



SUSTAINABILITY  
REPORT  
2022

# Corporate governance



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# CORPORATE GOVERNANCE SYSTEM

## Corporate governance in action

NLMK Group's corporate governance system plays a key role in the Company's operations, its successful sustainable development, risk management, and in balancing the rights and interests of shareholders, the Company management, and other stakeholders. The system is built on best international practices, the requirements of the prevailing Russian legislation and laws of the countries where the Group companies operate, the OECD Principles of Corporate Governance, applicable listing rules, and provisions of the Corporate Governance Code recommended for use by the Central Bank of Russia.

A well-developed corporate governance system that secures the rights of shareholders and potential investors is considered a driving force for enhancing NLMK's efficiency and investment appeal.

The key documents regulating corporate governance practices and principles are available on [NLMK Group's official website](#).

## CORPORATE GOVERNANCE STRUCTURE [GRI 2-9]

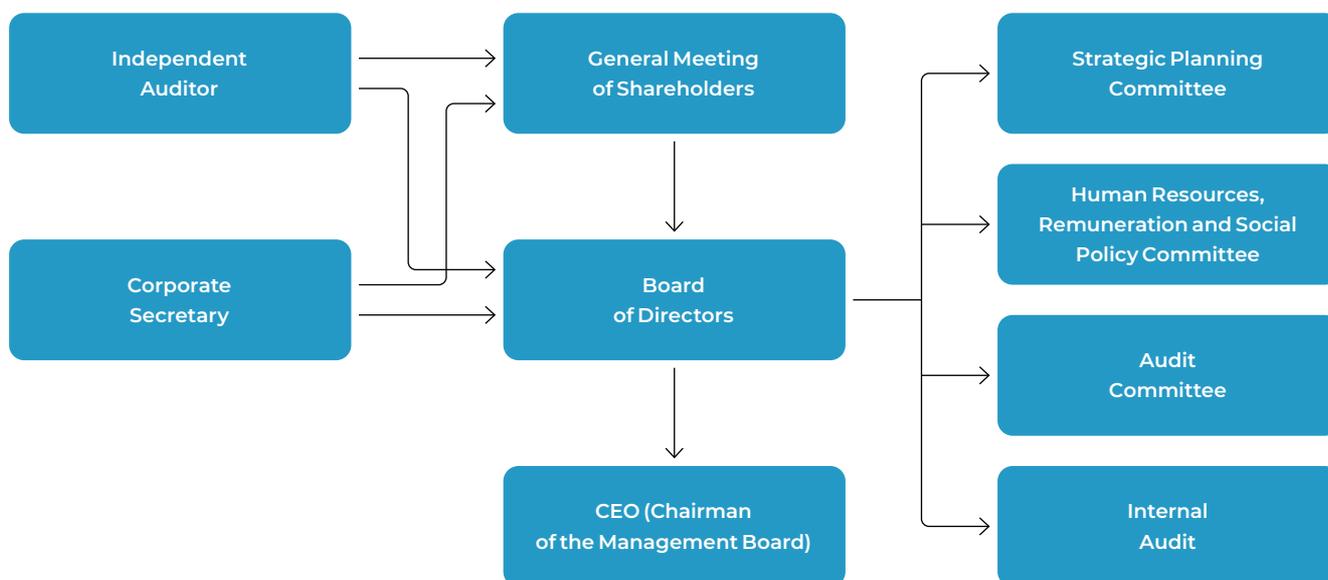
According to internal Company documents, NLMK's corporate governance structure includes [GRI 2-9]:

- ▶ The General Meeting of Shareholders, which is the Company's supreme governing body that makes decisions on key business issues.
- ▶ The Board of Directors, which handles the overall management of the Company's activities, excluding issues that fall within the purview of the General Meeting of Shareholders according to the NLMK Charter.
- ▶ Committees of the Board of Directors, which were established to tentatively review key matters concerning the Company's activities.
- ▶ Executive bodies: the CEO (Chairman of the Management Board) and the Management Board, which manage day-to-day activities of the Company and ensure its efficient operation, while implementing the objectives set by the Board of Directors.
- ▶ The Corporate Secretary, who handles interaction with shareholders, coordinates the Company's activities that aim to protect shareholders' rights and interests, and supports the Board of Directors.
- ▶ Internal audit, which oversees the Company's financial economic activities.

## Key principles at the core of our corporate governance:

1	Sustainable development and long-term growth of return on equity investment
2	Equal and fair treatment of all shareholders when they exercise their right to be involved in management processes, receive dividends from the Company, participate in meetings, vote on issues on the agenda, and get up-to-date information on the activities of the Company and its governing and controlling bodies
3	Equal treatment of all shareholders, including non-Russians and minority shareholders
4	Commitment to ensure reliable and effective registration of title to shares and guarantee the opportunity to alienate them freely and without encumbrances
5	Compliance with existing laws, principles of the Corporate Governance Code recommended by the Bank of Russia and international corporate governance standards
6	Observing the rights of third parties, including creditors and NLMK employees, as required by the law, the Charter, and other regulatory documents
7	Adherence to a common corporate policy in respect of subsidiary companies, affiliates and other legal entities in which NLMK is the founder, a participant, or a member
8	Complying with business ethics in conducting operations

## NLMK's Corporate Governance Structure



### IMPROVING CORPORATE GOVERNANCE PRACTICES IN 2022

In 2022, the Company continued to improve its corporate governance system to ensure its compliance with international standards focusing on safeguarding the rights and interests of its shareholders and investors under the significant regulatory changes and the associated risks. As at the end of 2022, NLMK complies with all principles of the Corporate Governance Code: 70 principles (89%) are fully observed and nine principles are partially observed. The Company uses the recommendations of the Bank of Russia on preparing a report on compliance with the Corporate Governance Code as a methodology to assess compliance with corporate governance principles.

At meetings held in 2022, the Company successfully employed an electronic voting service, which allows shareholders to vote regardless of where their shares are registered. NLMK shareholders have ranked among the top-5 most active users of the e-voting (NSD). For the convenience of its shareholders, the Company launched an additional electronic voting service on the website of NLMK registrar. The shareholders were able to use it at the Annual General Meeting held on 30 June 2022, and at the Extraordinary General Meeting held on 31 December 2022.

In accordance with Federal Law No. 17-FZ dd. 24 February 2022 and a resolution of the Board of Directors, the Company's Annual General Meeting of Shareholders on 2022 performance was held by absentee ballot.

### PLANS FOR 2023 AND THE MEDIUM TERM

In 2023, NLMK will continue to analyse the best corporate governance practices and evaluate them in terms of their applicability to the Company's activities. Particular attention will still be paid to the implementation of sustainability practices. As always, the Company will analyse rankings, ratings and benchmarking, which allow to assess issuers' achievements objectively and to identify practices that might bring the greatest benefit to the Company and are important

for its stakeholders. The Group is going to keep analysing best practices, new approaches and tools for ensuring alternative ways of corporate meetings participation, and to maintain its focus on the aspects associated with protecting the rights and interests of shareholders and investors in the context of significant regulatory changes and associated risks.

## General Meeting of Shareholders

### NLMK'S GENERAL MEETING OF SHAREHOLDERS PROCEDURES

The General Meeting of Shareholders is NLMK's supreme governing body that functions based on the legislation of the Russian Federation, the [NLMK Charter](#), and the [Regulations on the General Meeting of Shareholders](#). The Federal Law "On Joint-Stock Companies" and the NLMK Charter establish the General Meeting's competence. The procedure for preparing, convening, holding, and summarizing the results of NLMK's General Meeting of Shareholders is set forth in the Regulations on NLMK's General Meeting of Shareholders published on the Company's official website.

Shareholders have two options for online voting: through the e-voting service of the National Settlement Depository and the online voting service on the website of NLMK's registrar, the Regional Independent Registrar Agency. These services are available to all Company shareholders, regardless of whether they are the depository's clients or if their share rights are recorded in the register.

The notice about the upcoming General Meeting of Shareholders and materials to the meeting are published on the Company's website in Russian and English. In addition to the mandatory materials required by law, the Company provides its shareholders with additional information and materials pertaining to the agenda items of the General Meeting of Shareholders in line with the recommendations of the Corporate Governance Code recommended by the Central Bank of Russia.

The Company's independent registrar functions as the counting commission of the General Meeting of Shareholders.

#### ACTIVITIES IN 2022

Two General Meetings were held in 2022.

#### NLMK's General Shareholders Meetings held in 2022

General Meeting of Shareholders by status (format)	Quantity
Annual meeting (absentee ballot using e-voting technology)	1
Extraordinary meeting (absentee ballot using e-voting technology)	1

NLMK's Annual General Meeting of Shareholders on 2021 performance was held on 30 June 2022 by absentee ballot. During the meeting, resolutions were passed on the issues envisaged by Item 1, Article 47 of the Federal Law "On Joint-Stock Companies".

NLMK's 2022 Extraordinary General Meeting of Shareholders was held on 31 December 2022 by absentee ballot.

## Board of Directors

#### NLMK BOARD OF DIRECTORS PROCEDURES

A key component of the Company's corporate governance system, the Board of Directors determines its strategic vectors, lays down the principles of and approaches to the risk management and internal control system, monitors the activities of executive bodies, and has other key functions within the Company. NLMK's Board of Directors reports to the Company's shareholders and is elected by a resolution of the Company's General Meeting of Shareholders. The NLMK Charter and the [Regulations on the Board of Directors](#) published on the Company's official website govern the procedures of the Board of Directors.

In addition to the main functions of the Board of Directors stipulated by legislation and NLMK's Regulations on the Board of Directors, key importance is attached to such goals and objectives as assessing various kinds of risks, ensuring compliance with corporate governance and sustainable development principles, and monitoring compliance with the [Sustainable Development Policy](#) and Information Disclosure Policy. [GRI 2-12]

Board members are engaged in various business aspects, both within the committees of the Board and outside of it. Directors ensure productive interaction and experience exchange with the management including at informal meetings. With the view to integrate long-term trends and challenges in the Company's development strategy, working groups have been formed at the Board of Directors level. The groups include both members of the Board and the management.

Members of the Company's Board of Directors ensure the reliability and stability of the Company's operations, facilitate the adoption of balanced decisions by the management, and make objective independent judgements and decisions that serve the interests of NLMK and its shareholders.

