



2019

Annual report

ABOUT THE COMPANY

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CEO’S STATEMENT

GRI 102-14

DEAR COLLEAGUES!

We are pleased to report that we have achieved around 20% of our target gains for 2023 during the first year of Strategy 2022 execution. This is in line with our plan for the five-year cycle. The backbone of our strategy is formed by our operational efficiency programmes, which have proven highly effective, contributing structural gains of \$173 m per year to the Company’s financial performance. Cumulative structural gains from Strategy 2022 implementation have exceeded \$200 m per year.

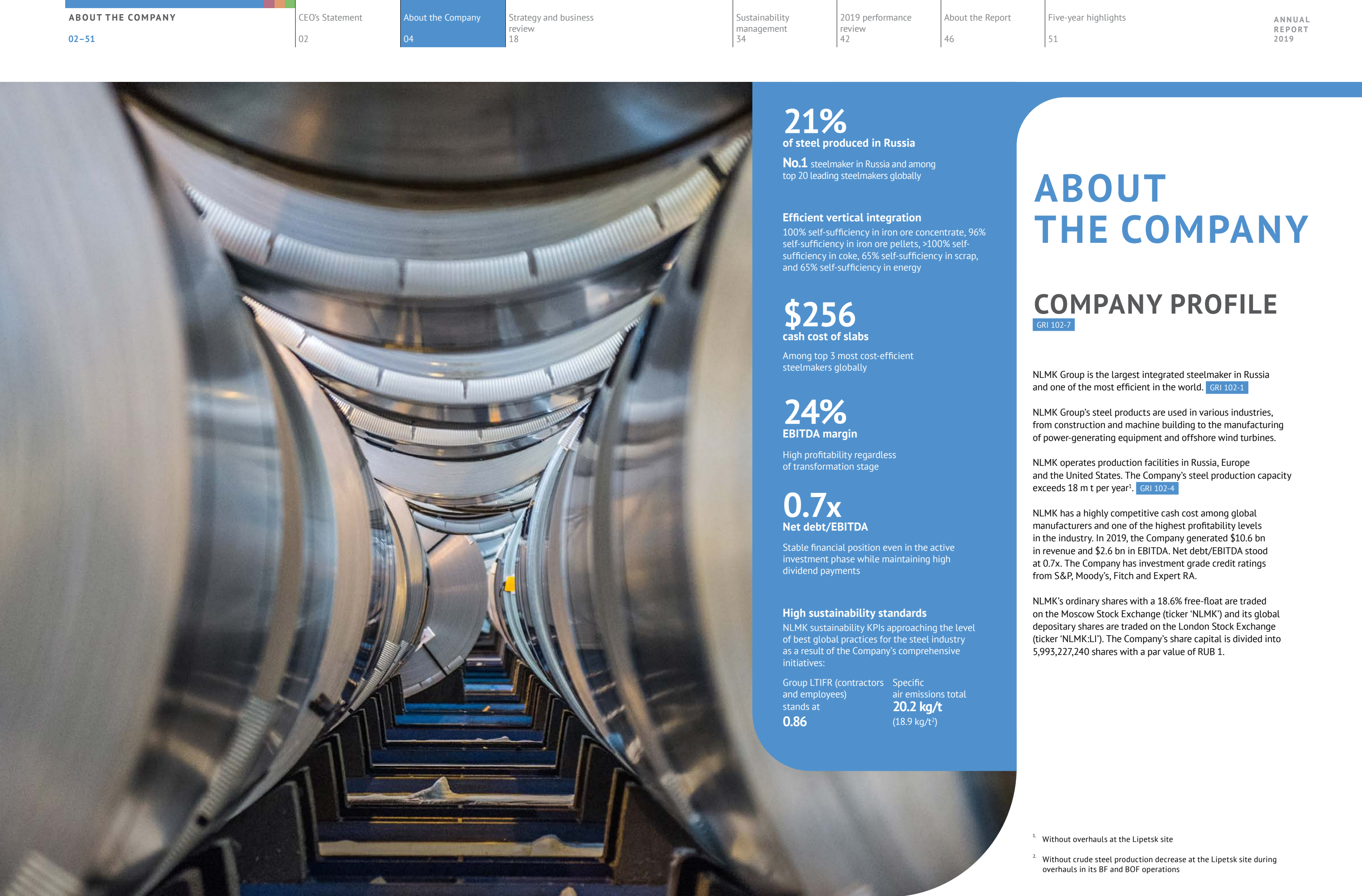
2019 saw the launch of the active phase of our investment programme for this strategic cycle. This phase included commissioning a new briquetting plant in April, and completing overhauls of BOF No. 2, BF No. 6 and the HSM at NLMK Lipetsk by the year-end. It also included constructing a new beneficiation section at Stoilensky as well as a new stamp-charging unit at Altai-Koks. These projects, though significant, are only a fraction of the Company’s ongoing investment programme. It is reassuring to note that when implementing investment projects, NLMK Group remains committed to using the best available technologies to minimize environmental impact.

NLMK Group achieved good progress in its sustainability efforts in 2019. We joined the United Nations Global Compact initiative, pledging compliance with ten fundamental principles on human rights, labour, the environment, and the fight against corruption throughout our operations and in pursuit of our strategy. We also committed to support and promote the UN Sustainable Development Goals (SDGs). NLMK’s Board of Directors approved a policy defining

our sustainability principles and objectives, and we conducted our first independent audit of sustainability performance indicators, which can be found in this annual report. These measures underline our commitment to corporate social responsibility.

Our robust performance in 2019 and our solid progress on Strategy 2022 were delivered thanks to high staff engagement and strong teamwork across all of our sites and areas of operation. I would like to thank all the members of our team for their contribution, which gives NLMK Group its leadership position. I would also like to express my sincere gratitude to our shareholders, customers and all of our partners for their belief in NLMK Group as well as for the results that we are able to deliver together.

Grigory Fedorishin,
CEO, NLMK Group



21%
of steel produced in Russia

No.1 steelmaker in Russia and among
top 20 leading steelmakers globally

Efficient vertical integration
100% self-sufficiency in iron ore concentrate, 96%
self-sufficiency in iron ore pellets, >100% self-
sufficiency in coke, 65% self-sufficiency in scrap,
and 65% self-sufficiency in energy

\$256
cash cost of slabs

Among top 3 most cost-efficient
steelmakers globally

24%
EBITDA margin

High profitability regardless
of transformation stage

0.7x
Net debt/EBITDA

Stable financial position even in the active
investment phase while maintaining high
dividend payments

High sustainability standards
NLMK sustainability KPIs approaching the level
of best global practices for the steel industry
as a result of the Company's comprehensive
initiatives:

| | |
|---|--|
| Group LTIFR (contractors and employees) stands at | Specific air emissions total |
| 0.86 | 20.2 kg/t (18.9 kg/t ²) |

ABOUT THE COMPANY

COMPANY PROFILE

GRI 102-7

NLMK Group is the largest integrated steelmaker in Russia
and one of the most efficient in the world. [GRI 102-1](#)

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

NLMK operates production facilities in Russia, Europe
and the United States. The Company's steel production capacity
exceeds 18 m t per year¹. [GRI 102-4](#)

NLMK has a highly competitive cash cost among global
manufacturers and one of the highest profitability levels
in the industry. In 2019, the Company generated \$10.6 bn
in revenue and \$2.6 bn in EBITDA. Net debt/EBITDA stood
at 0.7x. The Company has investment grade credit ratings
from S&P, Moody's, Fitch and Expert RA.

NLMK's ordinary shares with a 18.6% free-float are traded
on the Moscow Stock Exchange (ticker 'NLMK') and its global
depository shares are traded on the London Stock Exchange
(ticker 'NLMK:LI'). The Company's share capital is divided into
5,993,227,240 shares with a par value of RUB 1.

¹. Without overhauls at the Lipetsk site

². Without crude steel production decrease at the Lipetsk site during
overhauls in its BF and BOF operations

WHERE WE MAKE AND MARKET STEEL

GRI 102-4, 102-6

△ Upstream assets

◇ BF & BOF Operations

○ Rolling assets

□ EAF

→ Slab supplies from Lipetsk to NLMK USA and NLMK Europe

→ Intragroup raw material flows in Russia

→ Sales of steel to third parties on home and export markets

Home market
2.2 m t

NLMK Indiana
Sharon Coating
NLMK Pennsylvania

0.2 m t
of slabs

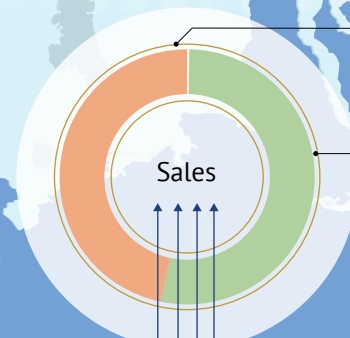
NLMK Clabecq
NLMK Louvière
NLMK Strasbourg
NLMK Verona

