

# STRATEGY

In February 2014, NLMK Group announced a new phase of development. "Strategy 2017" is focused on unlocking significant internal potential of the Group's businesses by boosting operational and process efficiency across the entire production chain, enhancing vertical integration into key raw materials, increasing sales of high value added (HVA) products, and pursuing environmental, safety and human capital development programmes.

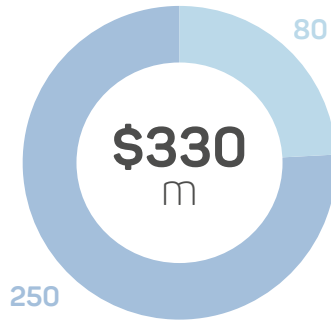
Strategy 2017 is centred on gaining leadership in operational efficiency, developing a world-class resource base, and achieving leading positions in strategic markets. Special emphasis is placed on industrial safety, sustainability and human capital development.

"Strategy 2017" targets net gains of \$1.0 billion per annum and envisions overall development capex of \$1.0 billion.

STRATEGY 2017: KEY TARGETS


Targeted annual net gains in 2018 vs 2013: \$1,000 m

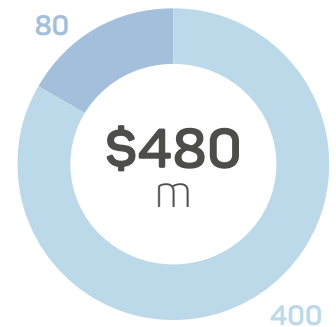
 **Leadership in operational efficiency**



How we do it

Maximum use of potential to enhance operational efficiency through investment programmes and NLMK Production System.

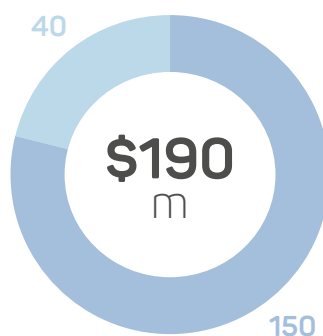
 **World-class resource base**



How we do it

Increased self-sufficiency in iron ore with a flexible charge structure and consequential reduced consumption of expensive resources.

 **Leading positions in strategic markets**



How we do it

Entering new or expanding presence in attractive product niches, industries, and regions; higher utilization rates at existing capacities; growth in domestic sales; and an increased share of HVA products.

- Management initiatives
- Investment projects

Note: all numbers include NBH unless otherwise stated.

 **Leadership in sustainability and safety**

- Minimize environmental footprint
- Promote safe operating practices
- Develop motivated and engaged workforce

How we do it

Systematic minimization of our environmental footprint; compliance of production processes with the strictest environmental and OHS standards; leadership in labour productivity for the sector supported by empowered and motivated staff.

Creation of the conditions for high labour productivity through provision of opportunities for professional training and through fostering of a strong corporate culture.



# STRATEGY IN ACTION

*In 2014-2015, structural net gain for NLMK Group as a result of Strategy 2017 totalled \$477 million per year (using 2015 prices, vs. 2013 base-level), or 48% of the total Strategy 2017 target the Group plans to achieve by 2018. Over 85% of the savings in 2014-2015 came from operational efficiency programmes that did not require any capital outlay; whilst the remaining 15% came from investment projects.*

*In 2015, net gains totalled \$256 million (from 2014 base-level).*

## LEADERSHIP IN OPERATIONAL EFFICIENCY

- As a result of the implementation of this strategy in 2014-2015, the net gain from dedicated projects totalled \$280 million per year.
- In 2015, NLMK undertook extensive development of the Group's Production System, with the total number of projects growing by over 500 to exceed 1,800 by the end of the year. Additional structural net gain from operational efficiency projects exceeded the target effect almost two-fold year-on-year, totalling \$145 million per year (to 2014 base level).
- As a result of these projects, in 2015 the productivity of steelmaking equipment at the Lipetsk site increased by 300,000 tonnes per year; and the production capacity of the hot-strip mill increased from 5.9 million tonnes per year to 6.0 million tonnes per year in 2015, among other improvements.
- In the Mining Segment, the productivity of beneficiation equipment in 2015 increased by 0.8 million tonnes of concentrate per year. Over the entire strategy implementation period in 2014-2015, productivity of Stoilensky's beneficiation plant increased by 1.3 million tonnes per year to 15.2 million tonnes per year. In 2016, operational improvements are expected to boost productivity by a further 300,000 tonnes per year.