The Regulations on the Board of Directors establish the procedure of preparing for and holding Board meetings, as well as the procedure for the nomination and selection of potential Board members. Members of the Board of Directors shall be the individuals elected at the General Meeting of Shareholders, whose candidatures are nominated by shareholders or by the Board of Directors. The quantitative composition of the Board of Directors is determined by the corporate documents. [GRI 2-10]

Independent directors are elected to NLMK's Board of Directors to ensure well balanced decision-making process and improve operational efficiency, which is a global corporate governance practice. The Company is interested in no less than three independent directors to be members of the Board of Directors. Moreover, the Company seeks to diversify the composition of the Board of Directors in terms of competencies, experience, field of expertise, gender and other indicators. [GRI 2-10]

Members of the Board of Directors are elected by cumulative vote at the Annual General Meeting of Shareholders. The candidates who have polled the majority of votes are considered elected to the Board of Directors.

Members of the Board of Directors have sufficient time to fulfil their obligations efficiently and in good faith, including for participation in meetings of the Board of Directors and its committees. The requirement for members of the Board of Directors to have sufficient time for efficient participation in the Board's work is enshrined in NLMK's Corporate Governance Code.

Meetings of the Board of Directors are held on a regular basis at least six times a year in accordance with the approved schedule.

The format of NLMK Board meetings is determined based on the importance of the agenda items. The most important items within the Board's remit are resolved at in-person meetings, and as a rule, are first reviewed by the Board's committees, thereby ensuring their thorough consideration and informed decision-making.

#### CHAIRMAN OF THE BOARD OF DIRECTORS

[GRI 2-11] The Chairman of the Board of Directors ensures the efficient functioning of the Board, arranges for the preparation of its schedule, supervises the execution of resolutions passed by the Board, compiles the agenda, and makes sure that the most efficient decisions on the agenda items are made.

The Chairman of the Board also plays a key role in organizing its activities and ensuring that its committees function efficiently.

The Chairman is elected by Board members among themselves by a majority vote of the total number of members.

The Chairman of NLMK's Board of Directors has extensive experience, professional expertise, and authority among the Company's shareholders, members of governing bodies, and employees.

In line with best corporate governance practices the Company elected the Deputy Chairman of the Board of Directors.

The Chairman of the Board of Directors does not hold any executive positions in the Company.

### INDEPENDENT MEMBERS OF THE BOARD OF DIRECTORS

In order to ensure that the Board of Directors effectively performs its functions, including those related to the protection of shareholders' interests and risk management, the Company's Board of Directors includes independent directors. Their participation in the Board's activities contributes to the formation of objective opinions on items discussed, improves management efficiency, and has a positive impact on the Company's image.

Independent directors make a decisive contribution to discussions and decision-making on issues that may affect the interests of shareholders including devising the Company's development strategy, assessing the conformity of the Company's activities with the approved strategy, preventing and resolving corporate conflicts, assessing the quality of work performed by the executive bodies, establishing an efficient incentive system, and conducting performance assessments to ensure that the Company's activities are in the interest of all its shareholders. In 2022, the number of independent directors reduced to 1/3 of the of the Board of Directors' panel. However, it must be noted that independent directors play a key role in the operation of the Board's committees.

The Corporate Secretary regularly conducts a preliminary analysis and assessment of the Board members' compliance with independence criteria. The latest assessment confirmed that the directors fully meet the independence criteria stipulated by the Regulations on the Company's Board of Directors and the Corporate Governance Code recommended by the Bank of Russia.

### COMPOSITION OF THE BOARD OF DIRECTORS

[GRI 2-9] [GRI 405-1] The composition of the Company's Board of Directors is balanced in terms of qualification, experience, knowledge, business acumen, and diversity. Members of the Board of Directors have an impeccable professional reputation in the business community, as well as extensive work experience in key executive positions in leading international companies of various sectors. In addition, many Board members have occupied CEO positions at various companies, which enabled them to obtain competencies in all aspects of business operation, including knowledge and skills in steelmaking, mining, finance, investment, risk management, ESG. Most Board members have substantial work experience in the boards of directors and supervisory boards of other companies.

The share of directors meeting the independence criteria is 33%.

The Board of Directors of ten people in force as of 31 December 2022 was elected at the Annual General Meeting of Shareholders on 30 June 2022.

### BOARD OF DIRECTORS' ACTIVITY IN 2022

In 2022, NLMK's Board of Directors held twelve meetings, nine of which were held by absentee ballot. The Board considered 35 items at the meetings.

The main issues considered by the Board of Directors in 2022 related to the strategy implementation and priority areas for development, designations and remuneration, as well as issues of corporate governance and financial reporting.

All members of the Board of Directors took part in all meetings scheduled after the respective director's appointment.

### SUSTAINABILITY AGENDA MANAGEMENT AT THE BOARD OF DIRECTORS LEVEL

[GRI 2-12] [GRI 2-13] [GRI 2-24]

Sustainability management is integrated into NLMK Group's corporate governance system and is carried out at all NLMK companies, including international ones. Sustainability issues consistently feature on the agenda of NLMK Group's leadership. The Board of Directors, the Board's committees, CEO (Chairman of the Management Board), and the Management Board determine strategic growth priorities and ensure overall sustainability management.

Vice Presidents of functional units 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 matters concerning sustainability report to these Vice Presidents.

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

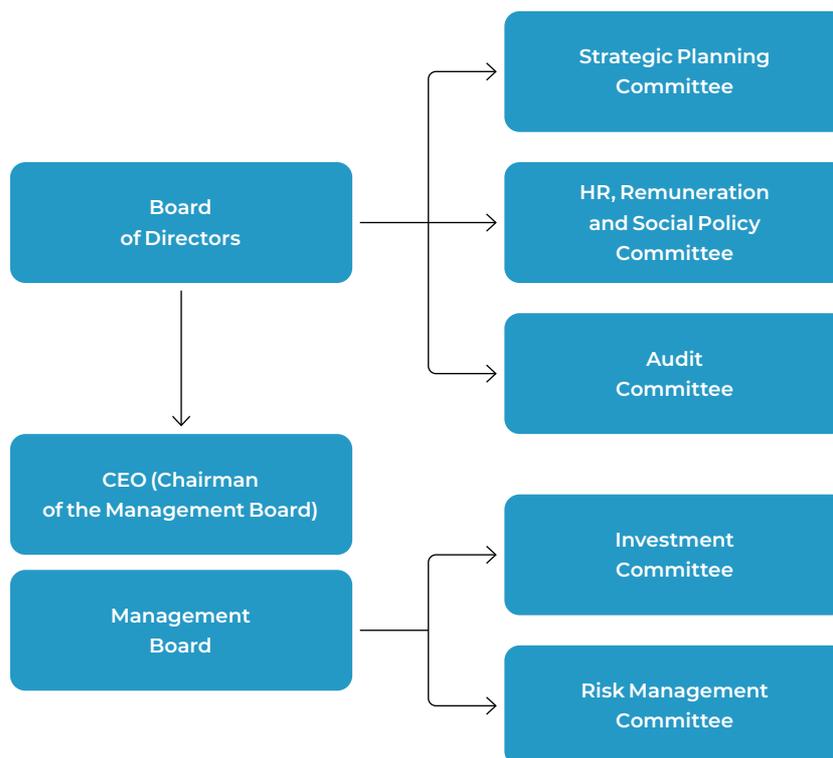
The detection, monitoring, and management of sustainability risks is an integral part of the corporate risk management system (see the *Operational Control and Risk Management section for more details*).

All stakeholders of the Company, including employees, have the opportunity to bring any issues related to the actual and potential negative impact of the Company's activities on them to the attention of the members of the Board of Directors through, among other means, contacting the Corporate Secretary. [GRI 2-16]

Sustainability agenda management at the Board of Directors level [GRI 2-9-b]

BOARD COMMITTEE	KEY ASPECT OF SUSTAINABILITY
Strategic Planning Committee	Sustainability risk assessment. Environment: <ul style="list-style-type: none"> <li>● Air emissions</li> <li>● Discharges and waste</li> <li>● Use of resources</li> <li>● Biodiversity</li> <li>● Climate change</li> </ul>
Human Resources, Remuneration and Social Policy Committee	Integration of ESG KPIs in the remuneration system. Social and employment: <ul style="list-style-type: none"> <li>● Operational health and safety</li> <li>● Training and development</li> <li>● Social policy</li> <li>● Diversity and equal opportunities</li> <li>● Non-discrimination</li> <li>● Local communities</li> </ul>
Audit Committee	Performance monitoring and sustainability reporting [GRI 2-14]
Board of Directors; Human Resources, Remuneration, and Social Policy Committee, Audit Committee	Corporate governance: <ul style="list-style-type: none"> <li>● Corporate governance</li> <li>● Business ethics</li> <li>● Anti-corruption</li> </ul>

Organizational structure for managing sustainability issues at NLMK [GRI 2-12]



**BOARD OF DIRECTORS****SUCCESSION PLANNING [GRI 2-10]**

Considering high significance of succession and performance assessment the Board of Directors approved the Succession Policy in 2022. This document reflects the recommendations of the Bank of Russia, as well as the principles of the Corporate Governance Code, the research results of leading international consultants, and the best experience of global companies with advanced corporate governance practices.

Thus, the Succession Policy of the Company's Board of Directors includes such aspects as:

- ▶ Principles of the Board of Directors formation, ensuring diverse, competent and efficient composition,
- ▶ Succession goals,
- ▶ Succession process,
- ▶ Approaches and tools for performance assessment.

**BOARD OF DIRECTORS****PERFORMANCE ASSESSMENT [GRI 2-18]**

The Board of Directors is one of the key bodies in the Company's corporate governance system. The quality of the Company's governance depends on the efficiency of its activities, and its decisions directly affect the Company's market capitalization. The Board of Directors' performance assessment is an effective tool for improving the corporate governance system, each component of which is related to the work of the governing body.

The main purpose of the assessment is to determine the efficiency of the Board's performance as a collective governing body and enhance its role in achieving the Company's goal of successful development. The assessment of the Board's performance helps to determine the focus and changes in the performance of the Board of Directors and its committees, get a comparative analysis of their contribution to the Company's successful development, and identify areas for the continuous improvement of the Board's procedures. In line with the Corporate Governance Code recommended by the Bank of Russia and best international practices, the Company has been conducting an annual assessment (self-assessment) of the Board of Directors' performance since 2016. The formal assessment procedure does not only cover the Board of Directors, but also assesses the work of its committees, as well as Board and committee Chairs. The assessment includes an analysis of the Board's composition and qualifications, its agenda, meeting efficiency, and interaction with the management and the Corporate Secretary.