2.7 m t
of slabs

NLMK Kaluga

NLMK DanSteel

MOSCOW



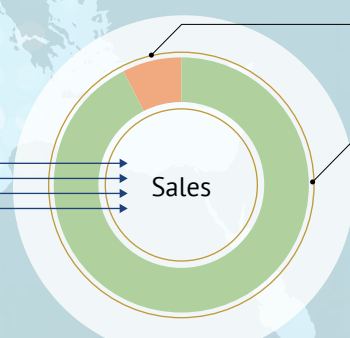
NLMK Ural
VIZ-Steel
NLMK Vtorchermet

Altai-Koks

0.04 m t
of GO steel

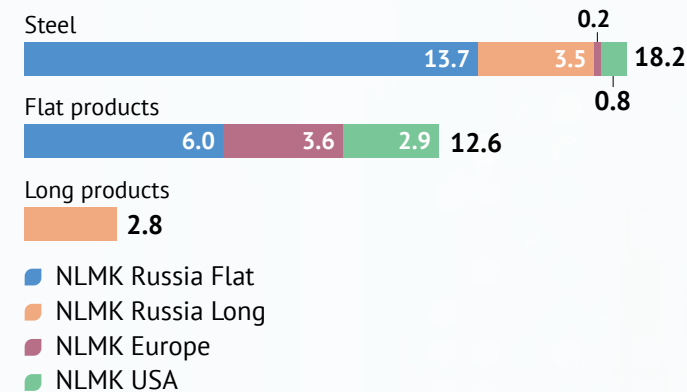
Stoilensky

Export market
0.2 m t
Home market
2.5 m t

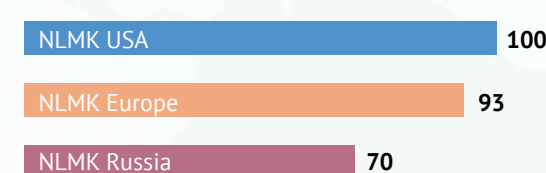


NLMK India

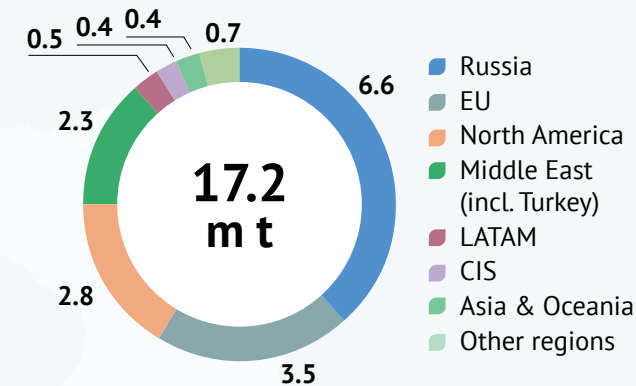
NLMK PRODUCTION CAPACITIES, M T



SHARE OF FINISHED STEEL SALES TO HOME MARKETS¹, %

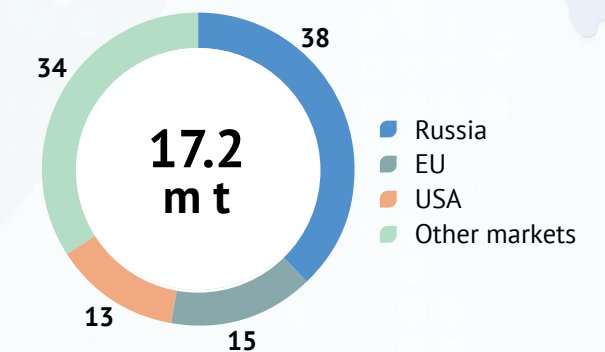


SALES IN 2019, M T¹



¹ sales with NBH

STEEL PRODUCT SALES BY MARKET, %

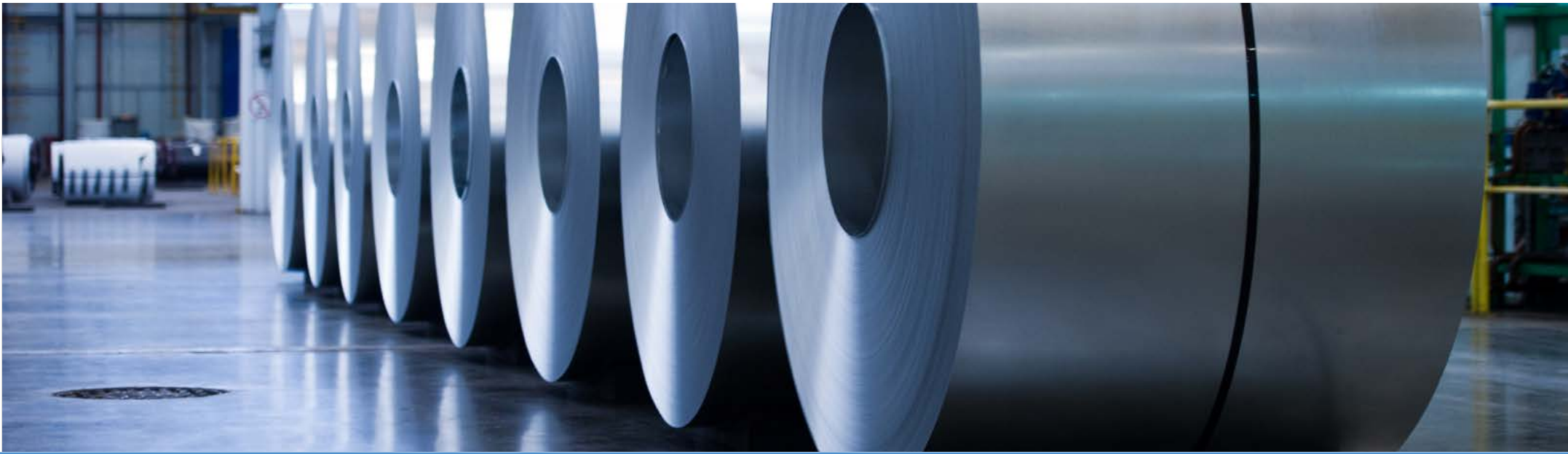


NLMK'S INTEGRATED PROCESS ENVIRONMENT

GRI 102-7

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

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



NLMK RUSSIA

MINING

Production sites

- Stoilensky
- Dolomit
- Stagdok

Functions

- Covers the Group's demand for raw materials

Products

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

Headcount

- **7,100 people**

Consumers

- Internal: NLMK Lipetsk
- External: steelmakers, road construction, and agriculture

Production capacity¹

- Iron ore concentrate.....**17.9 m t**
- Sinter ore.....**1.0 m t**
- Pellets.....**7 m t**

Production

- Iron ore.....**18.4 m t** (flat yoy)
- Fluxes.....**6.7 m t** (flat yoy)

Sales to the Group's companies

- Iron ore concentrate.....**9.9 m t** (-2% yoy)
- Pellets.....**6.9 m t** (+3% yoy)
- Sinter ore.....**1.0 m t** (-33% yoy)
- Limestone.....**2.9 m t** (+1% yoy)
- Dolomite.....**1.6 m t** (-10% yoy)

Sales to external customers

- Iron ore concentrate.....**0.5 m t**
- Pellets.....**0.1 m t**
- Limestone.....**1.0 m t** (+10% yoy)
- Dolomite.....**0.9 m t** (+6% yoy)

Financials

- Revenue.....**\$1,315 m** (+9% yoy)
- EBITDA.....**\$977 m** (+10% yoy)
- Investments.....**\$218 m** (+59% yoy)

2019 fact

NLMK Group has launched construction on new vertical mills that will operate using the new vertical grinding technology at Stoilensky. The new technology and other solutions will boost iron content from 65% to 68.5%, increase ore processing capacity from 38 m t in 2019 to 42 m t per year, and increase iron ore concentrate production from 17.9 m t in 2019 to 20 m t per year by 2021, thus increasing the production of iron ore raw materials for NLMK by 12%.

NLMK RUSSIA FLAT

Production sites

- NLMK Lipetsk
- VIZ-Steel
- Altai-Koks

Functions

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

Products

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

Production capacity

- Steel.....**13.7 m t**
- Flat products...**6.0 m t**

Headcount

- **30,800 people**

Consumers

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

Production

- Coke².....**5.9 m t** (-9% yoy)
- Pig iron.....**11.7 m t** (-12% yoy)
- Steel.....**12.0 m t** (-10% yoy)
- Commodity semis.....**7.8 m t** (-20% yoy)
- Rolled products.....**5.7 m t** (flat yoy)

Sales to external customers

- Commodity pig iron.....**0.5 m t** (-43% yoy)
- Slabs.....**3.1 m t** (+11% yoy)
- Hot-rolled steel.....**2.5 m t** (+9% yoy)
- Cold-rolled steel.....**1.6 m t** (+8% yoy)
- Galvanized steel.....**0.8 m t** (-3% yoy)
- Pre-painted steel.....**0.4 m t** (-2% yoy)
- NGOES.....**0.3 m t** (-10% yoy)
- GOES.....**0.3 m t** (-2% yoy)

Sales geography

- Russia (49% of sales), Turkey and the Middle East, North America and LatAm, Asia and Oceania, European Union, and the CIS

Intragroup slab sales

- Supplies to NLMK USA.....**0.2 m t** (-84% yoy)
- Supplies to NLMK Europe.....**2.7 m t** (-10% yoy)

Financials

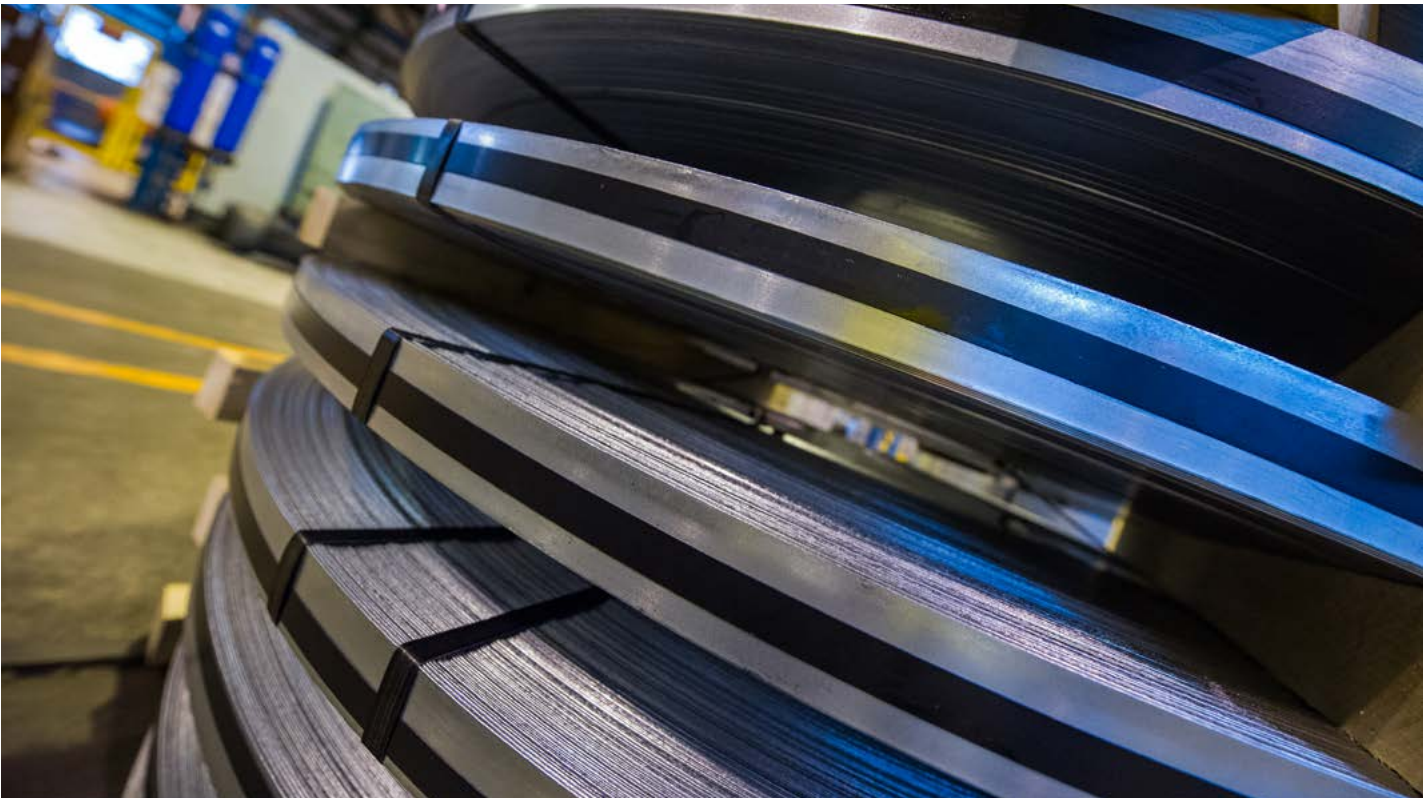
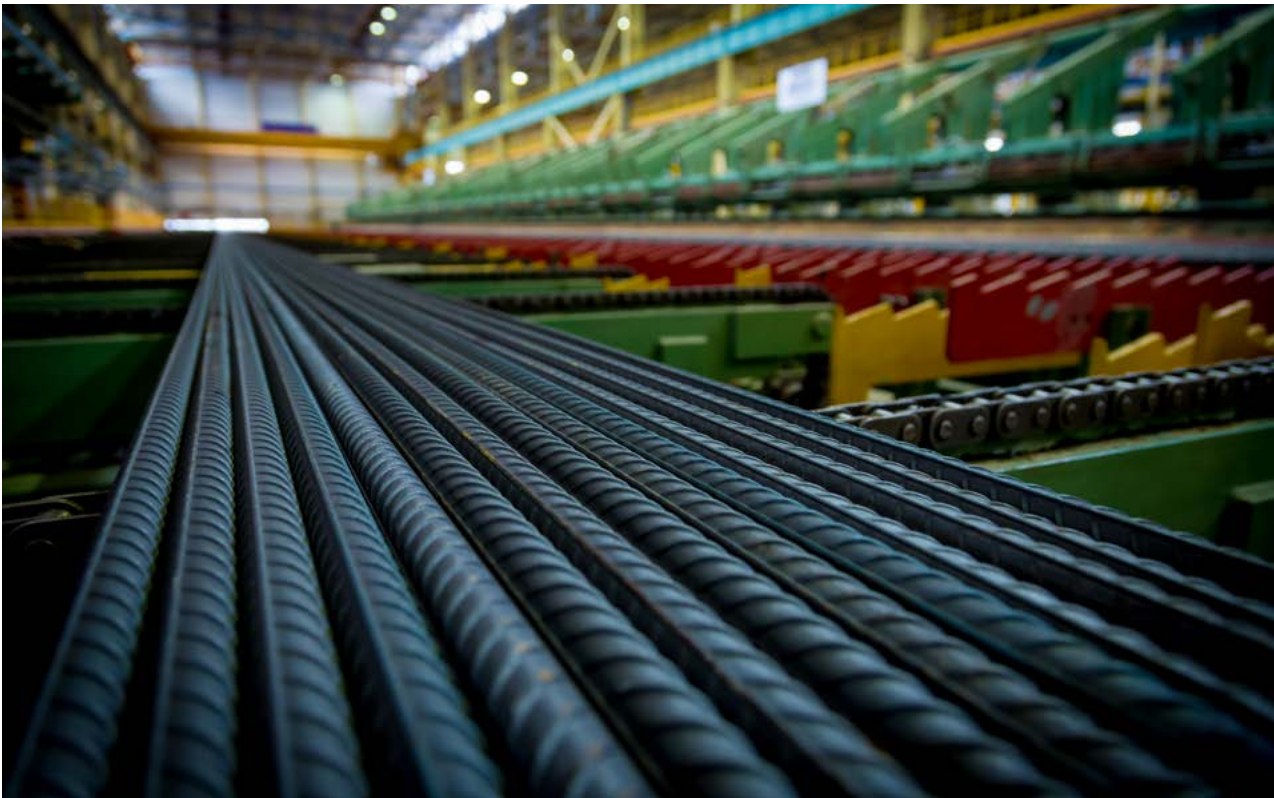
- Total revenue.....**\$7,327 m** (-16% yoy)
- EBITDA.....**\$1,490 m** (-36% yoy)
- Investments.....**\$854 m** (+64% yoy)

