

# 2018

# ABOUT NLMK



## ANNUAL REPORT



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# 2018 highlights

### Setting records in operations

Record performance: steel output increased to 17.5 million tonnes; sales grew to 17.6<sup>2</sup> million tonnes, hitting an all-time high for the Company. NLMK Group retained its leadership on the Russian market in terms of steel output, and consolidated its positions on global markets.

### Stable financials and debt reduction

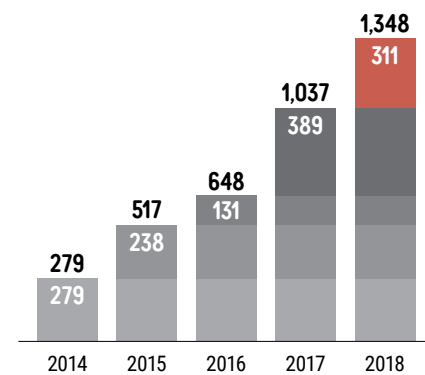
Revenue grew to \$12.0 billion; NLMK's EBITDA increased by 35% yoy to \$3.6 billion, while its EBITDA margin grew to 30%. Net debt/EBITDA decreased to 0.25x.

### Strategy in action

In 2018 EBITDA gains from the operational efficiency programme totalled \$189 million to the 2017 cost base. The impact of capex projects executed as part of Strategy 2017 totalled \$121 million. Total gains from Strategy 2017 in 2014-2018 were \$1,348 million, which is significantly in excess of the \$1 billion target.

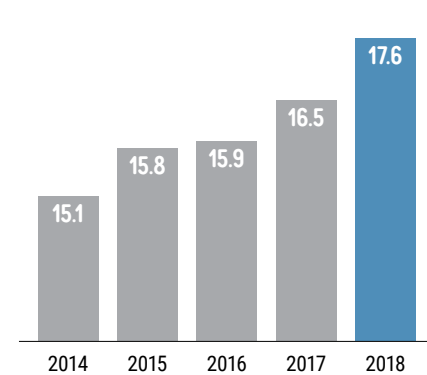
### Sustainable Strategy 2017 gains

Strategy 2017 gains continue to drive our performance<sup>1</sup>, \$ m



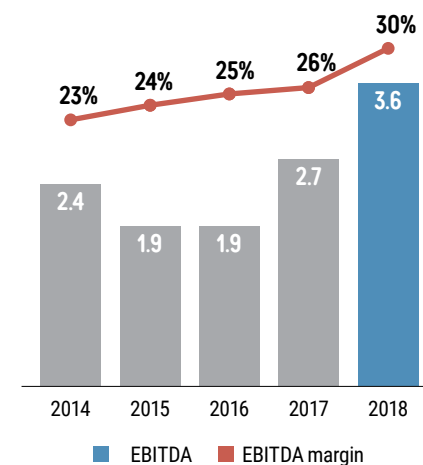
### Record operating results

Sales hit an all-time high<sup>2</sup>, m t



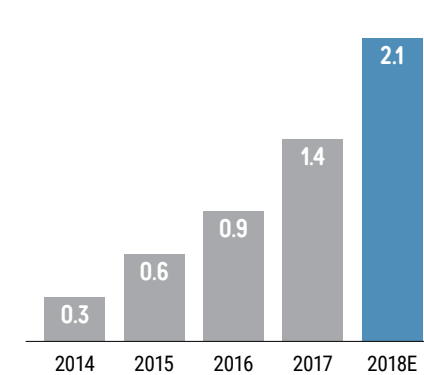
### Growth of business profitability

Consistently expanding EBITDA margins, \$ bn



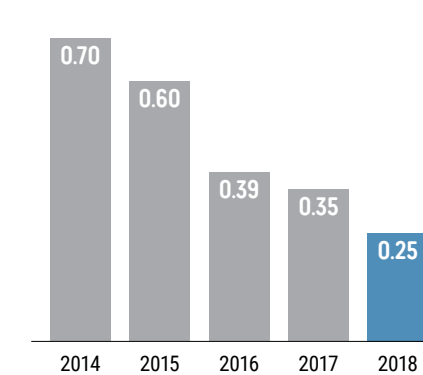
### Growing dividends

Consistent growth in dividend payments, \$ bn



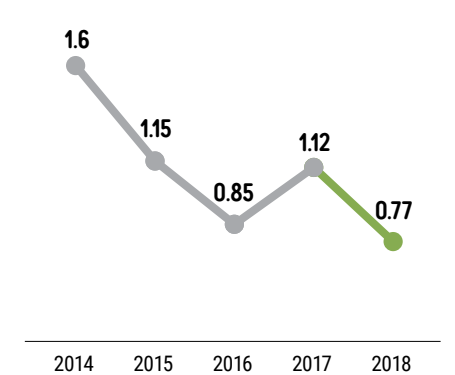
### Strengthening financial standing

Low leverage (Net debt/EBITDA)



### High occupational safety standards

Reduced injury rates, employees and contractors (LTIFR<sup>3</sup>, NLMK Group)



## \$311 M

STRATEGY 2017 GAINS IN 2018. TOTAL GAINS IN 2014-2018 WERE \$1,348 MILLION

(for more details please refer to the Strategy 2017 results section)

## +1.1 M T

NLMK GROUP ADDED 7% YOY TO ITS SALES REACHING AN ALL-TIME HIGH OF 17.6<sup>2</sup> MILLION TONNES

## +35%

EBITDA GROWTH YOY

## \$2.1 BN

DIVIDENDS FOR 2018<sup>4</sup>

## 4 YEARS

DEBT CONTINUED TO DECLINE FOURTH YEAR IN A ROW

## -31% YOY

REDUCED LOST TIME INJURY FREQUENCY RATE ACROSS NLMK GROUP, INCLUDING CONTRACTORS

<sup>1</sup> Strategy gains with NBH

<sup>2</sup> Without NBH

<sup>3</sup> LTIFR – Lost Time Injury Frequency Rate

<sup>4</sup> Projected dividend payout, based on Q4'18 dividends recommended by NLMK Group's Board of Directors



# President's Statement

GRI 102-14

## Dear readers,

In 2018 NLMK Group reduced its injury rates while setting records in production and sales. Our profits and EBITDA margin hit a ten-year high.

We saw our sales increase to 17.4\* million tonnes, more than at any other point in the Company's history. Revenue grew by 20% yoy to \$12.0 billion; EBITDA increased by 35% to \$3.6 billion, while its EBITDA margin grew to 30%. NLMK Group maintained its market leadership in Russia and consolidated its position on global markets.

It is extremely important that we keep up the good speed in boosting our operational efficiency. NLMK Production System now covers all of our Russian sites and has been rolled out to our European sites. It extends not only to core operations, but to support processes as well.

Our focus on operational efficiency was instrumental in keeping low cash cost, enabling maximum utilization of our facilities. NLMK Lipetsk had a record-breaking year, producing more steel in 2018 than ever before; Stoilensky became the second largest Russian producer of iron ore concentrate; and NLMK Long's financial performance was at a ten-year high.

All of our sites and functional areas have enjoyed their own successes – and behind these successes is the NLMK

**TOTAL EBITDA GAINS FROM STRATEGY 2017 IMPLEMENTATION DURING 2014-2018 AMOUNTED TO \$1.348 BILLION, CONSIDERABLY EXCEEDING OUR TARGET OF \$1 BILLION**

team. Our team is looking forward to new projects and challenges, and each of us – to new opportunities and interesting work. We are proud of what we have achieved and fully recognize that our achievements were made possible thanks to the contribution of our entire team, united by the common goal of leadership for NLMK Group.

I want to thank the Company's employees for their contribution, which enables NLMK to unlock its potential and be recognized as the industry leader. I would also like to express my sincere gratitude to NLMK's shareholders, customers and business partners who believe in us and work with us to develop the Company.

**Grigory Fedorishin**

President of NLMK Group

## Key indicators:

SALES  
GROWTH  
+7% YOY

EBITDA  
MARGIN  
INCREASED  
TO 30%

STRATEGY 2017  
EBITDA GAIN:  
\$1.348 BILLION

LTIFR  
DECREASED  
TO 0.77

**NLMK GROUP INCREASED SALES TO A RECORD 17.4\* MILLION TONNES**

\* with NBH sales





# About the Report

## Our approach to preparing reports

This NLMK Group's 2018 Annual Report ('the Report') discloses information on financial and business operations along with data on the Company's achievements in sustainability management for the period from 1 January 2018 to 31 December 2018. [GRI 102-50](#)

NLMK prepares its Annual Report on a yearly basis [GRI 102-52](#); the Report includes information on the Company's sustainability activities in the relevant topic-specific sections. The Company's latest annual report was published in June 2018. Electronic versions of previous reports can be found on the Company's official website: [www.nlmk.com](http://www.nlmk.com). [GRI 102-51](#)

Previously, the Group's annual public reports were prepared taking the recommendations of the Standards under advisement. In particular, in 2017, NLMK used GRI Standards to disclose information on environmental protection. In 2018, the entire Report of NLMK Group was prepared in accordance with the GRI Standards. The GRI Standards: Core option was selected for information disclosure\*. [GRI 102-54](#) The GRI Content Index, listing the disclosures included, can be found in the Appendix. [GRI 102-55](#)

The Report also covers compliance with the principles of the UN Global Compact and the OECD Principles of Corporate Governance, in accordance with which the Group strives to conduct its activities.

The interests of the investment community regarding sustainability management practices were taken into account during the preparation of this Report. In particular, the Group relied on the methodology of such rating agencies as RobecoSAM, MSCI, Sustainalytics, and FTSE Russell when disclosing information.

The Report also reflects the Group's contribution to the achievement of the Sustainable Development Goals adopted by the United Nations in 2015 in the document Transforming Our World: The 2030 Agenda for Sustainable Development.

\* The GRI Standards: Core option requires obligatory disclosure of a selective set of indicators from GRI Standard 102, as well as at least one indicator from the selected topic-specific GRI Standards.

## Scope of reporting [GRI 102-45](#)

Information on the Group's financial and business activities is disclosed in accordance with its 2018 consolidated IFRS financial statements.

Data relating to NLMK's operating activities and sustainability information

are presented within the scope shown in the table below, unless otherwise indicated in the text of the Report.

Compared to the previous reporting period, the scope of a number of topics and indicators has been expanded and supplemented by the inclusion of NLMK Group's international companies.

### SCOPE OF REPORTING ABOUT NLMK OPERATIONS AND SUSTAINABILITY ACTIVITIES

#### RUSSIA

##### NLMK Russia Flat Products

NLMK Lipetsk	Steel and flat products
VIZ-Steel	GO electrical steel
Altai-Koks	Coke
NLMK Trading SA	Trader (located in Switzerland)
Novexco (Cyprus) Ltd.	Trader (located in Cyprus)

##### NLMK Russia Long Products

NLMK-Ural	Steel and long products
NLMK-Kaluga	Steel and long products
NLMK-Metalware	Metalware
Vtorchermet NLMK	Scrap processing

##### Production and Processing of Raw Materials, Russia

Stoilensky	Extraction and processing of iron ore
Stagdok	Extraction and processing of flux limestones
Dolomit	Dolomite

#### USA

##### NLMK USA

NLMK Pennsylvania LLC & Sharon Coating LLC	Steel and flat products
NLMK Indiana LLC	Steel and flat products

#### EU

##### NLMK DanSteel and plate distribution network

NLMK DanSteel A/S	Plate
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##### NBH Segment

NLMK Clabecq S.A.	Plate
NLMK Verona SpA	Plate
NLMK La Louvière S.A.	Strip
NLMK Strasbourg S.A.	Strip

#### SERVICE AND SUPPORTING BUSINESSES

NLMK Trading House	VIZ
Novolipetsk Steel Service Centre (Metallobaza)	VIZ-Broker
Ussuriysk Steel Service Centre (Metallobaza)	Gazobeton-48
NLMK-Engineering	Novolipetsk Printing House
UralNIAS Institute	NLMK India Service Center Pvt Ltd
SMT NLMK	NLMK Overseas Holdings
NLMK Accounting Centre	Zhernovskiy-1 mining and beneficiation plant
NLMK IT	Usinky-3 mining and beneficiation plant
NLMK Communications	Metallurg Hotel Complex

**The process of defining material topics** [GRI 102-46](#)

Significant economic, environmental, and social topics of the greatest importance to the Company and its stakeholders were identified as part of the process of defining the Report's content. This approach was developed on the basis of the requirements set out in the GRI Standards.

For the purpose of preparing the 2018 Report, a working group comprising the heads of NLMK's functional units was formed.

A total of 16 material topics were identified and approved on the basis of the analysis, including disclosures from each of the following categories: economic, environmental, and social. These disclosures were also prioritized on the basis of feedback from a survey carried out in October 2018 of internal stakeholders who are members of the Report preparation working group.

The GRI information disclosure requirements were met to the same extent for all topics, regardless of

their determined level of materiality. At the same time, topics with a high level of materiality were accorded special attention: additional detailed information about them is provided in the Report.

**Methodology for preparing and revising data** [GRI 102-48, 102-49](#)

The calculation, collection, and consolidation of the operational, social, and environmental indicators presented in the Report were carried out in accordance with the reporting principles and requirements of the GRI Standards, based on the Group's existing processes for collecting and preparing business information.

Financial information is presented in US dollars or Russian rubles in accordance with the financial reporting system adopted by the Group. In cases where financial data were recalculated in dollars, the weighted average rate for 2018 was used: USD 1 = RUB 62.7078.

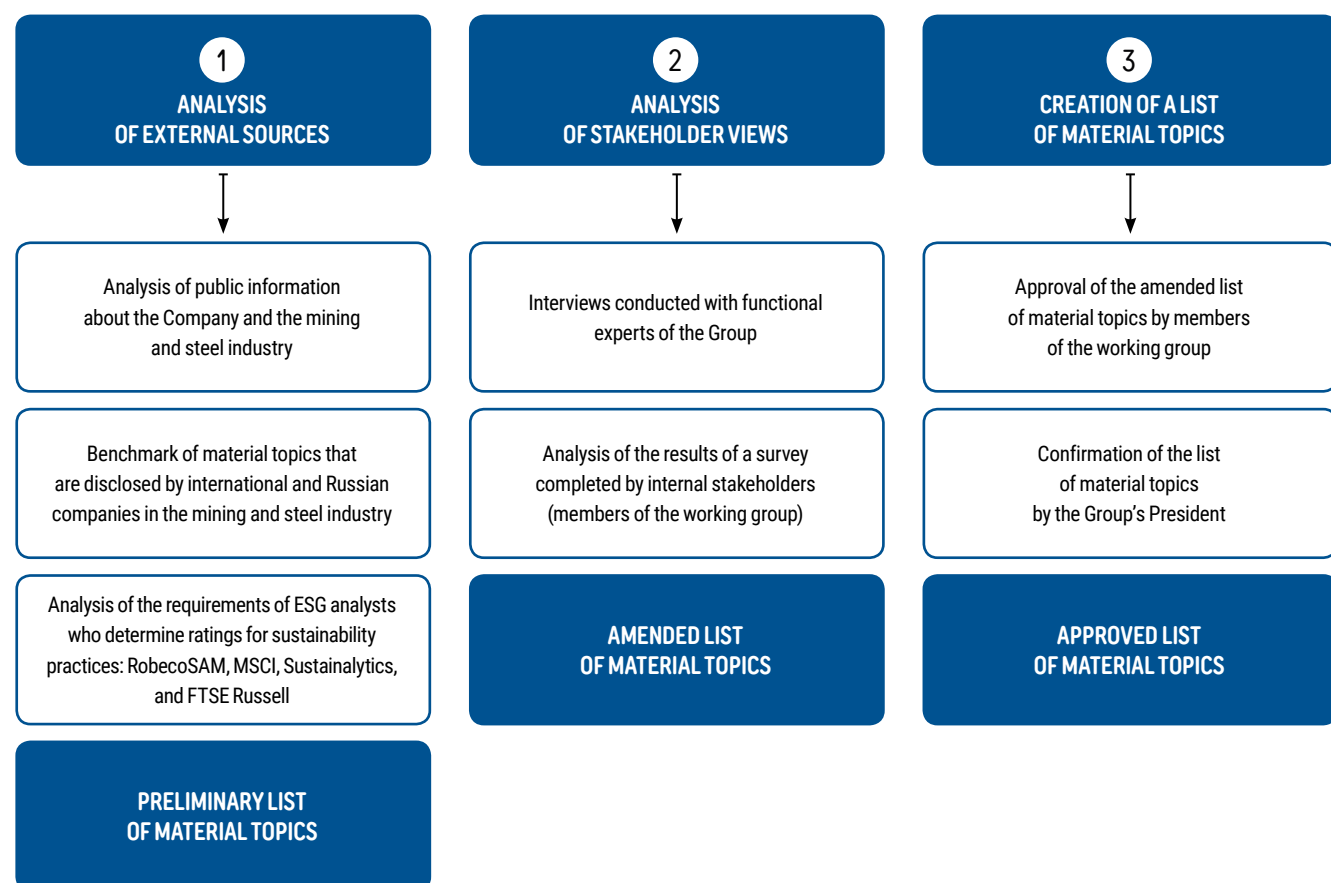
Operating performance indicators and sustainability data are presented in the International System of Units (SI).

The sources of sustainability information on staff management, occupational health and safety, and environmental protection are the state mandatory statistical reporting forms, which are submitted to the relevant government agencies on an annual basis.

To enable data to be compared, the most significant indicators of the Group's activities will be presented not only for the reporting period, but also for the previous four years. At the same time, taking into account that the scope of 2018 information disclosure covers international companies as well, certain data for previous periods were also adjusted.

Another change in the Company's approach to information disclosure was the disclosure of quantitative information on energy consumption and energy efficiency in joules. These units of measurement are more universal and allow comparing the results of

**APPROACH TO DEFINING MATERIAL TOPICS**



**MATERIAL TOPICS** [GRI 102-47](#)

Topic	Level of materiality	Internal stakeholders	External stakeholders
<b>Economic</b>			
201 Economic Performance	High	✓	✓
203 Indirect Economic Impacts	Medium	✓	✓
205 Anti-Corruption	High	✓	✓
<b>Environmental</b>			
302 Energy	High	✓	✓
303 Water and Effluents	High	-	✓
304 Biodiversity	Low	-	✓
305 Emissions	High	✓	✓
306 Effluents and Waste	High	✓	✓
307 Environmental Compliance	High	✓	✓
308 Supplier Environmental Assessment	Medium	✓	✓
<b>Social</b>			
401 Employment	High	✓	✓
403 Occupational Health and Safety	High	✓	✓
404 Training and Education	High	✓	-
405 Diversity and Equal Opportunity	Medium	✓	-
406 Non-Discrimination	Low	-	-
407 Freedom of Association and Collective Bargaining	Medium	✓	✓
408 Child Labour	Low	-	✓
409 Forced or Compulsory Labour	Low	-	✓
413 Local Communities	High	✓	✓

the Company's activities in this area with other companies, including international ones.

In 2018, NLMK for the first time disclosed information on greenhouse gas emissions, including direct and indirect emissions, and specific emissions per tonne of steel produced. In the next reporting periods, the Company plans to continue the practice of disclosing this information.

**External assurance**

An external audit of the Company's financial statements was carried out by PwC. The Auditor's Opinion is presented in the Appendix.