**RESULTS OF THE BOARD OF DIRECTORS****PERFORMANCE ASSESSMENT**

The Board's strengths and areas for improvement were analysed as part of an annual assessment carried out in January 2022 in the form of an online survey of its members in the format approved by the Committee. According to the results of the self-assessment, the Board structure, content of the meeting agendas and contribution of the Chairman of the Board of Directors were attributed to the strengths of the Board of Directors. Furthermore, the Company received recommendations on development of specific competencies of the Board of Directors

and improvement of a number of working procedures. Results of the assessment were issued in the form of a report that was considered at a meeting of the Board of Directors.

**INDUCTION OF NEWLY ELECTED MEMBERS OF NLMK'S BOARD OF DIRECTORS AND THE ONBOARDING PROCESS**

An induction course for newly elected members of NLMK's Board of Directors was developed and approved by the Human Resources, Remuneration, and Social Policy Committee, in compliance with best corporate governance practices to ensure the efficient functioning of the Board of Directors.

The programme of the induction course includes an introduction to NLMK Group's key operational and financial indicators and its systems of risk management, internal control, and corporate governance.

Meetings with the CEO, members of the Board of Directors, the Management Board, and other senior executives of the Company are arranged as part of the course. The newcomers also have an opportunity to get acquainted with the Group's core facilities, processes, and products. Other Board members and representatives of the Company management are actively engaged in integrating newly elected Board members into the work of the Company's governing bodies and its operations.

**PREVENTING A CONFLICT OF INTEREST AMONG BOARD MEMBERS**

[GRI 2-15] Members of the Board of Directors must act in good faith and reasonably in the interests of the Company and its shareholders based on sufficient awareness and with due care and discretion. Given that the reasonable and good-faith actions of the Board members require the adoption of decisions based on all available information without any conflict of interest and taking into account the equal treatment of shareholders the Company has developed a number of measures to prevent conflicts of interests. As part of these requirements, members of the Board of Directors shall:

- ▶ Put the Company's interests above their own under all circumstances and notify the Board in case there is a potential conflict of interest (including an interest in the Group making a transaction).
- ▶ Refrain from any acts that will or may lead to a conflict between their personal interests and those of the Company.
- ▶ Promptly inform the Board of Directors of any conflict of interest and the grounds for it before the start of a discussion on the item with respect to which the Board member has a conflict of interest at a Board meeting or a Board committee meeting.
- ▶ Abstain from voting on items in which they have a conflict of interest. Where the nature of the item discussed or the specific aspects of a conflict of interest so require, the Board member experiencing said conflict of interest should not be present at the Board's meeting when the item is discussed.

According to the information available to the Company, there was no conflict of interest among the members of the Board of Directors in 2022 (including those related to their participation in the governing bodies of NLMK's competitors).

## Committees of the Board of Directors

[GRI 2-9] In order to improve the efficiency of the decisions taken by the Board of Directors, ensure the preliminary examination and study of the most essential matters in the Company's activities, and prepare the appropriate recommendations, the Board of Directors has set up the following standing committees:

- ▶ Strategic Planning Committee
- ▶ Audit Committee
- ▶ Human Resources, Remuneration, and Social Policy Committee

The structure of committees is built based on the most important areas of the Board's activities. Their composition is formed to ensure the most efficient use of the committee members' expertise and professional experience.

The committees of the Board of Directors report to the Board and serve as its advisory bodies. The resolutions of the committees are advisory in nature.

Due to the need for a comprehensive discussion of the issues under consideration, the committees are composed of Board members with specialized knowledge and skills. Committee composition is balanced to ensure optimal application of the members' competencies and professional experience.

If necessary, a committee chair may engage experts and consultants to work with their committee on a temporary or permanent basis with no right to vote during decision-making on issues within the committees' remit.

The status, goals, objectives, and functions of the committees, as well as the procedures for their composition, formation, and operation are set out in Regulations on Committees, which are approved by the Company's Board of Directors and published on NLMK's official website.

In order to balance approaches to problem solving with respect to risk management and the protection of shareholders' interests, in two out of three committees the majority of members, including their chairpersons, are independent directors.

### STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee provides support to the Board of Directors in resolving matters that involve enhancing the efficiency of the Company's activities in the long-term and promoting asset growth, profitability, and investment appeal. The committee defines the goals for minimizing the Company's environmental and climate impact, including greenhouse gas emissions, and reviews and approves the appropriate investment programme.

The Strategic Planning Committee includes one independent director. All members of the Committee, including those who are not members of the Board of Directors, have the right to vote on the Committee's agenda items.

In 2022, one meeting of the Committee was held, where decisions related to improving operational efficiency and the R&D projects portfolio were made.

### AUDIT COMMITTEE

[GRI 2-5] The Audit Committee's main purpose is to draft and submit recommendations to the Board of Directors in order to ensure its effective involvement in the supervision of the Company's financial and business activities, including matters related to:

- ▶ Conducting an annual independent external audit of NLMK's accounting (financial) statements, the quality of the auditor's services, and their compliance with the requirements of auditor independence.
- ▶ The independent assessor's evaluation of property in cases stipulated by Russian legislation and in other cases.
- ▶ The Company's sustainable development disclosure. Since 2019, one of Committee's responsibilities is monitoring results and considering reports related to sustainable development, including matters of environment and occupational health and safety. The Committee analyses, evaluates the Company's information disclosure system on sustainable development issues, and monitors its completeness, accuracy, and reliability.
- ▶ The Audit Committee is chaired by an independent director. Most of the Committee members are also independent directors. In addition, the Audit Committee includes independent directors with a background in the preparation, analysis, evaluation, and audit of accounting (financial) statements.

In 2022, the Audit Committee held four scheduled meetings, another four unscheduled meetings were held due to geopolitical changes in order to intensify cooperation with the management in managing new challenges for the Company.

The Committee reviewed and passed resolutions on the following key issues:

- ▶ Accounting (financial) statements with respect to the consideration of the relevant draft documents.
- ▶ Risk management, internal control, and corporate governance, as well as other reports related to asset protection and management of the Company's significant risks. Consideration of the report on the statistics of hotline requests.
- ▶ External and internal audits, including non-audit services provided by the independent auditor

The Audit Committee also had meetings with the external auditor without the management present.

### Risk management and internal control

The Audit Committee exercises control over the reliability and efficient functioning of the risk management, internal control, and corporate governance systems, and the drafting of proposals on their improvement. In fulfilling its oversight responsibilities, the Committee reviews reports on the performance of the internal control and risk management system prepared by the external auditor, internal auditor, and the Group's other bodies responsible for fulfilling the risk management, oversight, and compliance functions. The Audit Committee holds regular meetings with the teams of the independent auditor, the Audit Director, and other Company management.

### Internal Audit

The Audit Committee is responsible for monitoring the operation and evaluating the efficiency of the internal audit function. The Committee ensures this by discussing significant matters with the Audit Director, approving the annual internal audit plan, and reviewing reports on conducted audits, which contain the main conclusions and recommendations, as well as the report on the activities of the Audit Department. The Audit Committee, which assessed the effectiveness of the internal audit, was satisfied with the quality of the services provided by it.

Reports on monitoring the execution of the Internal Auditor's recommendations are submitted to the Committee to ensure that the actions taken by the executive management are efficient.

In an effort to ensure independence, the Audit Director reports directly to the Board of Directors. The Audit Director has the right to raise any matter that they deem to be important, and meets with the external auditors as required.

The Internal Audit undergoes regular quality self-assessment, and independent external assessment. The results of these assessments are submitted to the Audit Committee for consideration.

### External audit

Technologies of Trust Audit JSC (formerly PricewaterhouseCoopers Audit JSC, hereinafter TeDo) is the Group's auditor. From time to time, Group entities engage TeDo for the provision of non-audit services. NLMK management has concluded that such services do not impair the auditor's independence and are not related to financial statements preparation. In 2022, the share of non-audit services was at an acceptable level of no more than 13% of the total services provided by TeDo. TeDo regularly rotates key audit staff (at least once every seven years) to ensure compliance with independence requirements.

### HUMAN RESOURCES, REMUNERATION AND SOCIAL POLICY COMMITTEE

[GRI 2-20] The main purpose of the Human Resources, Remuneration and Social Policy Committee is conducting preliminary reviews and developing recommendations for the Board of Directors to ensure the efficient operation of its decision-making on the following issues:

- ▶ Appointment of members of the Company's management and other key employees and the training of succession candidates for their positions.
- ▶ Performance assessment of the Company's management and other key employees.
- ▶ Remuneration of the Company's management and other key employees.
- ▶ Social policy of the Company.

The Human Resources, Remuneration and Social Policy Committee is chaired by an independent director. Most of the Committee members are also independent directors. The Human Resources, Remuneration and Social Policy Committee includes an independent director who is knowledgeable in matters concerning motivational management and personnel administration.

In 2022, the Human Resources, Remuneration and Social Policy Committee continued to analyse and evaluate the implementation of the Company's HR Strategy,

the performance of key executives, and the execution of the Committee's instructions.

The Committee continued its systematic succession planning efforts for the position of CEO. Several documents were approved and recommendations were given to the Board of Directors, including those related to the Board of Directors' succession.

### Corporate Secretary

NLMK's Corporate Secretary ensures day-to-day interaction with shareholders, coordinates the Company's activities to protect shareholders' rights and interests, and supports the efficient operation of the Board of Directors.

The Corporate Secretary's activities, rights, and obligations are fixed in the Regulations on the Corporate Secretary, developed in accordance with the recommendations of the Corporate Governance Code of the Bank of Russia. The Corporate Secretary is also in charge of the induction of newly elected members of the Company's Board of Directors, corporate governance in the Group's subsidiaries and affiliates, working with insiders, and registering affiliates of the Group's companies. All these functions enable the establishment of a dynamic and balanced corporate governance system that ensures efficient interaction between the Company's shareholders, Board of Directors, and management.

Functionally subordinate to the Board of Directors and administratively to NLMK's CEO, the Corporate Secretary is appointed and dismissed by the CEO based on a resolution from the Board of Directors.

The Corporate Secretary oversees the Corporate Secretary's Office.

### Management Board

#### MANAGEMENT BOARD PROCEDURES

The Management Board is in charge of managing the Company's day-to-day operations and implementing the approved strategy and specific resolutions of the General Meeting of Shareholders and the Board of Directors.