2019 fact

NLMK Lipetsk has relaunched Blast Furnace No. 6 (BF No. 6) following large-scale upgrades. As a result, the furnace's maximum output increased by 8% to 3.4 m t of pig iron per year. A new air treatment system captures 99.9% of dust particles, keeping residual dust content at the level of best available techniques (BAT) of 5 mg/m³. All of the blast furnace gas formed as a by-product in the manufacturing of pig iron is used for energy generation at NLMK's cogeneration plant, while blast furnace slag is processed into construction materials. Total capex for the project amounted to over RUB 35 bn.

¹ Hereinafter, current capacities are based on current shifts and product mix without the impact of overhauls.

² 6% moisture.



NLMK RUSSIA LONG

Production sites

- NLMK Vtorchermet scrap collecting facilities
- NLMK Ural
- NLMK Kaluga
- NLMK Metalware

Functions

- Processes scrap for the Group's steel-making facilities in Russia
- Produces long products and metalware

Products

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

Production capacity

- Steel.....**3.5 m t**
- Long products.....**2.8 m t**

Headcount

- **8,600 people**

Consumers

- Construction and machine building

Production

- Scrap processing...**2.2 m t** (-10% yoy)
- Steel.....**2.8 m t** (-15% yoy)
- Long products.....**2.2 m t** (flat yoy)
- Metalware.....**0.3 m t** (+9% yoy)

Sales to external customers

- Billets.....**0.3 m t** (-60 yoy)
- Long products.....**2.3 m t** (+4% yoy)
- Metalware.....**0.3 m t** (+11% yoy)

Sales geography

- Russia (70% of sales), the European Union, Turkey, the Middle East, and North Africa

Financials

- Total revenue.....**\$1,757 m** (-18% yoy)
- EBITDA.....**\$89 m** (-60% yoy)
- Investments.....**\$50 m** (+39% yoy)

2019 fact

NLMK Ural launched an advanced energy facility to supply the plant with power and heat. The project will enable the company to significantly reduce expenditure on these resources.

The plant used to source heat and power externally. The new energy facility will cover all of the plant's heat needs and half of its power needs, while curbing NLMK Ural GHG emissions by 4,000 tpa.

NLMK USA

Production sites

- NLMK Pennsylvania
- NLMK Indiana
- Sharon Coating

Functions

- Produces flat steel

Products

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

Production capacity

- Steel.....**0.8 m t**
- Flat products.....**2.9 m t**

Headcount

- **1,200 people**

Consumers

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

Production

- Steel.....**0.7 m t** (+7% yoy)
- Flat products.....**2.1 m t** (-5% yoy)

Sales

- Hot-rolled steel.....**1.2 m t** (-7% yoy)
- Cold-rolled steel...**0.5 m t** (-5% yoy)
- Galvanized steel...**0.6 m t** (+6% yoy)

Sales geography

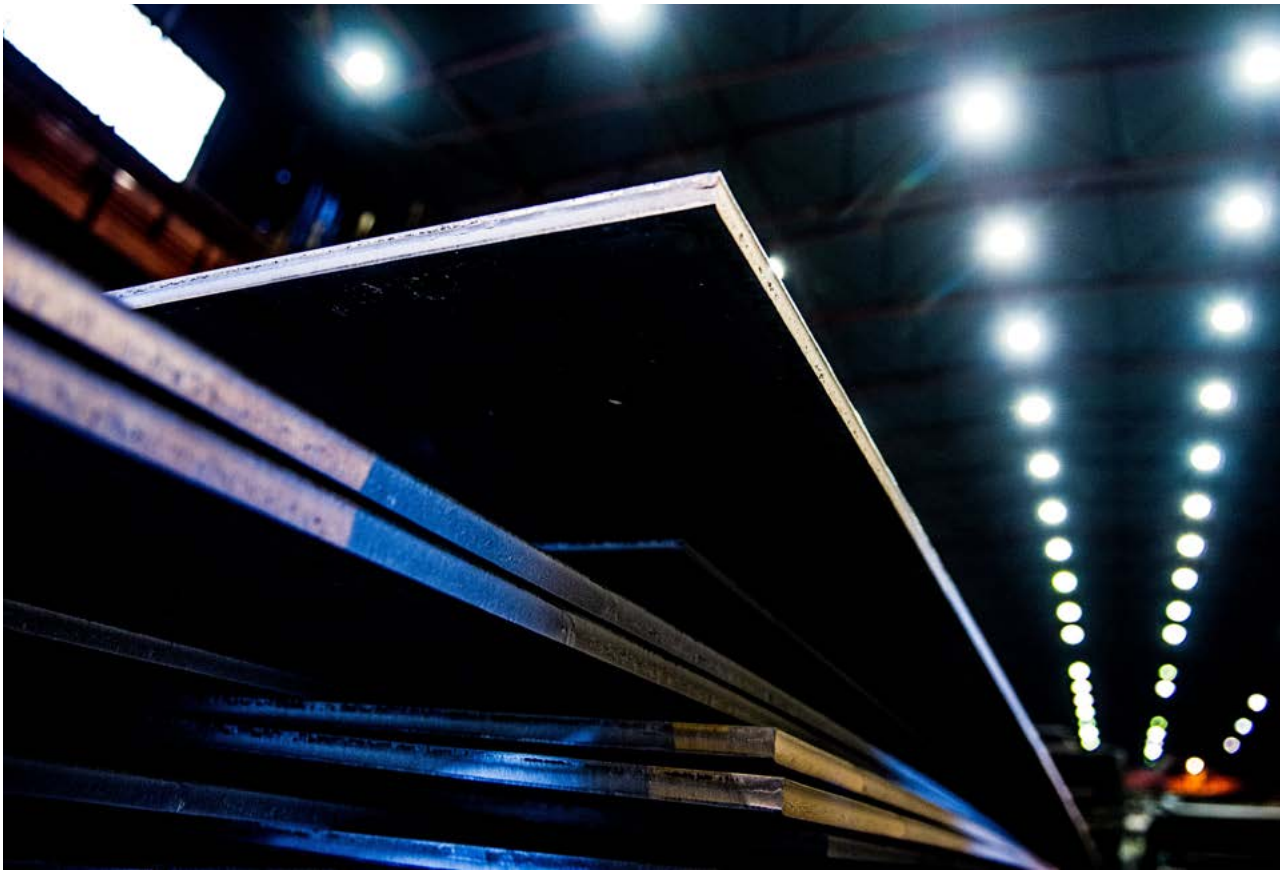
- 100% of steel sold in USA

Financials

- Total revenue.....**\$1,715 m** (-20% yoy)
- EBITDA.....**-\$37 m** (-115% yoy)
- Investments.....**\$37 m** (+85% yoy)

2019 fact

NLMK USA switched to third party supplies of slabs due to a 25% duty.



NLMK EUROPE STRIP

Production sites

- NLMK La Louvière¹
- NLMK Strasbourg¹

Functions

- Produces flat steel from slabs coming from the Lipetsk site

Products

- Hot-rolled steel, cold-rolled steel, galvanized steel, and pre-painted steel

Production capacity

- Flat products.....**2.2 m t**

Headcount

- **900 people**

Consumers

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

Production

- Flat products.....**1.6 m t** (+11% yoy)

Sales

- Hot-rolled steel.....**1.3 m t** (+11% yoy)
- Cold-rolled steel.....**0.04 m t** (+13% yoy)
- Galvanized steel.....**0.2 m t** (flat yoy)
- Pre-painted steel.....**0.1 m t** (+5% yoy)

Sales geography

- 93% of steel sold in EU

2019 fact

NLMK La Louvière has embarked on a project to revamp its hot strip mill, expanding production of thinner, stronger and more eco-friendly steel. With this upgrade, NLMK La Louvière will increase production from 1.7 m t to 2.2 m t per year by 2022 with a bigger share of the niche HRC market in the EU.

