

# ECONOMIC PERFORMANCE

The Company strives for consistent growth in its financial and production indicators and continuous economic growth and takes into account the interests of all stakeholders by distributing the added value that it creates.

**40.4** million tonnes  
of iron ore production in 2018

**27.7** million tonnes  
of pellet production in 2018

**3.0** million tonnes  
of pig iron production in 2018

**5.1** million tonnes  
of steel production in 2018

**7.8** million tonnes  
of HBI/DRI production in 2018

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# 03

# Plans and Results



| Plans for 2018 and the medium-term                                  | Results of the reporting period   | Plans for 2019 and the medium-term  |
|---|---|---|
| <h2>Improved economic and production indicators</h2>                |   |   |
| Increased value and the growing investment appeal of the Company    | Growth in revenue and production indicators for all types of core products  | <ul style="list-style-type: none"> <li>› Increased EBITDA</li> <li>› Increased business margins by strengthening Metalloinvest's position on the iron ore and metallised product markets</li> </ul> |
| Increased sales margins   | High share of sales of iron ore products (pellets, HBI) with high added value   |   |
| Improved operational and managerial effectiveness                   |  <p>For more details, see the section <b>Financial and Operational Results</b>.</p>                                  |   |
| Improved product quality and customer-oriented approach             | Introduction of technological innovations: improved product quality and eco-friendliness of production while maintaining growth in production   |   |
| Increased production of high quality products with high added value |  <p>For more details, see the sections <b>Sustainable Development Strategy and Environmental Responsibility</b>.</p> |   |
|   | Transformation of operational and management processes: increased labour productivity. The main financial and production indicators continued to grow despite employees cuts                            |   |
|   |  <p>For more details, see the section <b>Responsibility to Employees</b>.</p>  |   |

| Plans for 2018 and the medium-term  | Results of the reporting period   | Plans for 2019 and the medium-term   |
|---|---|--|
| <h2>Interaction with suppliers</h2>   |   |  |
| Completing the process of optimising the organisational structure of supplies                               | Transformation of the procurement operating model with the allocation of three functions. The model is uniform and has been introduced at all the Company's enterprises | <ul style="list-style-type: none"> <li>› Development of category management: training of category managers and the development of basic analytics on category management</li> </ul>  |
| Introduction of the ERP system (enterprise resource planning system) at Lebedinsky GOK and Mikhailovsky GOK | Automation of individual steps of the procurement process to improve its efficiency   | <ul style="list-style-type: none"> <li>› Consideration of interim supplier registration tools until the SAP SRM module is introduced</li> </ul>  |
| Introduction of the Supplier Relationship Management System (SAP SRM)                                       |  <p>For more details, see the section <b>Supply Chain</b>.</p>                     | <ul style="list-style-type: none"> <li>› Introduction of a differentiated approach to supplier management: development of methodology, development and regulation of target processes, segmentation of suppliers, and updating the list of potential suppliers</li> <li>› Creation of a system of analytical reporting on suppliers</li> </ul> |

# Financial and Operational Results

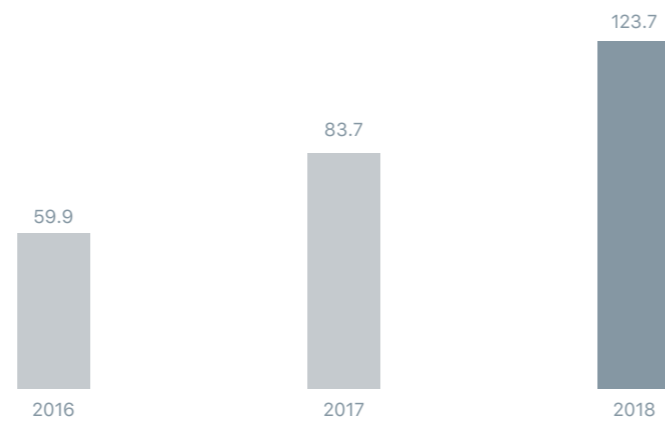
Based on the Company's updated Development Strategy, Metalloinvest seeks to:

- › become the global leader in the production of HBI/DRI as well as the leading supplier of iron ore products in Russia;
- › to remain a high-margin and efficient producer of high-quality steel products on regional and international markets.