The main objective of the Management Board is to ensure that the Company is operating efficiently. In its efforts to reach this objective, the Management Board is guided by the following principles:

- ▶ Efficient and objective decision-making that favours the interests of the Company and its shareholders
- ▶ Fair, timely, and efficient execution of the resolutions of the General Meeting of Shareholders and the Board of Directors
- ▶ Cooperation with trade unions of the Company's employees to engage with the employees
- ▶ Cooperation with government agencies and local authorities on the most important issues

The list of issues in the Management Board's remit is regulated by the NLMK Charter and [Regulations on the Management Board](#), which are available on the Company's website. [GRI 2-12]

NLMK Group's Management Board consisted of seven members as of 31 December 2022.

**ACTIVITIES OF THE MANAGEMENT BOARD IN 2022**

The Management Board functions in accordance with the approved meeting plan or as necessary. CEO determines the format of the Management Board's meetings.

In 2022, the Management Board held 37 meetings, including 11 by absentee ballot. The following issues were considered at these meetings:

- ▶ Achievement of the Group's targets and status of the development programme on occupational health and safety
- ▶ Execution of NLMK Group's budget
- ▶ Implementation of the strategy regarding operational efficiency, investment programme, and sales portfolio management
- ▶ HR and Social Strategy implementation
- ▶ Development programmes for functional areas and production facilities
- ▶ Development avenues and projects
- ▶ The Group's participation in and withdrawal from other companies, defining position on participation of subsidiaries in other companies
- ▶ Recommendations to the governance bodies of subsidiaries

NLMK Management Board members had no conflict of interest in 2022. [GRI 2-15]

The Company has no particular share ownership requirements for the CEO (Chairman of the Management Board) and other Management Board members.

**CEO (Chairman of the Management Board)**

The CEO (Chairman of the Management Board) is the permanent sole executive body, whose main responsibility is to manage the Company's day-to-day activities, arrange for the execution of resolutions passed by the General Meeting of Shareholders and the Board of Directors, organize the work of the Management Board, and ensure the timely adoption of resolutions by the Management Board.

The rights and obligations of the CEO are outlined in the existing legislation of the Russian Federation as well as the CEO's contract with the Company.

The CEO is elected by the General Meeting of Shareholders for a period lasting until the next Annual Meeting unless otherwise stipulated by the resolution of the General Meeting of Shareholders.

According to the prevailing corporate documents, the CEO cannot simultaneously be the Chairman of the NLMK Board of Directors.

**Remuneration policies for members of governing bodies**

The level of remuneration the Company pays to members of governing bodies is sufficient to attract, motivate, and retain persons with the expertise and qualifications NLMK seeks.

**APPROACH TO REMUNERATION AND REIMBURSEMENT PAID TO MEMBERS OF THE BOARD OF DIRECTORS [GRI 2-19] [GRI 2-20]**

The Company's remuneration policy for members of the Board of Directors serves to align the financial interests of directors with the long-term financial interests of shareholders.

Members of the Board of Directors are paid remuneration during the period in which they perform their duties, and they also receive reimbursement of expenses related to the performance of their duties. The Regulations on Remuneration of Members of the Board of Directors, approved by the General Meeting of Shareholders, establish the amount of remuneration and determine the terms and conditions as well as the procedure for remuneration payment. The Regulations are available on the Company's official website.

The Regulations contain transparent mechanisms for determining the amount of remuneration paid to the Board members and govern all types of compensation, benefits, and privileges offered to them.

Remuneration is paid to members of the Board of Directors for exercising their rights and duties reasonably and faithfully in the interests of the Company. It consists of basic remuneration and a bonus.

Members of the Board of Directors are entitled to basic remuneration if they participated in over half of the Board meetings over the reporting period.

Members of the Board of Directors are also paid for chairing the Board, as well as for being a member or Chair of one or more Board committees.

A member of the Board of Directors may receive a bonus that shall not exceed the amount of two basic remuneration packages. The amount of bonuses is determined based on the member's contribution to the work of the Board of Directors and its committees and the recommendations of the Human Resources, Remuneration, and Social Policy Committee.

Remuneration is paid based on a resolution of NLMK's General Meeting of Shareholders. Regulations on the Remuneration for Members of the NLMK Board of Directors outline the rules for reimbursing Board members' work-related expenses. The following expenses are considered to be reimbursable:

- ▶ Transportation expenses of Board members incurred while travelling to and from meetings
- ▶ Accommodation costs incurred while attending meetings
- ▶ Representation expenses
- ▶ Costs associated with obtaining the professional advice of experts on issues under consideration at Board meetings

The maximum amount of a Board member's expenses reimbursed by the Company during the reporting period is determined by a resolution of the General Meeting of Shareholders and shall not exceed the amount of the basic remuneration package. Compensation shall only be paid if the Board member participated in more than half of its meetings.

The Company does not have other forms of remuneration, including short-term or long-term incentive programmes that depend on financial performance, or stock option programmes.

### APPROACH TO REMUNERATION AND REIMBURSEMENT PAID TO MEMBERS OF THE MANAGEMENT BOARD AND OTHER TOP EXECUTIVES [GRI 2-19]

The material interest of members of the Management Board in achieving the Company's strategic goals is ensured by short-term and long-term incentive systems. Short-term motivation system is based on the current system of key performance indicators (KPIs). The amount of bonuses paid to the members of the Board depends on their KPIs. The variable part of remuneration for Management Board members amounts to approximately half of the total yearly remuneration.

The KPIs used to determine rewards for senior management are related to NLMK's financial and operating performance and are intrinsically linked to shareholder value. They include operational performance, social responsibility and occupational safety, ecology and energy efficiency, and organizational development indicators.

KPIs for the CEO include annual financial indicators, as well as long-term indicators of NLMK's strategy implementation, such as achieving the sustainable development targets. For example, the weight of the LTIFR indicator is 10% of the CEO's annual compensation.

Top executives including heads of NLMK Group's main production sites, have KPIs related to reducing air emissions and CO<sub>2</sub> emissions, as well as increasing the share of recycled waste. In addition, energy efficiency KPIs are set for the relevant executives, including heads of sites and the Vice President for Energy and Environment. For top executives, KPI data is recorded as financial gains from implementing the corresponding operational efficiency projects. The KPIs of all top managers include targets for the injury rate reduction and OHS-related indicators.

The Company also has a long-term incentive programme for members of the executive bodies and other senior executives. The current programme adopted in March 2019 covers the 2019–2023 strategic cycle.

Long-term incentive programme payments depend on attainment of NLMK's strategic goals on the five-year horizon. 50% of the payment depends on achieving structural effect of the Company's strategy, while the other 50% — on achieving the target value of the Company's EBITDA over the five-year horizon.



# COMPLIANCE AND CORPORATE ETHICS

## NLMK Group's Code of Corporate Ethics [GRI 2-23]

The Company believes that by communicating honestly and openly with business partners and the public, adhering to best practices in corporate governance and business ethics norms, and maintaining its corporate culture, NLMK Group reinforces its business reputation and position on the global steel market. With this in view, NLMK Group not only observes the applicable legislative provisions, but also establishes and adheres to additional ethical principles and rules of business practice.

The [Code of Corporate Ethics](#) approved by the Board of Directors in 2018 is a public document available on the Company's official websites.

All Company employees review the Code when joining the Company and undergo regular training.

NLMK Group developed an on-line course on the Code and the [Anti-Corruption Policy](#), which over 5,000 Company employees took in 2022. Knowing and complying with the requirements of the Code is an obligation for all Company employees, which is included into all job descriptions as a standard requirement. Moreover, questions assessing knowledge of the Code were included in the assessment of employees' professional competencies, which is conducted once every three years. In 2022, 908 employees were assessed for the Corporate Business Conduct crosscutting competence.

The Company also expects adherence to basic values and principles of good business conduct not only from its employees, but also from its business partners. In 2022, the Company approved the [Partner Code of Business Conduct](#), which sets out the Company's main requirements for counterparties in terms of respect for human rights,

### Basic ethical values set in NLMK Group's Corporate Ethics Code

Human rights	NLMK Group acknowledges the inviolability of human rights, prohibits human rights violations, and builds up its decision-making system in line with the <a href="#">NLMK Group Human Rights Policy</a> approved by the Chairman of the Management Board in 2018
Compliance with the legislation	NLMK Group and its employees meet the requirements of Russian and other applicable legislation, industrial and corporate regulations, standards, and procedures
Transparency and honesty	NLMK Group honours its obligations towards its counterparties and employees, maintains its reputation as a reliable business partner, and ensures the transparency of transactions and operations
Efficiency	NLMK Group strives for continuous improvement of the efficiency of its business, e.g. by improving the corporate governance system, streamlining production processes, and introducing innovative technologies
Mutual respect and professionalism	NLMK Group employees are one of the Company's basic values, with their competence, trust, friendliness, cooperation, and team spirit enabling the Group to reach its objectives and ensure sustainable development
Safety and social responsibility	NLMK Group ensures that all its production processes comply with occupational health and safety requirements, adheres to the policy of social responsibility before its employees and the population of the regions where the Company operates, and takes environmental protection measures

anti-corruption measures and preventing conflicts of interest, fair competition, labour protection and industrial safety, as well as other requirements in the most significant areas for the Company. Six webinars were held in 2022, which were attended by 200 representatives of the Company's suppliers and contractors in order to inform the partners about the requirements adopted by the Company.

The Company's business partners familiarize themselves with the provisions of the Code during qualification, counterparty selection, and contract conclusion. Thus, in 2022, over 2,000 organizations confirmed their familiarization with the requirements of the Partner Code of Business Conduct and compliance with it.

In addition, the Group requires its business partners to sign the Anti-Corruption Provisions adopted in the Company.

### Compliance system

In 2022, the Company continued actively developing its compliance system, which aims to ensure that NLMK's operations comply with applicable legislation and internal documents.

The unified compliance system covers the following areas:

- ▶ Anti-corruption compliance
- ▶ Antitrust compliance
- ▶ Personal data protection
- ▶ Insider compliance
- ▶ Intellectual property risk management

Established in 2020, the Compliance Unit implements anti-corruption and antitrust compliance programmes and coordinates the introduction and operation of the compliance system as a whole. The Compliance Unit reports directly to the Vice President for Legal Issues and Risk Management.

Compliance related to personal data, insider information legislation, and intellectual property risk management is curated by the corresponding functional areas. Each of them implements its own system of measures for managing corresponding compliance risks.

Regardless of the area, NLMK Group's compliance system particularly emphasizes measures for developing a compliance culture where employees act ethically and in good faith, both within the Company and in relations with other stakeholders. To this end, the Company introduced an independent compliance hotline available to any interested party willing to report a non-compliance.

