</b>	<ul style="list-style-type: none"> <li>› Cyber attacks by intruders</li> <li>› Breach of information security as a result of employee's actions/inaction</li> </ul>	<ul style="list-style-type: none"> <li>› Paid-for and criminal nature of information security threats</li> </ul>	<ul style="list-style-type: none"> <li>› Lack of qualified personnel</li> <li>› Insufficient effectiveness of existing information security tools</li> </ul>	<ul style="list-style-type: none"> <li>› Breach of information systems, workstations, and automated process control systems</li> <li>› Financial damage</li> <li>› Disclosure and theft of confidential information</li> <li>› Unauthorised modification and deletion of information</li> <li>› Fines and claims by regulators, claims by individuals, criminal liability, and the disqualification of managers</li> </ul>	<ul style="list-style-type: none"> <li>› Hiring highly qualified personnel</li> <li>› Regular checks and timely security system updates</li> </ul>
<b>Corruption risks</b>	<ul style="list-style-type: none"> <li>› Economic damage due to abuse by employees, corporate fraud, or corruption</li> </ul>	<ul style="list-style-type: none"> <li>› Third parties offering bribes to Company employees</li> </ul>	<ul style="list-style-type: none"> <li>› Criminal intentions of employees</li> <li>› Inadequate performance of official duties by employees</li> <li>› Ineffective leadership</li> <li>› Lack of control procedures</li> <li>› Conflict of interest</li> </ul>	<ul style="list-style-type: none"> <li>› Likelihood of losing of assets</li> <li>› Damage to business reputation</li> <li>› Economic damage</li> <li>› Deterioration of employees' production discipline</li> <li>› Possible lawsuits</li> <li>› Claims by the state authorities</li> </ul>	<ul style="list-style-type: none"> <li>› Promoting awareness about ethics and anti-corruption issues</li> <li>› Use of a hotline on anti-corruption policy issues</li> <li>› Investigation of complaints and disciplinary action in cases when violations are confirmed</li> <li>› Employee training at the International Compliance Association</li> </ul>
<b>Risks related to cooperation with third parties (suppliers)</b>	<ul style="list-style-type: none"> <li>› Economic damage from counterparty wrongdoing</li> </ul>	<ul style="list-style-type: none"> <li>› Improper performance of contractual obligations</li> <li>› Unreliable counterparties</li> <li>› Accumulation of receivables</li> <li>› Unfair competition</li> </ul>	<ul style="list-style-type: none"> <li>› Signing of contracts on knowingly unfavourable conditions</li> <li>› Insufficient verification of counterparties</li> </ul>	<ul style="list-style-type: none"> <li>› Probability of loss of assets</li> <li>› Court proceedings / costs</li> <li>› Damage to business reputation</li> <li>› Economic damage</li> <li>› Dissemination of inaccurate negative information about the Company's enterprises, shareholders, and employees</li> </ul>	<ul style="list-style-type: none"> <li>› Introduction of an effective procurement operating model to streamline processes</li> <li>› Automation of procurement activities</li> <li>› Strict supplier selection based on ESG criteria</li> </ul>


 For more details on anti-corruption measures, see the section Business Ethics and Anti-Corruption (pp. 36–37).

 For more details on engagement with suppliers, see the section Supply Chain (p. 48).

Non-financial risks groups	Brief description of risks	External factors	Internal factors	Possible implications	Risk mitigation measures
<b>Environmental risks</b>	<ul style="list-style-type: none"> <li>› Negative environmental impact as regards emissions, discharges, and waste as well as water and energy consumption</li> <li>› Failure to comply with the requirements of environmental legislation</li> </ul>	<ul style="list-style-type: none"> <li>› Changes in environmental legislation</li> </ul>	<ul style="list-style-type: none"> <li>› Commissioning of new production facilities that do not meet environmental criteria</li> <li>› Cumulative effect of negative environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>› Loss of goodwill</li> <li>› Financial damage</li> <li>› Claims by the state authorities</li> <li>› Possible lawsuits</li> </ul>	<ul style="list-style-type: none"> <li>› Timely monitoring of changes in environmental legislation</li> <li>› External audit of the compliance of the Company's environmental management systems and integrated management systems with the requirements of ISO 14001:2015</li> <li>› Integration of the best available technologies (BAT) during the construction and modernisation of production facilities</li> </ul>
<b>Risks related to occupational health and safety</b>	<ul style="list-style-type: none"> <li>› Workplace accidents</li> <li>› Occupational diseases among employees</li> <li>› Accidents and incidents</li> </ul>	<ul style="list-style-type: none"> <li>› Equipment defects</li> <li>› Incidents resulting from traffic accidents</li> <li>› Employees' susceptibility to diseases due to weakened immunity</li> </ul>	<ul style="list-style-type: none"> <li>› Violation of safety instructions by employees</li> <li>› Insufficient monitoring of hazards and emerging risks</li> <li>› Commissioning of equipment that has not been tested and insufficient monitoring of the condition of existing equipment</li> <li>› Equipment depreciation</li> </ul>	<ul style="list-style-type: none"> <li>› Damage to business reputation</li> <li>› Financial damage</li> <li>› Claims by the state authorities</li> <li>› Possible lawsuits</li> <li>› Slowdown and decline in the efficiency of production processes</li> <li>› Weakened employer brand</li> </ul>	<ul style="list-style-type: none"> <li>› Audit of the workplace safety system</li> <li>› Ensuring compliance with the recommendations of OHSAS 18001:2007</li> <li>› Increased occupational health and safety costs</li> <li>› Modernisation of personal protective equipment</li> <li>› Implementation of a programme to reduce the number of cases of occupational disease</li> <li>› Introduction of an innovative approach to the occupational health and safety management system: behavioural audits, integration of the internal corporate training system, and the introduction of an automated inspection system</li> </ul>

 For more details on environmental protection measures and compliance with environmental legislation, see the section Environmental Responsibility (pp. 52–73).