To achieve these goals, Metalloinvest is constantly enhancing the quality of its products and improving production processes, which contributed to the growth in key performance indicators seen in 2018. One of the Company's objectives is to boost the effectiveness of sustainable development practices along with reducing its negative environmental impact while simultaneously scaling up production. The Company strives for maximum efficiency and is always seeking opportunities to build capacity while investing heavily in R&D to improve its products and existing technologies. The Company spent RUB 123.7 million on R&D in 2018, a 48% increase on the previous year.

Metalloinvest boosted its main financial indicators in 2018 due to growth in sales of high value-added products and a favourable market environment, in particular an increase in global iron ore and steel prices.

Investment in research and work to improve the production [RUB million]

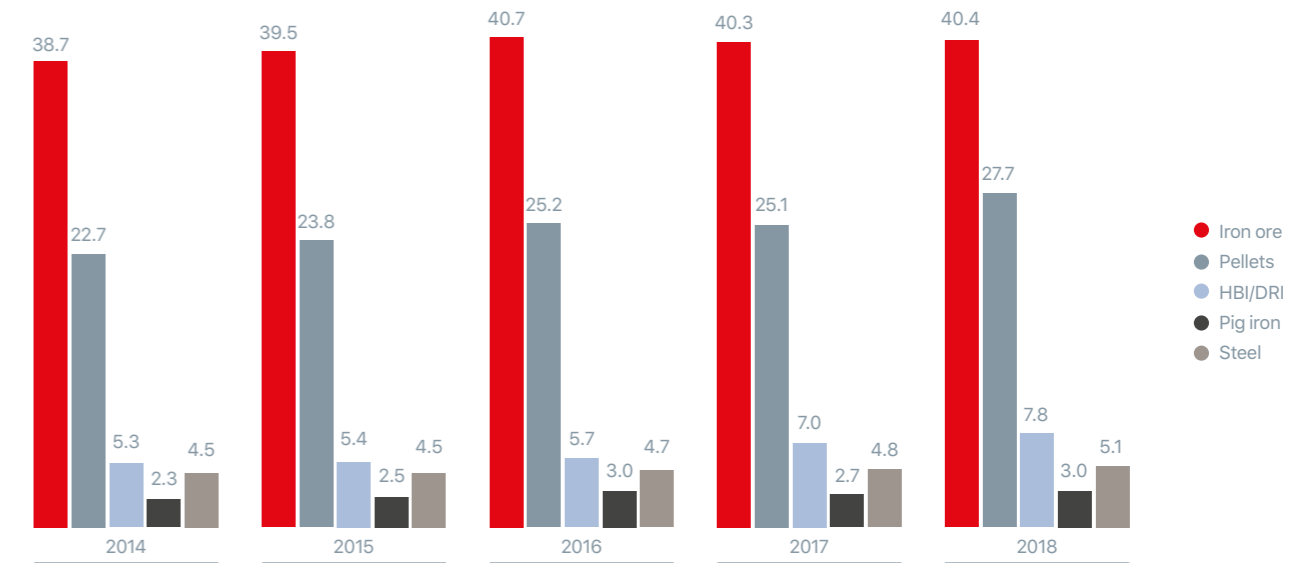


## Key production indicators in 2018

The production of all Metalloinvest's core product types increased during the reporting period.