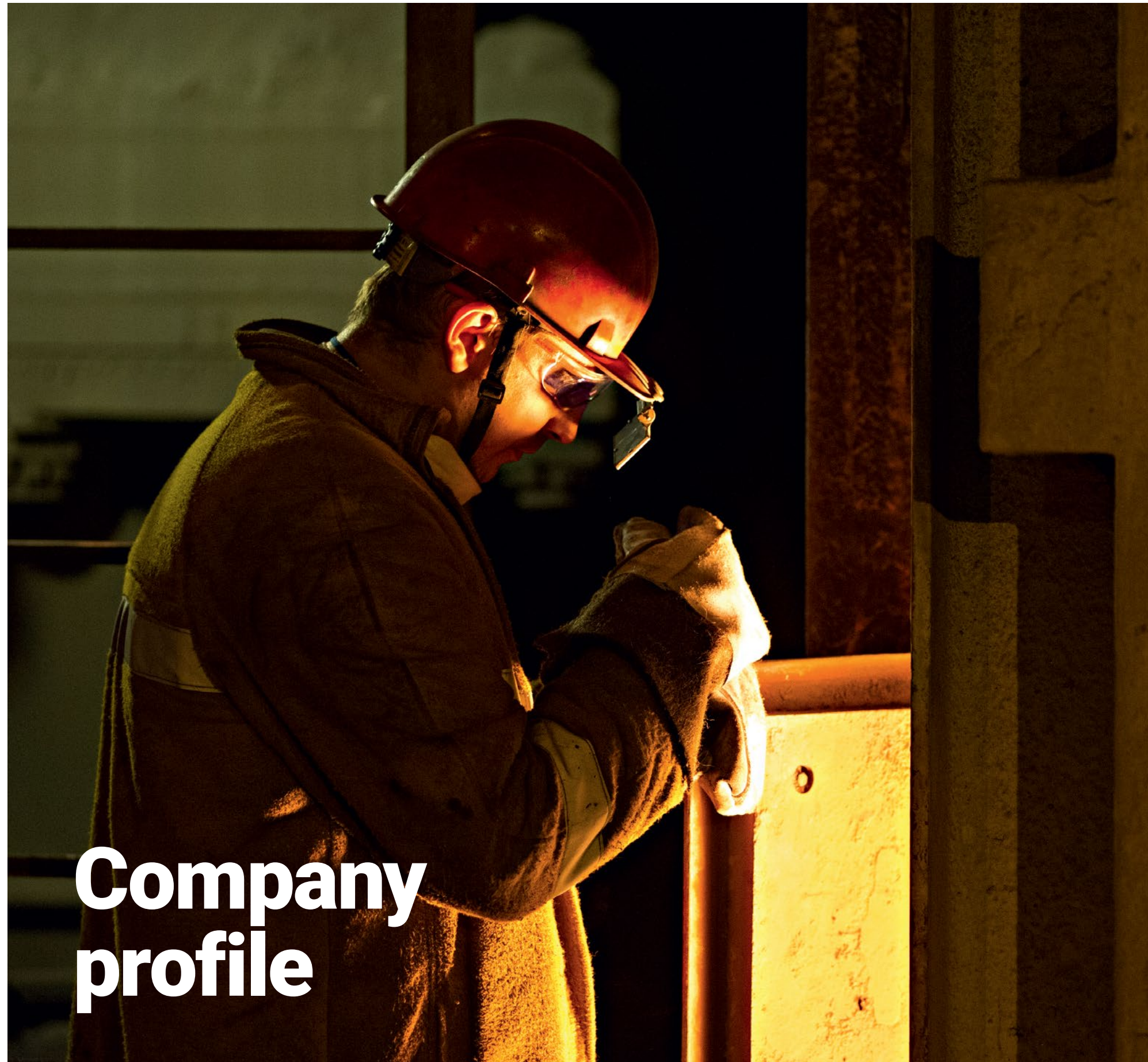
The sustainability information presented in this Report was not subject to external assurance in 2018. However, the Group plans to certify this information in future reporting periods, since it is aware that NLMK Group stakeholders value independent confirmation of non-financial information. [GRI 102-56](#)

**Contact details**

We will be happy to answer additional questions regarding this Report, as well as receive feedback from our stakeholders for the development and improvement of the content of future public reports of the Company. [GRI 102-53](#)

- **Dmitry Kolomytsyn, CFA**  
Director, Capital Markets and IR  
ir@nlmk.com
- **NLMK's Representative Office in Moscow**, 119017 40-3, Bolshaya Ordynka str., Moscow [GRI 102-3](#)





# Company profile

## Company profile GRI 102-7

**N**LMK Group is the largest integrated steelmaker in Russia and one of the most efficient in the world. GRI 102-1

NLMK Group's steel products are used in various industries, from construction and machine building to the manufacturing of power-generation equipment and offshore wind turbines.

NLMK operates production facilities in Russia, Europe and the United States. The Company's steel production capacity exceeds 17 million tonnes per year. GRI 102-4

NLMK has the most competitive cash cost among global manufacturers and one of the highest profitability levels in the industry. In 2018, the Company generated \$12.046 billion in revenue and \$3.589 billion in EBITDA. As of 31 December 2018, Net debt/EBITDA stood at 0.25x.

NLMK's ordinary shares with a 16% free-float are traded on the Moscow Exchange (ticker "NLMK") and its global depository shares are traded on the London Stock Exchange (ticker "NLMK:LI"). The share capital of the Company is divided into 5,993,227,240 shares with a par value of RUB 1.

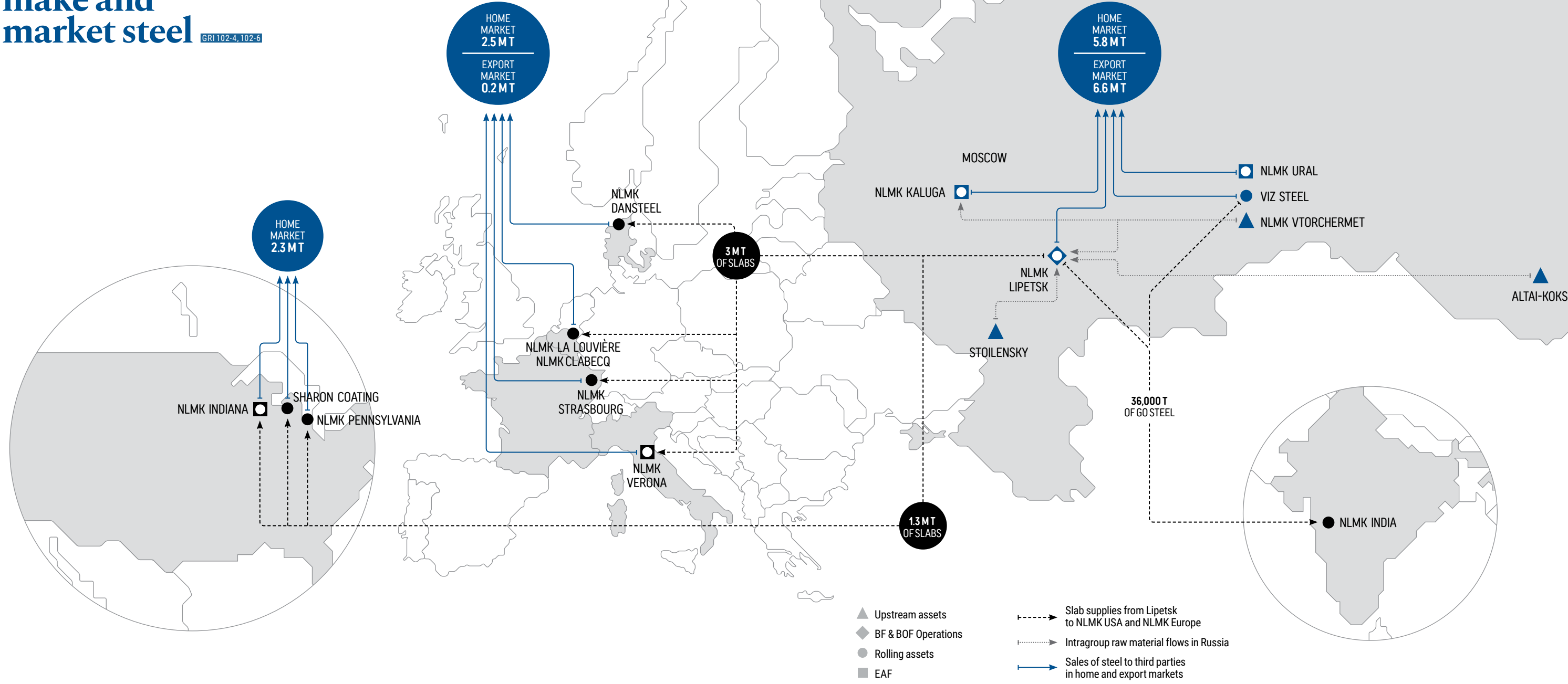
Our corporate culture, which targets continuous development and brings together more than 53,000 professionals across multiple regions, serves as a solid foundation for further growth.

### KEY BUSINESS HIGHLIGHTS

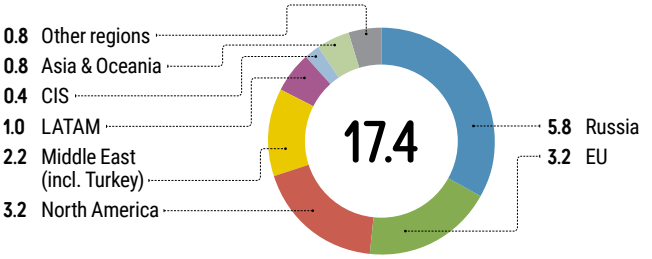
Key number/idea	Key
Production capacities	17.5 million tonnes per year
23% of steel produced in Russia	No.1 steelmaker in Russia and among TOP 20 leading steelmakers globally
Efficient vertical integration	<ul style="list-style-type: none"> <li>▶ 100% self-sufficiency in iron ore concentrate</li> <li>▶ 97% self-sufficiency in iron ore pellets</li> <li>▶ &gt;100% self-sufficiency in coke</li> <li>▶ 60% self-sufficiency in scrap</li> <li>▶ 59% self-sufficiency in energy</li> </ul>
99% utilization rate of NLMK Group's steelmaking capacity	Capacity utilization of the key site running at 100% vs. a global average of about 78%
\$266 cash cost per tonne of slabs	Among TOP 3 cost-efficient steelmakers globally
30% EBITDA margin	Stable growth in profitability over the last few years, driven by consistent execution of Strategy 2017
Net debt/EBITDA stands at 0.25x	A stable financial position supported by a balanced financial policy and growth of positive free cash flow
High sustainability standards	<p>NLMK sustainability KPIs are in line with or approaching the level of best global practices for the steel industry, as a result of the Company's comprehensive initiatives:</p> <ul style="list-style-type: none"> <li>▶ Group LTIFR (contractors and employees) stands at 0.77</li> <li>▶ Specific air emissions total 18.0 kg/t</li> </ul>



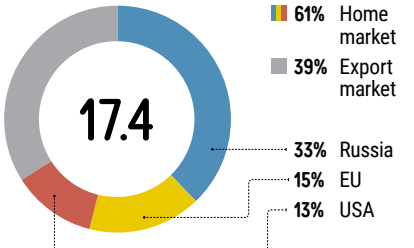
# Where we make and market steel GRI 102-4, 102-6



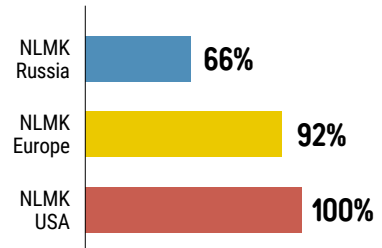
SALES IN 2018\*, M T



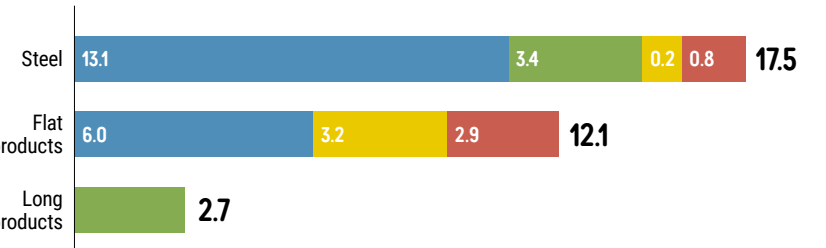
SALES BY MARKET\*, M T



SHARE OF FINISHED STEEL SALES TO HOME MARKETS\*, %



NLMK PRODUCTION CAPACITIES\*, M T





## NLMK's integrated process environment GRI 102-7

Over the past decade, NLMK has evolved from a local steel producer into a global steel company with control over every production stage, from raw materials extraction to the sale of high value added (HVA) products to end consumers.

NLMK Group is an integrated process environment that stretches from the Urals in Russia to the Great Lakes in the USA. All our facilities across the globe share common values and work for a common goal.



### NLMK RUSSIA

#### Upstream

##### PRODUCTION SITES:

Stoilensky  
Dolomit  
Stagdok

##### FUNCTIONS:

Covers the Group's demand for raw materials

##### PRODUCTS:

Iron ore concentrate, pellets, sinter ore, limestone, dolomite

##### HEADCOUNT:

**7,000**  
PEOPLE

##### PRODUCTION CAPACITIES\*:

Iron ore concentrate: **17.4MT**  
Sinter ore: **1.6MT**

##### CONSUMERS:

Internal: NLMK Lipetsk  
External: Steelmakers, road construction, agriculture

##### PRODUCTION:

Iron ore: **18.4MT** (+7% yoy)  
Fluxes: **6.7MT** (+7% yoy)

##### SALES TO THE GROUP'S COMPANIES:

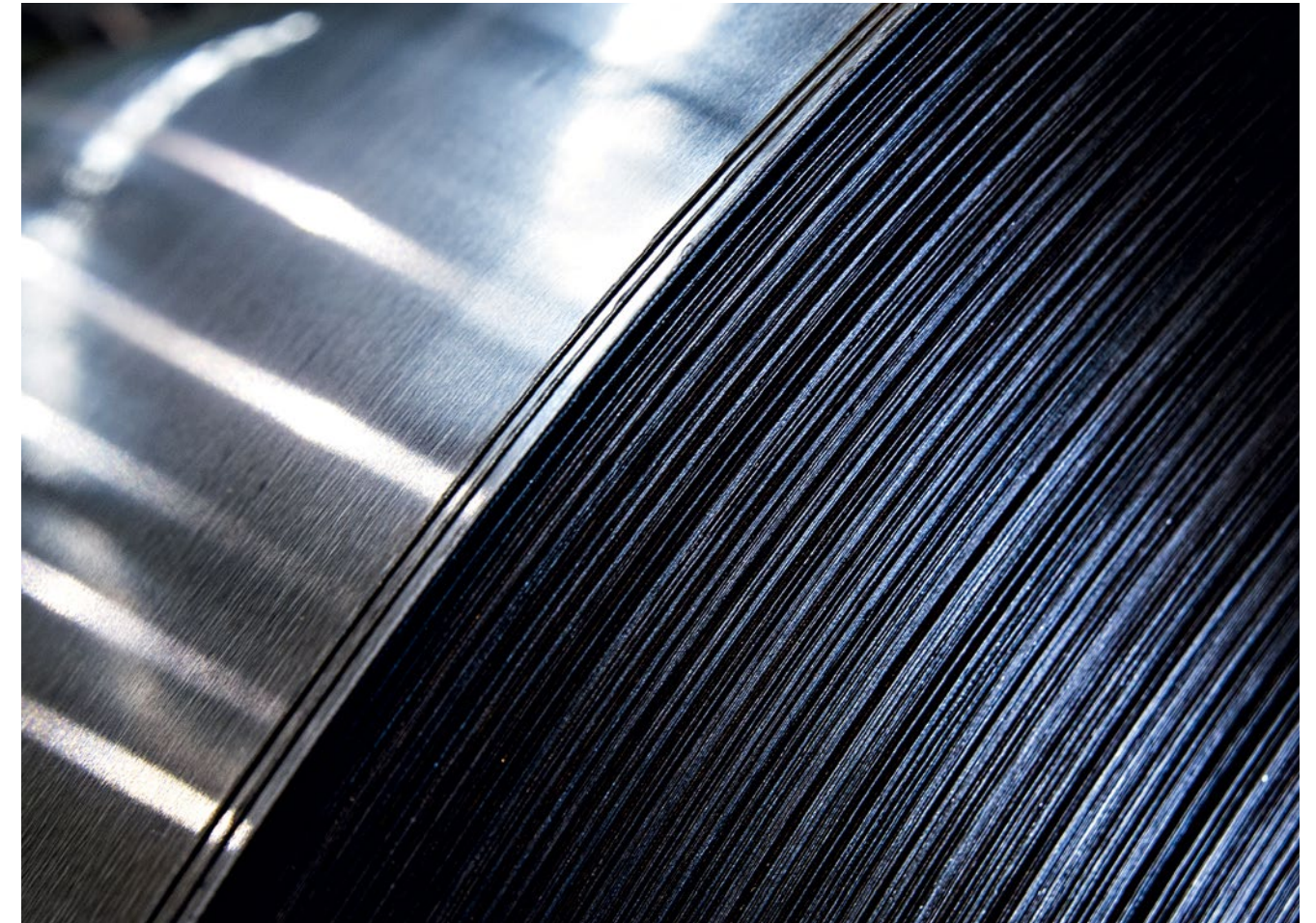
Iron ore concentrate: **10.1MT** (+5% yoy)  
Pellets: **6.7MT** (+13% yoy)  
Sinter ore: **1.5MT** (+2% yoy)  
Limestone: **2.9MT** (-1% yoy)  
(76% to the Lipetsk site)  
Dolomite: **1.8MT** (+6% yoy)  
(68% to the Lipetsk site)

##### FINANCIAL PERFORMANCE:

Revenue: **\$1,211M** (+28% yoy)  
EBITDA: **\$888M** (+38% yoy)  
Investments: **\$137M** (+18% yoy)

**Event of the year 2018: Stoilensky increased its total output of iron ore concentrate to 17.4 million tonnes (+8% yoy), thanks to the introduction of high-pressure grinding rollers (HPGRs) at four sections of the beneficiation plant at the end of 2017.**

\* Hereinafter, current capacities are based on current shifts and product mix  
\*\* 6% moisture



#### NLMK Russia Flat

##### PRODUCTION SITES:

NLMK Lipetsk (the Lipetsk site)  
VIZ-Steel  
Altai Koks

##### FUNCTIONS:

Produces steel, including semis for international companies, flat products and coke

##### PRODUCTS:

Coke, pig iron, slabs, hot-rolled steel, cold-rolled steel, galvanized steel, pre-painted steel, grain-oriented and non-grain-oriented steel

##### HEADCOUNT:

**30,600**  
PEOPLE

##### PRODUCTION CAPACITIES:

Steel: **13.1MT**  
Flat products: **6.0MT**

##### STEELMAKING

##### CAPACITY

##### UTILIZATION:

**100%**

##### CONSUMERS:

Internal: international rolling divisions  
External: construction, pipe production, automotive industry, machine building, white goods, yellow machinery, power industry and other sectors

##### SALES GEOGRAPHY:

Russia (44% of sales), Turkey and the Middle East, North America and LatAm, Asia and Oceania, European Union, the CIS

##### PRODUCTION:

Coke\*\*: **6.4MT** (-7% yoy)  
Pig iron: **13.2MT** (+3% yoy)  
Steel: **13.3MT** (+1% yoy)  
Commodity semis: **7.1MT** (+5% yoy)  
Rolled products: **5.7MT** (-2% yoy)

##### SALES TO EXTERNAL CUSTOMERS:

Commodity pig iron: **0.9MT** (+109% yoy)  
Slabs: **2.8MT** (+11% yoy)  
Hot-rolled steel: **2.3MT** (-14% yoy)  
Cold-rolled steel: **1.4MT** (+1% yoy)  
Galvanized steel: **0.8MT** (+13% yoy)  
Pre-painted steel: **0.4MT** (+5% yoy)  
NGOES: **0.3MT** (-6% yoy)  
GOES steel: **0.3MT** (+9% yoy)

##### INTRAGROUP SALES:

Supplies to NLMK USA: **1.3MT** (-20% yoy)  
Supplies to NLMK Europe: **3.0MT** (+15% yoy)

##### FINANCIAL PERFORMANCE:

Total revenue: **\$8,743M** (+14% yoy)  
EBITDA: **\$2,339M** (+36% yoy)  
Investments: **\$522M** (+24% yoy)

**2018 fact: The Division's sales grew by 4% yoy to 13.5 million tonnes. The share of finished steel sold to third parties accounted for 60% of total sales.**



## NLMK Russia Long

### PRODUCTION SITES:

NLMK Vtorchermet  
scrap collecting facilities  
NLMK Ural  
NLMK Kaluga  
NLMK Metalware

### FUNCTIONS:

Processes scrap for the Group's steelmaking capacities in Russia  
Long products and metalware production

### PRODUCTS:

Scrap, billets, rebar, wire rod, sections, metalware

### HEADCOUNT:

**8,700** PEOPLE

### PRODUCTION CAPACITIES:

Steel: **3.4MT**  
Long products: **2.7MT**

### STEELMAKING CAPACITY UTILIZATION:

**98%**

### CONSUMERS:

Construction, machine building

### SALES GEOGRAPHY:

Russia (55% of sales), the European Union, Turkey, the Middle East, North Africa.