NLMK EUROPE PLATE

Production sites

- NLMK DanSteel
- NLMK Clabecq¹
- NLMK Verona¹

Functions

- Produces plates from semis coming from the Lipetsk site and from internally produced semis

Products

- Niche steel semis, and plates, including Q&T

Production capacity

- Steel.....**0.2 m t**
- Plate.....**1.4 m t**

Headcount

- **1,200 people**

Consumers

- Producers of heavy vehicles and loading equipment, offshore wind turbines, drilling rigs, shipbuilding sector, and producers of pipes, boilers and reservoirs for hostile environments

Production

- Steel.....**0.2 m t** (-21% yoy)
- Flat products.....**1.1 m t** (-13% yoy)

Sales

- Plate.....**1.1 m t** (-13% yoy)

Sales geography

- 93% of steel sold in EU

2019 fact

DanSteel launched an accelerated cooling system at its hot-rolling plate mill. The new cooling system coupled with other development projects will boost the production of niche premium plate from the current 0.1 m t to 0.35 m t per year. Thermomechanical rolling enables the production of plates with improved weldability while enhancing strength and toughness. Improved weldability is especially important in the production of underwater foundations for wind towers that operate in aggressive maritime environments.

¹. Part of NLMK Belgium Holdings (NBH)



17.2 m t¹

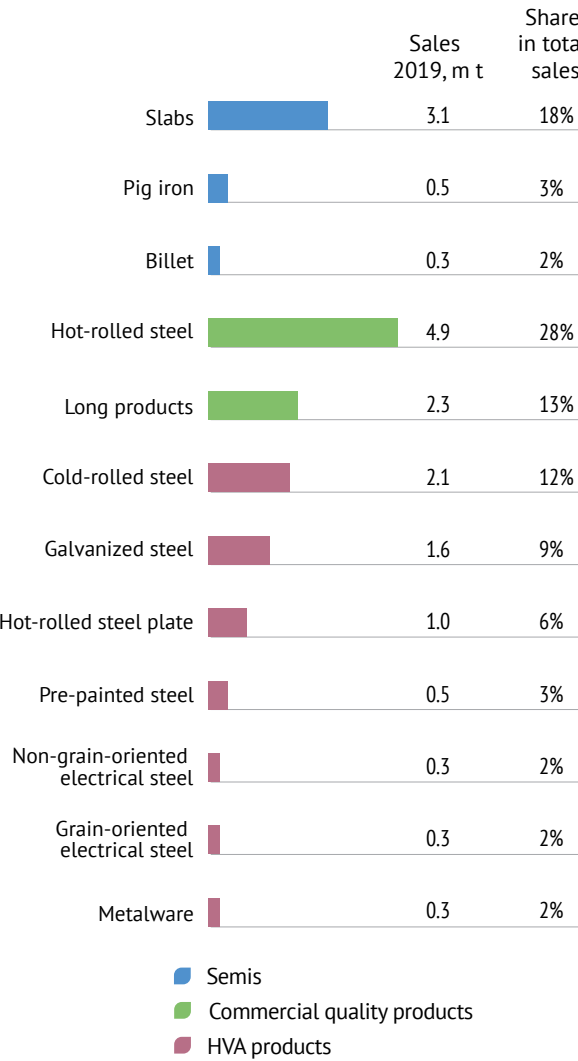
NLMK steel product sales

NLMK is a leading supplier of high-quality steel products in key sales markets. NLMK has a balanced product mix that includes semi-finished, high value-added, and niche products. Flat steel accounts for around 83% of total output, while long steel used in construction makes up 17% of production.

WHAT WE MAKE AND MARKET

GRI 102-2

NLMK SALES IN 2019



^{1.} With NBH

OUR PRODUCTS



Semis



Plate

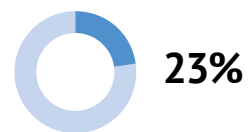


Hot-rolled steel



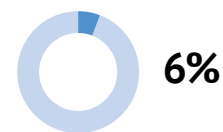
Cold-rolled steel

SHARE OF TOTAL SALES



Pig iron and semi-finished steel products for further processing: slabs are processed into flat steel products; billets are processed into long steel products.

A wide range of semis, both standard and niche products with specific chemical composition, physical properties, and dimensions

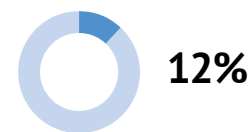


Flat steel products with higher thickness than that of hot-rolled steel. A range of standard products and niche abrasion-resistant and high-strength plates.

Produced at NLMK Group's European sites from slabs supplied by NLMK Lipetsk



Flat steel products that have been hot-rolled. A wide range of hot-rolled steel in sheets and coils with a variety of performance characteristics



Flat steel products that have been cold-rolled. A wide range of cold-rolled steel sheets and coils with a variety of performance characteristics, including niche high-ductility products

CONSUMERS

Steelmaking, pipe industry

Lifting and transport equipment, offshore wind turbines, drilling platforms, shipbuilding, pipelines, boilers, and tanks for aggressive environments (pressure, temperature, load, etc.)

Pipe industry, steel structures, shipbuilding, machine building, high-pressure vessels, yellow machinery, commercial, and residential and infrastructure construction

Automotive industry, machine building, pipe industry, yellow machinery and white goods, and commercial, residential and infrastructure construction

SITES

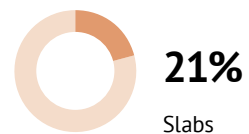
NLMK Lipetsk, NLMK Kaluga

NLMK DanSteel, NLMK Clabecq, NLMK Verona

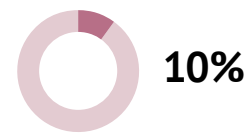
NLMK Lipetsk, NLMK La Louvière, NLMK Indiana, NLMK Pennsylvania

NLMK Lipetsk, NLMK La Louvière, NLMK Pennsylvania

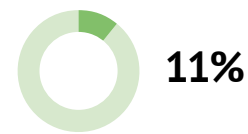
MARKET SHARE¹



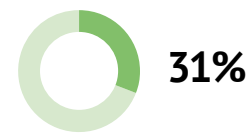
Slabs



10%



11%



31%

¹. NLMK shares of apparent consumption

Global market

European market

Russian market



Coated steel



Electrical steel

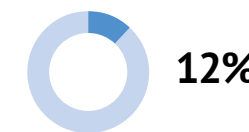


Long products

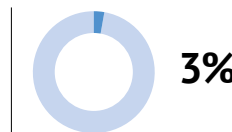


Metalware

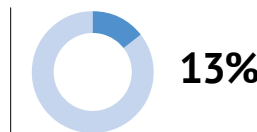
SHARE OF TOTAL SALES



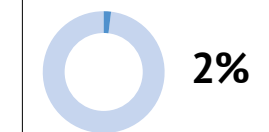
Galvanized and pre-painted steel from hot-rolled and cold-rolled flats. Coatings are applied on a production line to protect the steel from corrosive environments. Available in coils, strip, and sheets



Dynamo (non-grain-oriented) and transformer (grain-oriented) electrical steel. Includes a range of standard products with conventional properties, and unique high-permeability steel (HGO). Available in coils, strip, and sheets



Rebar in rods and coils, wire rod, and sections



A wide range of low-carbon metalware. This includes wire and secondary products, with various coatings and surface finishes, nails, and fasteners

CONSUMERS

Automotive industry, yellow and white goods, construction, and facing materials

Electrical machines, transformers, power engineering, and instrument making

Construction

Construction and machine building

SITES

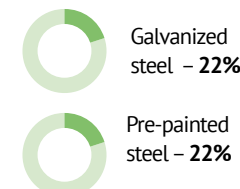
NLMK Lipetsk, NLMK Strasbourg, Sharon Coating

NLMK Lipetsk, VIZ-Steel

NLMK Ural, NLMK Kaluga

NLMK Metalware

MARKET SHARE¹



Galvanized steel – 22%



Pre-painted steel – 22%



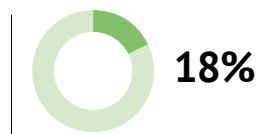
NGO steel – 86%



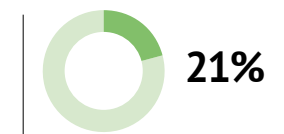
GO steel – close to 100%



GO steel – 11%



18%



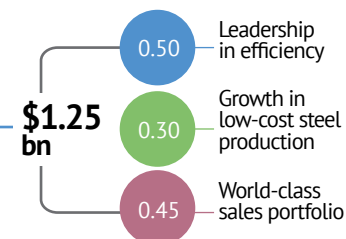
21%

STRATEGY 2022

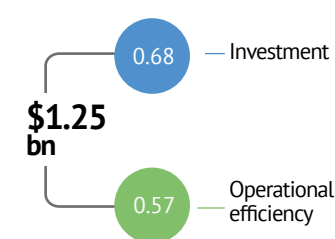
Strategy 2022 is predicated on enhancing NLMK Group's competitive advantages through boosting operational efficiency across the entire production chain, growing cost-efficient steel production, enhancing vertical integration into key raw materials, increasing sales of high value-added (HVA) products,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

PROJECTED STRATEGY 2022 EBITDA GAINS

BY GOAL



BY TOOLS



STRATEGY 2022 GOALS

Additional EBITDA gain from all projects:
\$1.25 bn

Conservative leverage: target net debt/EBITDA ratio of
1.0–1.5x

Annual capex on average
\$0.9 bn per year

Stable positive free cash flow

Focus on growth in the Company's shareholder value

Dividend distribution: 100% of free cash flow with normalized capital expenditure at \$0.7 bn per year for dividend calculation

Minimal environmental footprint and ensuring safe operations

KEY ELEMENTS OF STRATEGY 2022

1

Leadership in operational efficiency

Goal: Focus on operational efficiency and working towards best production practices; global leadership in the cash cost of steel production.

Target structural EBITDA gain
\$0.5 bn

Capex over the strategic period
\$0.05 bn

2

Growth in low-cost steel production

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

Target structural EBITDA gain
\$0.3 bn

Capex over the strategic period
\$1.0 bn

3

World-class sales portfolio

Goal: Growth of steel product sales; growth of high value-added (HVA) product output and sales.

Target structural EBITDA gain
\$0.45 bn

Capex over the strategic period
\$1.1 bn

4

Leadership in sustainability and safety

Goal: Minimizing environmental footprint and ensuring safe operations.

STRATEGY IN ACTION

OPERATIONAL EFFICIENCY

+\$570 m pa
target EBITDA gain by 2023

Goal: Reduce cash cost and increase output across the entire integrated value chain.