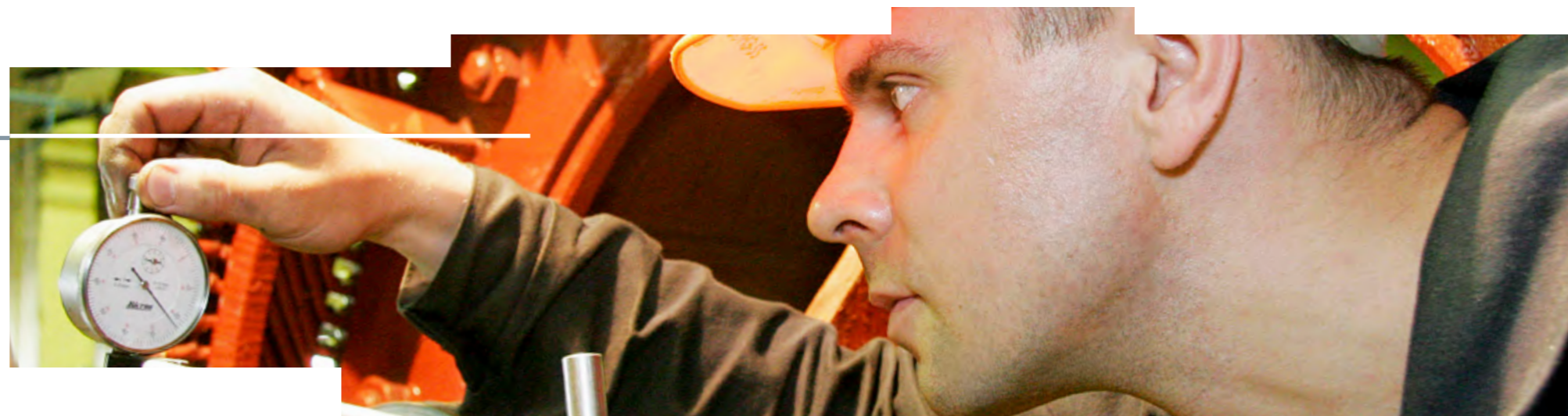
For more details on the Company's operational results, see the section Operational Results in the 2018 Annual Report (pp. 48-52).

Production [million tonnes]



Main changes seen during the reporting period:

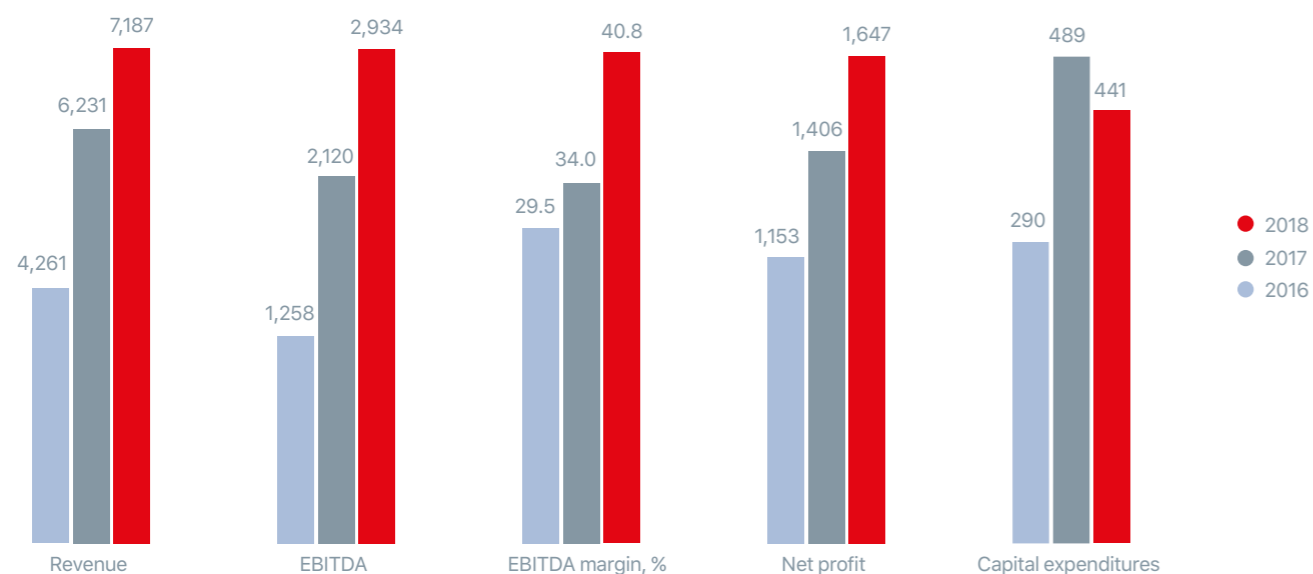
- > 17.6% increase in revenue from sales of metallurgical products;
- > 13.0% increase in revenue from sales of iron ore products;
- > the proportion of high value-added iron ore products (pellets, HBI) sold in overall sales of products of this type increased to 84.1%;
- > the share of the domestic market in the Company's consolidated revenue remained at 40.1% in 2018.