### PRODUCTION:

Scrap processing: **2.4MT** (+4.8% yoy)  
Steel: **3.3MT** (+9% yoy)  
Long products: **2.2MT** (+13% yoy)  
Metalware: **0.3MT** (-6% yoy)

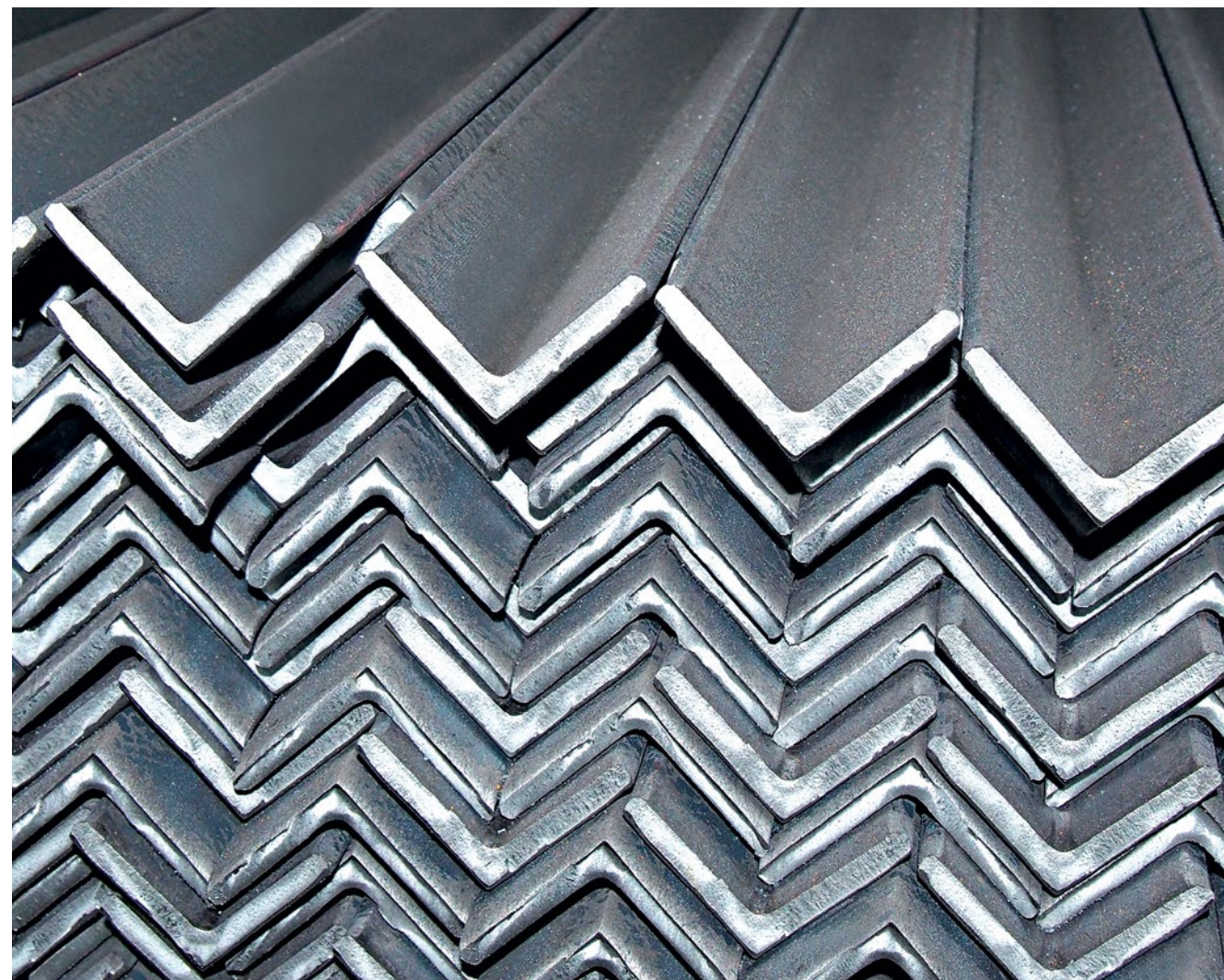
### SALES TO EXTERNAL CUSTOMERS:

Billets: **0.8MT** (+12% yoy)  
Long products: **2.2MT** (+8% yoy)  
Metalware: **0.3MT** (-7% yoy)

### FINANCIAL PERFORMANCE:

Total revenue: **\$2,152M** (+20% yoy)  
EBITDA: **\$221M** (+45% yoy)  
Investments: **\$36M** (+64% yoy)

**2018 fact: Due to the expansion of sales channels and the development of customer service, the segment's sales volume increased by 8% yoy reaching 3.2 million tonnes**



## NLMK USA

### PRODUCTION SITES:

NLMK Pennsylvania  
NLMK Indiana  
Sharon Coating

### FUNCTIONS:

Produces flat steel from the semis coming from the Lipetsk site as well as from own-produced semis and from 3-rd parties semis

### PRODUCTS:

Hot-rolled steel, cold-rolled steel, galvanized steel

### HEADCOUNT:

**1,200** PEOPLE

### PRODUCTION CAPACITIES:

Steel: **0.8MT**  
Flat products: **2.9MT**

### STEELMAKING CAPACITY UTILIZATION:

**85%**

### CONSUMERS:

construction, pipe production, automotive industry, machine building, white goods and yellow machinery production

### PRODUCTION:

Steel: **0.7MT** (+6% yoy)  
Flat products: **2.2MT** (+3% yoy)

### SALES GEOGRAPHY:

100% of steel sold in the USA

### SALES:

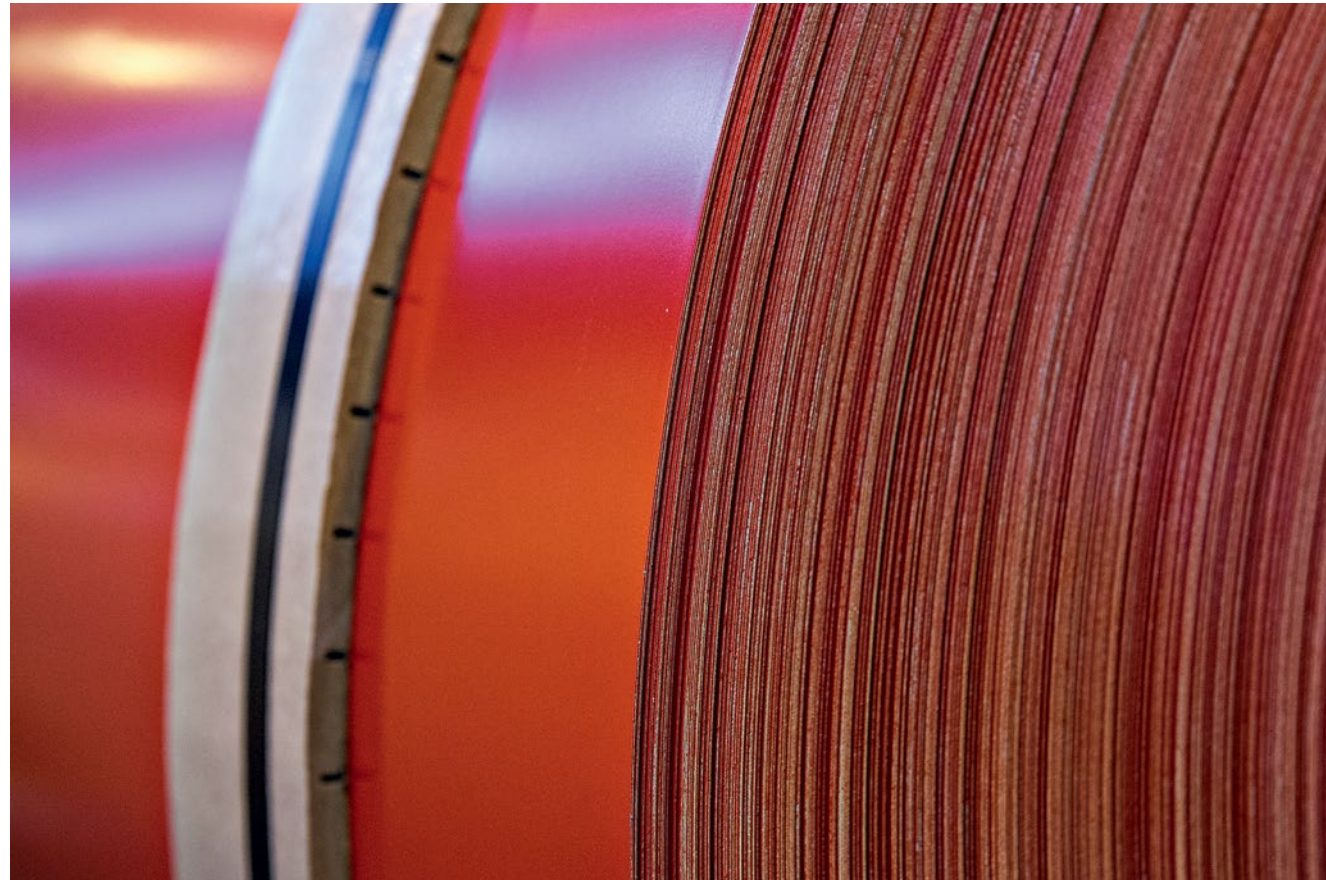
Hot-rolled steel: **1.3MT** (+3% yoy)  
Cold-rolled steel: **0.5MT** (-3% yoy)  
Galvanized steel: **0.5MT** (+6% yoy)

### FINANCIAL PERFORMANCE:

Total revenue: **\$2,134M** (+28% yoy)  
EBITDA: **\$253M** (+28% yoy)  
Investments: **\$20M** (-29% yoy)

**2018 fact: The Division's sales of hot-rolled steel grew by 3% yoy. A new surface control system was installed at NLMK Indiana's hot rolling mill; the hot rolling mill at NLMK Pennsylvania will be equipped with a similar system.**





## NLMK EUROPE

### NLMK Europe Strip

**PRODUCTION SITES:**  
NLMK La Louvière\*  
NLMK Strasbourg\*

**FUNCTIONS:**  
Produces flat steel from slabs coming from the Lipetsk site

**PRODUCTS:**  
Hot-rolled steel, cold-rolled steel, galvanized steel, pre-painted steel

**SALES GEOGRAPHY:**  
92% of steel sold in the European Union

**HEADCOUNT:**  
**900** PEOPLE

**PRODUCTION CAPACITIES:**  
Flat products: **1.7MT**

**ROLLING CAPACITY UTILIZATION:**  
**87%**

**CONSUMERS:**  
construction, pipe production, automotive industry, machine building, white goods and yellow machinery production

**PRODUCTION:**  
Flat products: **1.5MT** (+8% yoy)

**SALES:**  
Hot-rolled steel: **1.1MT** (+15% yoy)  
Cold-rolled steel: **0.04MT** (-33% yoy)  
Galvanized steel: **0.2MT** (-9% yoy)  
Pre-painted steel: **0.1MT** (+16% yoy)

**2018 fact:** NLMK Group and SOGEP A equalized their holdings in NLMK Belgium Holdings SA. NLMK Group has decreased its holdings in NBH through the sale of its 2% stake to THN, an NBH-affiliated company. Via this transaction, the respective holdings of NLMK Group and SOGEP A (Société Wallonne de Gestion et de Participations S.A.), the second shareholder of NBH, have been equalized to 49% each.

\* Part of NLMK Belgium Holdings (NBH)

### NLMK Europe Plate

**PRODUCTION SITES:**  
NLMK Dansteel  
NLMK Clabecq\*  
NLMK Verona\*

**FUNCTIONS:**  
Produces plates from the semis coming from the Lipetsk site and from own-produced semis

**PRODUCTS:**  
Niche steel semis, plates including Quard and Quend grades

**SALES GEOGRAPHY:**  
92% of steel sold in the European Union

**HEADCOUNT:**  
**1,300** PEOPLE

**PRODUCTION CAPACITIES:**  
Steel: **0.2MT**  
Plate: **1.5MT**

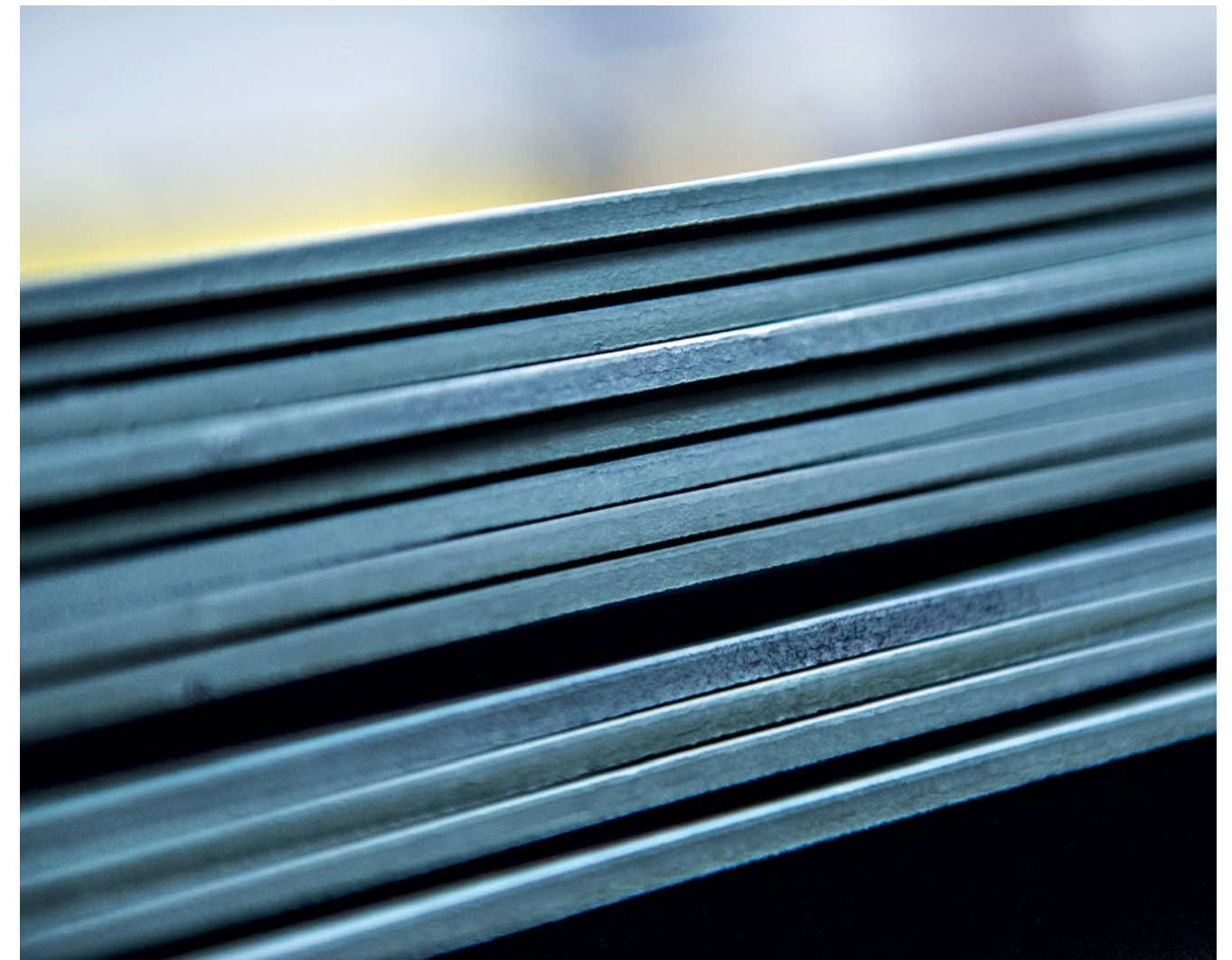
**ROLLING CAPACITY UTILIZATION:**  
**82%**

**CONSUMERS:**  
Producers of heavy vehicles and loading equipment, offshore wind turbines, drilling rigs, shipbuilding sector, producers of pipes, boilers and reservoirs for hostile environment

**PRODUCTION:**  
Steel: **0.2MT** (-8% yoy)  
Flat products: **1.2MT** (+6% yoy)

**SALES:**  
Plate and ingots: **1.3MT** (+4% yoy)

**2018 fact:** Mr. Peter Georg Selbach was appointed CEO of NLMK Belgium Holdings plate business. Before joining NLMK, Peter Georg Selbach served in executive management positions in European steel companies, including Hydro Aluminium, Bodycote International plc, Telemond Holding, Alcoa Europe and ThyssenKrupp Steel. NLMK DanSteel launched an accelerated cooling unit. It will enable production of plates weighing up to 60 tonnes.





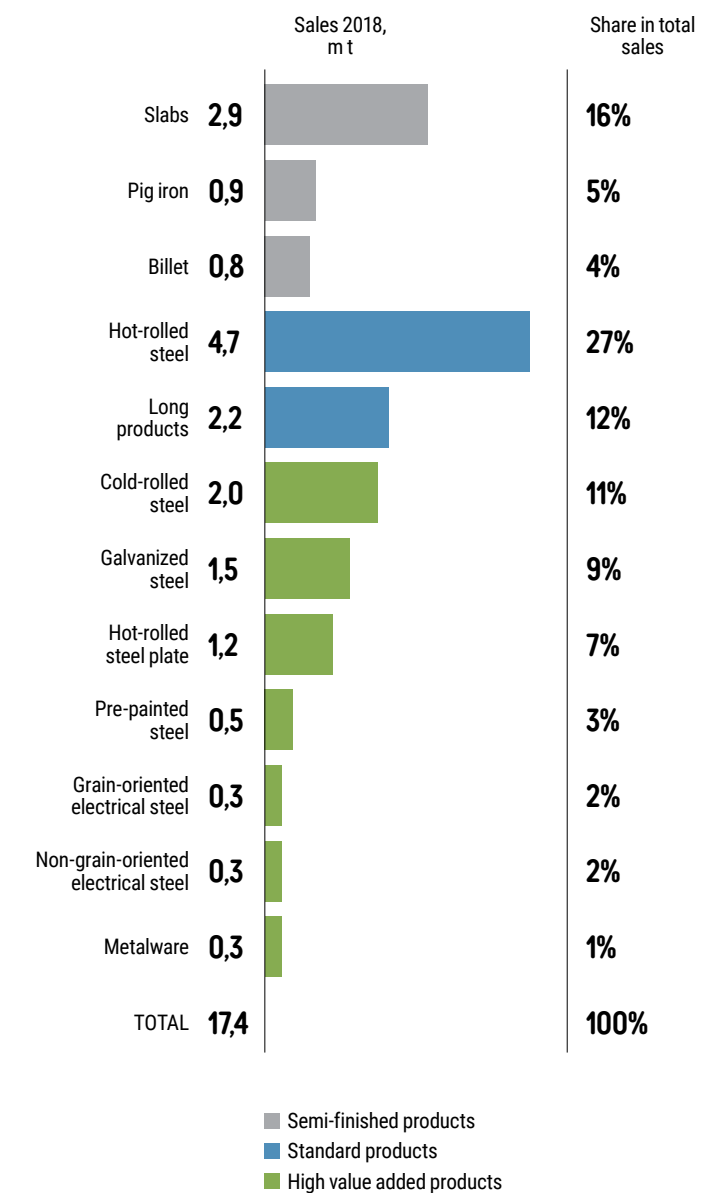


## What we make and market GRI 102-2

NLMK 2018 STEEL PRODUCT SALES:  
**17.4\* MILLION TONNES**

**N**LMK is a leading supplier of high-quality steel products in key sales markets. NLMK has a balanced product mix that includes semi-finished, high value added and niche products. Flat steel accounts for around 82% of total output, 18% is accounted for by long steel used in construction.



NLMK SALES IN 2018



\* with NBH Sales



**Our products**

 <b>Steel semis</b>	 <b>Plate</b>	 <b>Hot-rolled steel</b>	 <b>Cold-rolled steel</b>
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**SHARE IN TOTAL SALES**



**DESCRIPTION**

Semi-finished steel products for further processing: slabs are processed into flat steel products; billets are processed into long steel products. A wide range of semis, both standard and niche products with specific chemical composition, physical properties and dimensions	Flat steel products with higher thickness than that of hot-rolled steel. A range of standard products and niche abrasion-resistant and high-strength plates. Produced at NLMK Group's European sites from slabs supplied by NLMK Lipetsk	Flat steel products that have been hot-rolled. A wide range of hot-rolled steel in sheets and coils with a variety of performance characteristics	Flat steel products that have been cold-rolled. A wide range of cold-rolled steel sheets and coils with a variety of performance characteristics, including niche high-ductility products
--	---	---	---

**CONSUMERS**

Steelmaking, pipe industry	Lifting and transport equipment, offshore wind turbines, drilling platforms, shipbuilding, pipelines, boilers, tanks for aggressive environment (pressure, temperature, load, etc.)	Pipe industry, steel structures, shipbuilding, machine building, high-pressure vessels, yellow machinery, commercial, residential and infrastructure construction	Automotive manufacturing, machine building, pipe industry, yellow machinery and white goods, commercial, residential and infrastructure construction
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**SITES**

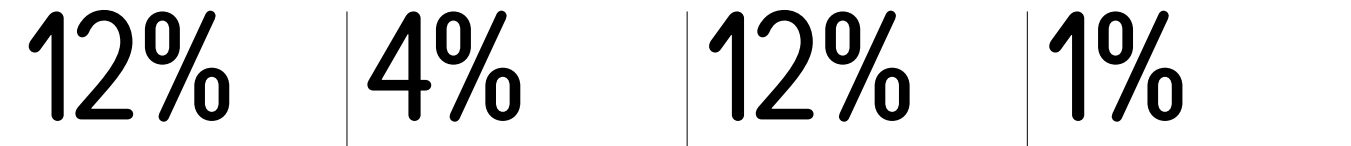
NLMK Lipetsk NLMK Kaluga	NLMK Dansteel NLMK Clabecq NLMK Verona	NLMK Lipetsk NLMK La Louvière NLMK Indiana NLMK Pennsylvania	NLMK Lipetsk NLMK La Louvière NLMK Pennsylvania
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**MARKET SHARE\***



\* NLMK shares in apparent consumption.