### NLMK GROUP'S INDEPENDENT COMPLIANCE HOTLINE.

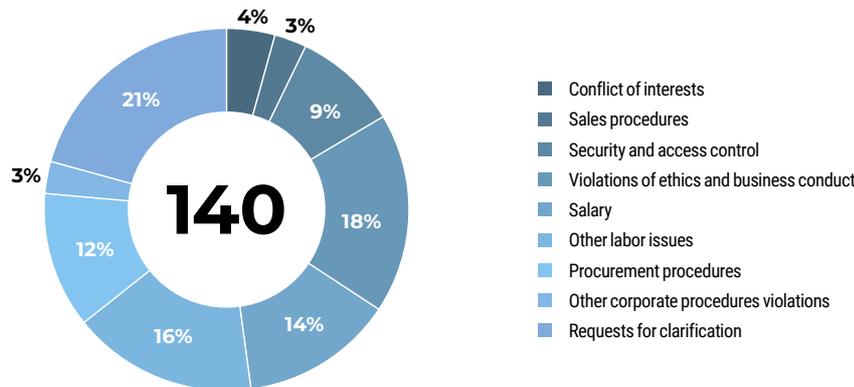
[GRI 2-26] Since 2022, the independent compliance hotline covers not only Russian but also foreign sites of NLMK Group. Highly reputable operators both in Russia and abroad are engaged as independent hotline operators.

In 2022, internal documents were developed for both Russian and foreign sites of NLMK Group fixing the operation procedure for independent compliance hotline channels including non-retaliation guarantees. [GRI 2-25] In line with the specified documents:

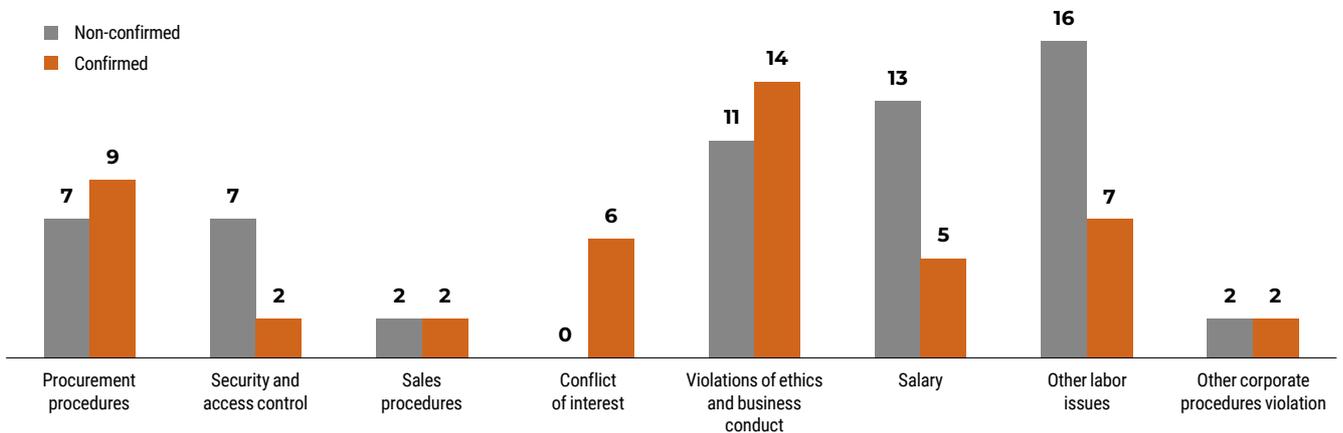
1. The hotline accepts information about any event within NLMK Group's activities that are considered illegal by the caller in good faith including violations of applicable law, and any types of corruption and fraud, as well as violations of the Company's corporate documents, including the Corporate Ethics Code, Anti-Corruption Policy and Human Rights Policy.
2. Any caller can contact the compliance hotline including employees of NLMK Group sites, counterparties and any third parties.
3. For each piece of information received by the compliance hotline, a reliability check is carried out; the results of such checks are recorded in a dedicated information system and brought to the attention of the caller.
4. The Company strictly adheres to the non-retaliation principle: anyone who has reported a violation in good faith is protected from any form of pressure, harassment, and discrimination.

Independent compliance hotline statistics

Reasons for whistleblowing



Confirmed and non-confirmed cases (for 105 calls with completed investigation excluding the clarification requests)



Anti-corruption practice (compliance)

In its day-to-day operations, NLMK Group is guided by high ethical standards, principles of business transparency, and zero tolerance for corruption in any form or manifestation, as well as the stipulations of international and regional documents, such as the United Nations Convention against Corruption. The Company engages in targeted work to prevent and counteract corruption and fraud. The matter of timely detection and response to wrongdoings is in the area of constant attention of the Company’s management.

NLMK Group’s anti-corruption compliance programme aims to prevent and detect corruption in due time by integrating and developing:

- ▶ The internal control system
- ▶ The corporate culture of zero tolerance for corruption
- ▶ The effective use of feedback mechanisms in the Company for reporting instances of corruption

The new version of the Anti-Corruption Policy approved in 2021 by the Board of Directors bans financing political parties and other participation of the Company in political activities.

The Compliance Unit is responsible for ensuring that employees are aware of the anti-corruption requirements

by regularly publishing them on the internal portal and in printed editions of the NLMK Company corporate magazine and Nash Kombinat (Our Plant) corporate newspaper, publishing printed leaflets on information board at production sites, and also in the form of videos with the participation of senior management on NLMK TV.

Thus, in December 2022, the Company’s corporate portal hosted a competition for anti-corruption interpretations of paintings by artists and an anti-corruption quiz dedicated to the UN International Anti-Corruption Day.

Risks associated with corruption and fraud are identified, analysed, and assessed at all levels of management and at all Group’s companies [GRI 205-1].

Thus, every two years the Company assesses corruption risks inherent in certain positions/powers of employees. After the assessment, a list of activity areas/positions of employees that carry risks of corruption and fraud is compiled. Exposed employees are required to declare conflicts of interest or absence of such conflicts annually including confirmation of compliance with the anti-corruption requirements in the previous period, and passing additional training on the Anti-Corruption Policy.

The distribution of responsibilities and powers between the Company’s units in the anti-corruption system is enshrined in the Appendix to the Anti-Corruption Policy.

The Audit Committee of the Board of Directors, the CEO (Chairman of the Management Board) and the Risk

Management Committee of the Management Board all play a key role in establishing an operating anti-corruption system that functions efficiently.

In addition, the Audit Committee regularly considers the results of specific processes audits including the corruption and fraud risks assessment. The Risk Management Committee deals with issues of corruption risk identification and assessment, approval and control of the efficiency of corruption risk management measures. In 2022, the Risk Management Committee approved a new version of the list of activity areas\positions of employees exposed to corruption and fraud risks.

CEO appoints the person responsible for anti-corruption in the Company and is responsible for the overall control of the implementation of anti-corruption measures. The Vice President for Legal Issues and Risk Management has been appointed as the person responsible for anti-corruption activities. Compliance Unit directly reports to the Vice President and takes responsibility for implementation of anti-corruption programmes in line with the Anti-Corruption Policy and the annual anti-corruption compliance action plan. The Compliance Unit interacts with related structural units responsible for security, human resources and personnel management, risk management and internal audit.

**INTERNAL CONTROL AND PROCEDURES FOR MANAGING CONFLICTS OF INTEREST**

Corruption and fraud risks at the level of specific processes are managed as part of the procedures of the overall internal control system in the Company, which include procedures at the hiring stage, checks and monitoring of counterparties in procurement activities, when effectuating payments, in processes related to event organization and hospitality expenses, and other processes.

The assessment of corruption risks in third-party relations is part of the contractor and supplier qualification procedure. All qualified partners of the Company confirm their familiarization with the requirements of the Partner Code of Business Conduction and the Anti-Corruption Policy and undertake to comply with the above.

In 2022, audits of the Group potential counterparties resulted in a rejection of close to 400 counterparties during the qualification procedure due to non-compliance with corporate security requirements. NLMK Group’s contract approval process was supplemented with compliance control to ensure that the Company contracts contain the anti-corruption provisions.

In 2022, a new Regulation on the Conciliation Committee was approved. The Committee includes representatives of the Compliance, Security and Risk Management Units and is chaired by the Legal Affairs Director. An employee from the Compliance Unit was appointed Secretary of the Conciliation Committee. The Committee makes decisions on counterparty’s qualification status based on, among other things, confirmed violations of the requirements adopted by the Company in the field of corporate ethics and anti-corruption.

**MANAGING CONFLICTS OF INTEREST**

In 2022, a new version of the Regulations on Preventing, Disclosing and Managing Conflicts of Interest was developed fixing the procedure for conflicts of interest declaration for the following categories of employees:

- ▶ New employees during probation
- ▶ Employees exposed to corruption and fraud risk (annually)
- ▶ All other employees in the event of a situation stipulated by the Regulations (self-declaration).

As part of the declaration, employees must confirm the presence or absence of situations bearing the risk of conflicts of interest listed in the Regulations. These situations include, but are not limited to, ownership of shares or stakes in the charter capital of counterparties of NLMK Group companies. In accordance with the new Regulations on Conflict of Interest, the list of situations subject to reporting has been expanded to include the presence of any related parties in NLMK Group’s counterparties.

In addition to the list of situations to be disclosed by all employees, members of the Company’s governing bodies additionally disclose information about participation in the management bodies of any third-party organizations.

All types of declarations are carried out in the Conflict of Interest Declaration e-service. As part of these procedures of declaring conflicts of interest, employees also confirm that they adhere to the NLMK Group Corporate Ethics Code, Anti-Corruption Policy, and Regulations on Preventing, Disclosing and Managing Conflicts of Interest.

In 2022, more than 7,500 employees filled in the conflict of interest declaration and certified compliance with the internal documents, including 100% of employees classified as members of the Company’s governing bodies.

As a result, 32 cases of actual conflict of interest and 74 cases of potential conflict of interest were detected.

As of the reporting date, 26 out of 32 cases of actual conflict of interest were settled; for the rest, settlement is in progress. All cases of a potential conflict of interest are monitored in the security service information system.

**FOSTERING ANTI-CORRUPTION CULTURE [GRI 2-24]**

The Company dedicates particular attention to integrating a culture of zero tolerance for corruption via a programme for training and informing employees about NLMK Group’s behaviour standards, including management example (“tone of voice”). In 2022, the Company management made five communications about anti-corruption and countering fraud, including the addresses of the Vice President for Procurement, Corporate Secretary, the Vice President for Operations Digitalization, and the Vice President for Legal Issues and Risk Management. Information about the Company’s behaviour standards is communicated to employees via the following channels:

- ▶ The welcome email that every new employee receives
- ▶ Publications in blogs and the feed on the internal portal
- ▶ Videos on NLMK TV
- ▶ Publications in the NLMK Company corporate magazine and Nash Kombinat corporate newspaper
- ▶ Speeches by representatives of the Compliance Unit at strategic sessions.