 For more details, see the section Occupational Health and Safety (pp. 74–87).

 For more details on the Company's key risks, including commercial, financial, industrial, investment, legal, GR, and HR risks, see the section Key Risks of the 2018 Annual Report (pp. 100–104).

# Business Ethics and Anti-Corruption

102-16

Metalloinvest places a particular emphasis on anti-corruption and anti-fraud, as well as creating an ethical culture. Creating a system of universal compliance control is a priority for Metalloinvest that ensures sustainable business development. The Company consistently updates and improves anti-corruption procedures while integrating them into all business processes in which there is a risk of corruption violations. Combatting corruption and adhering to business ethics are an essential part of the Company's corporate culture.

The Company has an Anti-Corruption Policy and a Code of Corporate Ethics, which formalise issues concerning honest and ethical business, a zero tolerance attitude towards discrimination or corruption, the rules for doing business, and internal and external engagement with the Company's employees. Along with the general corporate policies, each business unit adopts in-house internal documents that regulate compliance with anti-corruption measures.

In addition to the policies, the Company has integrated a number of anti-corruption mechanisms, in particular the following.

205-2

## Briefing employees about anti-corruption and anti-fraud practices

The briefing of employees is a formal procedure used to familiarise all the Company's employees with fundamental regulatory acts upon hiring as well as when such acts are updated. In addition, the Company made preparations in 2018 to launch training courses using the distance learning system in 2019. The training courses will primarily consist of videos providing information about the Company's rules and principles for combatting corruption. These training courses will become an additional tool to consolidate the knowledge and skills of employees regarding anti-corruption.

In 2018, 100% of employees – senior executives, middle managers, managers, specialists, employees, and workers – were briefed about the provisions of anti-corruption policies. All business partners (including employees of contracting organisations), which includes more than 270,000 people, were also briefed.

205-2

## Anti-corruption and anti-fraud training

In addition to the mandatory briefing for all of the Company's employees, Metalloinvest provides specialised training for employees whose professional activities directly involve managing corruption risks.

In 2018, three of the Company's employees were trained at the International Compliance Association (ICA) and received the relevant certificates. In the next reporting period, two more employees will be trained and certified.

102-17

## A whistleblower hotline

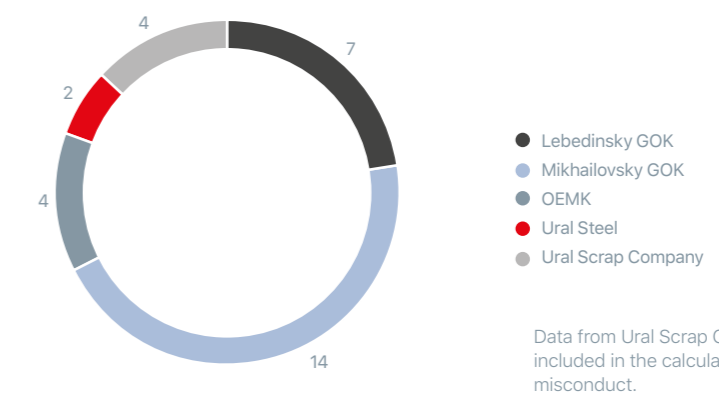
205-3

The Company continued to operate an anti-corruption hotline in 2018. In addition to a dedicated telephone line and email address, internal and external stakeholders were also able to send their requests through Viber and WhatsApp and also fill out a special form on the Company's corporate portal, which was an innovation in the reporting period.

During the reporting period, the hotline received 120 calls, which resulted in 31 cases of misconduct being confirmed as a result of checks. Violators were subject to disciplinary measures in accordance with existing legislation and the Company's internal documents. In addition, revisions and changes were made to the business processes in which the violations occurred.

Metalloinvest welcomes the practice of whistleblowing, guarantees all applicants confidentiality and a lack of retaliation, and also investigates each inquiry.

Cases of misconduct



205-1

## Anti-corruption appraisals

As part of the anti-corruption expert evaluation that all draft contracts must undergo, procedures are examined in terms of their transparency and to make sure there are no unreasonable exceptions.

205-3

## Anti-corruption monitoring

Anti-corruption monitoring involves the Company conducting an independent assessment of corruption risks by tracking the effectiveness of steps that have been taken. Part of the procedure is a quarterly report given by the Security Director to the Company's CEO on the results of the evaluation with suggestions for improving anti-corruption activities.

There were no contract terminations or nonrenewals with business partners due to corruption violations in the reporting period. There were also no cases of legal proceedings against the Company or its employees based on involvement in violations of anti-corruption legislation.

In 2018, an assessment of corruption risks was carried out at all four of Metalloinvest's units (plants). Based on the monitoring results, all mechanisms for managing anti-corruption activities proved to be effective, which enabled the Company to join the Anti-Corruption Charter of Russian Business in November 2018.

In the future reporting period, the Company is planning to prepare for an external audit for compliance with the requirements of ISO 37001:2016 Anti-bribery management systems