

100%

employees aware of the code of ethics

909

RUB mln

actual economic effect of the development of Business System tools

100%

employees committed to the anti-corruption policy

RESPONSIBILITY

CORPORATE GOVERNANCE

MATERIAL TOPICS

- Anti-corruption, business ethics and compliance with legal requirements;
- Indirect economic impacts;
- Conditions of employment.

GRI 102-11, 102-18, 102-19, 102-20, 102-21, 102-22, 102-23, 102-24, 102-26, 102-29, 102-30

ACHIEVEMENTS

- The Board of Directors was newly elected in 2019;
- In September 2019 the Company approved a new version of the Code of Corporate Ethics;
- The Dividend Policy Principles were approved, which determine the strategy for planning allocations to shareholders in order to minimise distributions other than dividends;
- The Metalloinvest Business System Regulations and Corporate Business System Standard were approved;
- A separate risk management department was set up in October 2019;
- A risk management-training workshop for management was held in December 2019 – January 2020;
- An environmental programme was elaborated that covers the recording, evaluation, and ranking of environmental risks.



SUSTAINABLE DEVELOPMENT GOALS

STRUCTURE AND PERFORMANCE OF CORPORATE GOVERNANCE BODIES

GRI 102-18, 102-19

CORPORATE GOVERNANCE SYSTEM

Metalloinvest's corporate governance system prescribes the proper management and control of the Company's business and focuses sustainable development and on creating long-term growth in value for shareholders. Corporate governance is based on improving both the efficiency and transparency of the Company.

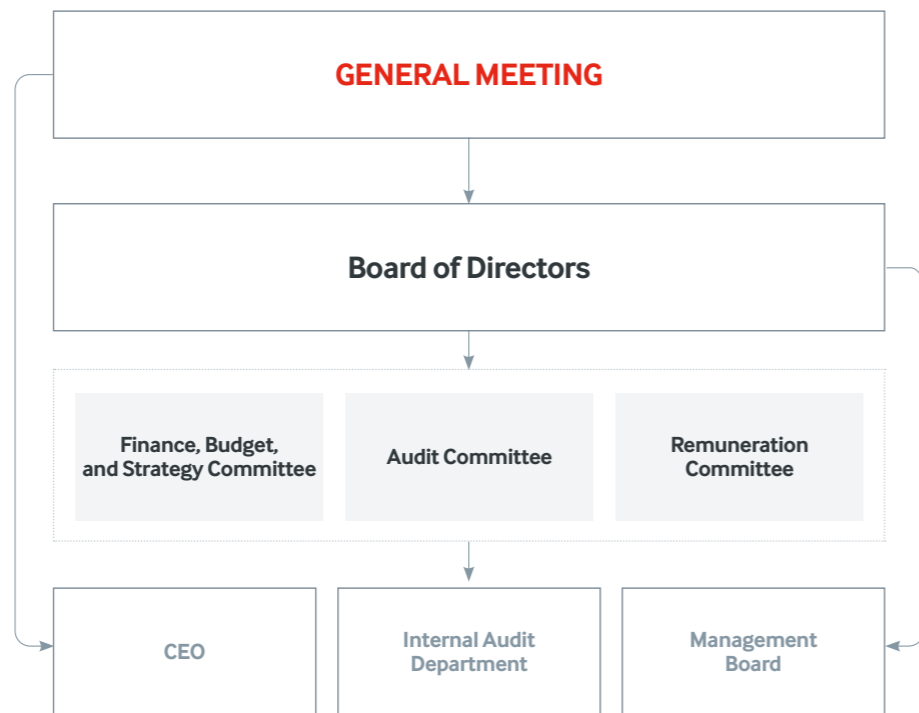
Sustainability management is integrated into the existing corporate governance structure and is performed at all organisational levels.

For more information about the approach to sustainable development, see the relevant section in the Sustainable Development Report on p. 8.

GRI 102-21

The Company sees corporate governance as being a system of interaction between the Company's governing bodies and stakeholders that focuses on improving the Company's performance and which reflects a balance of interests among all parties.

Governance structure



The business performance of the Company depends on properly structured corporate governance processes at each level, which facilitate increased transparency, controls, and separations of powers, which in turn allow the Company to avoid various risks through making timely responses.

BOARD OF DIRECTORS

The neutrality and independence of the Board of Directors are the key principles the Company relies on in order to ensure the effectiveness of its corporate governance framework.

GRI 102-24

Members of the Board of Directors are elected through a decision of the General Meeting, for a term until the next meeting, and they can be re-elected for a further term. The Board of Directors has independent directors. Independence criteria are determined by the Regulations on the Board of Directors, which are based on the provisions of the Corporate Governance Code recommended by the Central Bank of Russia. An independent director cannot be regarded as independent if they have been a member of the Board of Directors for more than seven consecutive years.

GRI 102-26

The Board of Directors is responsible for the strategic management of the Company. Its key objectives comprise:



facilitating effective strategic governance



setting and implementing the Company's strategic goals



determining the principles and approaches to risk management and assessment



fostering favourable conditions for long-term sustainable development

GRI 102-22

Through a decision made on 23 October 2019 the Board of Directors was re-elected, and comprised 10 members. As at 31 December 2019.

3

of the 10 Board of Director members were independent

5

of the 10 Board of Director members were non-executive directors

2

of the 10 Board of Director members were executive directors

STRUCTURE AND PERFORMANCE OF CORPORATE GOVERNANCE BODIES

GRI 102-22, 102-23

Members of the re-elected Board of Directors:



**IVAN
STRESHINSKY**

Chairman of the Board of Directors
Member of the Board of Directors
between June 2007 and April 2009
and since February 2013.

CEO of USM Management LLC.



**ANDREY
VARICHEV**

CEO of Management Company
Metalloinvest up to 27 April 2020
Member of the Board of Directors
since April 2007.

CEO of Management Company Metalloinvest from October 2013
to 27 of April 2020.



**VALERY
KAZIKAEV**

Independent
Non-Executive Director

Member of the Board of Directors
since October 2013.

Chairman of the Board of Directors of LLC BMC,
CEO of JSC Holding Company BMC.