## WORLD-CLASS RESOURCE BASE

- As a result of the implementation of this strategy in 2014-2015, the net gain from dedicated projects totalled \$100 million per year.
- Structural gain from operational efficiency programmes and investment projects in 2015 totalled \$61 million from 2014 level.
- In 2016, Stoilensky plans to complete the construction of its pelletizing plant, with launch scheduled for H2 2016. This will provide an annual effect on the Group's operating performance in excess of \$180 million (to be fully achieved in 2017).
- Stoilensky continues to pursue its programme aimed at boosting the productivity of its beneficiation plant, in order to supply the pelletizing plant with sufficient iron ore concentrate used as a feedstock for pellets manufacturing. The programme includes an entire range of debottlenecking projects. By 2018, output of iron ore concentrate will increase by 1.6 million tonnes per year (from 2015 level), including by 600,000 tonnes per year in 2016. It has been estimated that project investment during the period of 2014 to 2017 will be \$120 million. As a result, production capacity will reach 17.3 million tonnes of concentrate by 2018.



# \$477 m

Net gains of NLMK Group from achievement of strategic objectives in 2014-2015

## LEADERSHIP ON STRATEGIC MARKETS

- As a result of the implementation of this strategy in 2014-2015, net gains from dedicated projects totalled \$97 million per year.

Note: all figures are shown inclusive of NBH, unless specified otherwise.



- In 2015, net gain from delivering on this goal totalled \$50 million from 2014 level.
- In 2015, steel sales increased by 5% year-on-year to 15.9 million tonnes, supported by high utilization rates at the Group's Russian assets and increased productivity of main equipment.
- Sales in the Russian market totalled 6.2 million tonnes, or 39% of total sales (43% in 2014).
- Deliveries of slabs to Russian pipe manufacturers increased in 2015 by 27% to 0.9 million tonnes. Over the same period, NLMK DanSteel increased sales of niche plates by 9% to 400,000 tonnes. NLMK Kaluga competed successfully with international suppliers and local long steel manufacturers in Central Russia, ensuring an 83% run rate at its rolling capacities.

#### LEADERSHIP IN SUSTAINABILITY AND SAFETY

- LTIFR at NLMK Russian assets declined by 22% year-on-year to 0.43 in 2015 (above target level).
- Specific air emissions reduced by 1% year-on-year to 20.9 kg/t.
- Labor productivity grew 6% year-on-year across the Group.

#### DIVIDEND POLICY

High profitability, and low debt and capex resulted in increased free cash flow available to NLMK Group shareholders. In 2015, NLMK adopted a new dividend policy that provided for quarterly dividends in the amount of 50% of net income or free cash flow if Net debt/EBITDA is less than or equal to 1.0.

- Dividend cash flow in 2015 totalled \$395 million (vs. \$226 million in 2014), including a part of 2014 dividends, and Q1 and Q2 2015 dividends.
- 9M 2015 accrued dividends totalled \$427 million.
- Dividend yield at the end of 2015 exceeded 10%.

#### OLEG BAGRIN, NLMK GROUP CEO, SAID

"The key goal of Strategy 2017 is to transform NLMK from a growing steel manufacturer into one of the most efficient steel companies in the world.

"We made substantial progress over the last two years, with long-term financial gains from the implementation of our strategy totalling \$477 million per year. The bulk of the gains are the result of the success of

our operational efficiency programmes, which are based on consistent application and development of NLMK Group's Production System and so do not require investment.

"In 2016 and 2017, we expect that more of the gains will be created by investment projects and commercial strategy programmes that strengthen NLMK's market positions in niche value added segments where we have created competitive advantages in technology, quality and cost of production.

"Despite the challenging market conditions, we've delivered on the objectives we set; increasing steel output to a record high, maintaining high utilization rates and boosting profitability. NLMK's debt leverage is four times lower than the sector average.

"Substantial cash flow from operations and conservative investment have supported a free cash flow level of \$1 billion in 2015, increasing the Company's financial stability, ensuring flexibility and high dividend yields.

"The consistent and successful implementation of our strategy ensures a high and stable return for our shareholders."