KEY PROJECTS AT THE GROUP'S RUSSIAN DIVISIONS

- NLMK Russia Flat Products (+\$69 m): we managed to improve the performance of the blast furnaces, an important task during the overhauls of BF No. 6 and BOF No. 2. Significant gains were also achieved by projects to optimize coal charge at Altai-Koks, the additional production of slabs and hot-rolled products, a reduction in the output of non-conforming products in rolling production, an increase in the turnover of railcars, and energy projects. As for electrical steels, the segment demonstrated strong results in terms of the GO steel magnetic properties due to operational efficiency projects.
- Stoilensky (+\$62 m): an optimization programme brought us more than 800,000 t of concentrate and 200,000 t of pellets versus the level of 2018.
- NLMK Russia Long Products (+\$17 m): optimization of energy and slag processes in the electric steel shop, lower consumption of electrodes, ferroalloys, and additional materials, pricing optimization at NLMK Vtorchermet, and additional rolling capacity.

+\$173 m
total EBITDA gain in 2019 (vs. 2018)

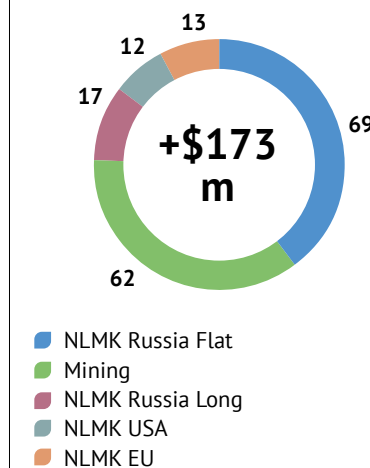
Not only did we manage to achieve the targets set for the year, but we also ensured the sustainability of the result thanks to employee proactivity and engagement as well as through the transformation of our corporate culture.

Across all sites, we have seen positive trends in employees getting involved in generating ideas. In 2019, we received more than 20,000 initiatives from the Group's Russian companies. A total of 78% of the initiatives were implemented. These results were largely achieved by expanding the coverage of the NLMK Production System (PS) and creating infrastructure to promote continuous improvements.

Another challenge in 2019 was the launch of the PS project across functional areas. This makes the Production System practices not only production-oriented, but also universal and applicable to various functional areas such as Logistics, Energy, HR, Investment, and Repair. Next year, we expect to continue collaborating with various functional areas.

30%
progress vs. the 2023 target in 2019

EBITDA GAIN BY SEGMENT IN 2019, \$ M



The creation of the unique Bank of Ideas information system for submitting initiatives has allowed us to boost the activity and involvement of employees in continuous improvements. The initiative system is widely used at all the Group's Russian companies. Now all NLMK Group employees are connected to the Bank of Ideas, with more than 1,000 employees visiting it daily.

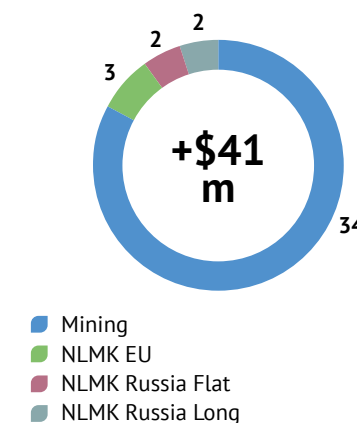
INVESTMENTS

+\$680 m pa
target EBITDA gain by 2023

Goal: growth in low-cost steel production and growth of premium product output and sales

In 2019, NLMK Group embarked on a project to increase steelmaking capacities by 1 m t to 14.2 m t per year at the Lipetsk site, while increasing self-sufficiency in electricity and maintaining 100% self-sufficiency in iron ore raw materials. The Group completed a number of major projects during the reporting year.

EBITDA GAIN BY SEGMENT IN 2019, \$ M



Following major overhauls, Blast Furnace No. 6 (BF No. 6) was put into operation at NLMK Lipetsk, the flagship site of NLMK Group.

The BF No. 6 overhaul is one of the key projects of Strategy 2022. The furnace capacity was increased by 8%, reaching 3.4

+\$41 m
total EBITDA gain in 2019 (vs. 2018)



m t of pig iron per year. After the upgrade, the new aspiration systems will capture up to 99.9% of dust, providing residual dust content of 5 mg/m³, which corresponds to the level of best available technologies.

All the blast furnace gas generated during the smelting of pig iron is used to power the co-generation plant, and blast furnace slag is transformed into products for the construction industry.

The furnace is equipped with a modern automated control system with an integrated artificial intelligence programme. Such a system can independently choose the unit's optimal operation modes, which boosts the efficiency of the blast furnace process.

Basic Oxygen Furnace No. 2 (BOF No. 2), a steelmaking unit with capacity of more than 3 m t per year, was also put into operation after a major overhaul. A new state-of-the-art dust and gas collection unit was launched together with the BOF.

6%
progress vs. the 2023 target in 2019

The BOF No. 2 overhaul is the first stage of large-scale upgrades in steelmaking operations. The next stage, which will begin in Q2 2020, will focus on BOF No. 3, another unit with the same capacity.

The upgrading of steelmaking capacities will increase the shop's productivity by 15% to 10 m t of steel per year.

Once implemented, the project will also make it possible to use BOF gas to power the new utilization co-generation plant, which is scheduled to be built at NLMK Lipetsk.

We also continue to develop the sales of niche plate produced at NLMK DanSteel. In 2019 an accelerated cooling system was commissioned. The goal of this project is to increase sales of niche products by 250,000 t by 2023. The full effect is expected to be achieved by 2022.

LEADERSHIP IN SUSTAINABILITY AND SAFETY

Goal: Minimize environmental footprint and ensure safe operations.

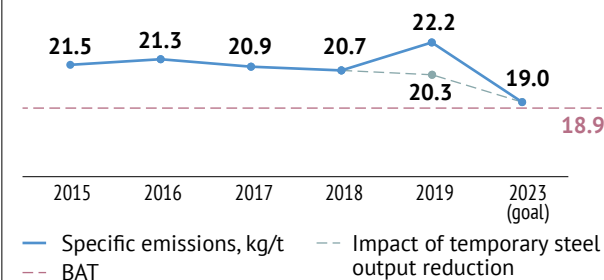
Leadership in sustainability and safety remains a priority for NLMK Group. Priority areas include:

- Further minimization of our environmental footprint, including a reduction in specific emissions per tonne of steel at NLMK Russia to the level of the EU best available technologies
- Further reduction of injury rate to LTIFR¹ 0.5 for our own employees and contractors
- High level of social protection and employee engagement.

Specific emissions increased in 2019 due to the lowest steel output in five years (-10% yoy) during the major overhaul of steelmaking units at the Lipetsk site. There is no risk of missing the target for specific emissions when the planned Strategy 2022 steel output is reached with the emission reduction measures that have been implemented.

In 2019, the Group's LTIFR index increased to 0.76 for employees and 1.22 for contractors. Total LTIFR for NLMK Group increased to 0.86, an 11.69% increase against 2018. The increase is due to improved incident registration among contractors as well as an increase in the number of contractors who work at NLMK Group's sites and perform work with a higher risk level.

NLMK LIPETSK SPECIFIC EMISSIONS IN 2015–2019, 2023 TARGET



In order to decrease the index in further periods the following areas will be prioritized:

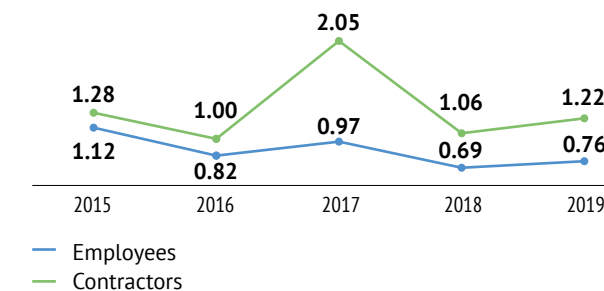
- Personnel injury risk management system: risk assessment and managing injury risk reduction, including measures to systematically reduce the risks of working at heights
- Implementing a safety culture: defining safe behaviour rules and promoting safe conduct among personnel
- Developing the OHS role model: developing a new system for managing occupational injury risks.

Please see the *Occupational health and safety* section for more details regarding OHS.

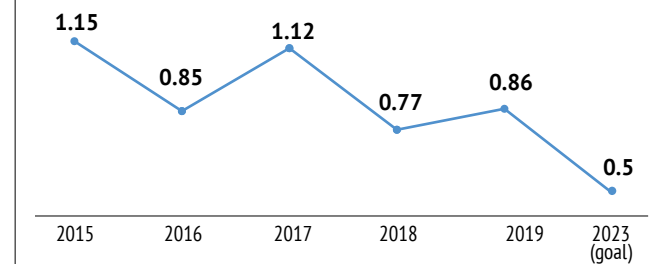


¹ LTIFR – Lost Time Injury Frequency Rate

LTIFR TREND, NLMK GROUP BY EMPLOYEES AND CONTRACTORS, 2015-2019



LTIFR TREND, NLMK GROUP, EMPLOYEES AND CONTRACTORS TOGETHER, 2015-2019

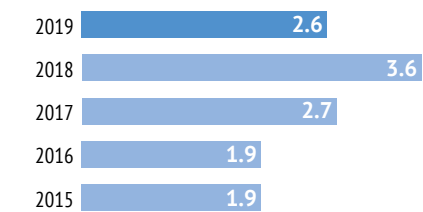


KEY PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE

EBITDA

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



EBITDA decreased due to narrowing price spreads

EBITDA MARGIN

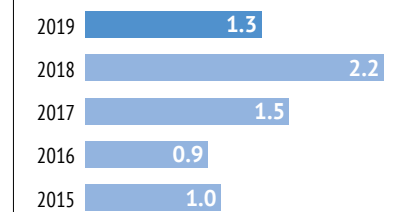
Profitability of the Company's operations before interest, taxes, depreciation and amortization, %



EBITDA margin decreased due to narrowing price spreads

NET PROFIT

NLMK Group's profit after income and expense, \$ bn



Net profit decreased by 40% yoy due to the decrease in EBITDA and higher effective income tax rate

BUSINESS MODEL EFFICIENCY

CRUDE STEEL PRODUCTION

Total crude steel production of all NLMK Group facilities, m t



A decrease in crude steel production was expected amid capital repairs at NLMK Lipetsk BF and BOF operations

STEEL PRODUCT SALES

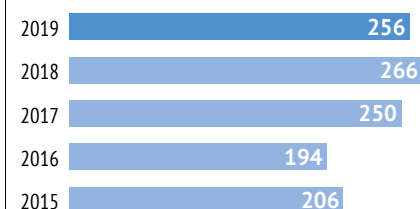
Total sales of steel products to external consumers of all NLMK Group facilities, m t



Sales expectedly decreased by 2% yoy following the decline in production output

SLAB CASH COST

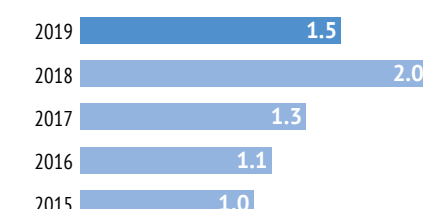
Consolidated cash cost for slab production at NLMK Lipetsk, \$/t



Slab cash cost decreased by 4% yoy to \$256/t due to operational efficiency projects and vertical integration in raw materials