**VAKHTANG
KOCHAROV**

Deputy Chairman
of the Board of Directors,
Executive Director

Member of the Board of Directors
since April 2019.

CEO of Metalloinvest Trading.



**GALINA
AGLYAMOVA**

Independent
Non-Executive Director

Member of the Board of Directors
since October 2013.

Vice President of NLMK until the end of 2012.

10

members of the board of directors
as of December 31, 2019



**GLEB
KOSTIKOV**

Non-Executive Director

Member of the Board of Directors
since September 2017.

Executive Director of USM Management LLC.



**PAVEL
MITROFANOV**

Non-Executive Director

Member of the Board of Directors
since June 2016.

Deputy CEO of USM Management LLC. Head of Project Management
in industrial sector.



**IRINA
LUPICHEVA**

Non-Executive Director

Member of the Board of Directors
since February 2013.

Managing Director and Head of Risk and Control
at USM Management LLC.



**DMITRY
TARASOV**

Non-Executive Director

Member of the Board of Directors
since April 2014.



**ULUC
ERGIN**

Non-Executive Director

Member of the Board of Directors
since October 2019.

Deputy CEO and Head of Development Projects
and Major Construction at USM Management LLC.

STRUCTURE AND PERFORMANCE OF CORPORATE GOVERNANCE BODIES

LIABILITY INSURANCE

Since 2015 Metalloinvest has annually taken out liability insurance for its Board Directors, as well as for members of the Management Board and Company officers (“insured persons”), in compliance with stringent Russian and international risk management standards.

In practice, regulatory and public authorities, counterparties, shareholders, investors, creditors and even employees often try to make claims against the management of the Company, however, these are not always made in connection with an actual violation of obligations.

Directors and officers liability insurance (D&O insurance) protects insured persons from third-party claims that might arise as a result of unintentional wrongdoing related to corporate governance activity, and covers the potential expenses of the Company when Metalloinvest makes payments in relation to insured persons.

The insurance also covers costs related to the judicial protection of insured persons and related expenses, as well as any unintentional damage caused by insured persons, if such damage has been proved and is subject to recovery under a court decision or pre-court agreement.

Metalloinvest’s D&O insurance is provided by Russia’s largest insurance company, SOGAZ INSURANCE, which were chosen through a tender.

Risks are reinsured by such leading international firms as Allianz, AIG, CHUBB, and Zurich. All reinsurers have large portfolios and experience in dealing with D&O claims, both in Russia and around the world.

The Company’s policy terms were elaborated jointly with the leading reinsurer Allianz, which has provided Metalloinvest with continuous D&O risk insurance services since 2015.

The terms provide optimal coverage at the moment when a policy is issued and take the Company’s specific insurance requirements into account. The overall limit of liability is USD100 million, and there is an additional limit of liability for independent directors of USD5 million

REPORT OF THE BOARD OF DIRECTORS

In 2019 the Board of Directors met six times in person and a further 70 times in absentia, and discussed 203 issues.

In 2019 the Board made a number of important decisions aimed at improving corporate governance, the HR policy, the risk management and internal control system, the Company’s strategy and corporate business, and it also approved a number of transactions. In the reporting year the Board made the following decisions:

- Approved the new Code of Corporate Ethics, a set of principles and ethical standards related to the business conduct of employees, and also covering the ethical, social, and environmental principles of doing business.
- Agreed on the dividend policy of Metalloinvest, determining the strategy when making dividend payments to shareholders.
- Approved the Company’s annual Capex programme for 2020.
- Approved the terms of large-scale investment projects.
- Agreed on transactions to raise capital.
- Issued recommendations on participation in the National Global Compact Network on the Implementation of Responsible Business Principles in Business Practice association.
- Elaborated and preliminarily approved the environmental protection programme.

- Reviewed proposals to improve employee safety and the maturity level of the OHS function.
- Made recommendations on the payment of interim and annual dividends.

COMMITTEES OF THE BOARD OF DIRECTORS

To facilitate active discussion and detailed analyses of various corporate governance issues, the Board of Directors has three constituent committees: the Board of Directors Internal Audit Committee (Audit Committee); the Board of Directors Finance, Budget, and Strategy Committee (Finance, Budget, and Strategy Committee); and the Board of Directors Remuneration Committee (Remuneration Committee).

The work of these committees is governed by relevant regulations.



Audit Committee

The Audit Committee was set up in 2013, to perform extensive studies into certain issues within the competence of the Board of Directors and to issue relevant recommendations to the Board in such areas as financial reporting, internal control and risk management systems, and external and internal audit processes. The main functions of the Audit Committee are:

- Assessing the effectiveness of internal control procedures and suggesting respective improvements.
- Assessing the risk management system, reviewing information about risk appetite compliance, key risks and risk management measures, as well as the adequacy of proposed measures and making recommendations to improve risk management.
- Reviewing the Company’s internal audit policy, assessing the effectiveness of internal audit procedures and proposing improvements.
- Reviewing the internal audit action plan, assessing the effectiveness of the internal audit function, and reviewing the appointment (and dismissal) of the head of internal audit.

- Analysing the Company’s financial statements.
- Recommending Board of Directors actions that will prevent, identify, and mitigate financial and operational risks.
- Appraising external auditor candidates and making recommendations on their level of remuneration.
- Analysing the external auditor’s report.
- Analysing and discussing any significant issues arising from the external independent audit.

In 2019 the Audit Committee met nine times in person and once in absentia. The main items of business covered were:

- Reviewing the interim and annual consolidated financial statements, including the external auditor’s report.

9/1

**in-person / absentee meetings
were held by the Audit
Committee in 2019**

- Elaborating recommendations on appointing the Company’s external auditor.
- Reviewing the external auditor’s report as part of audit procedures related to implementing the integrated management system for financial and business operations.
- Approving the annual internal audit plan and providing an overview of internal audit results.
- Elaborating recommendations on improving the Company’s internal control management system.
- Elaborating recommendations on improving the risk management system of the Company.