 <b>Coated steel</b>	 <b>Electrical steel</b>	 <b>Long products</b>	 <b>Metalware</b>
--	--	---	---



Galvanized and pre-painted steel from hot-rolled and cold-rolled flats. Coatings are applied on a production line to protect the steel from corrosive environments. Available in coils, strip and sheets	Dynamo (non-grain-oriented) and transformer (grain-oriented) electrical steel. Includes a range of standard products with conventional properties, and unique high-permeability steel (HGO). Available in coils, strip and sheets	Rebar in rods and coils, wire rod, sections	A wide range of low-carbon metalware. This includes wire and secondary products, with various coatings and surface finishes, nails, fasteners
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Automotive manufacturing, yellow and white goods, construction, facing materials.	Electrical machines, transformers, power engineering, instrument making.	Construction	Construction, machine building
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NLMK Lipetsk NLMK Strasbourg Sharon Coating	NLMK Lipetsk VIZ-Steel	NLMK Ural NLMK Kaluga	NLMK Metalware
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# Strategy and business review

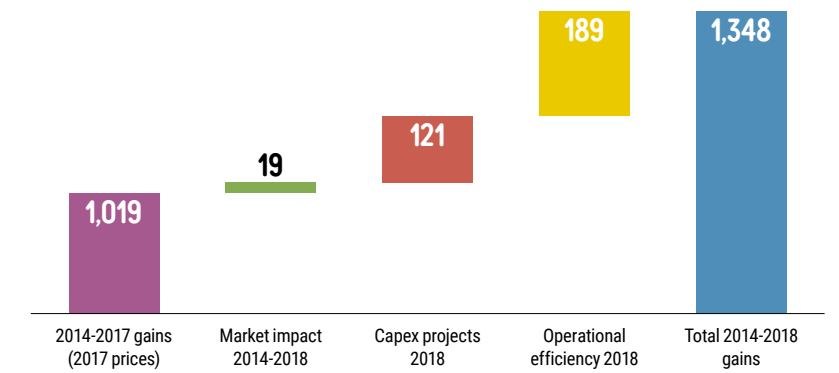
## Strategy 2017 results

### The report of the Board of Directors on priority areas development

In 2018, NLMK Group successfully finalized its Strategy 2017, gaining additional effects from continuing operating efficiency efforts and investment programmes implemented as part of Strategy 2017.

In the reporting period, EBITDA gains from the operational efficiency programme totalled \$189 million to the 2017 cost base. The impact of capex projects executed as part of Strategy 2017 brought an additional \$121 million. Total gains from Strategy 2017 in 2014-2018 were \$1,348 million, which is significantly in excess of the \$1 billion target.

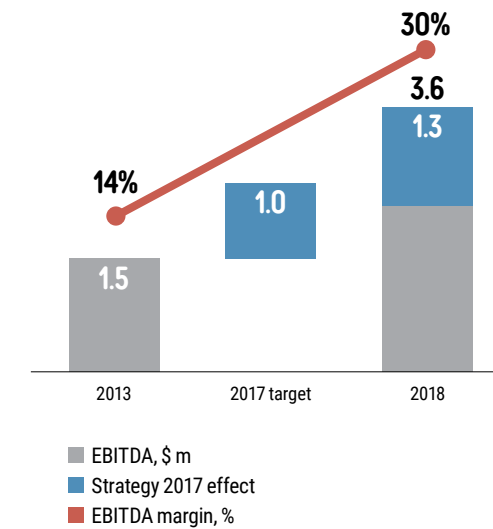
STRATEGY 2017 EBITDA GAINS, \$ M



### STRATEGY 2017 TARGETS:

- 1 Net gains of \$1.0 billion pa vs. 2013 EBITDA
- 2 Structural reduction of annual capex
- 3 Conservative leverage: target Net debt/EBITDA ratio at 1.0x
- 4 Stable positive free cash flow
- 5 Dividend payments in accordance with the revised dividend policy

STRUCTURAL GROWTH IN EBITDA





## KEY ELEMENTS OF STRATEGY 2017

### Leadership in operational efficiency

Increased productivity delivered by investment programmes and development of NLMK Production System.

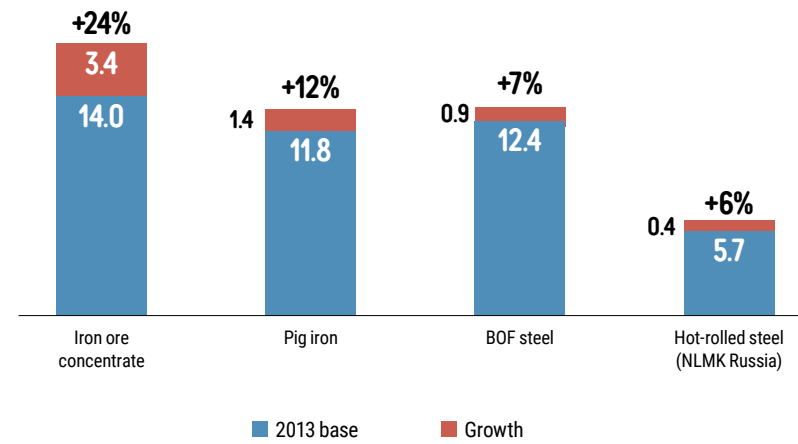
**Target net EBITDA gain:**  
\$0.33 BILLION

**Actual gains totalled:**  
\$0.70 BILLION

Production costs reduced and productivity increased. This secured NLMK's global cost leadership in the steel sector.

NLMK increased its steel output by 0.9 million tonnes (+7%), hot-rolled steel output grew by 0.4 million tonnes (+6%) per year vs. the 2013 levels through better practices.

NLMK GROUP'S PRODUCTIVITY GROWTH, 2013-2018, M T



### Leading positions in strategic markets

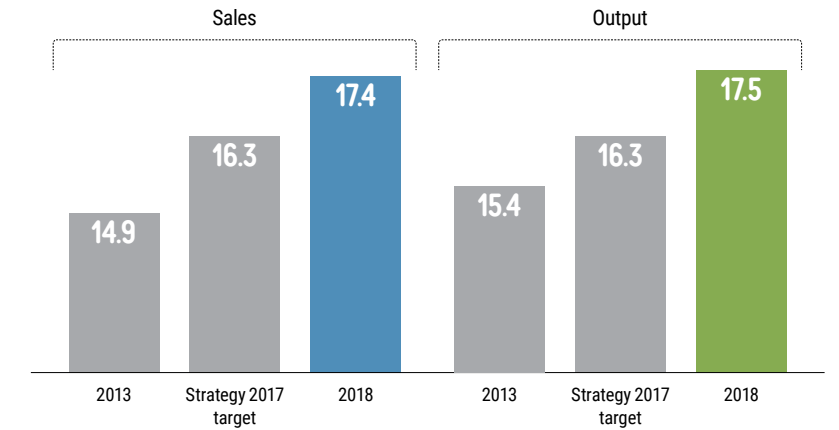
An increase in the share of HVA products in the sales mix and in NLMK Group's sales in its 'home' markets, and greater presence in lucrative segments.

**Target net EBITDA gain:**  
\$0.19 BILLION

**Actual gains totalled:**  
\$0.15 BILLION

Lower actual gains than targeted are due to a significant weakening of the Russian steel market in 2014-2016. Nevertheless, sales and output targets have been significantly exceeded.

STEEL OUTPUT AND SALES, M T



### World-class resource base

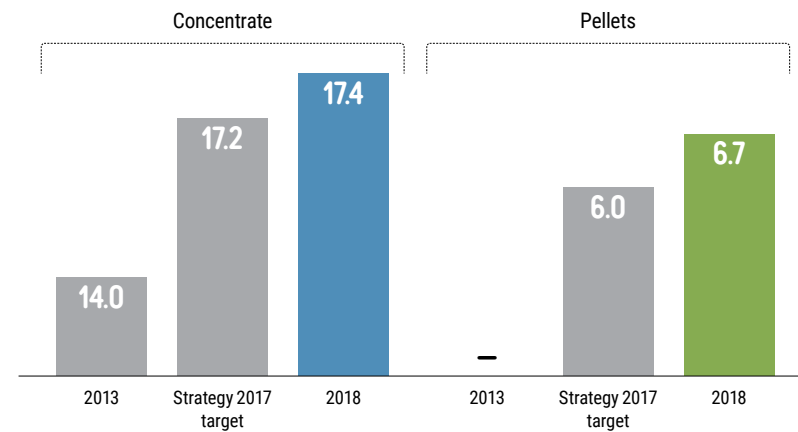
Increased self-sufficiency in key raw materials and lower consumption of expensive resources.

**Target net EBITDA gain:**  
\$0.48 BILLION

**Actual gains totalled:**  
\$0.55 BILLION

Higher self-sufficiency in iron ore despite steel output increase.

OUTPUT, M T



### Leadership in sustainability safety

Ongoing initiatives to boost environmental performance through fine-tuning production processes and compliance with the highest occupational health and safety standards, industry leadership in labour productivity and occupational training for personnel.

LTIFR in Russian companies declined by 54% and reached 0.39. Labour productivity grew by 31% compared to 2013, thanks to optimization and automation of processes, as well as increased steel output.

SPECIFIC SUSTAINABILITY INDICATORS



# Strategy 2022

Strategy 2022 is based on enhancing NLMK Group's competitive advantages through boosting operational efficiency across the entire production chain, growing cost-efficient steel production, enhancing vertical integration into key raw materials, increasing sales of high value added products, and pursuing environmental, safety and human capital development programmes. Strategy 2022 targets net gains of \$1.25 billion to EBITDA.

## GRIGORY FEDORISHIN, PRESIDENT OF NLMK GROUP:

► "We continue to set ourselves ambitious objectives. Our new Strategy targets a structural EBITDA gain of \$1.25 billion pa, or 35% of the high financial bar set in 2018.

"Strategy 2022 is marked by high resilience to external market factors, being based on enhancing the Company's competitive advantages: low cash cost, efficient vertical integration, product mix diversification by product and by market, and a high level of production and sales localization.

"NLMK's new Strategy is balanced across its gain drivers: target operational efficiency gains are comparable to investment project gains. The new Strategy is also well-balanced in terms of capital allocation: NLMK invests in growth projects while maintaining its financial stability and adhering to a highly competitive dividend policy.

"As part of Strategy 2022, we will continue to work on maximizing stakeholder value, and on ensuring that we balance the interests of all NLMK Group stakeholders."

## KEY ELEMENTS OF STRATEGY 2022

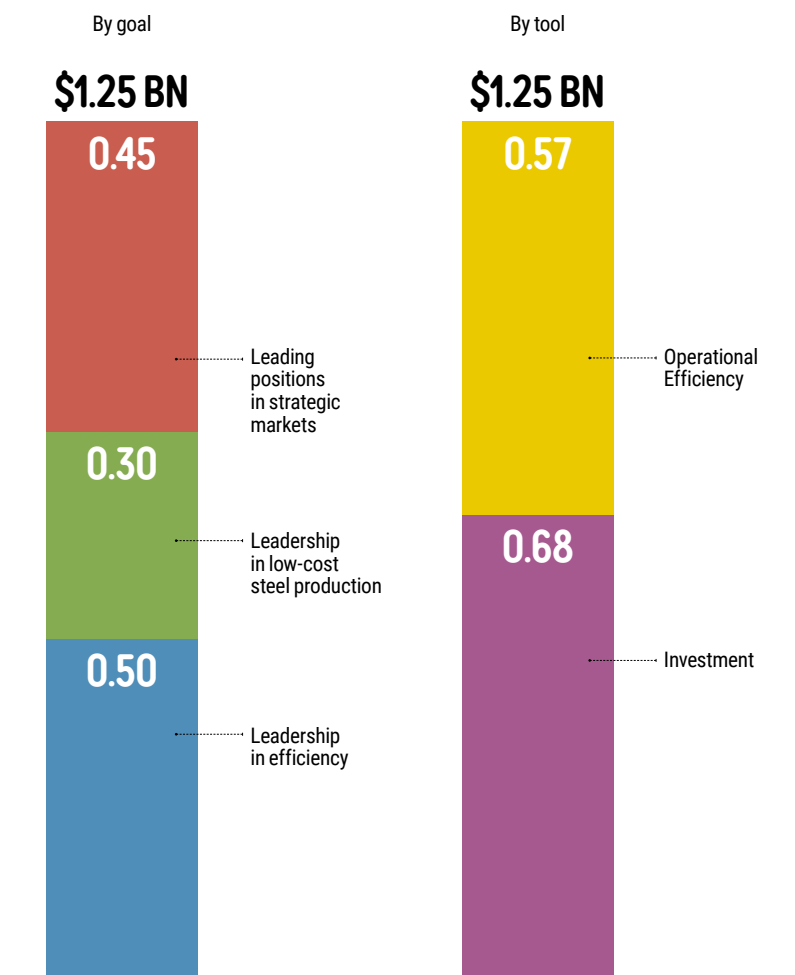
- 1 Leadership in operational efficiency
- 2 Growth in low-cost steel production
- 3 World-class sales portfolio
- 4 Leadership in sustainability and safety



## STRATEGY 2022 GOALS

- 1 Additional EBITDA gain from all projects: \$1.25 billion
- 2 Conservative leverage: Net debt/EBITDA ratio up to 1.0-1.5x
- 3 Annual capex: \$0.9 billion per year on average
- 4 Stable positive free cash flow
- 5 Dividend distribution: 100% of free cash flow with normalized capital expenditure at \$0.7 billion per year for dividend calculation
- 6 Focus on the Company's shareholders value growth

PROJECTED STRATEGY 2022 EBITDA GAINS



### 1. Leadership in operational efficiency

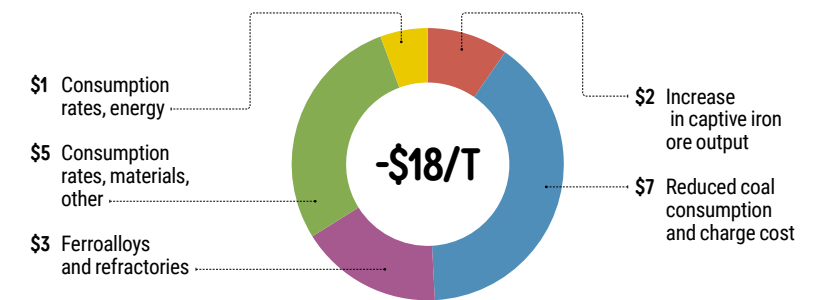
**Goal:** Focus on operational efficiency and approaching best production practices; global leadership in cash cost of steel production

**Target structural EBITDA gain:** \$0.5 BILLION

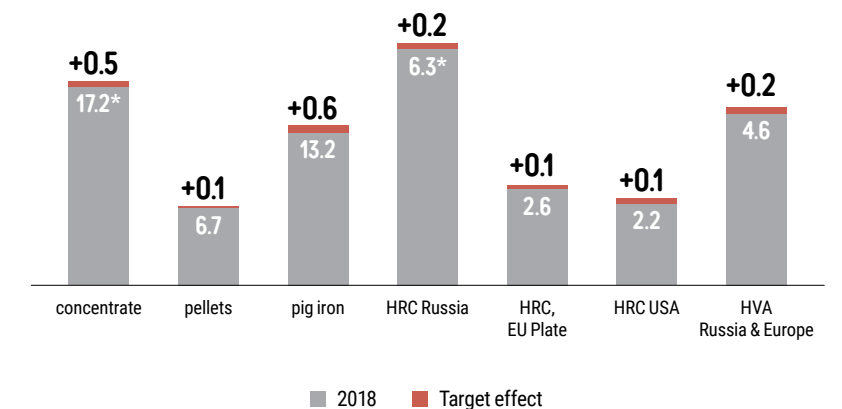
**Capex over the strategic period:** \$0.05 BILLION

Operational efficiency growth is a continuous process, which covers processes across all conversion stages and production levels. Further development of NLMK Production System drives the achievement of operational efficiency targets. This way the Company targets slab cash cost reduction of \$18/t of steel by 2023 and labour productivity growth of 25%.

CASH COST REDUCTION: BY \$18/T BY 2023



EQUIPMENT PRODUCTIVITY GROWTH IN 2018-2023, M/T



\* Current normalized capacities



## 2. Growth in low-cost steel production

**Goal:** Growth of steel output at NLMK Lipetsk; 100% self-sufficiency in iron ore maintained; growth of NLMK Lipetsk energy self-sufficiency; decrease in coal consumption including deficit grades

**Target structural EBITDA gain:** \$0.3 BILLION

**Capex over the strategic period:** \$1.0 BILLION

As part of Strategy 2022, NLMK Group is implementing a project to increase NLMK Lipetsk's steelmaking capacity by 1 million tonnes to 14.2 million tonnes, while simultaneously increasing captive generating capacity and maintaining 100% self-sufficiency in iron ore through growth of concentrate output by 2.3 million tonnes to 20 million tonnes per year and growth of pellet output by 1.2 million tonnes to 8 million tonnes per year at Stoilensky.

## 3. World-class sales portfolio

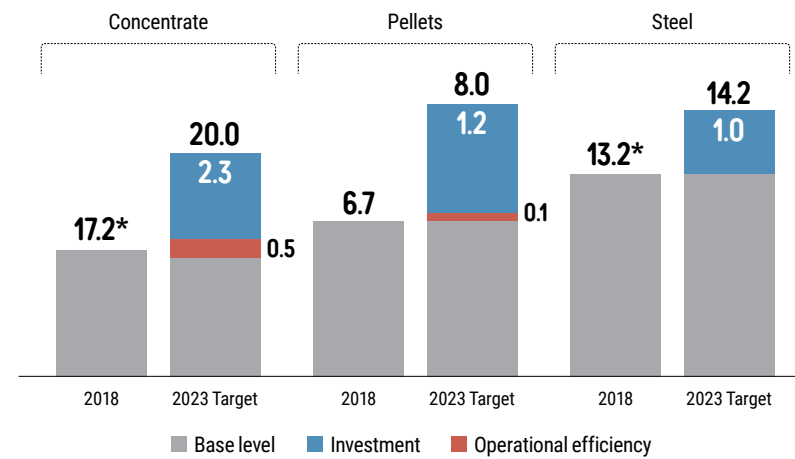
**Goal:** Growth of steel product sales; Growth of high value added product output and sales

**Target structural EBITDA gain:** \$0.45 BILLION

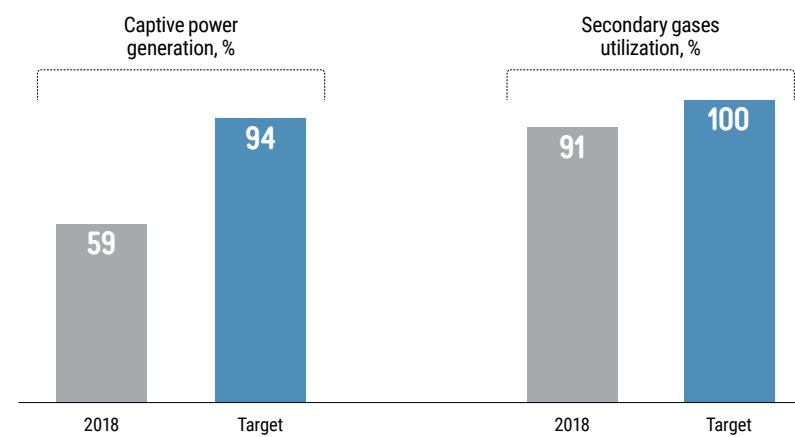
**Capex over the strategic period:** \$1.1 BILLION

In its Strategy 2022, the Company continues to focus on growing its sales and the HVA products share and sales in 'home' markets (Russia, the EU, and the USA). Targeted sales growth amounts to 0.6 million tonnes up to 18 million tonnes, with an increase in HVA product sales by 1.7 million tonnes. Sales growth in Russia, the EU and the USA to grow by 2.7 million tonnes.