In 2022, over 30 publications on compliance and anti-corruption were made through corporate communication channels.

Moreover, all employees of the highest management level are required to be familiarized annually with the Company’s anti-corruption policies and practices as part of the annual conflicts of interest declaration procedure. [GRI 205-2]

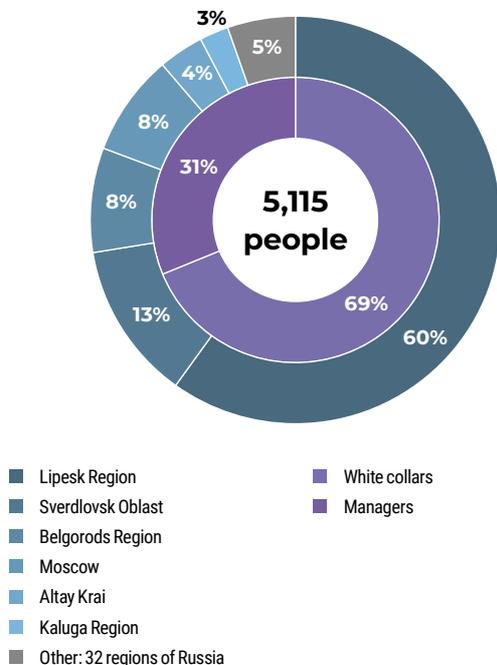
## CORPORATE GOVERNANCE

In addition to informing, the Company also has a programme for training employees in anti-corruption requirements that covers:

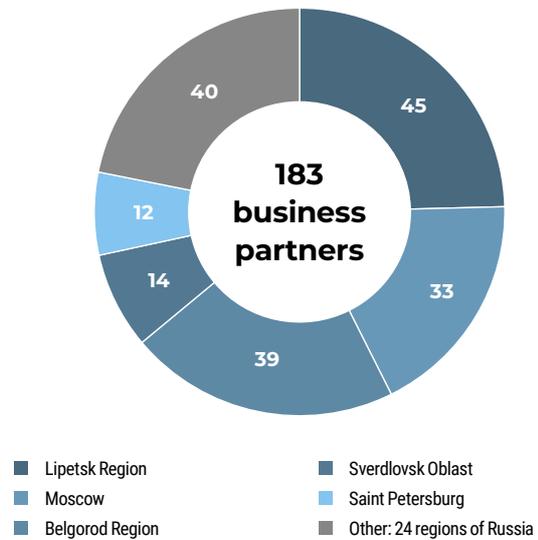
- ▶ Employees exposed to corruption risks (trained annually, alternating webinars and e-courses)
- ▶ All other managers and experts (take the anti-corruption e-course every other year). In 2022, 5,115 exposed employees (11% of the average headcount) took the anti-corruption e-course.

In addition to developing a compliance culture in the Group, NLMK is also taking steps to inform and train its partners in the anti-corruption requirements that the Company abides by. In 2022, training on anti-corruption requirements in the form of trainer-led webinars was held for 256 representatives of 183 business partners of the Company. [GRI 205-2]

### Employee training in 2022 by regions and management status



### Business partners' training in 2022 by regions



## Antitrust compliance

[GRI 206-1] In 2022, the Company continued developing the system ensuring compliance with the requirements of an antimonopoly legislation (antitrust compliance) to address the development of the regulatory law enforcement practices.

Key changes in 2022:

- ▶ Head of the Compliance Unit was appointed responsible for antitrust compliance in the Company
- ▶ A procedure was introduced to identify and address cases of potential exchange of information with the Company's competitors to prevent the risks of cartel agreements
- ▶ Over 500 employees of the dedicated departments were trained through trainer-led webinars in line with the previously approved training programme on antimonopoly requirements

Monitoring of actual changes in antimonopoly legislation and law enforcement practice was introduced with four reference and analytical reports prepared and brought to the attention of employees of the dedicated departments.

## EFFICIENCY ASSESSMENT AND AUDIT

The Compliance Unit regularly assesses the efficiency of the anti-corruption compliance programme and provides information to the person responsible for anti-corruption efforts. Reports on the overall operation of the compliance system are presented to the CEO annually.

The anti-corruption and fraud system efficiency is assessed during internal audits. Thus, in 2022, the Internal Audit conducted audits of individual processes of the Procurement and Logistics Functional Areas and issued recommendations aimed at improving the processes, including, among others, the ones combating corruption and fraud.

In 2022, external experts audited the Company's anti-corruption compliance system. As a result of the audit, NLMK Group was rated as Class A2 — Companies with a high level of anti-corruption compliance.

## Plans for 2023 and the medium term

In 2023, the Company plans to continue developing its compliance system, including compliance programmes for specific areas. The planned actions include:

- ▶ Approval of the new Code of Ethics and Business Conduct by all NLMK Group companies
- ▶ Implementation of training programmes and informing employees of all NLMK Group companies about the ethical standards adopted by the Group and the operation of compliance hotline channels
- ▶ Improvement of procedures related to the qualification and selection of counterparties
- ▶ Further development of the Company antimonopoly compliance programme
- ▶ Implementation of new intellectual property protection compliance programmes

# OPERATIONAL CONTROL AND RISK MANAGEMENT

As a major international steel producer, NLMK is subject to a variety of operational risks, which could have a negative impact on the Group's business and on our stakeholders if materialized. In order to safeguard shareholder value and ensure sustainability, we employ the latest operational control and risk management practices and methods. NLMK Group's approach to operational control is based on a clear segregation of authority and functions between the entities involved in its Internal Control and Risk Management System; it also provides for 'three lines of defence' and four levels of management. Control procedures apply to the Group's Russian and international operations, and are an integral component of key corporate decision-making activities and processes.

## Internal Control and Risk Management System

The internal control and risk management system employed by NLMK is designed to ensure reasonable certainty that the Group's strategic and operational goals will be achieved, to create and protect value for the Group, and to ensure sustainable development by rapidly identifying, assessing, and effectively managing risks and opportunities. The NLMK Board of Directors, which determines the principles and approaches to the organization of the risk management system and regularly reviews

reports on the status of the Company's risks, plays a key role in the risk management process. The Internal Control and Risk Management Department functions as a separate structural unit within NLMK. Its goals and objectives include analysing risks associated with key business processes, ensuring that risk management processes are effective, implementing monitoring procedures, and developing a corporate culture of risk awareness.

## Our approach to risk management

Risk management is a continuous process that aims to reduce risk to an acceptable level and prevent events that could have a negative impact on NLMK achieving its business goals. The Group is committed to effectively and proactively managing risks and opportunities on a day-to-day basis and to the ongoing development of a risk-awareness culture.

NLMK's internal control and risk management system was developed to take into account the challenges posed by the external environment and in accordance with the principles set forth in international risk management standards, including ISO 31000:2018 and COSO ERM:2017. NLMK's key internal document in risk management is the Internal Control and Risk Management Policy, approved by the Board of Directors. Internal documents have also been developed for managing individual risk categories, which are of relevance to the Group.

## Division of internal control and risk management functions among corporate governance system participants

PARTICIPANT	KEY FUNCTIONS
<b>Level I</b>	
Board of Directors	<ul style="list-style-type: none"> <li>• Defines principles for and approaches to the organization of the internal control and risk management system</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>• Monitors the reliability and effectiveness of the internal control and risk management system</li> <li>• Monitors procedures to ensure the Group's compliance with legislative and trade exchange requirements, and with corporate ethical standards, rules, and procedures</li> <li>• Carries out analysis and assessment of execution of the conflict of interest management policy</li> <li>• Oversees compliance with policies and operational controls over environmental and social risks, as well as occupational health and safety risks</li> </ul>

PARTICIPANT	KEY FUNCTIONS
<b>Level 2</b>	
Management Board	<ul style="list-style-type: none"> <li>● Determines risk management strategy and approves critical risk management measures</li> <li>● Ensures the effective functioning of the Internal Control and Risk Management System</li> </ul>
Management Board Risk Management Committee	<ul style="list-style-type: none"> <li>● Approves the principles, strategy, and regulatory instruments for risk management processes and the internal control system</li> <li>● Regularly reviews the Company's risk map (a list of significant risks, indicating their weight and trends for a certain period) and ensures the overall monitoring of the implementation of risk management measures</li> <li>● Approves and performs general monitoring of risk management measures</li> <li>● Regularly reviews the results of an analysis and assessment of the internal control system, approves and ensures the general monitoring of the implementation of measures to enhance the system</li> <li>● Ensures the overall organization of activities to enforce the Corporate Ethics Code and Anti-corruption Policy</li> <li>● Regularly reviews reports on anti-corruption issues</li> <li>● Coordinates the work of subdivisions participating in the risk management process and internal control system</li> </ul>
Investment Committee	<ul style="list-style-type: none"> <li>● Provides general control over the magnitude of risks and over the selection, implementation, and inclusion into the budget of investment project risk management measures</li> </ul>
<b>Level 3</b>	
<ul style="list-style-type: none"> <li>● Internal Control and Risk Management Department</li> <li>● OHS (see the OHS section for more details)</li> <li>● Environment and Climate (see the Environment and Climate Change sections for more details)</li> <li>● Legal Support</li> <li>● Compliance (see the Compliance section for more details)</li> <li>● Corporate Security</li> <li>● Financial Controlling</li> <li>● Information Security (see the Information Security section for more details)</li> </ul>	<ul style="list-style-type: none"> <li>● Ensures assessment and regular monitoring of the level of risks taken and assessment of the efficiency of management activities</li> <li>● Coordinates and provides methodological support for risk management process</li> <li>● Drafts regulatory and methodological documents concerning risk management and internal control</li> <li>● Records and processes incidents associated with deviations in the internal control system and risk management, plans and monitors corrective measures</li> <li>● Systematically looks into the risk coverage by the internal control system in cooperation with line managers, plans and monitors the implementation of corrective measures</li> <li>● Builds system for effective internal communication about risks</li> <li>● Increases the Company's resilience to business interruptions</li> <li>● Ensures effective response and business recovery after interruptions</li> <li>● Ensures compliance of NLMKs operations to the relevant legislation and internal documents</li> <li>● Promotes and assesses the effectiveness of measures to counteract corruption and fraud implemented in accordance with the Groups anti-corruption policy</li> <li>● Creates a risk-awareness culture</li> </ul>
<b>Level 4</b>	
Risk owners (business subdivisions)	<ul style="list-style-type: none"> <li>● Risk identification</li> <li>● Implement risk management measures</li> <li>● Monitor key risk indicators (KRIs)</li> </ul>
Internal Audit	<ul style="list-style-type: none"> <li>● Assesses the reliability and effectiveness of internal control and risk management and evaluates the corporate governance system with a view to providing independent and objective guarantees and consultations to the Board and the CEO</li> <li>● Provides advice and recommendations, promotes knowledge sharing</li> </ul>



The Risk Management Committee of the Management Board is an important link in the internal control and risk management process. During its meetings, it conducts a detailed review of changes in the Company's risk profile, issues related to the functioning of the risk management system, and methodological approaches to risk management. The Management Board and the Board of Directors review the map of significant risks to which NLMK is exposed on an annual basis and take into account information on current and emerging risks in the course of decision-making.