Members of the Audit Committee

MEMBERS	Position	Committee member since
Galina Ablyazov	Committee Chair, Independent Non-Executive Director	2013
Irina Lupicheva	Non-Executive Director	2013
Pavel Mitrofanov	Non-Executive Director	2016

STRUCTURE AND PERFORMANCE OF CORPORATE GOVERNANCE BODIES



Finance, Budget, and Strategy Committee

The Finance, Budget, and Strategy Committee was set up in 2013. It elaborates and makes recommendations to the Board of Directors on priority areas of the Company's business, development strategies, and the Company's financial activities and innovation strategy. The main functions of the committee comprise:

- Drafting proposals on the Company's business priorities.
- Drafting proposals for investment projects.
- Drafting proposals on sale and purchase agreements involving the shares of other companies (including derivatives).
- Proposing sale and purchase agreements and supply contracts for steel, iron ore, or other products where the value of the transaction or several related transactions exceeds RUB1.5 billion, excluding intra-group transactions.

- Proposing credit agreements, loan agreements (and associated security agreements), bank deposit contracts, and agreements to issue promissory notes and other fundraising instruments where the value of the transaction or several related transactions exceeds RUB1 billion, excluding intra-group transactions.

- Drafting proposals on the Company's dividend policy.

In 2019 the Finance, Budget, and Strategy Committee convened on six occasions and met in absentia 83 times.

In line with its key functions, the committee in 2019 provided methodological guidance and drafted recommendations on:

- Developing the Company's strategy and assessing the efficiency of measures, with a view to improving efficiency in the short and long terms.
- The Company's annual budget and capital expenditure programme for 2020.

- Determining target performance indicators, including operational / financial business indicators for 2019.
- Determining the principles of the dividend policy.

6/83

in-person / absentee meetings were held by the Finance, Budgeting and Strategy Committee in 2019

Members of the Finance, Budget, and Strategy Committee

MEMBERS	Position	Committee member since
Pavel Mitrofanov	Committee Chair, Independent Non-Executive Director	2016
Galina Aglyamova	Independent Non-Executive Director	2016
Andrey Varichev	CEO Management Company Metalloinvest until the 27th of April 2020	2013
Valery Kazikaev	Independent Non-Executive Director	2013
Dmitry Tarasov	Independent Director	2014



Remuneration Committee

The Remuneration Committee was founded in April 2014 to facilitate the attraction and retention of skilled personnel, and to boost the efficiency of the remuneration system, linking employee compensation to contributions made to the business.

The main functions of the committee comprise:

- Drafting proposals for approval by the Board of Directors regarding remuneration policies for Board Directors, the CEO, and members of the Management Board.
- Drafting proposals on employee development and incentives.
- Drafting HR and social policies.
- Drafting resource-planning principles.

In 2019 the Remuneration Committee convened once and met in absentia four times. It also held three joint meetings with the Finance, Budget, and Strategy Committee.

In line with its key functions, the committee in 2019 provided methodological guidance and drafted recommendations to develop:

- The employee incentives system in relation to OHS.
- Key performance indicators.
- Changes in the organisational structure and how staff are appointed.

1/4

in-person / absentee meetings were held by the Compensation and Benefit Committee in 2019

Members of the Remuneration Committee

MEMBERS	Position	Committee member since
Gleb Kostikov	Committee Chair, Independent Non-Executive Director	2017
Ivan Streshinsky	Chairman of the Board of Directors	2016
Dmitry Tarasov	Independent Director	2016

STRUCTURE AND PERFORMANCE OF CORPORATE GOVERNANCE BODIES

GRI 102-20, 102-29

MANAGING SUSTAINABLE DEVELOPMENT

The Company comprises operational committees that are responsible, inter alia, for issues related to sustainable development:

- the Risk Committee
- the Remuneration Committee;
- the Committee on Environment, Health and Safety

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



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 21 times in 2019. 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 Corporate Risk Management and Internal Control System Strategy is reported by the Chairman of the Audit Committee of the Board of Directors.

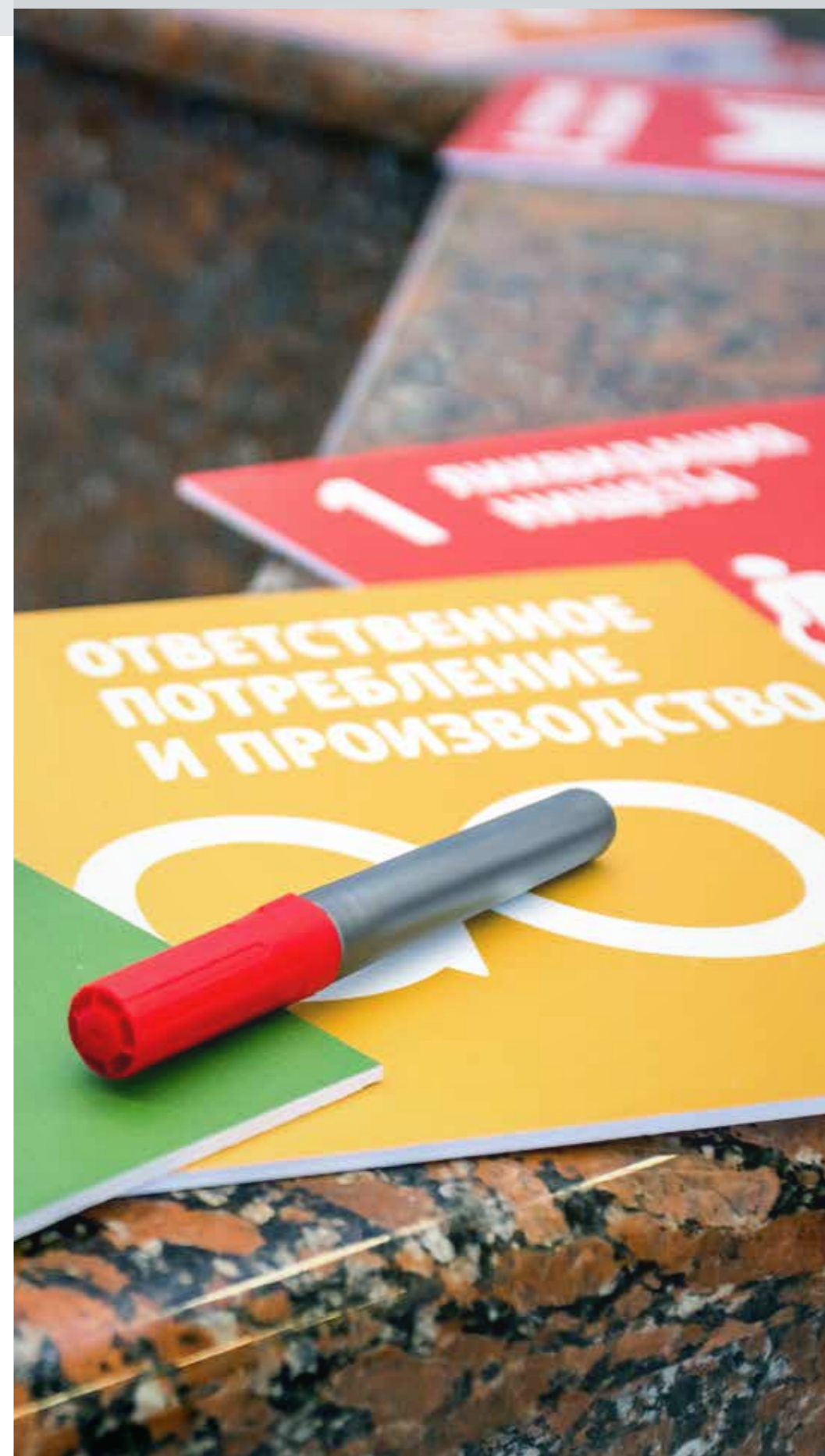
Relevant structural units of the Management Company are responsible for specific sustainable development issues:

- the Social Policy Department
- the Human Resources Department
- the Organisational Development Department
- the Security Department
- the Department of Environment, Health, and Safety
- the Health Department
- the Internal Audit Department
- the Corporate Communications Department.

In addition to the aforesaid departments, which are responsible for sustainable development issues at the top level of the Company, production units are also engaged in these issues and manage aspects that are pertinent for each particular plant. Tasks are coordinated by special structural units – directorates for social affairs – that are set up at each company.

GRI 102-21

A Social Council operates in the Company on an ongoing basis and is made up of representatives from trade unions and the Company's management. The main task of the Council is to link the interests of employees and the employer in the development and implementation of the personnel and social policies of the Company.



MANAGEMENT BOARD

The Management Board is the collective executive body of the Metalloinvest Management Company. The Board includes the Managing Directors of LGOK, MGOK, OEMK, and Ural Steel, and determines the most beneficial development path for the Company as a whole.

GRI 102-26

The Management Board is responsible for the current management and governance of the Company and reports to the Board of Directors and the General Meeting. The activity of the Management Board is regulated by the principles set forth in the Articles of Association and the Management Board Regulations. The responsibilities of the Management Board include:

- Making decisions on important current activities.
- Coordinating the departments and functions of the management company.
- Making proposals to the Board of Directors about main lines of business and potential implementation plans.

7/4

**in-person / absentee meetings
of the Board were held
in 2019**

STRUCTURE AND PERFORMANCE
OF CORPORATE GOVERNANCE BODIES

GRI 102-22

Members of the Management Board:



**ANDREY
VARICHEV**

CEO of Management Company
Metalloinvest up to 27 April 2020

Chairman of the Management
Committee

CEO of Management Company Metalloinvest from October 2013
to 27 of April 2020.



**NAZIM
EFENDIEV**

First Deputy CEO and COO
of Management Company
Metalloinvest

Has held various executive positions at the Company and its
production enterprises since 2002 and was the First deputy CEO
and COO of the Management Company from March 2012 to April
2020. Has been CEO since April 2020.



**DMITRY
BABENKO**

Director of Corporate Affairs
of Management Company
Metalloinvest

Began his career at LGOK and has held various executive positions
at Management Company Metalloinvest.
Has been in his current position since February 2016.



**ANDREY
UGAROV**

First Deputy CEO and COO
of Management Company
Metalloinvest

Joined the Company in 1999 and has held various executive
positions at the Company and its production enterprises since 2004.
Managing Director of OEMK in 2004–2011, has been in his current
position since December 2013.



**YURI
GAVRILOV**

Director of Strategy, Development,
and Transformation of Management
Company Metalloinvest

Has been in his current position since May 2014.

10

members were members of the Management
Board as of December 31, 2019



**NATALYA
GRYZANOVA**

Investment Director of Management
Company Metalloinvest

Has held various executive positions at the Company since 2013
and has been in her current position since December 2014.



**EVGENY
MASLOV**

Managing Director,
Ural Steel

Has held various executive positions at the Company and its
production enterprises since 2007 and has been in his current
position since April 2014.



**ANTON
ZAKHAROV**

Managing Director of Mikhailovsky
GOK
Director of Economics
of Management Company
Metalloinvest



**SERGEY
SHISHKOVETS**

Managing Director of OEMK

Has been in his current position since March 2019.