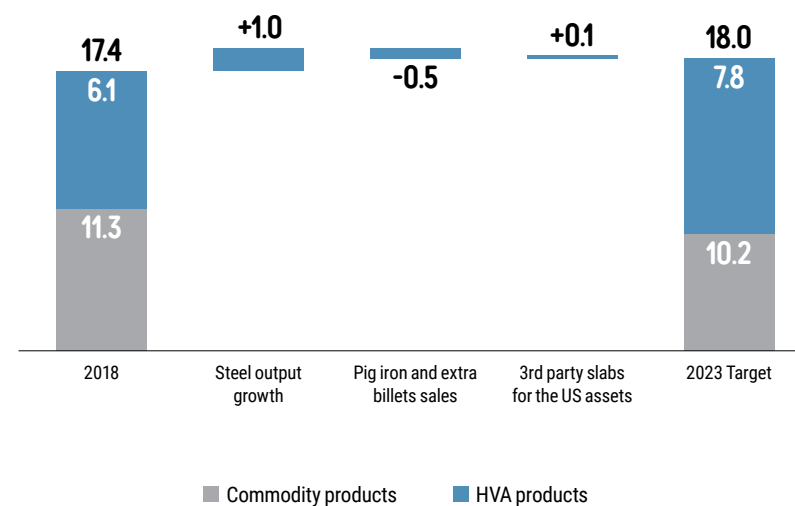
OUTPUT INCREASE, M T



GROWTH OF CAPTIVE GENERATING CAPACITY

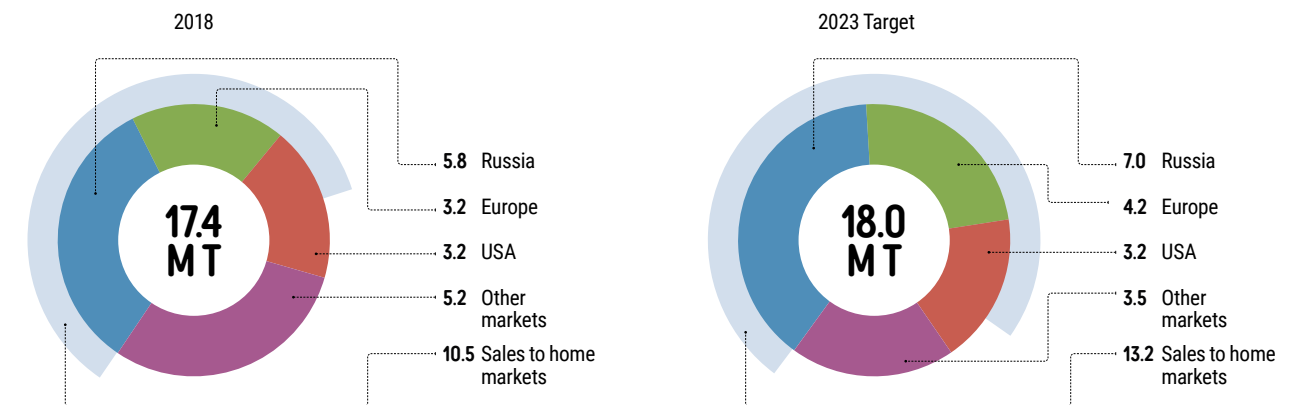


SALES GROWTH, M T

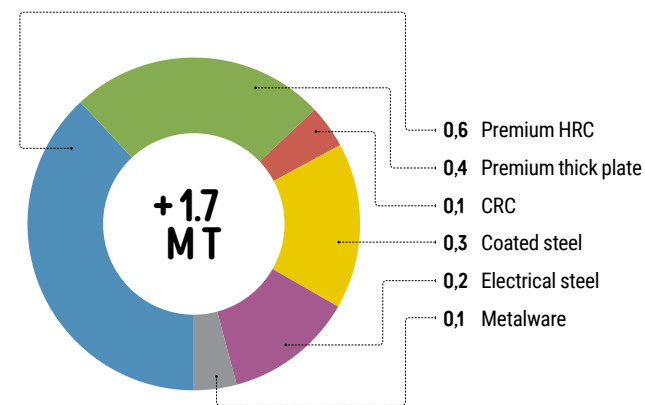


\* Normalized capacity level

GROWTH OF SALES IN 'HOME' MARKETS: RUSSIA, EUROPE AND USA, M T



INCREASE IN HIGH VALUE ADDED PRODUCT SALES, M T

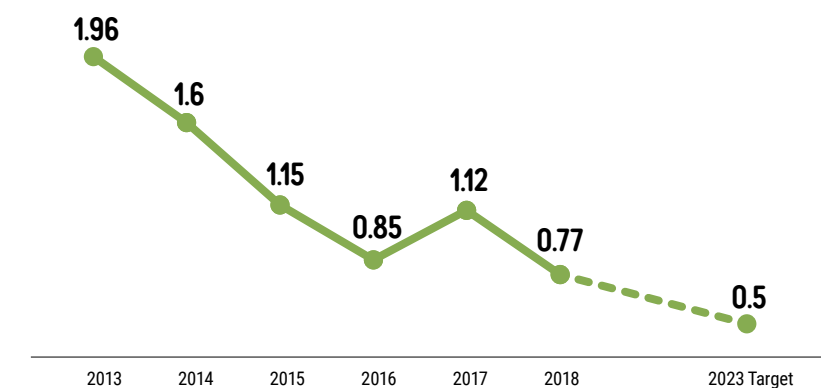


## 4. Leadership in sustainability and safety

**Goal:** minimization of environmental footprint and safe operations  
Leadership in sustainability and safety remain a priority for NLMK Group. Priority environmental areas include:

- Further minimization of environmental footprint, including a reduction of specific emissions per tonne of steel at NLMK Russia to the level of best available EU technologies
- Further reduction of injury rate to LTIFR 0.5
- High level of social security, personnel motivation and engagement

NLMK'S LTIFR





# Key performance indicators

## BUSINESS MODEL EFFICIENCY

### Steelmaking capacity utilization

### Steel product sales

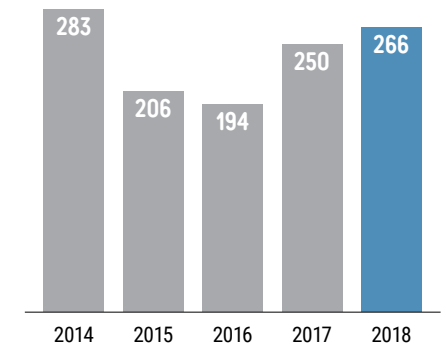
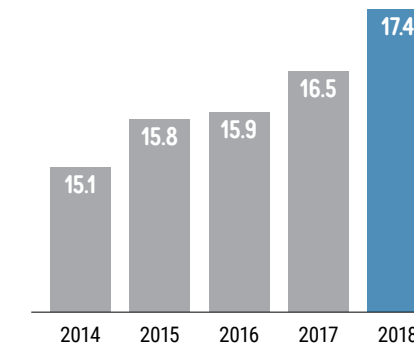
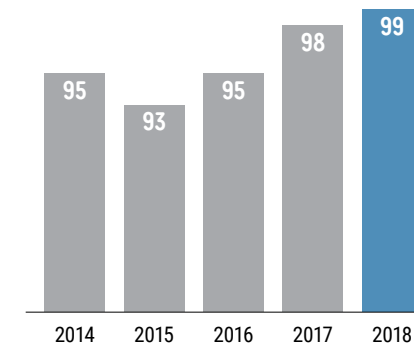
### Slab cash cost

**DESCRIPTION**

Utilization rate of crude steel production capacities, %

Total sales of steel products to external consumers of all NLMK Group facilities, m t

Consolidated cash cost for slab production at NLMK Lipetsk, \$/t



**PERFORMANCE REPORT**

2018 targets met

Steel product sales targets exceeded

Cost leadership position retained

**2018 COMMENTS**

Thanks to efficient sales portfolio management and an advantage of low-cost production NLMK managed to ensure high utilization of its steelmaking capacities

Sales reached a record 17.4 million tonnes (+6% yoy), driven by increased demand for semis and an increase in long products sales in Russia

Slab cash cost at NLMK Lipetsk grew by 6% to \$266 per tonne due to a surge in prices for main raw materials. Despite that, NLMK was able to retain its cost leadership thanks to its vertically integrated business model

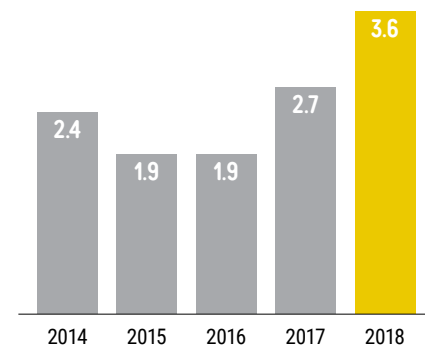


# FINANCIAL PERFORMANCE

## EBITDA

### DESCRIPTION

Profit before taxes, interest and depreciation received from NLMK Group's core businesses, \$ bn



### PERFORMANCE REPORT

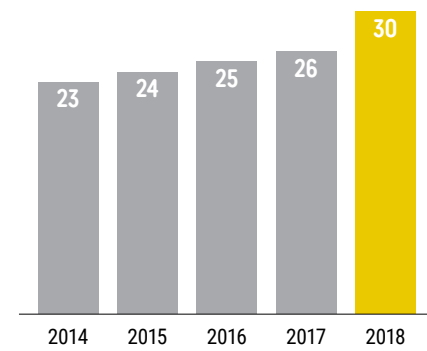
2018 targets exceeded by 46%

### 2018 COMMENTS

Strong profit in 2018 was largely driven by higher sales volumes, expanding spreads and additional Strategy 2017 gains

## EBITDA margin

Profitability of the Company's operations before interest, taxes and depreciation, %

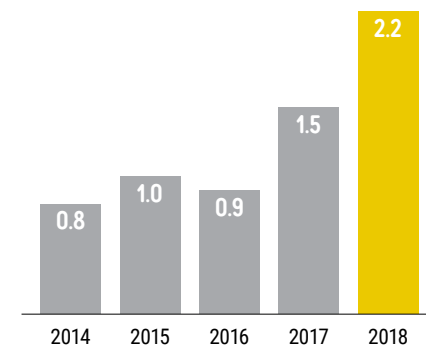


2018 targets exceeded

An increase in EBITDA margin was supported by wider price spreads and structural gains from operational efficiency improvement programme

## Net profit

NLMK Group's profit after income and expense. One of the elements used to determine dividend payments, \$ bn

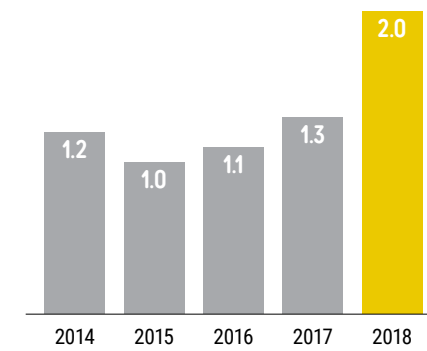


Not applicable

54% growth of net profit was due to the growth of operating profit and a decrease in the effective income tax rate due to the recognition in Q4 2018 of tax losses incurred earlier by NLMK USA

## Free cash flow

Net cash flow after investment and interest payments refers to cash that the Company can use to strengthen liquidity, repay liabilities, pay dividends, or for other corporate needs

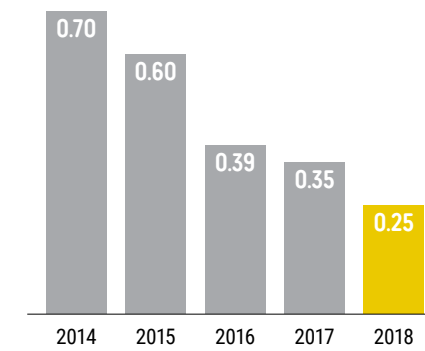


Target – positive cash flow – achieved

Consistently high free cash flow is secured by EBITDA growth and lower cash outflow to finance working capital vs. 2017

## Net debt / EBITDA

The Company's financial debt adjusted for the value of liquid assets, and then divided by EBITDA, characterizes the Company's debt leverage. Used as a trigger to determine the share of dividends to be paid. NLMK Group's target indicator stands at 1.0x

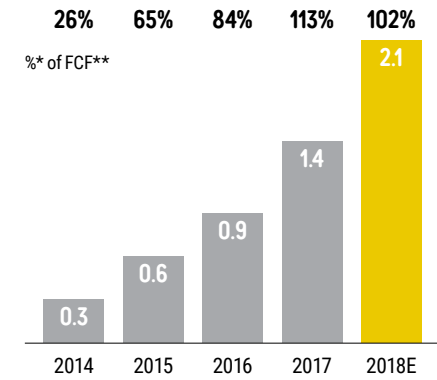


Debt leverage does not exceed target values

Thanks to a substantial free cash flow, Net debt/EBITDA ratio is maintained below the target

## Dividends

Cash paid to shareholders according to the Company's dividend policy and based on its financial situation and prospects for development



In line with NLMK's current dividend policy

Thanks to a stable financial position and the growth of free cash flow, dividend payments increased by ~ 45% to \$2.1 billion

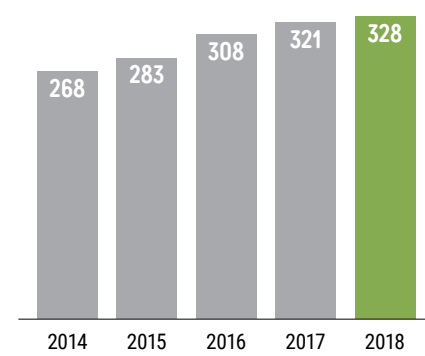
\* Share of the free cash flow (FCF).  
\*\* FCF - free cash flow

# SUSTAINABILITY PERFORMANCE

## Labour productivity

### DESCRIPTION

Crude steel production per one employee, tonne of steel/pers.



### PERFORMANCE REPORT

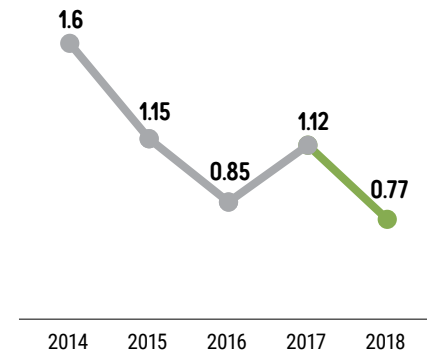
Labour productivity consistently increases

### 2018 COMMENTS

Growth in labour productivity in 2018 was driven by increased operational efficiency

## LTIFR

Lost time injury frequency rate across NLMK Group, including contractors

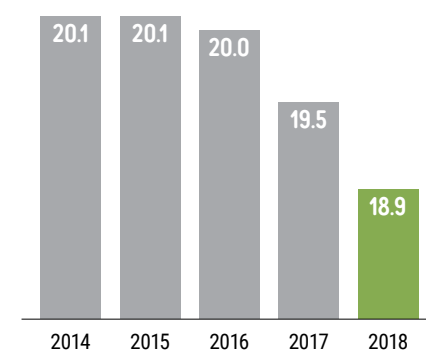


2018 targets met

Group LTIFR was reduced by 31% vs. 2017 thanks to management's operational safety improvement initiatives

## Specific air emissions

Air emissions (gases, dust, etc.) per tonne of crude steel

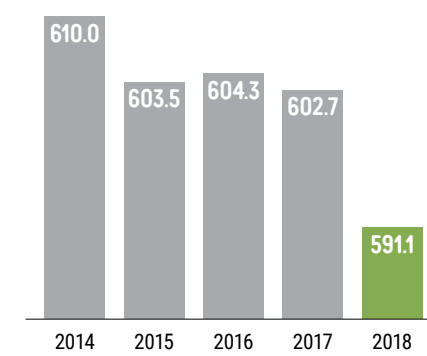


Emissions consistently decrease

Consistent reduction of air emissions thanks to environmental initiatives, and investments in environmental projects and better environmental safety standards

## Total energy consumption

Energy consumption, including electricity, heat and non-renewable fuels, PJ

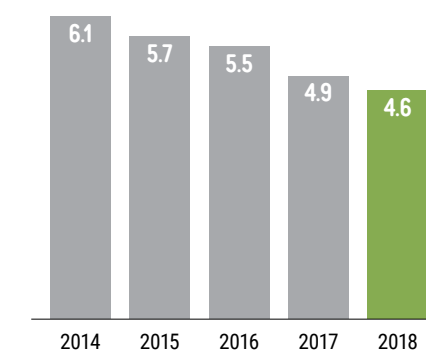


Total energy consumption decreases

Reduction of energy consumption is associated with the implementation of energy saving initiatives in the reporting year

## Specific water consumption

Specific non-reused water consumption (the difference between the total water withdrawal and discharge), m<sup>3</sup> / t of steel

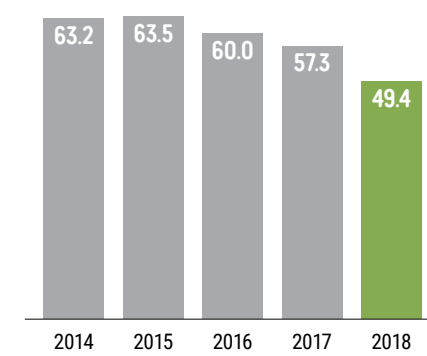


NLMK Group's specific water consumption consistently decreases

Specific consumptive water use decreased by 6% yoy due to a decrease in water intake as a result of equipment upgrades

## Total waste production

Total waste production, NLMK Group, '000 t



NLMK Group's total waste production consistently decreases

Total waste generation decreased by 13% yoy driven by a decrease in mining waste generation at Stoilensky

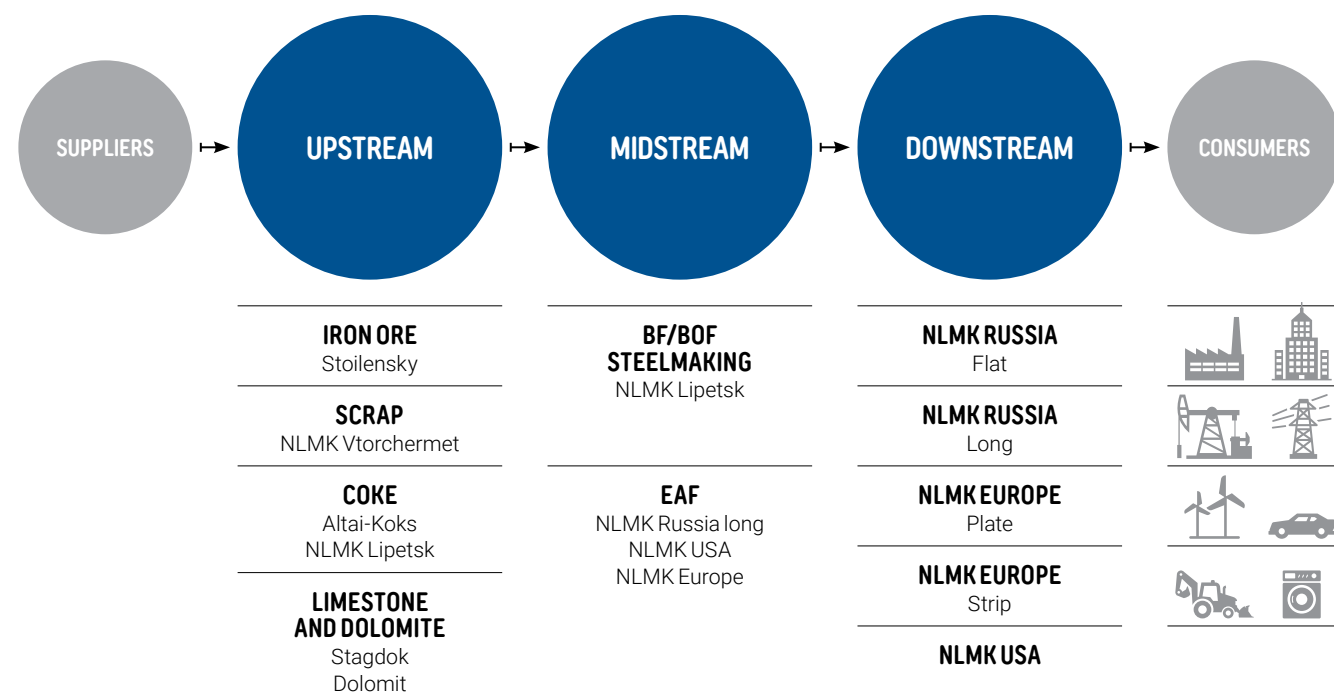




# NLMK Group's business model

A flexible and well-balanced business model secures industry leadership for NLMK Group.