## Key financial indicators

The Company saw a significant improvement in its financial performance in 2018 due to improved loan portfolio parameters and the introduction of best corporate governance practices.

Financial results [USD million]



### Metalloinvest's generated and distributed value, 2016-2018

| Name  | Stakeholder                           | 2016*         | 2017          | 2018          |
|---|---------------------------------------|---------------|---------------|---------------|
| <b>Direct economic value generated, USD million</b> |                                       | <b>4,496</b>  | <b>6,294</b>  | <b>7,257</b>  |
| Revenue   | Wide range of stakeholders            | 4,261         | 6,231         | 7,187         |
| Income from financial investments                   |                                       | 235           | 63            | 70            |
| Income from the sale of tangible assets             |                                       | 0             | 0             | 0             |
| <b>Economic value distributed, USD million</b>      |                                       | <b>-6,823</b> | <b>-5,992</b> | <b>-5,463</b> |
| Operating expenses                                  | Employees, suppliers, and contractors | -2,910        | -3,960        | -4,102        |
| <i>Including salary</i>                             | <i>Employees</i>                      | <i>-596</i>   | <i>-719</i>   | <i>-670</i>   |
| Other employee payments and benefits                | Employees                             | -10           | -8            | -7            |
| Charitable donations                                | Local communities                     | -52           | -89           | -80           |
| Payments to capital providers                       | Shareholders and investors            | -3,719        | -1,505        | -752          |
| <i>Including dividends paid</i>                     |                                       | <i>-3,404</i> | <i>-1,180</i> | <i>-436</i>   |
| <i>Including financial expenditures</i>             |                                       | <i>-315</i>   | <i>-325</i>   | <i>-316</i>   |
| Budget contributions                                | Authorities                           | -132          | -430          | -522          |
| <i>Including profit tax</i>                         |                                       | <i>-83</i>    | <i>-372</i>   | <i>-460</i>   |
| <b>Economic value retained, USD million</b>         |                                       | <b>-2,327</b> | <b>302</b>    | <b>1,794</b>  |

\* Dividends in the amount of USD 3,382.1 million that were paid as part of the consolidation and transfer of the Company's shares into Russian jurisdiction are not included in the total amount for the year since the funds were returned to the Company to repay previously issued intragroup loans.

For more details on the Company's financial results, see the section Financial Results of the 2018 Annual Report (pp. 53-57).