**OLEG
MIKHAILOV**

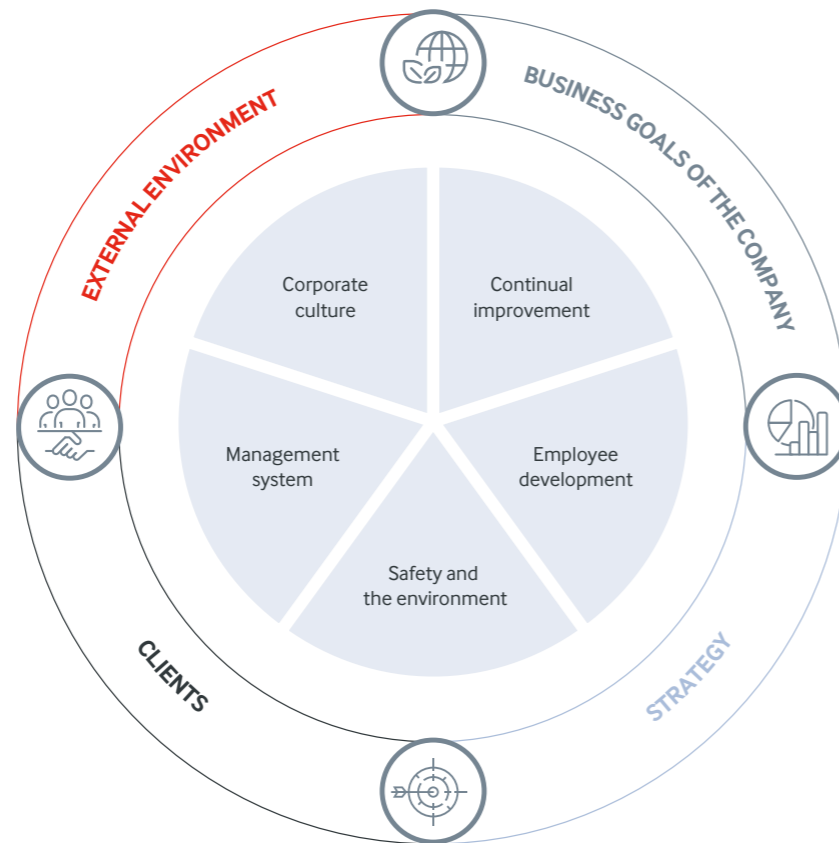
Managing Director,
Lebedinsky GOK

Has held various executive positions at the Company and its
production enterprises since 2006 and has been in his current
position since October 2011.

BUSINESS SYSTEM

The business system promotes an approach to doing business and managing production; the elements of the system apply at all levels of the organisation.

The large-scale transformation programme of Metalloinvest establishes new standards in production management and in the competencies of employees. The Metalloinvest business system, on the other hand, is aimed at changing the production philosophy entirely. The development of the business system forms part of a new company strategy.



The functioning of these five elements at all levels of the organisation is the key to successful business and production management.

- **Corporate culture** – staff share and support declared principles, values, and guidelines.
- **Management system** – quick business responses to changes. Low loss in cross-functional interaction.
- **Safety and the environment** – the Company's business processes and working conditions safeguard employee health and safety.
- **Employee development** – employee competencies are regularly assessed and feedback is provided; an effective incentive and career development system is in place.
- **Continual improvement** refers to ongoing improvements in production and non-production processes and cross-functional interaction.

The aim of the business system is to contribute to the continuous improvement of the production, corporate, and industrial culture.

A clear understanding of this model has allowed the Company to elaborate six basic Metalloinvest business system principles:

- 1** Improving occupational safety and the environment for each employee.
- 2** Engaging all staff in the daily process of continuous improvement.
- 3** A focus on customer requirements and desires.
- 4** Effective use of human resources and establishing staff relations based on partnership and trust.
- 5** An optimum standardisation of operations, processes, and procedures.
- 6** Unwavering compliance with and improving standards is the personal responsibility of each Company employee.

Furthermore, the business system development programme includes enhanced production system tools, thereby giving each employee an opportunity to discuss problems, suggest improvements, be heard, and showcase their leadership qualities and potential.



The Factory of Ideas, for example, promotes cost saving by collating suggestions in large numbers from workers and managers.

The business system will help every employee that is interested in bringing about positive change advance to the next level of development. The system will become a tool for direct communication with the management of the Company, and provide necessary support in solving production and team issues.

Key figures of team work for 2019:

1,755

employees are trained to use business system tools.

3,686

issues were added to the issues dashboard, with **80%** of them closed.

32

administrative units were set up to help staff visualise production processes.

621

maps depicting step-by-step executions of operations were developed.

7,548

ideas from employees were implemented as part of the Factory of Ideas.

RUB 909 mln

actual economic effect.

RUB 861 mln

expected economic effect after the implementation of employee suggestions.

The Company's goals in the medium term are to facilitate the further development of the business system, introduce new suggestions and ideas, and conduct an independent assessment of the business system.

RISK MANAGEMENT SYSTEM

The Company performs risk management at main enterprises (companies), shares of which are owned by Holding Company Metalloinvest.

The Company adopts a policy of zero tolerance towards all manifestations of risk related to corruption, fraud, or harm to human health and the environment.

In accordance with the Articles of Association of Management Company Metalloinvest, the Board of Directors determines the principles and approaches to the risk management system. The effectiveness of the risk management process is under the constant supervision of the Board of Directors, which strives to foster the continuous development of the Company's risk management system in accordance with international best practices.

The Company is guided by the following international risk management standards and practices:

- ISO 31000:2018 Risk management – Principles and Guidelines.
- COSO Enterprise Risk Management – Integrated Framework.
- ISO 9001:2008 and ISO 9001:2015 Quality Management System.

The development priorities of the risk management system in the medium term include making the system an effective management decision-making tool, including in relation to the following aspects:

- The further integration of the system with key business processes: budgeting, project management, production assets management, goal setting, and strategic planning.
- Enhancing the quality of risk identification, risk evaluation, and the information content of risk reporting, as well as the monitoring of risk management measures.
- Improving the approach to integrating risk appetite in management decision-making.
- Updating and elaborating regulatory risk management documents.
- Developing the risk culture.

- Developing risk management competencies for managers at various levels of the management company and controlled companies, including through special risk management workshops for individual functions and creating an online risk management course on the internal corporate website.
- Disclosure of risks on the official corporate website.
- Widening the scope of the risk management system.

RISK MANAGEMENT

As the Company's business is associated with various risks, an effective risk management system forms one of the fundamental elements of the Company's business and development strategy. A highly efficient risk management system provides management with high-quality risk-related information that is pertinent for decision-making at all management levels. Making informed decisions facilitates the attainment of the Company's strategic goals and key performance indicators.

Risk management is based on detailed analyses of current circumstances – the internal and external environment in which the Company operates, the economic situation in metals and mining industries on domestic and foreign markets, and other factors impacting the Company's business.

The Board of Directors and the executive management of the Company analyse corporate risks with reference to various goals, including sustainable development, as well as the Company's main business lines, to establish a comprehensive profile of risks the company faces when achieving its goals. Strategic and operational risks include geopolitical factors and the price situation, environmental risks, corruption risks, personnel management risks, production risks, and sustainable development risks.