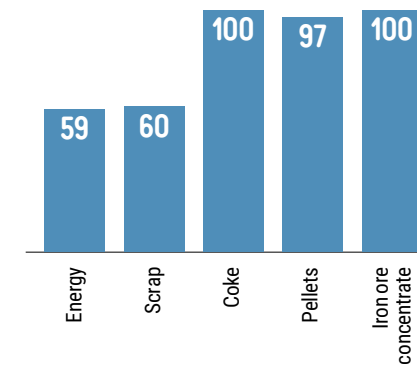
## VALUE CHAIN



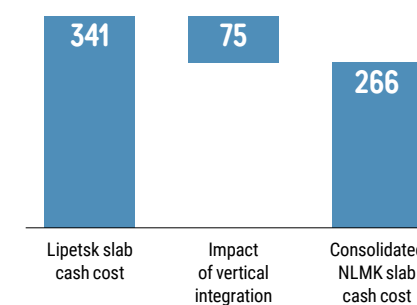
## UPSTREAM

The status of one of the most cost-efficient steelmakers in the world is achieved through a world-class resource base with leading-edge technologies for mining and processing, an optimal process environment and high professionalism of the NLMK team.

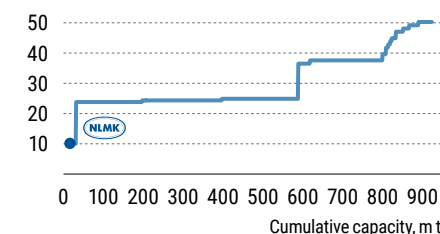
SELF-SUFFICIENCY IN RESOURCES FOR STEEL PRODUCTION IN RUSSIA, %



IMPACT ON STEEL CASH COST REDUCTION PER TONNE IN 2018, \$/T



GLOBAL IRON ORE CONCENTRATE CASH COST CURVE IN 2018



Source: Bloomberg

### NLMK advantages

#### Iron ore production

Stoilensky is one of the most efficient iron ore producers in the world, located 250 km from the Group's main production facility in Lipetsk. Stoilensky's iron ore reserves are upward of 5 billion tonnes, concentrate cash cost is close to \$12 per tonne.

#### NLMK's scrap collection and processing network

is the largest in Russia, securing stable delivery of scrap to NLMK Group's Russian steelmaking facilities.

#### Captive electric energy

is generated primarily through the recovery of by-product gases from coke and blast furnace operations.

#### Captive coke production

guarantees NLMK high-quality coke products, which boost the efficiency of operations further along the value chain.

UP TO 100% OF RAW MATERIALS PRODUCED ARE USED FURTHER IN THE STEEL PRODUCTION PROCESS

### 2018 facts and figures:

- Iron ore production: **18.4 million tonnes** (+7% yoy), including: **6.7 million tonnes** of pellets (+0.7 m t yoy); **10.2 million tonnes** of commercial concentrate; **1.5 million tonnes** of sinter ore.
- The output of iron ore concentrate totalled **17.4 million tonnes**. Part of this volume is used for pellets production.
- Cash cost of iron ore concentrate: **\$12/t** (flat yoy)
- Total coke production: **6.4 million tonnes** (-0.5 m t yoy), covers more than **100%** of NLMK Lipetsk's needs.

### Development in 2018:

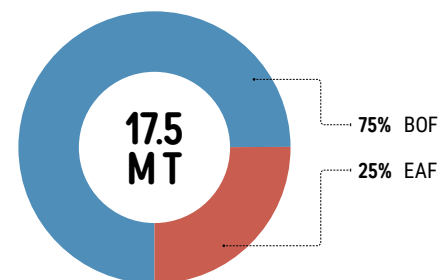
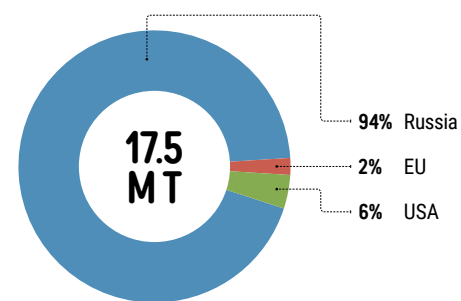
- Stoilensky gained additional +1.7 million tonnes of concentrate yoy from implementation of the high-pressure grinding technology (HPGRs). The construction of the additional beneficiation section started. Three new grinding lines will increase the volume of concentrate output to 20 million tonnes per year by 2020.
- The Company has also embarked on its coal charge stamping project at Altai-Koks' operating battery No. 5. This will improve the quality of coke and reduce its cost, as well as boost environmental performance.



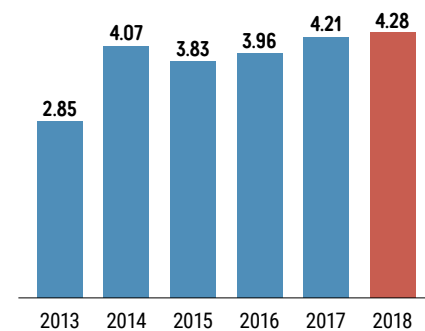
## MIDSTREAM

Leading-edge equipment and finely tuned business processes enable the production of high-quality cost-efficient steel products. NLMK Group's steel production capacity exceeds 17.5 million tonnes per year, 95% of which is made in Russia.

### NLMK'S STEELMAKING CAPACITY



### SLAB SUPPLIES TO SUBSIDIARIES AND JOINT VENTURES, M T



### NLMK advantages

#### Cost leadership

NLMK is among the global leaders in cost. Over the past five years, the Company managed to consolidate its leadership: the gap between NLMK's steel cash cost and the industry average has increased from 25% to 32%. NLMK Group enjoys sustainable cost leadership through its unique business model that ensures high utilization rates, efficient vertical integration and upgraded production capacities. The production cost of the Lipetsk steel in 2018 was \$266 per tonne, compared to a world industry average of \$393 per tonne.

#### Optimal logistics

Production facilities located in regions with developed infrastructure and in close proximity to raw material sources lowers outlay on logistics as well as related risks.

#### Sales vs. further processing

74% of NLMK steel is processed into finished products, while 26% is sold as semi-finished steel. NLMK produces both flat and long steel products and our reputation as a reliable supplier ensures stable demand for the Group's product offering.

#### High capacity utilization

An expansive product offering and availability of the Company's rolling facilities in the regions of consumption, i.e. Russia, Europe and the United States, enable NLMK to maintain a high capacity utilization rate of 99% throughout the cycle.

### 2018 facts and figures:

- ▶ Steel output: **17.5 million tonnes** (with NBH)
- ▶ NLMK Group steelmaking capacity utilization rate: **99%**
- ▶ Slab cash cost of the Lipetsk site: **\$266/t**

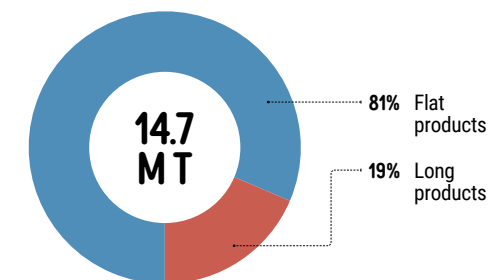
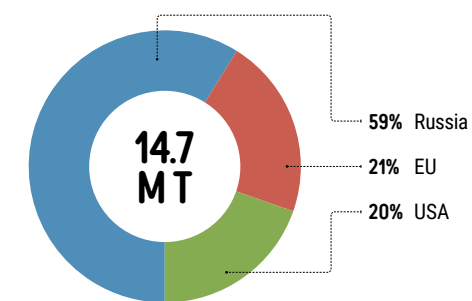
### Development in 2018:

- ▶ In 2018, NLMK Group began the upgrade of a continuous casting machine at the Lipetsk site. This upgrade will enable a 80% increase in the unit's productivity (from 1.0 to 1.8 million tonnes per year) as well as the production of large-format slabs for plates, which are used in the production of large-diameter pipes, wind power equipment, ships and oil drilling rigs.

## DOWNSTREAM

Finished products are made locally in the Company's strategic markets of Russia, the EU and the USA, in close proximity to consumers. With a total production capacity of finished products of 14.7 million tonnes, NLMK can process as much as 90% of captive crude steel at its own rolling facilities.

### ROLLING CAPACITY BREAKDOWN



THE GROUP CAN SATISFY UP TO 100% OF INTERNAL DEMAND FOR SLABS FROM ITS MAIN STEELMAKING FACILITY IN LIPETSK

### NLMK advantages

#### High quality

The use of captive raw materials in rolled steel production guarantees consistent high quality and short lead times. The Company's products are certified to international standards.

#### Optimal production footprint

Due to the location of NLMK Group's rolling operations in strategic markets, 61% of steel is sold in the region where it was produced. This allows the Company to meet the customers' most challenging delivery timescales and respond rapidly to local demand fluctuations.

#### Diversification of sales

An expansive geographical breakdown of sales and a flexible marketing policy create a global footprint, with the agility to divert sales of steel products to the most attractive market, ensuring full utilization of production capacity throughout the value chain.

#### Balanced product portfolio

NLMK's extensive steel product offering, from conventional hot-rolled steel to custom electrical steels and other niche products, allows the Company to diversify sales by sector, reducing the dependency of sales volume on demand fluctuations in individual sectors.

### 2018 facts and figures:

- ▶ Finished steel output (with NBH): **13.1 million tonnes** (+0.35 million tonnes yoy).
- ▶ Growth in sales to home markets **+11%** vs. 2013.
- ▶ Sales to more than **70 countries around the world**.
- ▶ Flat steel accounts for **82%** of steel produced, while the remaining **18%** are attributed to long steel.

### Development in 2018:

- ▶ In 2018, the output of finished steel increased by 3% yoy. The Group's international companies and the Long Products segment demonstrated an increase in finished steel output.



# NLMK Production System

The Production System is one of the key tools used by the Company to achieve its strategic goals. Under Strategy 2017, operational efficiency gains brought the Group more than \$865 million per year in EBITDA growth, which accounted for about 64% of the Strategy's total gains 2014-2018. Part of these gains were achieved through the roll out of NLMK Production System.

Our objective in NPS rollout is not only short-term results, but also making sure that these results are reproducible and sustainable in the future. This may be achieved by:

- Continuously searching for potential ways to improve all processes (from the supply of raw materials to the shipment of finished products)
- Focusing the efforts of employees on priority areas for improvement
- Creating an environment that allows employees to develop and involving them in the process of continuous improvement by striking an effective balance between the interests of employees and those of the Group.

NLMK Group began building its Production System in 2009. Since then, we have come a long way: we successfully formulated the principles of the Production System; defined the technical model, and the goal-setting system. Moreover, we created a performance management system at various levels; and a suite of effective tools to boost productivity on the basis of best practices used in leading companies worldwide.

Today, NLMK Production System covers all of the Group's enterprises and operates across all production areas, providing real-time monitoring of over 1,000 technical and financial indicators. We have deployed 11 different tools to boost productivity, including: A3, mapping, control charts, equipment inspection checklists, standard operating procedures, initiatives, and downtime analysis using the 5 Whys approach, etc.

In 2016, a new stage in the development of NLMK Production System started, the goal of which was to involve staff at all levels in the optimization of production processes.

A distinctive element of this stage of NPS rollout are the so-called "waves". So what is a "wave"? The project team

## NLMK Production System (NPS)

► is a business management approach based on optimization of business processes and systematic use of its tools, which increases production efficiency and engages staff in the continuous improvement process.

### Second wave of NPS development completed

► More than 1,700 initiatives were implemented with an economic impact of \$71 million.

### Third wave of NPS roll-out was launched

► A new stage of NPS development has begun at NLMK Lipetsk, Stoilensky, Altai-Koks, and NLMK Ural.

arrives at the selected site and works there for 9-10 months. During this time, the team trains the employees on site: they are taught to use NPS tools with confidence and to develop the skills and competencies they will need to work in new conditions. Most importantly, they foster a new ideology and production culture. Then, the team moves on to the next wave at a new site, and the project is 'handed over to the production line': in other words, it is further developed by the staff who were trained on site.

## SOP/PRM

Instructions, containing details about who should carry out the prescribed actions and where, when, and how they should be performed. Standard operating procedures (SOPs) are used by repair staff, and process road maps (PRMs) are used by technicians.

**Why:** They help us to embed good working practices. These are described in an intelligible form and can be studied by all interested parties, from new employees who are just starting on the job to senior managers who want to extend their professional knowledge.

## A3

A structured approach to solving problems without an obvious answer. In order to find the answer, you need to assemble a team, set a goal, develop a schedule for working group meetings, traverse the entire path for a certain system, and obtain a result: an action plan written out on an A3 sheet of paper.

**Why:** the problem and its solution are described together in a comprehensive yet concise way.

## 6S

Workplace organization system based on six principles: Sort, Set in Order, Shine, Safety, Standardize, and Sustain  
**Why:** To make working processes as clear and effective as possible, to save time and reduce other losses, to increase safety, and to improve the overall production culture

## Checklist

A list of actions that must be performed one after another in order to accomplish the task. In order to make the checklist as clear as possible, items may be illustrated using photographs, drawings, or diagrams.

**Why:** this is one of the best ways to protect against human error resulting from forgetfulness, inattention, information overload, or lack of communication

## NPS TOOLS



### First wave: 2016-2017

The first wave was rolled out at NLMK Kaluga in 2016-2017. In 2017 the number of initiatives implemented at NLMK Kaluga exceeded 1,350 with total gain of close to \$7.9 million.

### Second wave: 2017-2018

The second wave of NPS roll out covered NLMK Lipetsk (the sinter plant) and Stoilensky (the beneficiation and pelletizing plants). This stage was completed in 2018. During this wave, more than 1,700 initiatives were implemented, with a total economic impact of about \$71 million.

### Third wave: launched in 2018

The third wave of NPS rollout was also launched in the middle of the reporting period. This wave concerns four companies: NLMK Lipetsk (steel making), Stoilensky (open-pit mining), Altai-Koks (production of coke and chemical products), and NLMK Ural (production of rebar, angles, and steel billets). All four companies have already developed their initiatives, which are expected to bring more than \$34 million. This wave is expected to end in 2019.

### Looking forward

In the Strategy 2022 cycle, the Group will begin a gradual transition from managing operational improvement programmes to a continuous improvement management system, which will allow staff to be even more involved in these processes.

## TATYANA AVERCHENKOVA, VICE PRESIDENT, OPERATIONAL EFFICIENCY:



► "The results of Strategy 2017 suggest that the annual impact of operational efficiency programmes on the Company's financial performance amounts to additional \$865 million EBITDA gains. The potential for further improving the Group's operating efficiency over the next five years is \$500 million. Not only because the Group has considerable untapped potential for efficiency improvements, but also because this potential is never-ending: the Company is growing, and new opportunities are emerging. NLMK Production System is systematically changing the Company's processes and culture.

"It now covers all major Russian production sites, extending beyond the scope of production to take in occupational safety, repairs, energy, and logistics. It will soon be extended to cover other primary and supporting business processes."



## Innovations

The Company engages in research and innovation based on customer needs and an analysis of promising metallurgical technologies. NLMK Group focuses on computational modelling and developing laboratory samples rather than conducting full-scale experiments on industrial equipment.

For this purpose, a separate corporate research centre has been established which manages projects aimed at devising new products. The centre has been allocated the necessary resources to create digital and physical prototypes of steel products and carry out advanced metallurgical research. The main laboratory complex is located at the Lipetsk production site, while the centre of competence charged with the development of computational modelling and the creation of digital prototypes is located in Belgium.

In addition to the corporate research centre, the Company has an Innovation Projects Committee established in 2018 under the leadership of NLMK's President (Chairman of the Management Board). The Committee is a key governing body for innovation. Its main tasks include optimization of internal processes enabling search and quick adaptation of innovative business solutions, as well as allocation of necessary resources for implementation of innovative projects.

NLMK actively interacts with the innovation ecosystem and establishes mechanisms for systematic work with venture funds, development institutions and technology parks both in Russia and abroad. The goal of this work is to create a constant flow of projects and subsequent introduction of those innovations that economically and strategically fit the Group sites.

### Research & Development

The roadmap for the Company's research and development activities is the R&D functional area development concept for the next three years, which was approved by the Group's Board of Directors in 2018. The Company is currently putting in place a process base to regulate the project management approaches that are used to implement research and innovation projects.

As at the end of 2018, the Company has identified two priority areas for research and development: high-tech zinc-aluminium-magnesium (ZAM) coatings and development of new grades of high-strength steel for automotive industry.

### Big data and mathematical modelling

The Data Analysis and Modelling Department, established last year, has hit the ground running.

In 2018 we continued to develop the Systems, Data Analysis, and Modelling (SADIM) platform, which addresses both data accessibility and data quality (data lakes). It also provides tools for computing and analysis. These efforts will form the basis for a new digital platform, the architecture of which is currently being developed in the Digitalization functional area. SADIM is already enabling the Group to develop models and digital services. In 2018, the Group succeeded in developing its key components and establishing connections between data sources that are important to the Company's work.

The creation of the Data Analysis and Modelling Department team, which employs data science specialists, data engineers, analysts, and digital project managers, was a significant achievement of 2018.

### Innovations Laboratory

In 2017, NLMK Group and SAP established the Co-Innovation Lab, the first project of its kind in the Russian steel industry, building on the partnership between the two companies. The main job of the laboratory is to prototype innovative ideas in order to test existing digital technologies on the market and their applicability to NLMK. Prototyping allows the Company to test the performance of a specific technology, as well as assess the benefits that the use of technology can bring to the Group companies, including in occupational health and safety, finance, procurement and logistics processes.

One of the brightest and most innovative projects in 2018 was a positioning system for shop-floor employees of one of production lines.

Safety of employees was a priority for the Company when developing this prototype. The system enables real-time tracking of employee positioning and in case of an emergency, activates an alarm to notify the foreman or other employees nearby.

### ANDZHEY ARSHAVSKIY, DIRECTOR FOR DATA ANALYSIS AND MODELLING:



► "The speed of digital transformation is now so fast it almost beggars belief. A year ago, for instance, a steelworker would decide how much ferroalloys to load in the furnace based on operating instructions and their personal experience. Today artificial intelligence, trained in machine learning, helps to use expensive material at various stages of melting more accurately.

"Today Big Data and mathematical modelling are fairly new for the industrial sector, but we are actively developing these. We have hundreds of production lines and 20 large sites in seven countries around the world. We collect terabytes of data about production process parameters. If this data became available for analysis, it would allow us to make decisions about how to manage these processes better."



### Plans for 2019 and midterm

Within the framework of the approved medium-term research and development strategy, the Company in the next 3-4 years plans to implement a number of projects, including:

- Production of steel for hot stamping, as well as coatings for this type of steel for the production of power parts of the car body
- Production of advanced high-strength plates for the needs of engineering, construction of offshore structures
- Improvement of the production technology of high-permeable grain-oriented and non-grain oriented steels with low energy losses, including for the production of electric vehicle engines
- Development of products with the replacement of expensive alloying elements with cheaper ones while preserving product properties.

## TOP PRIORITIES FOR RESEARCH & DEVELOPMENT IN 2019-2022

- 1 Introduce product innovations aimed at helping the Group catch up with foreign competitors
- 2 Establish a diversified product portfolio for the automotive, heavy engineering, industrial and civil construction, and energy industries



# Market review

Global steel output grew by 5% yoy in 2018 to 1.81 billion tonnes according to Worldsteel Association. Average global capacity utilization was 77.8%

## Global steel market was on the rise in 2018 after a recovery in consumption in 2017

Steel production in China (50% of global steel output) increased by 7% yoy up to 927 million tonnes. Global apparent steel consumption grew by 4% yoy to 1.66 billion tonnes and by 8% yoy to 781 million tonnes in China.

At the same time, export from China reduced by 8% yoy to 70 million tonnes, driven by the recovery of domestic demand for steel in China and the plan to improve environmental situation during the winter period.



### US market

Steel production in the US increased by 4% yoy to 87 million tonnes in 2018, capacity utilization was 78%.

- Steel consumption increased by 3% yoy in 2018 to 101 million tonnes, driven by growing demand from the construction and automotive sectors. Import of steel products reduced by 10% yoy to 31 million tonnes amid Section 232 restrictions, while exports decreased by 15% yoy to 8 million tonnes.

### EU market

Steel production remained flat at 168 million tonnes.

- Apparent consumption of steel in the EU in 2018 grew by 3% yoy to 163 million tonnes, driven by stronger demand from the construction and transport sectors as well as machine building.
- Import of flat and long steel grew by 12% yoy to 29 million tonnes; export reduced by 10% yoy to 21 million tonnes.