NLMK's functional units work on identifying and responding to risks that are relevant to their operations with methodological support from the Internal Control and Risk Management Department. The Department monitors the effectiveness of the measures used to manage risks as part of an analysis of management reporting from risk-owning functional units; this includes operational data at the business process level on current and planned KRI values, the status of risk management measures, and risks that have materialized.

NLMK is committed to the continuous development of its corporate risk management culture, which aims to identify and respond to risks in a timely and effective manner. With this aim in mind, the management regularly emphasizes the importance of risk management in internal corporate communications. Systematic training in managing individual risk categories and integrating risk management into the daily activities of the Group's also help to develop a risk-awareness corporate culture.

Assessing the probability and impact of risks is one of the most crucial factors in making informed management decisions. To this end, NLMK utilizes modern risk analysis practices and tools. By applying specially developed methods for assessing individual risk categories, anticipated losses and the probability of risk materialization can be determined with a very high degree of precision, and effective risk management measures can be developed.

The majority of significant risks to which NLMK is exposed are assessed on a quantitative basis, which leads to better-informed management decisions. The Group assesses significant risks using scenario analysis models and stress testing.

Risk management requires specific knowledge and often involves data processing and modelling. In order to cope with specific local tasks in business units, the Risk Lab competence centre was created in 2020, which develops innovative methods and tools for quantifying risk and making decisions in conditions of uncertainty to contribute to the continuous improvement of the risk management methods.

The Company regularly monitors the effectiveness of its internal control and risk management system and implements measures to improve it.

## Risk map

The Company has developed a Risk Map to rationalize its approach to identifying, analysing, and monitoring risks and drawn up a list of salient (critical) risks. This list covers both financial and non-financial risks, which, according to the Group's estimations, are highly likely to materialize or may have a big impact on the Company's operations. Analysing critical risks and monitoring the implementation of measures to manage risks of this kind are a continuing priority for the NLMK Group management team. The Risk Map is regularly updated to reflect the strategy, changing operations, and external context.

In 2022, the major changes in the Risk Map were related to external factors: supply continuity risks increased triggering risk exposure of the investment projects management and IT&IS. The Company developed a list of measures to ensure business continuity, and analysed the IT&IS risk profile. The Group continues to pay particular attention to occupational safety and the social well-being of employees.

## Significant risks

<b>OCCUPATIONAL AND INDUSTRIAL SAFETY RISKS ↗<sup>1</sup></b> Risks of industrial and fire safety, risks of emergencies, occupational risks.	
<b>Why is this risk important?</b> NLMK Group is a manufacturing company. The Company's activities involve operating hazardous production facilities and using a large amount of mechanical equipment, which creates risks related to the health of employees and contractors (one of the key human rights risks), as well as the risks of accidents, fires, equipment breakdown, the decay of buildings and structures, floods, and other natural disasters.	
Potential risk factors	Current risk management measures
<ul style="list-style-type: none"> <li>● Design and operational errors</li> <li>● Poor and untimely maintenance</li> <li>● Hidden defects</li> </ul>	<ul style="list-style-type: none"> <li>● In-depth survey of buildings and structures and development of relevant repair programmes</li> <li>● Industrial safety expert review process</li> <li>● Fire safety programme based on the results of an external fire risk assessment</li> <li>● A new format of fire work permit, including risk assessment and control at all stages of work</li> <li>● Internal cross-audits on fire safety</li> <li>● Regular audits of the state of production facilities (observations, inspections, surveys)</li> <li>● Updated cardinal safety rules for employees and contractors</li> <li>● New injury prevention programmes, including LOTO (the procedure for using energy sources for the safety of workers during maintenance, repair or cleaning of equipment), safety at height, eye protection, etc.</li> <li>● Pre-work hazard analysis and dynamic risk assessment</li> <li>● Developing a response system for emergency medical care, medical evacuation, first aid, and resuscitation, including employee training</li> <li>● Introducing electronic work permits for hazardous operations</li> <li>● Mobile app for risk registration</li> </ul>
<b>HEALTH &amp; SAFETY RISKS →</b> Risks of occupational diseases, epidemiological risks	
<b>Why is this risk important?</b> Due to the specifics of the company processes, the operations at the Group's sites are associated with the impact of harmful factors. In organizing production, the company prioritizes the health and safety of its employees above all. The management of NLMK monitors and reduces risks associated with hazardous working conditions, increasing safety levels at the sites of every NLMK company year-on-year.	
Potential risk factors	Current risk management measures
<ul style="list-style-type: none"> <li>● Harmful working conditions</li> <li>● Poor quality of mandatory medical check-ups, emergency medical aid, first-aid training</li> <li>● Seasonal epidemiological risks</li> </ul>	<ul style="list-style-type: none"> <li>● Early diagnosis and prevention of diseases, development of a conscious attitude of employees to their health, voluntary medical insurance, insurance against accidents and critical illnesses, health resort treatment</li> <li>● Ensuring the availability of high-quality food and dietary regime</li> <li>● Upgrading corporate medical institutions (purchase of medical equipment, training of medical personnel)</li> <li>● Voluntary vaccination against seasonal flu and pneumococcal infection in all regions where the company operates</li> <li>● Handing over medical diagnostic and therapeutic equipment to medical facilities in the regions where the company operates</li> <li>● Additional payments to medical workers' payroll, organizing catering for them</li> <li>● Training workers in latest first aid algorithms</li> <li>● Using quality personal protective equipment</li> </ul>

<sup>1</sup> Risk trend compared to the previous year → – risk increased; ↘ – risk reduced; → – no changes.

<p><b>ENVIRONMENTAL RISKS →</b> Risks associated with events caused by NLMK Group's operations, which may impact the environment. Risks associated with the impact of the environmental situation on the activities of the Group's enterprises<sup>2</sup>.</p>	
<p><b>Why is this risk important?</b> The materialization of environmental risks may result in serious consequences for the Group's financial performance, reputation, and operational efficiency, and business continuity. A responsible attitude towards the environment and the efficient use of natural resources are the key principles of NLMK's Sustainable Development Policy. The Company objectively assesses environmental risks and strives to minimize them recognizing the right of local communities and future generations to a clean environment, and invests heavily in various environmental programmes and innovative technologies introduction. Environmental protection is a top priority of NLMK Group's activities (see the Environmental Protection section for details).</p>	
<b>Potential risk factors</b>	<b>Current risk management measures</b>
<ul style="list-style-type: none"> <li>● Environmental non-compliance of current processes</li> <li>● Changes environmental laws</li> <li>● Availability of natural resources for continuous operation</li> </ul>	<ul style="list-style-type: none"> <li>● Making sure that engineering and design are duly aligned with environmental requirements and reduce environmental impact</li> <li>● Developing, implementing and annually updating the Environmental Programme, which encompasses projects to reduce emissions, waste, negative impacts on water, land and biodiversity</li> <li>● Monitoring and maintaining the operability of environmental protection equipment through regular periodic maintenance, scheduled repairs and overhauls</li> <li>● Collaborating with government authorities by taking part in associations and offering comments on draft documents on environmental protection</li> <li>● Monitoring the availability of natural resources, regular assessment of the state of reserves and soil conditions in the locations of the Group's production facilities</li> </ul>
<p><b>CLIMATE RISKS →</b> Risks associated with the physical effects of climate change and the transition to low-carbon economy</p>	
<p><b>Why is this risk important?</b> Climate change is one of the greatest threats facing the world today, impacting society, the economy, and security globally. Climate risks can be classified as:</p> <ul style="list-style-type: none"> <li>● <b>Physical risks</b> are those related to natural phenomena, emerging due to climate change, and becoming more probable due to global warming</li> <li>● <b>Transition risks</b> are those associated with the transition to low-carbon economy. The main drivers of climate change are greenhouse gas emissions. According to various estimates, steel industry accounts for 7% to 9% of global greenhouse gas emissions.</li> </ul> <p>NLMK Group takes climate change issues very seriously and consistently reduces the carbon footprint of its products (see the Climate Change section for details)</p>	
<b>Potential risk factors</b>	<b>Current risk management measures</b>
<p>Physical risks:</p> <ul style="list-style-type: none"> <li>● Extreme risks (destructive events)</li> <li>● Chronic risks (long-term climate change)</li> </ul> <p>Low-carbon economy transition risks:</p> <ul style="list-style-type: none"> <li>● Political risks</li> <li>● Economic risks</li> <li>● Reputation risks</li> <li>● Process risks</li> </ul>	<ul style="list-style-type: none"> <li>● Making sure that engineering and design are duly aligned with climate change specifics</li> <li>● Developing the Climate Programme and implementing investment and operational projects to reduce CO<sub>2</sub> emissions.</li> <li>● Taking part in associations and working groups and offering comments on draft documents on transitioning to low-carbon economy</li> </ul>

<sup>2</sup> In this group of risks, in particular, the risks of water availability and its quality are assessed separately (see the Company website for details).