The Board revises and monitors key corporate risks when making decisions. Managed and non-managed factors are identified for each key corporate risk, depending on whether the Company can have an objective influence on such factors.

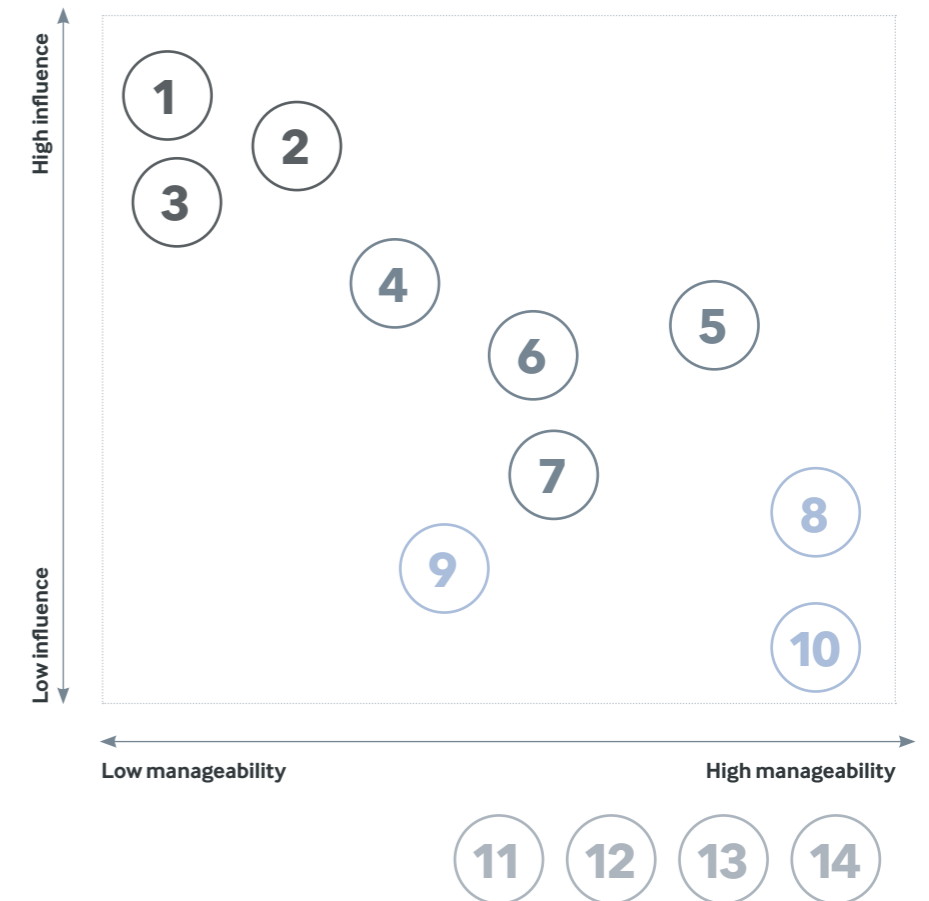
The Board determines an annual level of risk appetite in relation to managed risk factors, which sets a financial limit on all-important decisions. KPIs for non-exceeding losses from risks that materialised in the reporting period and the level of risk appetite determined is included as an operational KPI of the Company and management. The Board of Directors Audit Committee considers risks that have materialised on a quarterly basis.

In 2019 the Company considered the following as being material risks: external environment risks and risks of changes in prices for manufactured products and purchased raw materials due to changes in the exchange rate. Based on the results of the reporting period, these risks emerged to some extent.

For more information, see the section Analysis of Key Corporate Risks (p. 70-71).

Most of the indicated events were outside the Company's control. Managed risks (including production, investment, and credit risks) had a smaller effect and were retained in the risk appetite.

Analysis of key corporate risks 2019



Top key risks with an assessment of their influence on financial goals:

1. Market dynamics
2. Currency risk
3. Political risks
4. Reduced margins due to changes in the cost of manufactured products
5. Production risks
6. Investment risks
7. Cross defaults
8. Credit risks
9. Information security risks
10. Contractors' action risks

Top risks with an assessment of their influence on non-financial goals:

11. Environmental and climate risks
12. OHS risks
13. HR risks
14. Corruption risks

RISK MANAGEMENT SYSTEM

Analysis of key corporate risks 2019

1 MARKET DYNAMICS

Main risk factors

Changes in prices of manufactured products is a critical risk area for the Company.

- Unstable markets, growing market competition;
- Changes in demand, the cyclical nature of the industry;
- Trade wars, state protectionism policy;
- Surpluses at global steel making facilities.

Main response strategies

- Constant monitoring of the market situation (geopolitical, industry, regional);
- Diversification of sales markets;
- Diversification of the product portfolio (promoting new types of products);
- Flexible approach to production strategy, depending on the market situation.

Comment on manifestation of risk:

the risk emerged to some extent in 2019, the market situation was aggravated in the middle of the year, and prices and demand saw an overall decline, in combination with unstable prices for steel and iron-ore raw materials.

2 CURRENCY RISK

Main risk factors

Volatility in USD/RUB and USD/EUR exchange rates can significantly impact the financial performance of the Company; the Company has a negative open foreign currency position in RUB, and a positive open foreign currency position in the EUR and USD.

- Unstable global financial markets;
- Crude oil price volatility.

Main response strategies

- A natural hedging strategy. With a significant rise or drop in foreign currency earnings, any emerging risk is compensated by a change in the foreign exchange structure of the loan portfolio;
- Foreign exchange reserves are created in advance to maintain foreign exchange liquidity, with planned substantial currency payments.

Comment on manifestation of risk:

in 2019 the USD exchange rate against the RUB was lower than expected, while the rate against the EUR was higher than expected, which impacted the Group's cash flows and EBITDA.

3 POLITICAL RISKS

Main risk factors

An unstable geopolitical situation and sanctions can have a substantial impact of the Company's business.

- Changes in the geopolitical situation;
- Imposed sanctions, restrictions against individuals or entities;
- Trade wars;
- Protectionism policies.