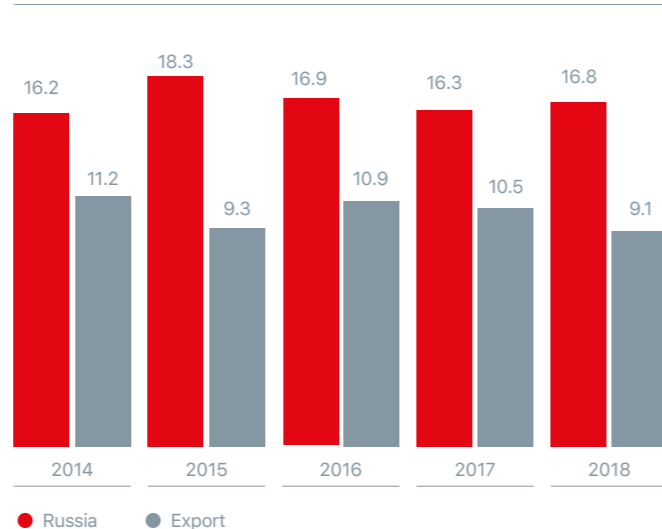
## Key product sales indicators

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102-6  
102-7

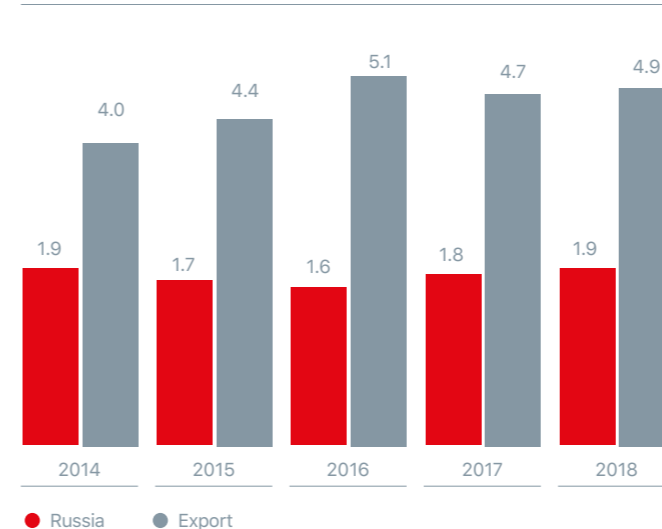
Metalloinvest held on to its leading position in key segments of the international iron ore market during the reporting period despite a slight decrease in sales of iron ore products (by 3.5%). This decrease was due to changes in the product range: pellet shipments increased by 9.3%, while HBI/DRI shipments grew by 18.9%. Iron ore exports accounted for 19% of the total ore produced by the Company versus 26% in 2017.

The Company managed to maintain steady growth in shipments of steel and pig iron both in Russia and on foreign markets in 2018. Supplies of steel and pig iron to Russian customers totalled 1.9 million tonnes, while exports amounted to 4.9 million tonnes.

Changes in iron ore sales [million tonnes]



Changes in steel and pig iron sales [million tonnes]



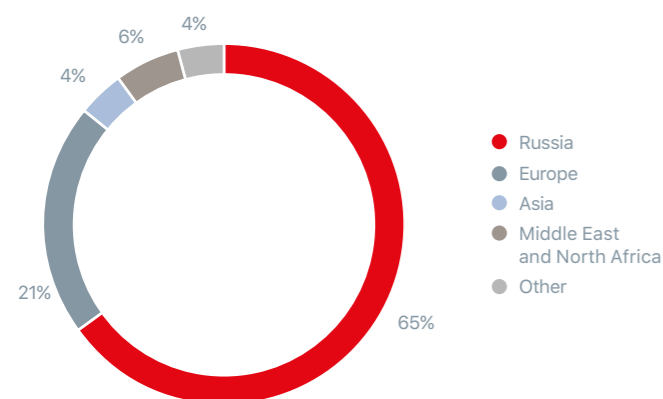
### Customer focus and product quality assurance principles

The fundamental principle of Metalloinvest's engagement with customers is to ensure a level of quality that meets advanced global standards. The Company is committed to building long-term relationships with customers and serving as an open and reliable partner.

Metalloinvest regularly interacts with the customers of its products: it conducts surveys in order to further assess satisfaction with the service and quality of its products and also organises interviews with on-site customer surveys. Based on an analysis of the feedback obtained during the survey and in-person meetings, the Company makes changes to its marketing and production strategy taking into account the dynamics on the markets where its clients operate and their changing expectations regarding products.

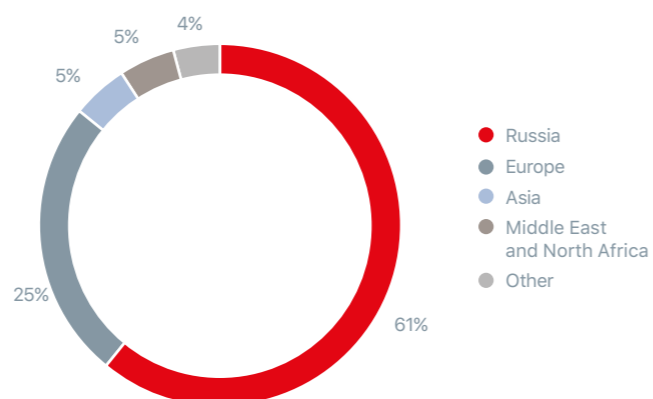
Structure of iron ore product sales by region in 2018 [%]