### Russian market

Driven by economic recovery, apparent consumption of finished steel grew by 1% yoy in 2018.

- Steel output in Russia in 2018 increased by 1% yoy to 72 million tonnes, while imports of rolled steel reduced by 7% yoy to 6 million tonnes and exports by 2% to 14 million tonnes.

Source: Bloomberg, Worldsteel, Eurofer, Metal Expert. Data are preliminary.

### Global steel production

- Production increased by 5% yoy to 1.81 billion tonnes, hitting an all-time high.
- Global steelmaking capacity utilization increased to 77.8%. Protectionism continued to grow.

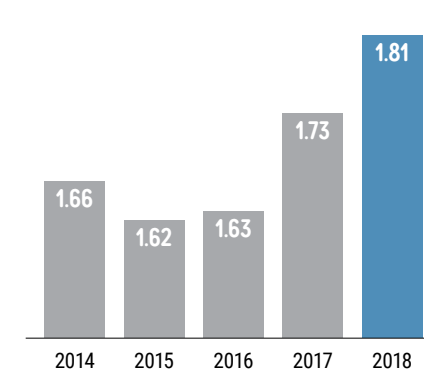
### Regional trends

- Group's home markets (Russia, the US and the EU) continued to increase, supported by economic growth.

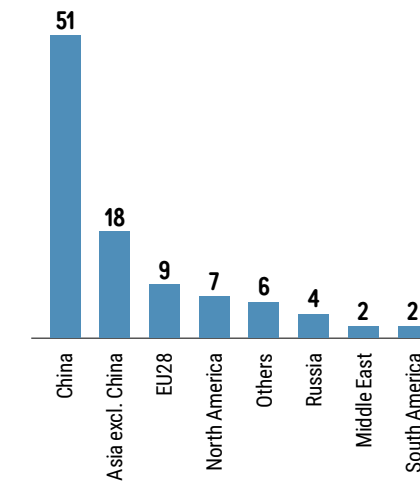
### Slowdown of exports from China and price trends

- Growth of domestic demand, trade restrictions and closure of excess capacity led to a downturn in exports.
- Prices for steel and raw materials continued to grow in 2018.

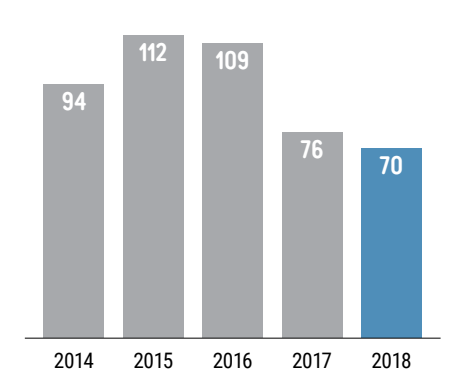
GLOBAL STEEL PRODUCTION, BN T



STEEL PRODUCTION BY REGION, %



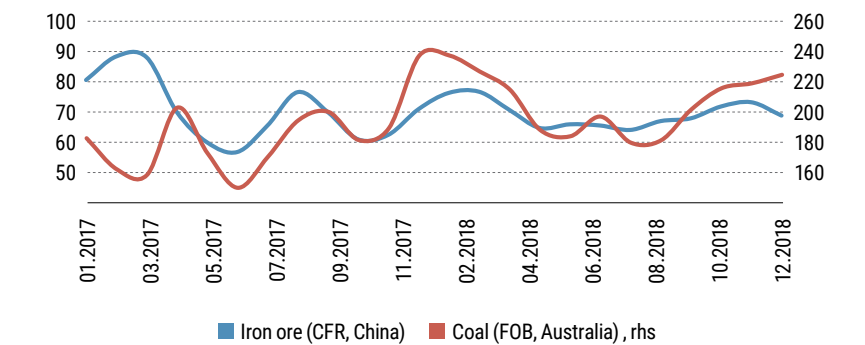
CHINESE EXPORTS, M T



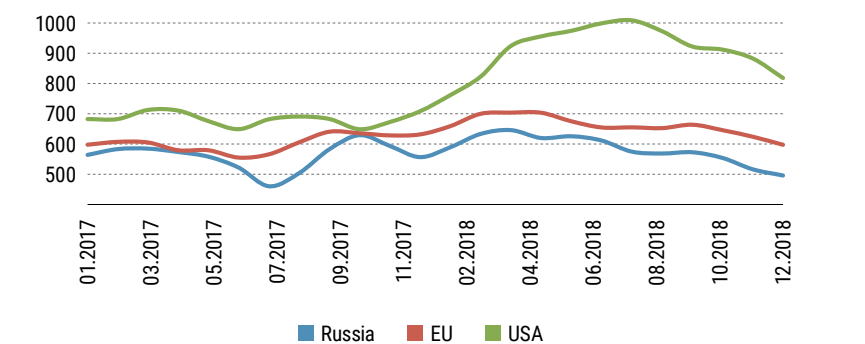
### Price trends

Global average prices for coal grew by 12% yoy, impacted by weather and infrastructure constraints in Australia and the US throughout the year. Ore prices dropped by 2% yoy. Average steel product prices grew year-on-year: in the US by 17-33%, in Russia by 4-13%, and in the EU by 6-11%.

GLOBAL RAW MATERIALS PRICES, \$/T



HOT-ROLLED STEEL PRICES, EXW, \$/T



Source: Bloomberg, SBB





# Sustainability management

## Our approach to sustainability management

As one of the largest international producers of steel and steel products, NLMK Group is aware of its responsibility towards society, nature, and future generations. Our team is united by corporate values that shape NLMK's approach to responsible leadership.

NLMK Group's activities are based on a commitment to such key sustainability values as the promotion of employee health and wellbeing, respect for local communities, environmental protection, and conducting business in accordance with high ethical standards, constructive and mutually beneficial collaboration with stakeholders, and information transparency.

NLMK Group's approach to managing the economic, environmental, and social aspects of its operations is based on global best sustainability practices. At all stages of its operations, the Group strives to take into account the needs and expectations of stakeholders while treating local communities, employees, and the environment with respect.

NLMK Group is committed to continuously improving its sustainability performance and integrating responsible business principles into its day-to-day operations. In managing sustainability aspects, NLMK Group is guided by the principles of the UN Global Compact.

### NLMK GROUP VALUES GRI 102-16

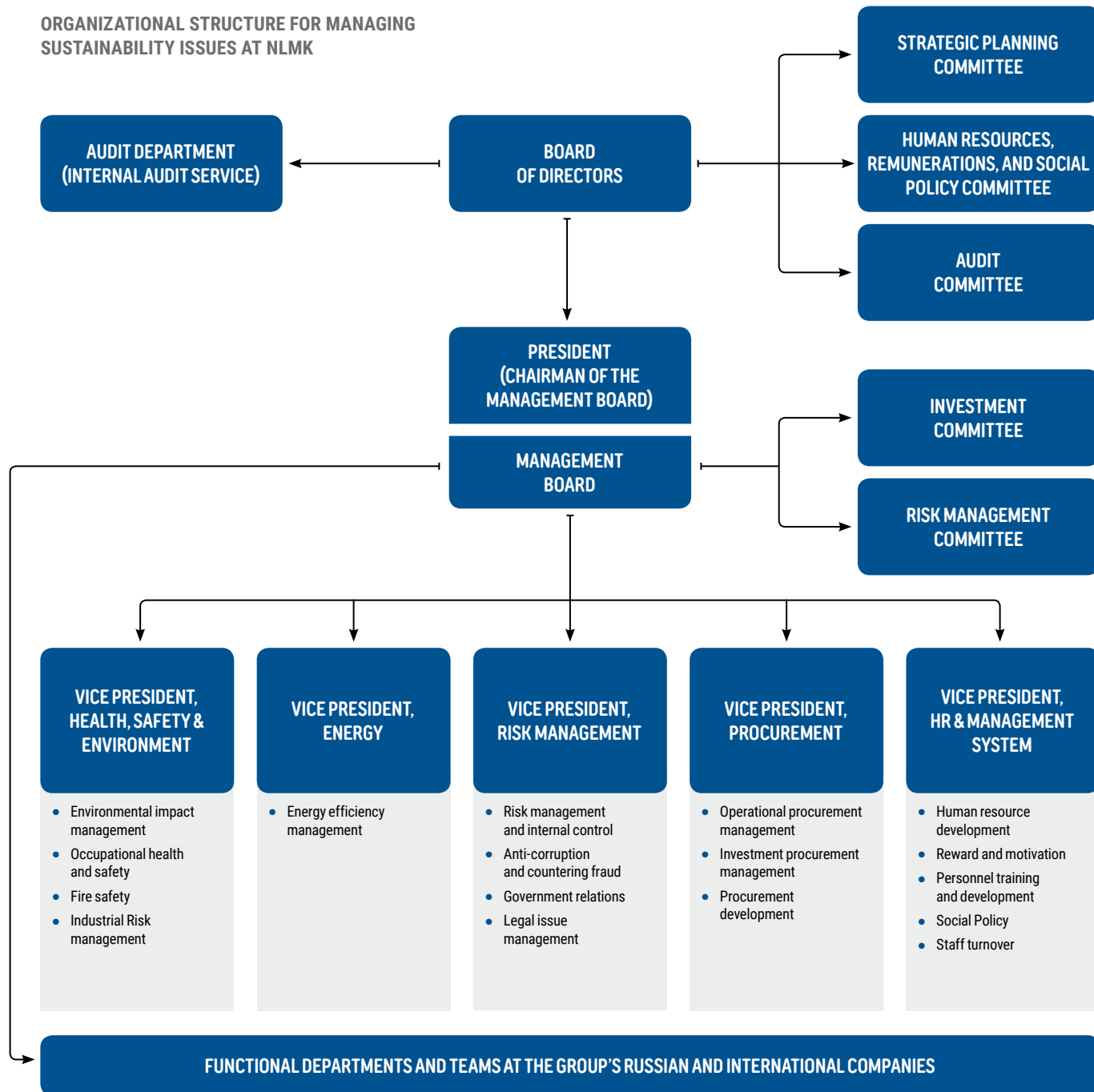
Value	Description
Continuous improvement of processes	Continuous improvement of processes and technologies to ensure efficient production of steel products that help improve the quality of life
Client oriented approach	Production of unique premium quality steel products and development of engineering solutions that help our customers to be on the cutting edge of innovation and to lead in their markets
Absolute priority of the health and safety of our employees	Unwavering commitment to protecting health and safety of our employees and contractors and ensuring favourable working conditions that allow our employees to fulfil their potential for professional and personal growth
Ensuring equal opportunities for employee development	Ensuring equal opportunities for professional and personal growth of our employees, motivating our employees to be proactive and innovation-driven
Sustainable use of resources	Sustainable use of resources and pursuit of the best available environmental and energy efficiency standards, which we also expect our partners to comply with
Active approach to social responsibility	Active approach to social responsibility and care for cultural legacy in the regions where we operate

### NLMK GROUP SUSTAINABLE DEVELOPMENT PRIORITIES

Priority	Areas of Activity
Operational efficiency improvement	<ul style="list-style-type: none"> <li>▶ Reducing the consumption of certain types of resources through the introduction of cutting-edge technologies and advanced waste processing methods</li> </ul>
Energy efficiency	<ul style="list-style-type: none"> <li>▶ Increasing production of the Group's captive power generation by utilizing by-product fuel gases</li> <li>▶ Upgrading equipment</li> <li>▶ Generating energy from secondary resources</li> <li>▶ Implementing energy-saving initiatives</li> </ul>
Developing local communities	<ul style="list-style-type: none"> <li>▶ Helping to solve the most acute social problems faced by the regions where we operate, in partnership with government bodies and the public</li> <li>▶ Charitable initiatives and programmes</li> <li>▶ Developing culture, science, education, and sport</li> <li>▶ Work with children and young people</li> </ul>
Personnel development	<ul style="list-style-type: none"> <li>▶ Hiring and retention of qualified staff, development of a motivation and remuneration system</li> <li>▶ Organizing vocational training</li> <li>▶ Developing the Group's corporate culture</li> <li>▶ Engaging employees in the process of continuous improvement</li> <li>▶ Introducing digitalization and implementing best HR practices</li> </ul>
Occupational health and safety	<ul style="list-style-type: none"> <li>▶ Applying best practices in occupational health and safety management</li> <li>▶ Managing occupational safety risks</li> <li>▶ Maintaining and developing a safety culture among NLMK Group employees and contractors</li> </ul>
Minimizing environmental footprint	<ul style="list-style-type: none"> <li>▶ Carrying out planned environmental and technological initiatives</li> <li>▶ Implementing projects from NLMK Group's investment programme</li> <li>▶ Making efficient use of natural resources</li> <li>▶ Implementing projects to reduce emissions and discharge of pollutants</li> <li>▶ Restoring contaminated land and conducting rehabilitation work</li> </ul>



**ORGANIZATIONAL STRUCTURE FOR MANAGING SUSTAINABILITY ISSUES AT NLMK**



Sustainability measures are regulated by a number of NLMK Group's internal documents. A more detailed list of these documents can be found further in the text of this Report.

Sustainability management is integrated into the NLMK Group corporate governance system and is carried out at all Group companies, including international. Sustainability issues consistently feature on the agenda of NLMK Group's leadership. The Board of Directors, committees of the Board of Directors, President

(Chairman of the Management Board) and the Management Board determine the strategic directions for development and ensure overall sustainability management.

Vice Presidents of functional areas are responsible for identifying specific tasks and initiatives to manage the social, economic, and environmental aspects of the Group's activities and monitor their implementation. Departments responsible for developing approaches and implementing measures in the

field of sustainability report to these Vice Presidents.

The Group's functional departments and teams are directly responsible for executing the assigned tasks and for local management of sustainability issues at the Group's companies.



# Contribution to the achievement of the Sustainable Development Goals adopted by the UN General Assembly

NLMK Group supports the Sustainable Development Goals adopted by the UN General Assembly in 2015 to address the significant economic, social, and environmental issues the global community faces.

We believe that the Group makes a valuable contribution to the achievement of global sustainability goals through its responsible business conduct and targeted activities aimed at reducing its environmental footprint, supporting local communities, and ensuring safe and decent working conditions.

## UN Goal

## NLMK Group Contribution

3

GOOD HEALTH AND WELL-BEING



### Ensure healthy lives and promote wellbeing for all at all ages

- ▶ Implementing programmes aimed at helping employees stay healthy and increasing the availability and quality of medical services for employees
- ▶ Informing Group employees and contractors about occupational safety rules

- ▶ Implementing training programmes in the field of occupational health and safety
- ▶ Implementing initiatives aimed at reducing water consumption, pollutant emissions and total waste

See the following chapters of the Report: *Occupational health and safety, Environmental protection, Supply chain management*

4

QUALITY EDUCATION



### Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

- ▶ Implementing training and development programmes to enhance employees' professional skills
- ▶ Implementing external social programmes aimed at supporting education in the regions where we operate

- ▶ Cooperating with educational institutions to improve the quality of training programmes and vocational training for future employment opportunities

See the following chapters of the Report: *Our team, Community development*

6

CLEAN WATER AND SANITATION



### Ensure availability and sustainable management of water and sanitation for all

- ▶ Introducing water recycling systems
- ▶ Implementing water treatment technologies
- ▶ Reducing water intake through equipment upgrades
- ▶ Monitoring and disclosing information on the use of water resources

See the following chapters of the Report: *Environmental protection*

7

AFFORDABLE AND CLEAN ENERGY



### Ensure access to affordable, reliable, sustainable, and modern energy for all

- ▶ Improving energy efficiency
- ▶ Transitioning to captive energy generation
- ▶ Consuming energy from secondary resources
- ▶ Monitoring and disclosing information on the volume of consumed energy

See the following chapters of the Report: *Energy efficiency*

## UN Goal

## NLMK Group Contribution

8

DECENT WORK AND ECONOMIC GROWTH



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

- ▶ Fulfilling tax obligations
- ▶ Ensuring equal access for all Group employees to social benefits and creating equal opportunities for high performance, professional growth, and the development of creative potential
- ▶ Creating jobs in the regions where we operate
- ▶ Implementing training and development programmes to enhance employees' professional skills
- ▶ Ensuring decent and safe working conditions
- ▶ Developing NLMK Group's Human rights policy prohibiting forced and child labour, recognizing the right to a minimum wage, outlawing discrimination, and guaranteeing safe working conditions
- ▶ Ensuring transparency of procurement procedures

- ▶ Supplier's Code of Business Conduct binding on all counterparties
- ▶ Evaluating supplier compliance with applicable occupational health and safety standards as part of auditing and qualifying suppliers and contractors
- ▶ Implementing initiatives to minimize the Group's environmental footprint

See the following chapters of the Report: *Our team, Community development, Operational health and safety, Human rights protection, Supply chain management, Environmental protection*

12

RESPONSIBLE CONSUMPTION AND PRODUCTION



### Ensure sustainable consumption and production patterns

- ▶ Increasing the efficiency of natural resource usage
- ▶ Recycling ferrous scrap
- ▶ Implementing a series of measures aimed at improving energy efficiency, the efficiency of resource use and reducing the negative impact of production activities on the environment

- ▶ Upgrading equipment and improving technology in order to minimize their negative impact on human health and the environment

See the following chapters of the Report: *Environmental protection*

16

PEACE, JUSTICE AND STRONG INSTITUTIONS



### Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels

- ▶ Countering corruption and fraud and preventing conflicts of interest
- ▶ Introducing NLMK employees to the Code of Corporate Ethics and Anti-Corruption Policy
- ▶ Introducing Counterparties to the Supplier's Code of Business Conduct
- ▶ Creating and continuously improving efficient corporate governance practices
- ▶ Creating and developing a system of government relations
- ▶ Ensuring human rights protection
- ▶ Complying with applicable laws, including occupational practices

- ▶ Openly interacting with stakeholders and informing stakeholders about the positive and negative impacts of the Company
- ▶ Creating feedback channels
- ▶ Monitoring and regular reporting on the management of environmental aspects, disclosing information on legal non-compliance, including with environmental protection and labour laws

See the following chapters of the Report: *Corporate governance system, Operational control and risk management, Dialogue with stakeholders, Environmental protection*

17

PARTNERSHIPS FOR THE GOALS



### Strengthen the means of implementation and revitalize the global partnership for sustainable development

- ▶ Cooperating with government authorities to ensure that the interests of local communities are taken into account in decision-making
- ▶ Disclosing information on payments to the state budgets
- ▶ Concluding partnerships with NGOs to implement programmes aimed at developing local communities
- ▶ Supporting sustainability initiatives implemented by Russian and international industry organizations
- ▶ Strengthening partnerships with other companies in the industry
- ▶ Investing in the regions, where the Company operates (volunteer and charitable projects, social support)
- ▶ Promoting sustainable development practices in the framework of stakeholder engagement (including through regular environmental assessment of suppliers)

- ▶ Publishing non-financial reporting in accordance with the GRI standards
- ▶ Developing practices of non-financial information collection throughout the Group

See the following chapters of the Report: *Dialogue with stakeholders, Development of local communities, Environmental protection, Supply chain management, About the Report*



## Generating economic value



By implementing its activities in various areas of sustainable development, NLMK Group generated additional value for its stakeholders. In 2018, the volume of distributed economic value amounted to \$11,565 million\*, which is 18.3% higher than in 2017.

### ECONOMIC VALUE GENERATED AND DISTRIBUTED, \$ M GRI 201-1

Indicator	Stakeholder group	2016	2017	2018
<b>Generated direct economic value</b>		<b>7,684</b>	<b>10,104</b>	<b>12,069</b>
Revenue		<b>7,636</b>	<b>10,065</b>	<b>12,046</b>
Revenues from financial investments	Wide range of stakeholders	39	29	21
Revenues from sale of assets		9	10	2
<b>Distributed economic value</b>		<b>(7,065)</b>	<b>(9,773)</b>	<b>(11,565)</b>
Operating expenses	Wide range of stakeholders	(5,255)	(6,994)	(7,967)
Employee wages and other payments and benefits paid to employees	Employees	(824)	(960)	(979)
Payments to providers of capital		(667)	(1,354)	(1,946)
incl. dividends paid	Shareholders and Investors	(583)	(1,285)	(1,890)
incl. interests paid to creditors		(84)	(69)	(56)
Payments to government	Government authorities	(307)	(454)	(662)
Community investments	Local communities	(12)	(11)	(11)
<b>Non-distributed economic value</b>		<b>619</b>	<b>331</b>	<b>504</b>

\* Calculated as required by GRI Standard 201.

## Participation in industry associations and external initiatives

NLMK Group plays an active part in the life of the professional community, helping to address topical issues in the industry, including sustainability matters. Participation in external initiatives is a priority for NLMK Group.