Main response strategies

- Monitoring the legislative initiatives of other countries in terms of imposing new sanctions and other restrictions, assessing their impact on the Company's business, and developing potential response scenarios.

4 REDUCED MARGINS DUE TO CHANGES IN THE COST OF MANUFACTURED PRODUCTS

Main risk factors

Growth in the raw material purchase costs that exceed changes in prices for sold products.

- Diverse/non-synchronous changes in prices for the Company's products and basic materials;
- Force majeure circumstances, preventing the production of goods, the transportation of goods by suppliers, and the performance of work by contractors;
- A cartel of individual suppliers;
- Violations of agreed deadlines / quality standards by suppliers;
- Urgent purchases;
- Errors in preparing terms of reference;
- Changes in procurement demand related to the Company's response to significant changes in market conditions.

Main response strategies

- Constant monitoring of markets for purchased raw materials.
- Maintaining optimal stock levels.
- Diversification in the pool of suppliers and contractors to reduce the level of dependence on a specific supplier / region.

Comment on manifestation of risk:

the risk emerged to some extent, mainly due to an excess in actual prices of coking coal and scrap over planned prices.

5 PRODUCTION RISKS

Main risk factors

The Company's production risks comprise metals and mining factors: risks of there being a suspension or restrictions to extraction and/or stripping works, and risks related to the production of iron-ore products and steelmaking products. Unscheduled downtime of equipment as a result of accidents, incidents, and other events can lead to production losses and additional costs. Mining production risks also include risks of disruptions to facilities ensuring continuous production, such as dumps, tailings dumps, and underground drainage facilities.

- Lower quality of ore;
- Unstable nature of side rock or dump masses;
- Disposing of beneficiation tailing facilities (tailing dumps);
- Unstable underground works or disruptions in the operation of underground drainage systems;
- Equipment deterioration;
- Non-compliance with industrial safety rules by employees;
- Inadequate quality control repairs;
- Non-compliance with production technology.

Main response strategies

- Assessing the significance of production assets;
- Developing a risk oriented sustaining budget planning model;
- Regular employee training in occupational health and safety rules;
- Elaborating technical renovation policies;
- Insuring against interruptions to production.

Comment on manifestation of risk:

a number of unscheduled shutdowns occurred in 2019. A special investigation committee was set up for each shutdown, with a special plan of remedial actions, most of which helped compensate for production losses. Production risk losses were within the established risk appetite. No interruptions of systems (dumps, tailing dumps, underground drainage facility) occurred, and a continuous production process was observed.

6 INVESTMENT RISKS

Main risk factors

The Company is exposed to investment profitability risks, related both to internal factors and the current situation in the industry. Investment risks can lead to direct financial losses and reputational damage, and the non-fulfilment of the production programme or the Company's strategy.

- Lack of major infrastructure projects in Russia;
- Breach of contractual obligations by counterparties / inappropriate actions by counterparties;
- Lack of energy resources or raw materials for project implementation;
- Changes in the market situation / legislation during project implementation;
- Project planning errors;
- Violation of procurement deadlines;
- Delayed launches of investment projects;
- Project budget overruns.

Main response strategies

- Improving the quality of planning project activities and the optimisation and digitalisation of investment activity business processes.
- Improving the quality of supplier and contractor selection, improving internal acceptance procedures, attracting internal contractors.
- Concluding long-term and framework agreements with main suppliers and contractors.

Comment on manifestation of risk:

investment risks were partially implemented in 2019, mainly due to an increase in the project budget. At the same time, a number of projects generated significant savings. In general, deviations were within the established risk appetite.

7 CROSS DEFAULT

Main risk factors

Досрочное истребование по кредитам вследствие нарушения положений кредитной документации.

- Sanctions;
- Violations of the obligations and terms of loan agreements and the bond-related documentation of the Group.

Main response strategies

- The Company has an effective control system in place to check compliance with the terms and restrictions of loan documentation. An advance notification of the creditors for the obtaining of a waiver letter, if necessary.

8 CREDIT RISKS

Main risk factors

Risk of failure on the part of a Company counterparty to perform its obligations, as a result of financial insolvency/bankruptcy.

- A deterioration in the financial position of a counterparty, or its bankruptcy;
- Sanctions against counterparties.

Main response strategies

- The Company has special credit risk management regulations in place which determine individual limits and a general limit on the credit risk level.

- Non-managed risk factors
- Managed risk factors

9 INFORMATION SECURITY RISKS

Main risk factors

A malfunction of information systems as a result of hacking activities; information security breaches through an action or omission on the part of employees; and security leakage and non-compliance with information security legislation can lead to financial as well as reputational losses.

- A targeted and criminal nature of threats to information security;
- The rapid development of technologies, tools, and instruments available to wrongdoers;
- More stringent regulatory requirements;
- Low employee awareness surrounding information security;
- Ineffective information security systems and processes;
- The large-scale digitalisation of business processes.

Main response strategies

- The professional development of personnel;
- Regular checks and timely updates of information security systems and processes;
- Identifying and investigating incidents, punishing offenders.

10 RISK RELATED TO CONTRACTORS' ACTIONS

Main risk factors

Economic damage caused by unlawful actions on the part of counterparties (suppliers).

- Inadequate performance of contractual obligations by contractors;
- Unreliable counterparties;
- Unfair competition;
- Low quality of counterparty verification / evaluation.

Main response strategies

- Maintaining an effective operational procurement model to streamline the process;
- Automating procurement activities, including related control procedures;
- Selecting suppliers based on ESG criteria.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company's internal control system (ICS) deals with risk identification and assessment, and its work includes elaborating recommendations to reduce the negative impacts of risk on the Company's business, and introducing and enhancing internal control procedures.

INTERNAL CONTROL SYSTEM

The main work of the ICS takes place within the ERP system. This includes supporting a shared process model; documenting key business process risks; and the introduction, regulation, and monitoring of control procedures. Through the ICS the Company seeks to optimise and automate control procedures in order to boost the effectiveness and transparency of business processes, reduce the influence of the "human factor", lower the risk of fraud, and increase smart working practices. The Company, within the system's framework, centrally manages risks related to conflict of competences among managers and employees, both inside and outside ERP systems.