26 million tonnes



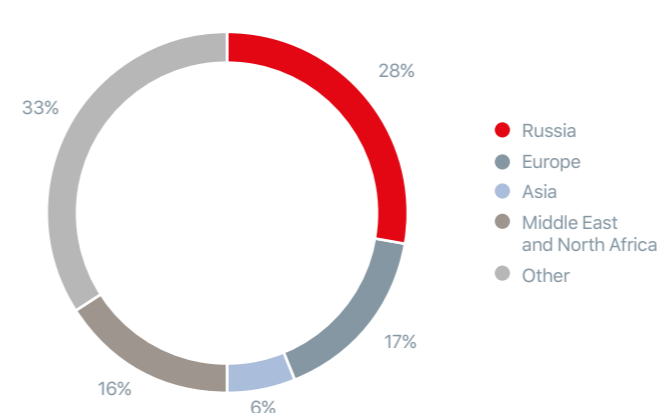
Structure of iron ore product sales by region in 2017 [%]

26.8 million tonnes



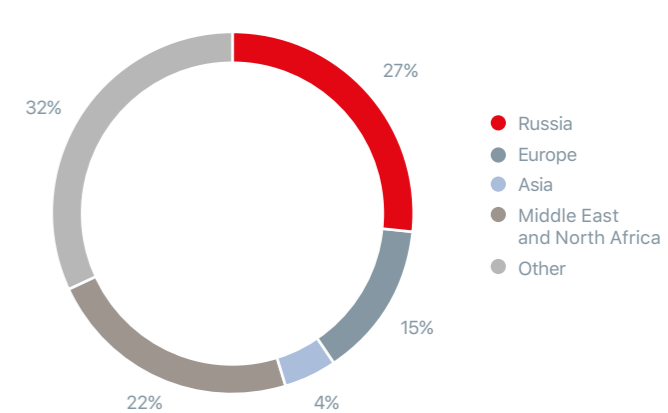
Structure of steel and pig iron sales by region in 2018 [%]

6.8 million tonnes



Structure of steel and pig iron sales by region in 2017 [%]

6.5 million tonnes



For more details on production and product shipments, see the section Operating Results of the 2018 Annual Report (pp. 48-52).

# Supply Chain

Metalloinvest's supply chain management system reflects the entire movement of materials within the Company's production processes and includes the procurement of materials, their use in production, product creation, marketing, and logistics.

Procurement activities are a strategic component of Metalloinvest's supply chain management system. Procurement management is handled by the Supply Directorate and is governed by the Company's Procurement Policy.

At present, procurement activities are undergoing a stage of active transformation in order to ensure a full transition from a support function to a strategic function.

### Role of the procurement function:

- > determining the need for material resources;
- > searching for and selecting suppliers;
- > concluding contracts and monitoring their fulfilment;
- > obtaining the material resources. Processing incoming flows of material resources, identifying products, clarifying quantity, preparing reports, and transferring the raw materials to the place of their use and storage
- > checking incoming products and confirm quality.