FREE CASH FLOW

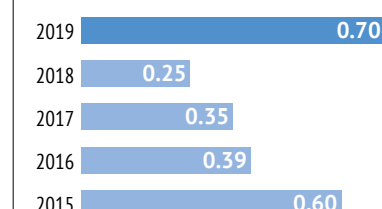
Net cash flow after investment and interest payments refers to cash that the Company can use to strengthen liquidity, repay liabilities, pay dividends, or for other corporate needs



Free cash flow decreased with a reduction in cash flow from operating activities and higher capex as part of Strategy 2022

NET DEBT/EBITDA

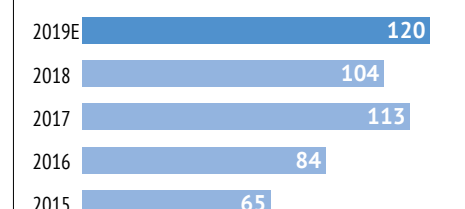
The Company's financial debt adjusted for the value of liquid assets, and then divided by EBITDA, characterizes the Company's debt leverage. Used as a trigger to determine the share of dividends to be paid



Increased due to the implementation of the investment programme as a part of Strategy 2022, coupled with a cash outflow towards dividend payments

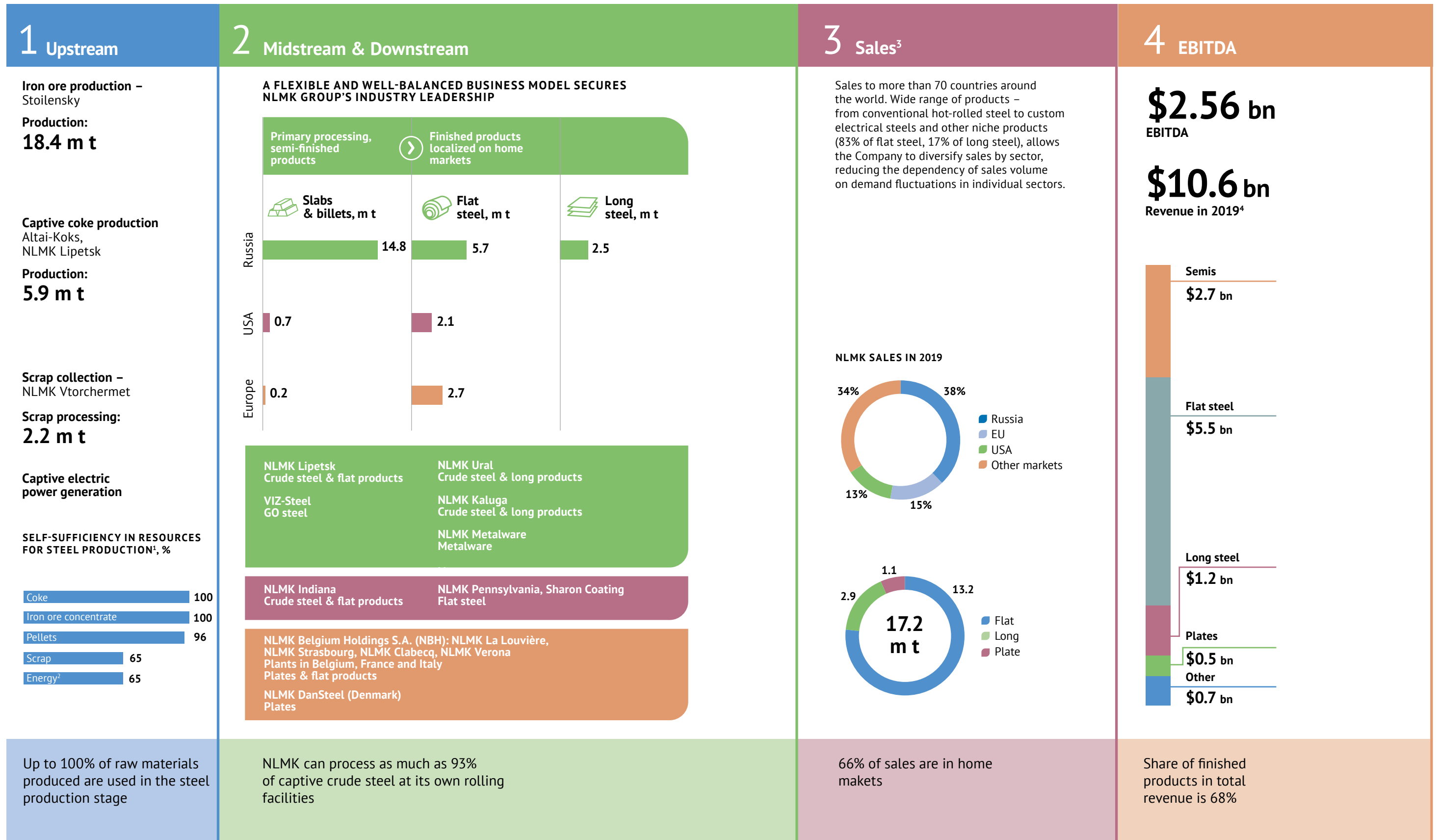
DIVIDEND PAYOUT RATIO

Cash paid to shareholders as a percentage of free cash flow, %



Dividends payout is more than 100% from FCF, in line with the dividend policy

NLMK GROUP'S BUSINESS MODEL



¹. Russian assets
². Lipetsk site

³. With NBH
⁴. Without NBH

UPSTREAM

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

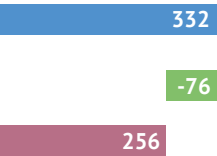
Up to 100% of raw materials produced are used in the steel production stage further along the value chain.

NLMK ADVANTAGES

Iron ore

Stoilensky is one of the most efficient iron ore producers in the world and is located 250 km from the Group's main production facility in Lipetsk. Stoilensky's iron ore reserves are upward of 5 bn t.

IMPACT ON THE REDUCTION IN STEEL CASH COST PER TONNE IN 2019, \$/T



- Lipetsk slab cash cost
- Impact of vertical integration
- Consolidated NLMK slab cash cost

Captive coke production

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

NLMK scrap collection

NLMK's scrap collection and processing network is the largest in Russia, ensuring the stable delivery of scrap to NLMK Group's Russian steelmaking facilities.

Electric power generation

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

Iron ore concentrate cash cost: \$12.8/t.

Total coke production: 5.8 m t (-0.56 m t yoy), covers more than 100% of NLMK Lipetsk's needs.

Development in 2019

In 2019, Stoilensky gained an additional +0.5 m t of concentrate yoy from introducing high-pressure grinding technology (HPGRs). The gain amounted to 2.2 m t of concentrate for the entire period of HPGRs operation.

NLMK has begun expanding pelletizing capacity at Stoilensky to 8 m t of pellets per year. Stoilensky will upgrade several transformation stages of the current pelletizing plant: it will build

an additional grinding facility, introduce a new filtration technology, upgrade the gas flow pattern of the induration machine, and update the control systems suite with the use of digital technologies.

The company plans to boost ore production and beneficiation capacity by 12% against the 2019 level via upgrades of Stoilensky's other transformation stages to ensure the stable supply of raw materials to the pelletizer after it reaches its target output level by 2021. This will enable the company to increase its ore processing capacity from 38 m t to 42 m t per year and to increase its concentrate output from 17.9 m t to 20 m t per year.

Stoilensky has begun construction on a new stage (Stage 3) of its thickening unit, a hydro engineering facility that dewateres the slurry, and thickens the solids, before transporting them to dedicated tailings pits. The separated water is recycled and returned into the process. This project will enable Stoilensky to fully switch to a more efficient system of processing, transporting, and storing waste ore after beneficiation in 2020. The new thickening unit will also ensure the stability of beneficiation operations as production is ramped up in 2021. At the same time, specific water consumption and the tailings area will be reduced by several times over.

NLMK Group has started operating its briquetting plant, a facility

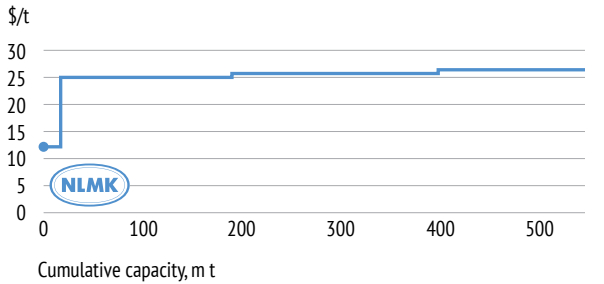


to manufacture metallurgical briquettes out of blast furnace waste. The production technology was developed in-house by NLMK. The new production facility has total capacity of 700,000 t of briquettes per year. The technology is based on an eco-friendly roasting-free pressing method. The resulting briquettes are used as feedstock for hot metal production and partially substitute primary iron ore and coal raw materials. The briquetting plant is also based on best available technologies (BAT) and is a great example of eco-friendly resource-saving operations that help to boost our efficiency at the same time.

In 2019, NLMK launched a green coke and chemical by-product recovery complex. The project help to increase the production of raw materials for the chemical industry and the agricultural sector, and halve the shop's air emissions. The new complex was built using BAT. Purified coke oven gas is used as fuel for the coke ovens themselves and for the site's power plants.

NLMK Group continued to introduce stamp charging technology at its operating Coke Oven Battery No. 5 at Altai-Koks, the most advanced coke oven battery. The project will boost coke quality, reduce the cost of its production, and improve the environmental footprint of operations.

GLOBAL IRON ORE CONCENTRATE CASH COST IN 2019¹

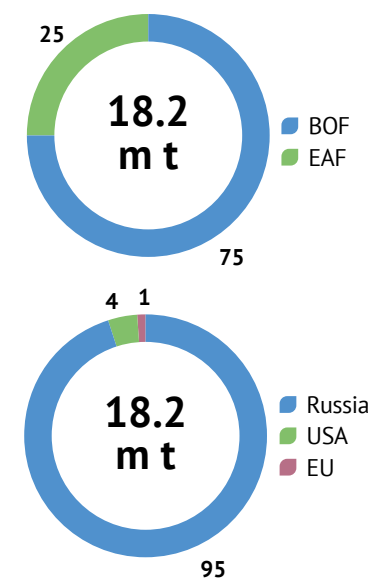


¹ Source: Bloomberg.

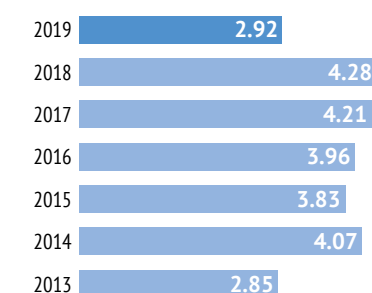
MIDSTREAM

Leading-edge equipment and finely tuned business processes enable the production of high-quality cost-efficient steel products. NLMK Group's steel production capacity amounts to 18.2 m t per year, 95% of which is made in Russia.