Representatives of the Group are not only active in the workplace; they also head a number of industry associations and relevant commissions and committees, which allows the Group to play an active role in shaping the views and values of the business community. For instance, Vladimir Lisin,

NLMK Group's Chairman of the Board of Directors, is also Chairman of the Commission on Metals and the Committee on Taxation Policy, as well as a member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP).

### NLMK GROUP PARTICIPATION IN INDUSTRY ASSOCIATIONS AND EXTERNAL INITIATIVES GRI 102-12, 102-13

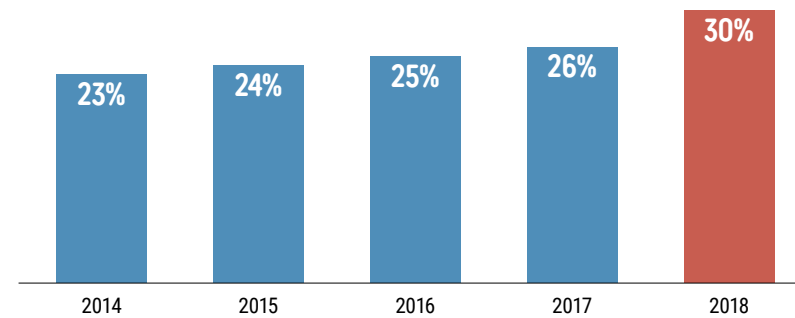
Association/Initiative	Description
World Steel Association, an international association of iron and steel product manufacturers	<ul style="list-style-type: none"> <li>▶ Membership of various committees of the Association</li> <li>▶ 2018 signatory to the Sustainable Development Charter of the World Steel Association</li> <li>▶ Participation in conferences and seminars enabling the sharing of best practices in occupational health and safety</li> <li>▶ Provision of information on sustainability indicators</li> </ul>
Russian Union of Industrialists and Entrepreneurs	<ul style="list-style-type: none"> <li>▶ Membership of the Management Bureau and Board</li> <li>▶ Chairmanship of the Commission on Metals</li> <li>▶ Participation in other commissions and committees, including: Commission on Mining, Committee on Corporate Social Responsibility and Demographic Policies, Committee on Vocational Training and Qualifications, and Committee on Competition Development</li> </ul>
Russian Steel	<ul style="list-style-type: none"> <li>▶ President and Vice President of the association</li> <li>▶ Membership in all commissions of the association, including the Commission for the Protection of Labour, Industrial, and Environmental Safety</li> </ul>
Consumer Council on the Operations of Russian Railways and its Subsidiaries and Affiliates	<ul style="list-style-type: none"> <li>▶ Membership in the Council</li> </ul>
Council of Electricity Consumers of the Russian Federation	<ul style="list-style-type: none"> <li>▶ Membership in the Council</li> </ul>
Expert Council of the Committee on Transport and Construction of the State Duma of the Russian Federation	<ul style="list-style-type: none"> <li>▶ Participation in the Council as an expert</li> </ul>
RUSLOM.COM (Non-Profit Partnership National Self-Regulatory Organization for the Recycling of Ferrous and Non-Ferrous Metal Scrap and Waste and Recycling of Vehicles)	<ul style="list-style-type: none"> <li>▶ Participation in the Partnership</li> </ul>
Anti-Corruption Charter of Russian Business	<ul style="list-style-type: none"> <li>▶ Participation in the Charter</li> </ul>

# 2018 performance review

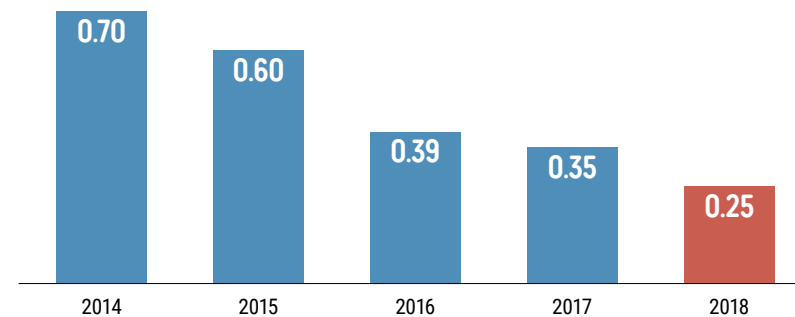
## Operating performance

- Steel sales grew to an all-time high of 17.6\* million tonnes.
- 12M 2018 Group revenue totalled \$12.0 billion (+20% yoy) driven by booming average selling prices and higher sales.
- EBITDA increased to \$3.6 billion (+35% yoy) driven by growing revenue and gains from operational efficiency programmes in 2018.
- Free cash flow increased by 60% yoy to \$2.0 billion thanks to higher margins and positive working capital behaviour as compared to 2017.
- Net profit increased by 54% yoy to \$2.2 billion.
- Net Debt/EBITDA declined to 0.25x (0.35x as at the end of 2017) driven by higher margins and net debt reduction by 3% yoy.

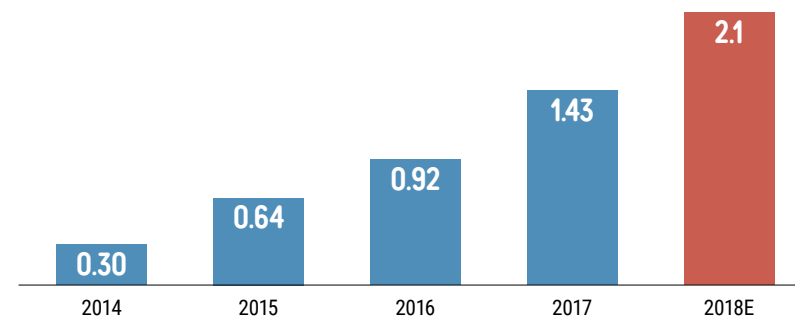
EBITDA MARGIN GROWTH



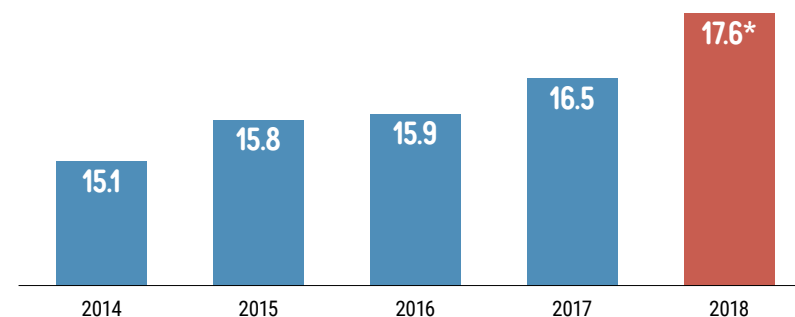
DEBT REDUCTION (NET DEBT/EBITDA)



HIGHER DIVIDEND PAYMENT, \$ BN



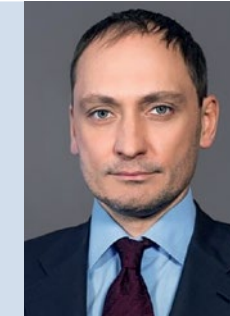
CONTINUOUS SALES\* GROWTH, M T



\* without NBH



SHAMIL KURMASHOV,  
NLMK GROUP CFO:



► "In 2018, demand for steel continued to recover, coupled with a rise in protectionism in key markets.

"In this context, NLMK Group's flexible business model that helped it secure its presence in key sales markets, enabled the Company to grow its sales by 7% yoy (by 1.1 million tonnes) to 17.6 million tonnes<sup>1</sup>, hitting an all-time high for the Company. NLMK Group retained its leadership on the Russian market in terms of steel output, and consolidated its positions on global markets. Revenue grew by 20% yoy to \$12.0 billion; NLMK's EBITDA increased by 35% to \$3.6 billion, while its EBITDA margin grew to 30% (+4 p.p. yoy).

"In 2018, NLMK Group continued its consistent operational efficiency efforts. EBITDA gains from the operational efficiency programme totalled \$189 million tonnes to the 2017 cost base. The impact of capex projects executed as part of Strategy 2017 totalled an additional \$121 m. Total gains from Strategy 2017 in 2014-2018 were \$1,348 m, which is significantly in excess of the \$1 billion target<sup>2</sup>.

"EBITDA growth and the decrease in cash outflow to finance working capital supported a 60% increase in the Group's free cash flow yoy to \$2.0 billion. Total debt decreased by 9% yoy, while the cost of financing reduced from 3.8% to 3.4%. The Company's debt is at an all-time low: Net debt/EBITDA decreased to 0.25x by the end of 2018. Growth of free cash flow and low debt enabled the Company to keep dividends high despite the growth in capex."

For additional information, please see press release on 2018FY and NLMK Group's five-year highlights on the web-site.

## Operating performance

- **Steel output<sup>3</sup>** increased by 2% yoy to 17.5 million tonnes, mainly due to outstripping output growth at NLMK Russia Long (+9% yoy). Steel output at NLMK Russia Flat increased by 1% yoy to 13.3 million tonnes. The Group's steelmaking capacity utilization rate increased by 1 p.p. to 99%<sup>4</sup>.
- **Sales<sup>1</sup>** grew by 7% yoy to 17.6 million tonnes, driven by increased demand for semi-finished products, and higher long product sales in Russia.
- **Sales breakdown:** finished product sales were flat yoy at 10.8 million tonnes. HVA sales grew by 3% yoy to 5 million tonnes. The share of HVA in total sales dropped by 1 p.p. to 29%, due to the outstripping growth of semi-finished product sales amid intensified demand for slabs and pig iron, and planned equipment upgrades at the NLMK Lipetsk hot-rolling operations.
- **Sales by region:** Sales in Russia declined by 4% yoy (to 5.8 million tonnes) due to sales being redirected to export markets. Sales in Europe and the US grew by 16% and 10%, respectively. Sales to the Middle East (including Turkey) increased by 7% yoy. The highest growth rates were achieved in the Asian and Oceanian markets (+89% yoy) due to an increase in slab sales to Taiwan and Indonesia.

Sales to home markets decreased to 10.56 million tonnes (-1% yoy) due to sales being redirected to semi-finished product exports driven by intensified demand in Q4 2018. The Group's share of sales on its home markets totalled 61% (-4 p.p. yoy).

Sales to external markets were up 17% yoy to 6.86 million tonnes, driven by higher slab and pig iron sales.

<sup>1</sup> Consolidated sales are given without NBH

<sup>2</sup> Strategy gains are presented with NBH

<sup>3</sup> Without production capacities that are undergoing planned maintenance

<sup>4</sup> Steel output with NBH



# Financial performance

## Revenue

Revenue increased to \$12 billion (+20% yoy) due to higher average sales prices.

Revenue share from sales of finished steel declined yoy to 65% (-2 p.p. yoy).

Revenue share (including NBH) from sales in home markets decreased by 3 p.p. yoy to 66%, against the backdrop of growing exports of semi-finished products.

## Operating profit

Operating profit increased by 48% yoy to \$3 billion, due to the growth in sales volumes, the expansion of price spreads, and operational efficiency programme gains.

## Net profit

Growth of net profit by 54% yoy in 12M 2018 was due to the growth of operating profit and a decrease in the effective income tax rate due to the recognition in Q4 2018 of tax losses incurred earlier by NLMK USA.

## Free cash flow

Free cash flow increased by 60% yoy to \$2 billion, supported by growing EBITDA and decreasing cash outflow to finance working capital as compared to 2017.

The 44% yoy increase in operating cash flow to \$2.7 billion was driven by increased sales profitability.

Cash outflow to finance working capital was \$261 million (vs. \$380 million a year earlier):

- **-\$258 m:** increase in receivables due to an increase in export sales and an increase in average sales prices
- **-\$187 m:** increase in stocks due to the increase in raw material and semi-finished product prices, including the rising cost of slabs in NLMK USA warehouses following

the introduction of import duties on steel

- **+\$177 m:** increase in payables as a result of rising prices for raw materials and the growth of externally sourced slab purchases by NLMK USA.

## Investment

The Group's investments climbed by 15% to \$680 million in 2018, with the launch of projects as part of the new strategic cycle, and the start of BF-6 upgrades and major repairs of steelmaking equipment at NLMK Lipetsk.

## Dividends

During 2018, the amount of dividend payments amounted to \$1,888 million.

The Board of Directors recommended the shareholders to approve the Q4 2018 dividends of RUB 5.80 per share. Taking into account declared dividends for Q1-Q3, 12M 2018 accrued dividends could total RUB 22.81 per share, which is equivalent to 102% of NLMK Group's 2018 free cash flow.

## Debt leverage

Total debt decreased by 9% yoy to \$2.1 billion, due to the closing of a credit line for working capital financing in Q2 2018.

Net debt decreased by 3% yoy to \$891 million due to reduced total debt. Net debt/EBITDA improved to 0.25x (vs. 0.35x last year), driven by increased profit from core activities.

Financial guarantees for NBH liabilities totalled \$309 million (\$304 million at 2017 year-end).

Decrease in financial expenses by 20% yoy to \$70 million was associated with the reduction in the average interest rate (from 3.8% in 2017 to 3.4% in 2018), and an overall reduction in debt.

## Segmental performance

### NLMK Russia Flat

EBITDA increased by 36% yoy to \$2.3 billion, due to the expansion of price spreads between steel and primary raw materials, as well as operational efficiency programme gains. The decrease in the ruble FX rate also supported the Segment's profitability amid growing export sales. These factors supported an EBITDA margin increase by 5 p.p. yoy to 27%.

### NLMK Russia Long

EBITDA increased by 45% yoy to \$221 million. EBITDA margin climbed by 2 p.p. to 10%. EBITDA grew at a higher rate than the revenue due to operational efficiency gains, expansion of the price spreads and the change in exchange rates against the backdrop of increased exports.

### Mining and Processing of Raw Materials

EBITDA increased by 38% yoy to \$0.89 billion, with the completion of a number of capex projects, as well as due to the increase in productivity.

### NLMK USA

EBITDA grew by 28% yoy to \$0.25 billion, mainly due to the growth in revenue. EBITDA margin remained flat yoy at 12%: revenue growth was offset by the growth of import duty related costs.

### NLMK DanSteel and plate distribution network

EBITDA fell to (-) \$17 million (vs. (+) \$2 million last year), due to the narrowing of price spread between slabs and plate, against the backdrop of the outstripping growth of slab prices.

### JV performance (NBH)

NBH EBITDA decreased to (-) \$87 million, due to the narrowing of price spreads between rolled steel and slabs, against the backdrop of a spike in slab prices in 2018.

# Sustainability performance

## Occupational safety

With a view to reduce injury rates and prevent accidents at NLMK facilities in 2018, the Company went to considerable lengths in managing occupational risks. Thanks to the initiatives implemented in the reporting year and prior periods, the 2018 LTIFR injury rate for NLMK Group employees and contractors decreased to 0.77 (31% lower than in 2017).

## Minimizing environmental footprint

NLMK Group follows an integrated approach to managing environmental footprint and environmental safety. In 2018, a number of initiatives were implemented enabling the following performance:

- Water withdrawal for industrial water supply reduced by 884,000 m<sup>3</sup>
- Total air emissions fell by 2,200 tonnes
- Better than the industry average performance in specific greenhouse gas emissions
- Total waste generated fell by 13%
- Reclamation of more than 22 hectares of Stagdok completed

## Energy efficiency improvement

In 2018, the Company continued implementation of energy-efficiency improvement initiatives at the Group's facilities. In total, RUB 509 million in savings were achieved by implementing optimization measures over the course of 2018. The Company also continued to actively develop its captive generation capacities: NLMK Group's total installed generating capacity in the reporting period was 722 MW. More than half of the electricity consumed at the Lipetsk site and 100% of the electricity consumed at Altai-Koks is generated using NLMK Group's own resources.

## Our team and local communities

The average headcount in 2018 increased by 0.1%, which is associated with the implementation of Investment Programme 2022, aimed at steel output increase.

An important achievement in 2018 was the implementation of a large-scale position grading project for white-collar employees and managers, which will help determine the pay based on employees' competencies and position grade as early as in 2019. This project will enable a unified approach and establish transparent mechanisms for determining pay.

NLMK also continues to actively develop in-house employee training. For example, in 2018, more than 6,000 employees were trained in NLMK Corporate University's programmes.

Within social policy expansion initiative in 2018, the Group developed an NLMK Employee Health programme, aimed at improving working conditions, promoting healthy lifestyle, and at improving the quality and accessibility of health services for NLMK Group employees.

In the reporting period, NLMK also reviewed its approach to the Steel Tree grant competition, which supports environmental initiatives of employees, including projects in social areas, in particular in the health sector. Starting from 2018, the 'Steel Tree' environmental programme has become open not only to NLMK employees but also to local residents in the regions where the Company operates.

## Promoting responsible business practices

In 2018, the majority of NLMK's Board members were independent directors (5 out of 9 members of the Board of Directors), which demonstrates the Company's commitment to best practices in corporate governance and contributes to the adoption of balanced and constructive decisions by the Board of Directors in the long-term interests of the Company.

In addition, in 2018, the possibility of electronic voting was implemented at the General Shareholders' Meeting. The use of the electronic voting service as an effective way to ensure the rights of shareholders to manage the Company and participate in the General Shareholders' Meeting has increased the total number of shareholders who participated in the voting.

In 2018, as part of improving its risk management system, NLMK Group implemented a risk management approach for innovative projects and developed a methodology for assessing cybersecurity risks.

In 2018, the Company also adopted the revised versions of NLMK Group's Corporate Ethics Code and Anti-Corruption Policy.

Another important event was the approval of NLMK Group's Human Rights Policy. The goal of the Policy is to ensure that human rights are observed in Group activities everywhere we operate.

\* Operating profit before equity share in results of joint ventures, impairment of capital assets and losses from fixed assets retirement.



# Five-year highlights

	2014	2015	2016	2017	2018
<b>Financial performance, \$ m</b>					
Revenue	10,396	8,008	7,636	10,065	12,046
Net profit*	773	967	935	1,450	2,238
EBITDA	2,381	1,943	1,943	2,655	3,589
EBITDA margin	23%	24%	25%	26%	30%
Operating cash flow	1,806	1,622	1,699	1,899	2,741
Investment	563	595	559	592	680
Net debt	1,666	1,161	761	923	891
Free cash flow	1,153	992	1,092	1,266	2,027
Dividends, \$ per share	0.0507	0.1076	0.1535	0.2384	-
<b>Operating performance, '000 t</b>					
Steel output (without NBH)	15,921	15,866	16,438	16,850	17,285
Steel output (with NBH)	16,108	16,060	16,641	17,076	17,493
Steel product sales (without NBH)	15,147	15,829	15,925	16,469	17,591
Finished steel sales	10,223	9,793	10,211	10,759	10,762
Sales to home markets	10,605	10,140	10,225	10,650	10,573
<b>Sustainability performance</b>					
NLMK Group headcount, '000 people	60.1	56.7	54	53.2	53.3
Labour productivity, t of steel /pers., NLMK Lipetsk	437	463	482	502	503
LTIFR, NLMK Group employees	1.55	1.12	0.82	0.97	0.69
LTIFR, NLMK Group employees + contractors	1.6	1.15	0.85	1.12	0.77
Specific air emissions, kg/t of steel	20.1	20.1	20.0	19.5	18.9

\* Net profit attributable to NLMK shareholders.





## About NLMK | 2018

► This brochure gives an overview of the structure, business model, strategy and performance of the Group over the past five years.

The world is changing rapidly. Today, NLMK Group together with other global companies determines the future of steelmaking. In many aspects, 2018 was a year of achievements for NLMK Group.

**Grigory Fedorishin**

President of NLMK Group



## Governance | 2018

► This brochure aims to showcase NLMK Group's corporate governance and risk management practices.

In its activities, NLMK Group adheres to best international practices and the highest standards of corporate governance.

**Stanislav Shekshnia**

Independent director,  
member of NLMK Group's Board of Directors



## Our team | 2018

► Detailed information on interaction with NLMK Group's stakeholders, talent development, occupational safety policy, and financial contribution to the development of local communities, and much more.

We are proud of what we have achieved and fully recognize that our achievements were made possible thanks to the contribution of our entire team, united by the common goal of leadership for NLMK Group.

**Grigory Fedorishin**

President of NLMK Group



## Environment | 2018

► In this brochure we talk about how advanced technologies, efficient processes and environmentally friendly approaches ensure our leadership as an environmentally-oriented company.

Our firm belief is that, if we want to grow sustainably and if we look at the same sustainability of the company, competitive shareholder returns simply are not enough. In 2018 we disclosed our CO<sub>2</sub> emissions data.

**Marjan Oudeman**

Independent director,  
member of NLMK Group's Board of Directors