### The department's key functions include:

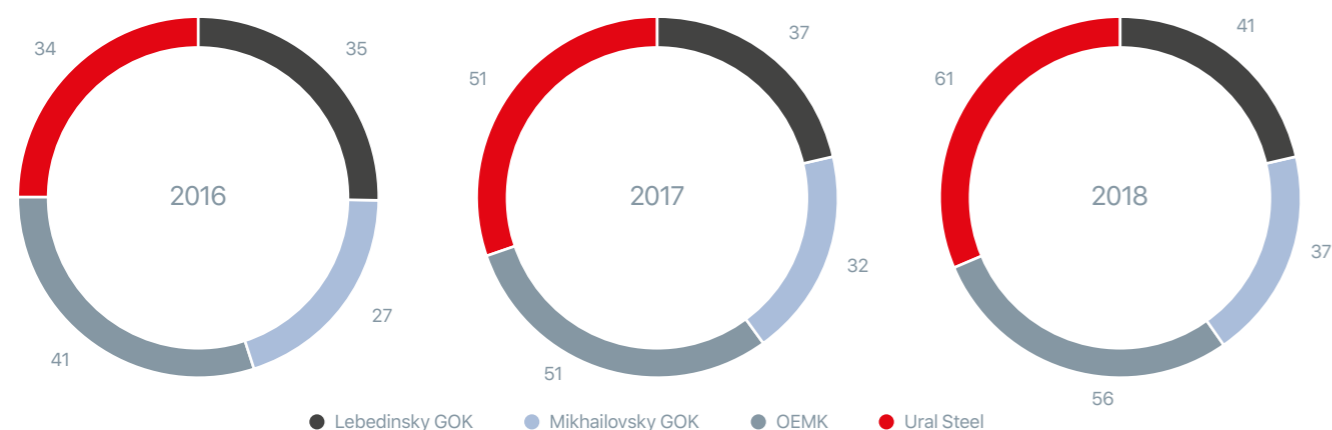
- > creating added value through cross-functional interaction;
- > optimising procurement procedures, which significantly affects business efficiency indicators;
- > impacting the business environment through interaction with suppliers and finding mutually beneficial positions.

### In order to ensure the sustainability of procurement activities, the Company adheres to the following principles:

- > transparency;
- > hiring of local suppliers;
- > priority of procurements from manufacturers and their legal representatives;
- > diversification of procurement channels;
- > focus on building long-term relationships with suppliers;
- > continuous quality control of purchased goods and services.

**RUB 195 billion**  
Total procurements by the Company's core enterprises in 2018

Main procurements by enterprise [RUB billion]



Except intragroup procurements from Lebedinsky GOK, OEMK, Mikhailovsky GOK, Ural Steel, Holding Company Metalloinvest, Management Company Metalloinvest, and Metalloinvestleasing.

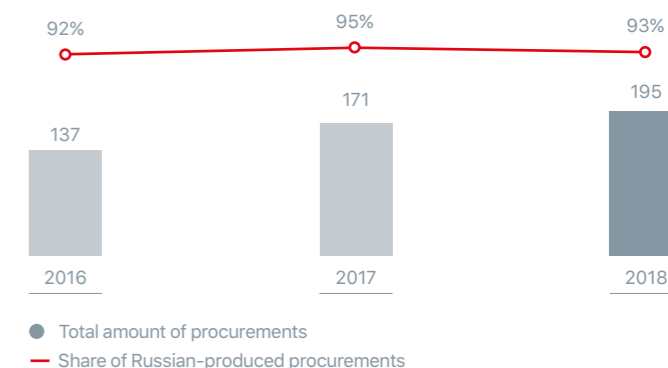
# Interaction with local suppliers

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Metalloinvest continued to focus on procurements from domestic manufacturers in 2018. The share of Russian suppliers remained high at 93%\*. Materials that are not produced on the Russian market were imported.

\* Russian procurements include all purchases made within Russian borders. This value excludes procurements from Russian manufacturers in foreign countries with production facilities outside the borders of the Russian Federation

Changes in the Company's procurements from domestic manufacturers or Russian-produced goods and services [RUB billion]



As part of the overall corporate transformation carried out at the Company, one of the objectives that was set during the reporting period was to **introduce an effective operating model** for procurements in order to streamline the process and to also **ensure that the changes in the operating model are consistent with the project to introduce SAP.**

The extensive preparatory work carried out over the first quarter of 2018, which included the development of a roadmap and seminars for employees of the procurement unit, resulted in the introduction of a new operating model at all of the Company's plants in autumn 2018. The new model involves spinning off systematic category management practices as well as a clear division of functions, which helps to considerably simplify and speed up procurement processes.

In addition, **procurements of work and services were centralised** for the needs of the plants. This process has led to the following key results:

- > a reduction in costs by consolidating demand;
- > increased transparency due to unified procurement procedures;
- > the formation of category strategies and a focus on strategic categories of services.