<b>IT AND INFORMATION SECURITY RISKS →</b> Disruption of business continuity due to unavailability of IT systems, data transmission network following technical and software failures, non-fulfilment of obligations by service providers, faulty or intentional actions of the company's employees, actions of third parties. Damage caused by unauthorized access of third parties to trade secrets.	
<b>Why is this risk important?</b> The Company's business processes and their efficiency directly depend on IT systems and the security of confidential information in all its forms.	
<b>Potential risk factors</b>	<b>Current risk management measures</b>
<ul style="list-style-type: none"> <li>● Targeted external attacks, viruses</li> <li>● Human error or deliberate actions of employees</li> <li>● Physical loss of infrastructure and equipment (due to accidents or natural disasters)</li> </ul>	<ul style="list-style-type: none"> <li>● Integrated information security system development programme</li> <li>● Improvement of information security processes</li> <li>● External audits for compliance with the legal requirements in the field of personal data protection and external testing of information security system stability</li> <li>● Information security incident response plans (DRP, BCP)</li> </ul>
<b>CURRENCY AND PRICE RISKS ↗</b> Risks associated with financial losses as a result of adverse changes in prices for finished products and raw materials, as well as exchange rates	
<b>Why is this risk important?</b> The key factor determining the size of the Group's revenue is global steel prices. Since most of the Group's revenue is denominated in foreign currencies and most of expenses are denominated in rubles, NLMK faces currency risk.	
<b>Potential risk factors</b>	<b>Current risk management measures</b>
<ul style="list-style-type: none"> <li>● Lower finished product prices</li> <li>● Increase in raw material prices</li> <li>● Volatile supply timeframes</li> <li>● Currency exchange rate variations affecting financial results</li> </ul>	<ul style="list-style-type: none"> <li>● Formula-based pricing, concluding long-term contracts</li> <li>● Hedging using derivative financial instruments (if necessary)</li> <li>● Hedge accounting according to IFRS standards</li> </ul>

- The Company also considers the following risks:
- ▶ Reputational risks and risks related to stakeholder engagement
  - ▶ Risks related to skills depreciation
  - ▶ Equipment failure risks
  - ▶ Inventory risks
  - ▶ Supply continuity risks
  - ▶ Liquidity risks
  - ▶ Tax risks
  - ▶ credit risks
  - ▶ Interest risks
  - ▶ Compliance risks (*see the Compliance section for more details*)

## 2022 performance

In 2022, commodity and financial markets demonstrated negative trend and increased volatility, especially in terms of foreign exchange rates. The Company had to operate in a constantly changing market and proactively respond to emerging restrictions and new conditions. At the same

time, it went on with the projects to improve the Internal Control and Risk Management System, and with developing approaches to risk management and risk culture. The Company focused on sustainability of the processes under transformation. Thus, the following key projects can be highlighted:

- ▶ Processes were adapted to changing market conditions for raw materials, equipment and finished products
- ▶ IT&IS strategy was updated to meet the increased challenges
- ▶ Production infrastructure maintaining process efficiency was improved through the introduction of more advanced diagnostic and inspection tools that allow making risk-oriented decisions
- ▶ The main physical risks and risk factors associated with climate change for the sites in the central Russia were studied. The impact of risks is taken into account when designing new infrastructure (for more details, see the Climate Change section)
- ▶ Support tools for automatic control of making decisions on transactions with deferred payment were cascaded to several sites of the Group.

## Risk strategy and plans for 2023 and the medium term

NLMK has introduced the practice of regularly updating the internal control and risk management strategy. In 2022, three main areas for developing internal control and risk management system were approved for the next two years.

### BUSINESS CONTINUITY MANAGEMENT

Systematic work on continuity management is one of NLMK's priorities in its risk minimization activities. In view of this approach, a project is underway to organize a Business Continuity Management System in accordance with the Business Continuity international standards and best international practices.

The Company is committed to prevent the negative impact of possible business interruptions due to external and internal factors, to ensure stability in crises and to fulfil its obligations to stakeholders.

In 2023, it is planned to introduce regular training on responding to negative events in the Company's key business processes.

### PROCESS MATURITY

NLMK is consistently increasing the maturity level of its internal control and risk management system to ensure achievement of project and process targets. This includes the following processes: improving existing control procedures by analysing them, identifying areas for development; redesigning controls; eliminating redundancy; developing key risk indicators and defining their boundaries; developing approaches to joint risk modelling, stress testing, and scenario analysis.

### CORPORATE CULTURE OF RISK AWARENESS

The Company is creating a risk awareness culture that meets the principles of engagement, responsibility, and risk prevention. As part of this commitment, NLMK plans to develop additional training solutions, conduct trainings, raise awareness of employees about the Internal Control and Risk Management System, as well as about communication channels.

## Internal Audit

Internal audit is a source of independent and reasonable guarantees to the Board of Directors and management. The objective is to improve the Group's performance by:

Conducting objective audits in line with the risk-based approach

Giving recommendations following the results of audits and knowledge sharing

The Group's internal audit function is built in line with legal requirements and the recommendations of professional standards, the Bank of Russia's Corporate Governance Code, and best international practices.

Internal audit is a centralized function performed by the Audit Department. It fully encompasses the core activities of NLMK Group companies, including international ones. The unified management of the internal audit allows for the use of uniform standard approaches to planning, auditing, and reporting, and ensures an effective exchange of information within the function and with key stakeholders.

The internal audit:

- ▶ Assesses the efficiency of the internal control and the risk management systems
- ▶ Assesses the Group's corporate governance
- ▶ In addition, internal audit acts as a consultative body and provides independent opinions to internal customers on certain matters concerning financial and business operations.

NLMK's internal control and risk management system is evaluated taking into account the principles set forth in international standards for risk management and internal control, including ISO 31000:2018, COSO ERM:2017, and COSO 2013.

The main internal document of NLMK Group governing the internal audit is the Regulations on the Audit Department. The Regulations are approved by the Board of Directors and are available on the Company's official website.

The Audit Director submits reports on the audit results of the effectiveness of the internal control and risk management system to the Audit Committee.

### 2022 PERFORMANCE

In 2022, internal audit continued to implement the Development Strategy approved by the Audit Committee.

The following planned activities were carried out:

- ▶ Maturity assessment of the top risk management system, incl. through preparation of guarantee maps for the key risks
- ▶ Efficiency assessment of the internal control system for end-to-end processes at NLMK Group: system of qualification, tenders, and contract approval, logistics processes management, OHS, and ferroalloy management from acceptance to consumption
- ▶ Assessment of the quality of key data in the production information systems
- ▶ Local audits of process control efficiency

### PLANS FOR 2023 AND THE MEDIUM TERM

The internal audit plans to assess the reliability of risk management and internal control for NLMK Group's key business processes according to the Internal Audit Plan, including development of the guarantee process chart as a continuous auditing tool.

## Principles of internal audit and their enforcement

Principle	Tools and mechanisms for enforcing the principles
Independence and objectivity	<ul style="list-style-type: none"> <li>● The Audit Director functionally reports to NLMK's Board of Directors.</li> <li>● The Audit Director is appointed (dismissed) by resolution of NLMK's Board of Directors.</li> <li>● The Audit Director has the right of direct and free access to the Chairman of the Board of Directors, Chairman of the Audit Committee and CEO to provide information on significant risks that have been identified.</li> <li>● Third parties are prohibited from interfering in the process and the results of the audit.</li> </ul>
Systematic and consistent approach	<ul style="list-style-type: none"> <li>● The internal audit is guided by a risk-based Audit Plan.</li> <li>● Resources are distributed between limited scope and comprehensive audits of processes in devising the Audit Plan.</li> <li>● The internal audit prepares recommendations taking into account the costs/value ratio. Priority is given to systemic measures.</li> <li>● The internal audit regularly monitors the execution of post-audit recommendations.</li> </ul>
Efficient use of resources	<ul style="list-style-type: none"> <li>● Lead auditors are appointed from among the most qualified auditors.</li> <li>● Engagement of internal and external experts (consultants).</li> <li>● The internal audit updates the Company's management about the requirements (limitations) for the resources needed to conduct audits in due time.</li> </ul>
Professionalism and a professional approach to work	Internal auditors have special knowledge, skills, and expertise needed to carry out practical professional activity in the Company; they continuously develop and improve the said knowledge, skills, and other expertise through assessment, training, and sharing experience; they also continuously develop their expertise in IT systems as they are the key source of information during audits.
Continuous audit quality improvement	The internal audit undergoes annual internal and periodic external (once every five years) assessments of the internal audit to determine whether the internal audit activities comply with the definition of internal audit, the International Standards or the Professional Practice of Internal Auditors, and the Code of Ethics of the Institute of Internal Auditors (IIA), with a view to further improve the function's performance.

## Independent Auditor

The Company engages an independent audit organization to audit and confirm the accuracy of NLMK Group's IFRS (International Financial Reporting Standards) consolidated financial statements, and NLMK's RAS (Russian Accounting Standards) accounting (financial) statements. In June 2022, NLMK's Annual General Shareholders' Meeting approved Technologies of Trust Audit (formerly PricewaterhouseCoopers Audit, hereinafter — TeDo) as the Company's auditor.

The independent auditor is selected from among recognized independent auditors with an impeccable professional reputation. The main criteria for selecting an independent auditor are the qualifications of the audit organization, the quality of the services provided, as well as compliance with the audit independence requirements. The candidate for an independent auditor is reviewed by the Audit Committee of the Board of Directors and the Board of Directors and is approved by NLMK's Annual General Meeting of Shareholders.

TeDo has been the auditor of the Group since 2003. The Board's Audit Committee, which is responsible for evaluating the efficiency of the current independent auditor, was satisfied with the quality of the services provided. In 2019, it recommended that the Board of Directors and the General Meeting of Shareholders re-appoint PwC as the Group's auditor for 2020–2022.

## Compliance with the auditor's independence principle

In order to comply with the requirements for audit independence and ensure a high level of professionalism, TeDo has several systems that ensure audit independence and maintain a high level of professionalism and quality of the services provided. For example, it rotates key audit personnel on a regular basis (at least once in seven years) with the latest rotation in 2020.

In addition to providing auditing services to verify financial statements, NLMK Group companies may hire TeDo and other companies under TeDo umbrella to provide consulting (non-audit) services. The management of NLMK Group and, in particular, the Audit Committee, are certain that these services do not affect the independence of the auditor and are not related to financial reporting. In 2022, the share of non-audit services in the total volume of services provided by TeDo was at an acceptable level and did not exceed 13% of the total volume.

**REMUNERATION OF INDEPENDENT AUDITOR**

NLMK’s Board of Directors has determined the value of remuneration for the provision of audit (verification) services of NLMK’s 2022 interim and annual IFRS consolidated financial statements, as well as for the audit of the 2022 RAS statements in the amount of RUB 79.1 million (VAT excluded).

**Remuneration paid to NLMK Group’s Independent auditor for 2022, \$ ‘000 (VAT excluded)**

<b>Types of services</b>	<b>Remuneration</b>
Audit and reviews	1,420.2
Non-audit services	204.5