NLMK'S STEELMAKING CAPACITY, %



SLAB SUPPLIES TO SUBSIDIARIES AND JOINT VENTURES, M T



NLMK ADVANTAGES

Cost leadership

NLMK is among global leaders in cost. Over the past five years, the Company managed to consolidate its leadership: the gap between NLMK's steel cash cost and the industry average has increased from 25% to 36%. NLMK Group enjoys sustainable cost leadership through its unique business model that ensures high utilization rates, efficient vertical integration and upgraded production capacities. The production cost of Lipetsk steel in 2019 was \$256/t, with the industry average of \$397/t.

Sales vs. further processing

77% of NLMK steel is processed into finished products, while 23% is sold as semi-finished steel. NLMK produces both flat and long steel products and our reputation as a reliable supplier ensures stable demand for the Group's product offering.

High capacity utilization

An expansive product offering and availability of the Company's rolling facilities in the regions of consumption, i.e. Russia, Europe and the United States, enable NLMK to exceed a 90% capacity utilization rate throughout the cycle.

Optimal logistics

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

Development in 2019

Following large-scale upgrades, NLMK Lipetsk has relaunched Blast Furnace No. 6 (BF No. 6)

In 2019, NLMK Group embarked on a large-scale overhaul of its steelmaking facilities, namely BOFs and associated de-dusting equipment in BOF Shop No. 2 at the Lipetsk production site. The overhaul will increase the shop's productivity by 18% from 8.5 m t to 10 m t of steel per year and cut air emissions by 70%. It is a two-phase project. In 2019, the first phase of the overhaul was already finished with the relaunch of BOF No. 2, a steelmaking facility with a capacity of over 3 m t per year. The launch of a new dust and gas collection system in line with BATs was tied in with the relaunch of the BOF.

The use of advanced environmental and energy-saving solutions will reduce the Company's environmental footprint and will result in a 2.5-fold increase in gas purification efficiency. Despite the growth in output, these operations will be practically emission-free. The next stage is scheduled to begin in Q2 2020, and will cover the overhaul of a similar facility, BOF No. 3

2019 facts and figures

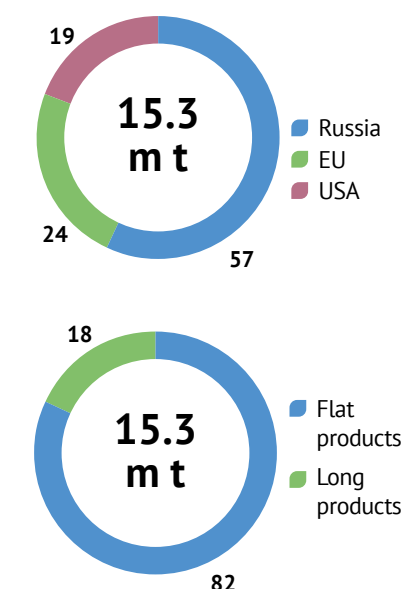
- *Steel output: 15.7 m t (with NBH)*
- *Slab cash cost of the Lipetsk site: \$256/t*

DOWNSTREAM

Finished products are made locally in the Company's strategic markets of Russia, the EU and the USA, in close proximity to consumers. With total production capacity of finished products standing at 15.3 m t, NLMK can process as much as 93% of captive crude steel at its own rolling facilities.

The Group can satisfy up to 100% of internal demand for slabs from its main steelmaking facility in Lipetsk.

ROLLING CAPACITY BREAKDOWN¹, %



Development in 2019

NLMK Lipetsk started its new furnace for preheating slabs before rolling at Mill 2000. The new reheating furnace increased NLMK Lipetsk's hot-rolled steel output by 110,000 t (+2%), reduced energy consumption by 50%, and almost halved air emissions. The new walking-beam reheating furnace replaced the outdated pusher-type furnace and boosted productivity by 23% to 2.25 m t per year. The furnace's advanced control system based on a learning mathematical

NLMK ADVANTAGES

High quality

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

Optimal production footprint

Due to the location of NLMK Group's rolling operations in strategic markets, 66% of steel is sold in the region where it was produced. This allows the Company to meet the customers' most challenging delivery timescales and respond rapidly to fluctuations in local demand.

Diversification of sales

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

algorithm is able to adjust the heating process to steel grades without human intervention. With the new unit up and running, all of NLMK Lipetsk steel for hot-rolling goes through processing in new generation high performance resource-saving furnaces.

In 2019, NLMK Lipetsk started commercial deliveries of S500MC and S550MC high-strength HRC (yield strength 500 and 550 MPa) to the Russian market. These steel products are used in the manufacturing of dump truck bodies, scrap trucks, truck chassis, cranes and other special purpose machinery. The use of high-strength steel in structures enables a 20% increase in carrying capacity, reduced weight, and lower fuel consumption per tonne of cargo.

NLMK commissioned its accelerated cooling system at NLMK DanSteel's hot-rolling plate mill in Denmark. The new equipment will fundamentally change the Company's product mix and increase the share of niche plate, including for offshore wind power generation and pressure vessels. The new accelerated cooling system is in line with the hot-rolling mill. Thermomechanical rolling allows the production of plates with improved weldability while enhancing their strength and toughness. Improved weldability is especially important in the production of underwater foundations for wind towers that operate in aggressive maritime environments. The new cooling system will boost the production of niche premium plate from the current 0.1 m t to 0.35 m t per year.

Balanced product portfolio

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

2019 facts and figures:

- *Finished steel output (with NBH): 13 m t (-0.1 m t yoy).*
- *Growth in sales to home markets +8% vs. 2018.*
- *Sales to more than 70 countries around the world.*
- *Flat steel accounts for 82% of total steel production, long steel accounts for 18%.*

¹ With NBH

INNOVATIONS

The Company engages in research and innovation based on the needs of its customers and an analysis and development of promising steelmaking technologies. NLMK Group adopts an approach based on computer and physical simulations and the use of advanced tools and methods to test laboratory prototypes before starting full-scale experiments on industrial equipment. This approach helps reduce project implementation costs, catalyse the development and adoption of innovative solutions, and minimize innovation-related risks.

To achieve the Strategy 2022 goals, the Company has set up a corporate Centre for Research and Development

(R&D Centre) as part of its innovation activities. The centre has core capabilities and resources required to create digital and physical prototypes of new products and manufacture them at the Group's facilities. The main laboratory research facility is located at the Lipetsk site while computer modelling and premium coatings development capabilities are based in Belgium.

NLMK interacts actively with the innovation ecosystem, creating consistent mechanisms for cooperation with venture funds, development institutions, and technology parks both in Russia and abroad. These activities aim to establish a continuous flow of projects and integrate the most economically and strategically suitable solutions at NLMK Group's sites.

RESEARCH AND DEVELOPMENT

The Company's efforts to expand its product portfolio are anchored in the R&D development strategy, which was approved by the NLMK Board of Directors in 2018. The Company is actively developing its process base to regulate project management approaches in order to successfully implement R&D and innovation projects.

US market

- Steel production in the US increased by 2% yoy to 88 m t in 2019, with capacity utilization at 81%.
- Steel consumption declined by 1% yoy to 99 m t in 2019 amid lower demand from the pipe industry as well as the machine building automotive, and energy sectors.
- Imports of steel products fell by 17% yoy to 25 m t amid Section 232 restrictions, while exports decreased by 15% yoy to 7 m t.

EU market

- Steel production declined by 5% yoy to 160 m t.
- Apparent consumption of steel in the EU in 2019 dropped by 3% yoy to 164 m t due to weak consumption in the automotive, machine building, and white goods sectors.
- Imports of flat and long steel fell by 14% yoy to 25 m t, while exports decreased by 1% yoy to 20 m t.

Russian market

- Driven by growth in the construction and energy sectors, apparent consumption of finished steel grew by 5% yoy in 2019.
- Steel output in Russia in 2019 remained flat at 72 m t, while imports of rolled steel grew by 7% yoy, reaching 6.2 m t, and exports of finished steel declined by 16% yoy to 12 m t.

Source: Bloomberg, Worldsteel, Eurofer, Metal Expert. Preliminary data.

MARKET REVIEW

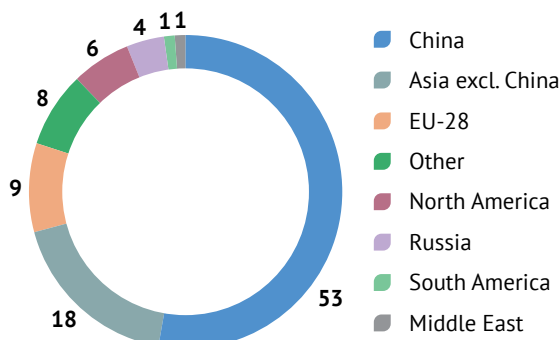
Global steel output grew by 3% yoy in 2019 to 1.87 bn t according to the Worldsteel Association. Average global capacity utilization was 83%.

The global steel market was on the rise in 2019, supported by China

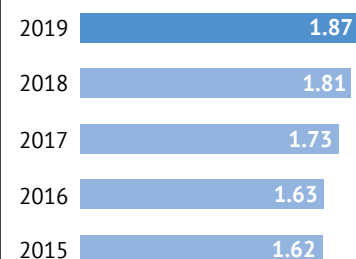
Steel production in China (50% of global steel output) increased by 8% yoy to 992 m t. Global apparent steel consumption grew by 4% yoy to 1.77 bn t, and by 9% yoy to 910 m t in China.

At the same time, exports from China fell by 7% yoy to 64 m t, driven by strong domestic demand for steel and a plan to improve the environmental situation during the winter period.