As part of the procurement process, Metalloinvest has expanded the **use of electronic trading platforms (ETP)**, which has made it possible to increase the transparency of procurements and ensure a transition to unified interaction with all suppliers. A total of **RUB 5.6 billion** worth of procurements were transferred to the electronic process in 2018.

The Company continued to transition to the **automation of the procurement process** during the reporting period in accordance with its policy on digitisation and the introduction of the SAP system: individual procurement steps were automated to ensure their unification, improve control procedures, and minimise errors.



### Transformation of the procurement operating model

The new procurement operating model that has been introduced at all Metalloinvest enterprises divides procurement activities into three main functions.

- › **Front office.** The front office's key tasks include category management of procurements, including the development and implementation of a category strategy, as well as strategically managing the provision of materials by specific groups, including the selection of partners for long-term contracts.
- › **Middle office.** The middle office is in charge of operational procurements. Middle office employees study the Company's current procurement needs, determine the best procurement channels, and coordinate the sources of supply.
- › **Back office.** The back office performs a supporting role: it drafts contracts and specifications, monitors and controls the execution of transactions, organises transport support, and monitors the receipt of products and their payment.

In addition, each enterprise has set up **methodological support and procurement development** services that are tasked with identifying ways to improve and implement procurement activities, drafting and updating regulatory documents, and providing technical support when working with information systems.

Accounting support for procurement activities (sending and receiving contracts as well as accepting and recording primary documents) was spun off into a separate function and transferred to be managed by the multifunctional shared services centre (MF SSC).

The transformation has resulted in a transition from a reactive procurement management system that involved carrying out procurements for specific tasks, long periods of bidding and signing contracts as well as one specialist performing the entire range of functional tasks to a **unified end-to-end process**. The transformation has created the following advantages:

- › the creation of an organised structure that ensures the rapid development of the function and allows for swift changes;
- › enhanced transparency of the procurement process;
- › the ability to effectively forecast the Company's needs.

### Plans for 2019:

In 2019, Metalloinvest plans to:

- › optimise processes within each of the functional units that have been spun off;
- › continue developing category management through effective work by cross-functional teams;
- › standardise requirements for category strategies;
- › introduce cross-functional analytical reporting;
- › introduce a differentiated approach to supplier management.

### Automation of the procurement process: results of 2018

Metalloinvest introduced a number of automated tools in 2018, including:

- › Automatic generator of tender forms, which helps to streamline the work of employees for a group of operational procurements
- › Automatic generator of specifications – a handy tool for specialists as part of contractual work
- › Tool for automatic distribution from the monitoring registry, which helps to streamline the monitoring process and make interaction with suppliers more efficient
- › Automatic generator of contracts with suppliers that are residents of the Russian Federation with the ability to add specific provisions, which significantly speeds up the process of negotiating contracts
- › A tool for interaction between supply service employees and suppliers to track the operational procurement process, exchange information quickly, and collect information about procurements that have been completed
- › Dynamic analytical reports based on data obtained from the system of employee interaction. This tool helps to track the day-to-day activities of departments, identify delays in work, and take corrective measures.

### Principles of interaction with suppliers

Metalloinvest is guided by the principles of transparency and equal opportunity when it selects suppliers. In addition to conventional criteria for selecting suppliers, such as price, the quality of products and services, supplier reliability, and delivery time, the Company takes into account the adaptability of manufacturing processes, including for eco-friendly production and also takes into account the willingness of suppliers to strictly adhere to the principles of business ethics and human rights. Standard contracts with suppliers include an anti-corruption clause, which states that Metalloinvest's suppliers agree to combat corruption. Any violation of these obligations results in the termination of business relations.

Key mechanisms for interaction with suppliers:

- › verification of suppliers to confirm their reliability;
- › interaction with potential suppliers within commercial negotiations;
- › interaction with suppliers to improve the economic conditions of agreements with core suppliers.

In 2019, the Company plans to further stabilise interaction with suppliers by introducing a survey of the parties involved in the tender process with questions about whether potential business partners have appropriate social and environmental policies and practices.