INTERNAL AUDIT SYSTEM

Internal audits help the Company attain its goals through embracing a systematic and consistent approach to assessing and enhancing the effectiveness of risk management and control and corporate governance processes.

The independence and objectivity of internal audits are ensured through subordination to the Audit Committee of the Board of Directors, which is headed by an independent director.

The internal audit departments of controlled companies, located on the sites of Company business units, are submitted to an internal audit director.

Internal audit departments are regulated by International Internal Audit Standards and comply with the Code of Ethics of Internal Auditors.

The goals, powers, and responsibilities of internal audit departments are established by the Internal Audit Regulation, which has been approved by the Board of Directors.

The Audit Committee reviews reports on the activities of the internal audit department twice a year, submits recommendations to the Board of Directors on the approval of internal audit plans and the structure, size, and budget necessary for their implementation, and regularly discusses current issues with the Director of Internal Audit.

Recommendations for improving specified processes are developed based on the results of the assessment and implementation of the recommendation is closely monitored. A risk-focused approach is used to identify priority areas of audit.

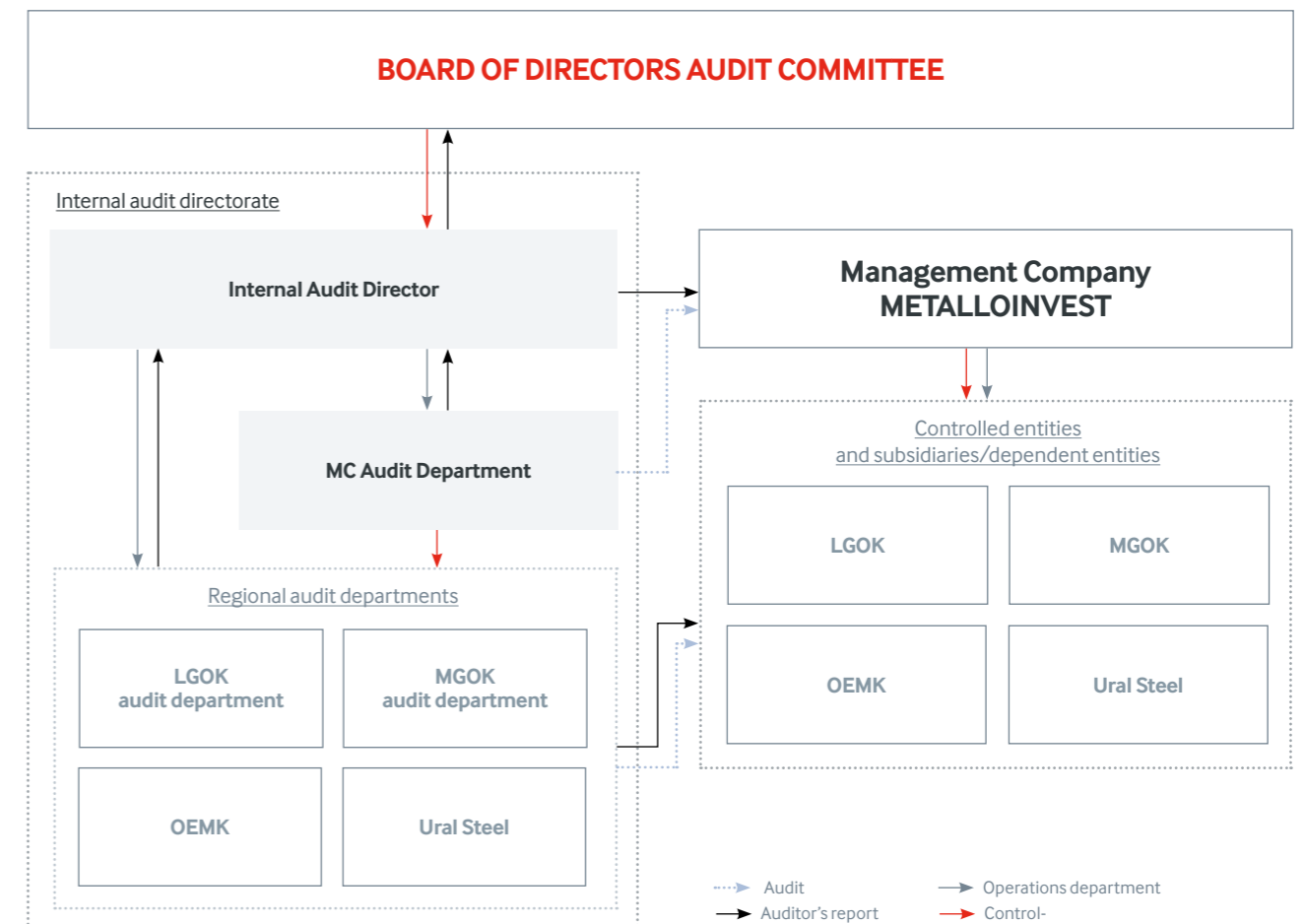
Audits were conducted in the following areas in 2019:

- the management of operating efficiency
- the management of investment activity
- supply management
- cost accounting/reporting

Based on the results of inspections, recommendations are developed to improve information on improving the efficiency of these processes and monitoring the implementation of recommendations.

In 2019, an internal assessment of the quality of internal audit was carried out in accordance with the Program for ensuring and improving the quality of internal audit. Based on the results of the assessment, a plan for developing the internal audit function in 2020 was established.

Internal audit system structure



EXTERNAL AUDITOR

Metalloinvest's financial statements are prepared in accordance with Russian and international accounting standards (RAS and IFRS). The Company engages an external auditor to conduct an independent audit of its financial and accounting statements.

The auditor is selected in accordance with the Auditor Selection Regulations of Holding Company Metalloinvest, which has been approved by the General Meeting. The main selection criteria are quality and the service fee.

In 2019 financial statements prepared in accordance with IFRS and accounting statements prepared in accordance with RAS were audited by PricewaterhouseCoopers (PwC). PwC has an extensive network of branches covering all major emerging and existing markets, and representative offices in 155 countries with over 276 thousand people working in the company all over the world.

For more information see www.pwc.ru