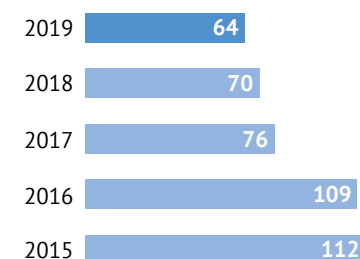
STEEL PRODUCTION BY REGION, %



GLOBAL STEEL PRODUCTION, BN T



EXPORTS FROM CHINA, M T

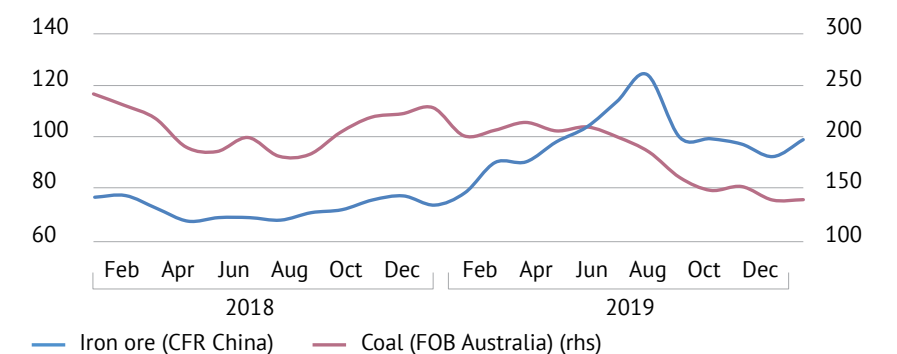


PRICE TRENDS

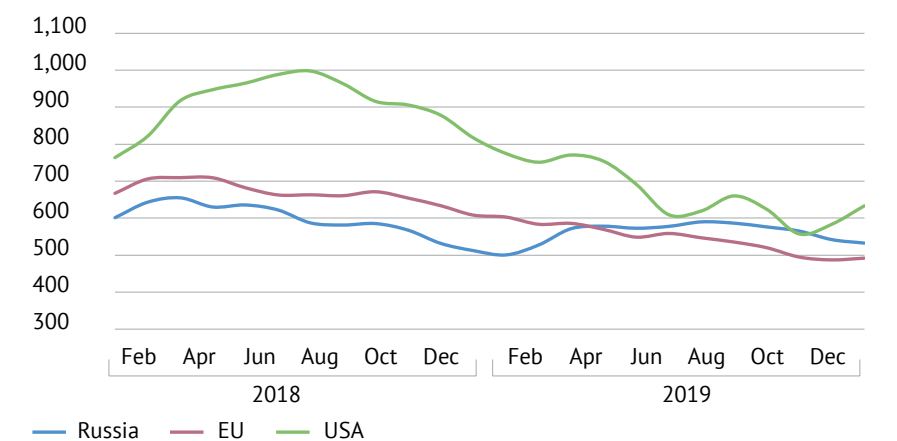
Average global coal prices declined by 11% yoy due to weak demand in India and import restrictions in China. Ore prices grew by 34% yoy due to supply disruptions from Brazil and Australia. Market prices for flat products in the US decreased by 23-27% yoy and reached their lowest level in the beginning of Q4 2019, followed by a gradual recovery. In Europe, prices fell by 15-20% yoy on average, but starting from mid-Q4, this region has also seen a recovery in prices. On the Russian market, steel product dollar prices declined by 3-6% yoy following global quotes. The more gradual decline in prices is associated with the high growth rate of demand for steel on the Russian market.

Source: Bloomberg

GLOBAL RAW MATERIAL PRICES, \$/T



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



SUSTAINABILITY MANAGEMENT

OUR APPROACH TO SUSTAINABILITY MANAGEMENT

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

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

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

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

NLMK GROUP’S VALUES GRI 102-16

| Value | Description |
|---|---|
| Continuous improvement of processes | <ul style="list-style-type: none">Continuous improvement of processes and technologies to ensure the sustainable production of steel products that help improve the quality of life |
| Client-oriented approach | <ul style="list-style-type: none">Production of unique premium quality steel products and development of engineering solutions that help our customers be on the cutting edge of innovation and be leaders in their markets |
| Absolute priority of the health and safety of our employees | <ul style="list-style-type: none">Unwavering commitment to protecting the health and safety of our employees and contractors and ensuring favourable working conditions that allow our employees to fulfil their potential for professional and personal growth |
| Ensuring equal opportunities for employee development | <ul style="list-style-type: none">Ensuring equal opportunities for the professional and personal growth of our employees and motivating our employees to be proactive and innovation-driven |
| Sustainable use of resources | <ul style="list-style-type: none">Sustainable use of resources and the pursuit of the best available environmental and energy efficiency standards, which we also expect our partners to comply with |
| Active approach to social responsibility | <ul style="list-style-type: none">Active approach to social responsibility and care for cultural legacy in the regions where we operate |

- NLMK Group’s sustainability values:
- Creating long-term shareholder value
 - Promoting employee health, wellbeing, and development
 - Being environmentally responsible
 - Creating value for consumers
 - Conducting business in accordance with high ethical standards
 - Developing, providing support for, and respecting the interests of local communities
 - Information transparency

A number of NLMK Group’s internal documents regulate sustainability measures. A more detailed list of these documents can be found further in the text of this Report.

Sustainability management is integrated into NLMK Group’s corporate governance system and is carried out at all the Group’s 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 areas are responsible for identifying specific tasks and initiatives to manage the social, economic, and environmental aspects of the Group’s activities and monitor their implementation. Departments responsible for developing approaches and implementing measures in matters concerning sustainability report to these vice presidents.

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

NLMK GROUP’S SUSTAINABLE DEVELOPMENT PRIORITIES

| Priority | Areas of activity |
|------------------------------------|--|
| Operational efficiency improvement | <ul style="list-style-type: none">Reducing the consumption of certain types of resources through the introduction of cutting-edge technologies and advanced waste processing methods |
| Energy efficiency | <ul style="list-style-type: none">Increasing production of the Group’s captive power generation by utilizing by-product fuel gasesUpgrading equipmentGenerating energy from secondary resourcesImplementing energy-saving initiatives |
| Developing local communities | <ul style="list-style-type: none">Helping to solve the most acute social problems faced by the regions where we operate in partnership with government bodies and the publicCharitable initiatives and programmesDeveloping culture, science, education, and sportWork with children and young people |
| Personnel development | <ul style="list-style-type: none">Hiring and retaining qualified staff and the development of a motivation and remuneration systemOrganizing vocational trainingDeveloping the Group’s corporate cultureEngaging employees in the process of continuous improvementIntroducing digitalization and implementing best HR practices |
| Occupational health and safety | <ul style="list-style-type: none">Applying best practices in occupational health and safety managementManaging occupational safety risksMaintaining and developing a safety culture among NLMK Group employees and contractors |
| Minimizing environmental footprint | <ul style="list-style-type: none">Carrying out planned environmental and technological initiativesImplementing projects from NLMK Group’s investment programmeMaking efficient use of natural resourcesImplementing projects to reduce emissions and the discharge of pollutantsRestoring contaminated land and conducting rehabilitation work |

SUSTAINABLE DEVELOPMENT POLICY

In 2019, NLMK's Board of Directors approved the Company's Sustainable Development Policy. This Policy defines the Group's principles, goals, and objectives in matters concerning sustainable development as well as the mechanism for managing the relevant agenda at the level of the Board of Directors. In particular, the Board's Strategic Planning Committee is responsible for determining the Company's goals and strategy for minimizing its environmental footprint, including greenhouse gas emissions, and reviewing and approving the relevant investment programme. The Board's Audit Committee monitors the completeness of sustainability disclosures.

The Board of Directors approved the relevant changes to the regulations on Committees, and the changes to the Regulations on the Board of Directors were approved at NLMK's Extraordinary General Shareholder Meeting. For more information, see the *Corporate Governance* section.

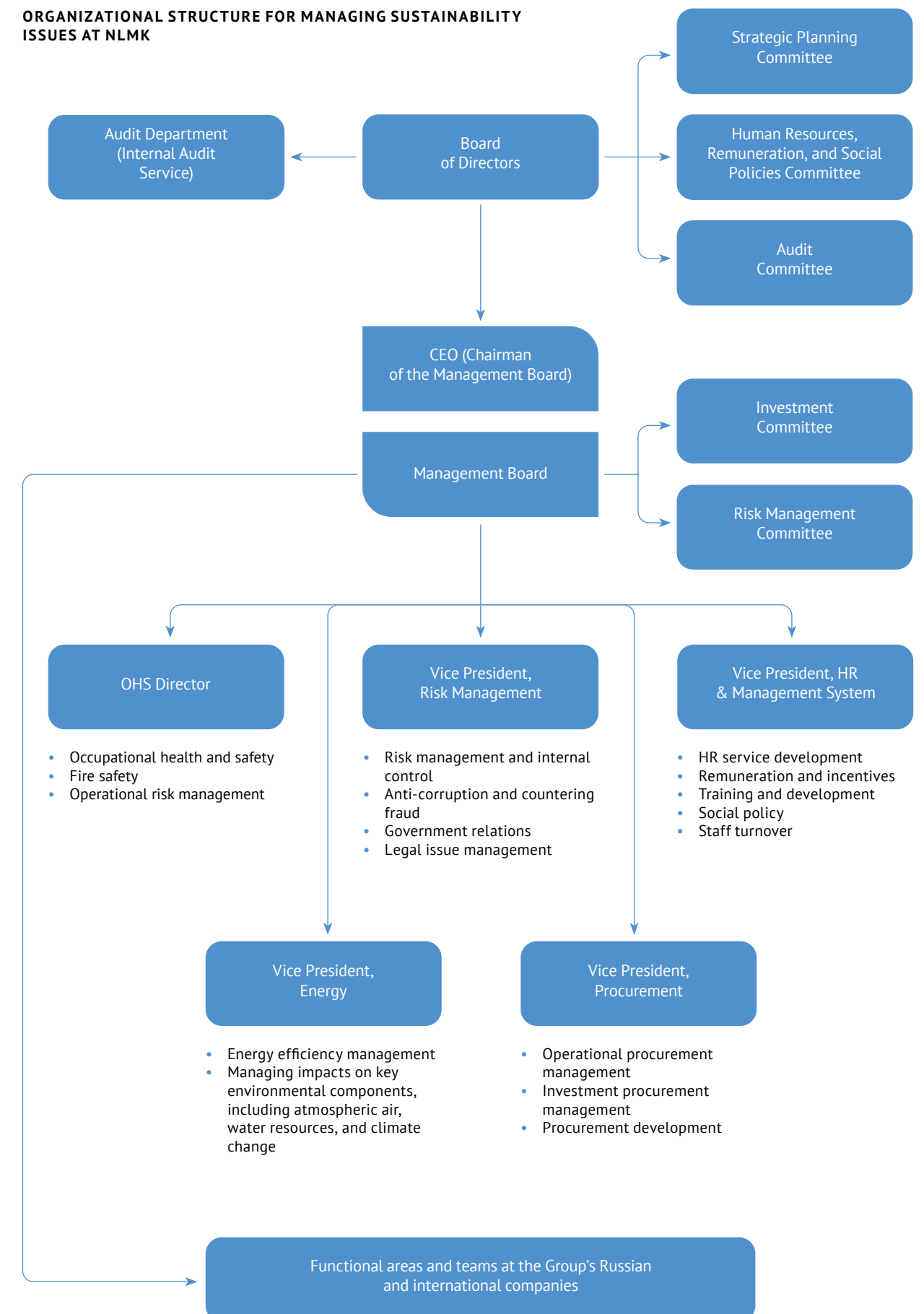
Leadership in sustainability and safety is one of the four main goals of NLMK Group's Strategy 2022, and the changes that have been implemented will contribute to the successful achievement of this goal. The changes are in line with best international practices and stakeholder requirements, and confirm NLMK Group's commitment to the principles and objectives of the UN Global Compact, to which the Company is a party.



SUSTAINABILITY AGENDA MANAGEMENT AT THE BOARD OF DIRECTORS LEVEL

| Board Committees | Key aspect of sustainability |
|---|--|
| Strategic Planning Committee | Environment <ul style="list-style-type: none"> Emissions, including greenhouse gases Discharges and waste Use of resources Biological diversity |
| Human Resources, Remuneration, and Social Policies Committee | Social <ul style="list-style-type: none"> Operational health and safety Training and development Social policy Diversity and equal opportunities Non-discrimination Local communities |
| <ul style="list-style-type: none"> Board of Directors Human Resources, Remuneration, and Social Policies Committee Audit Committee | Governance <ul style="list-style-type: none"> Corporate governance Business ethics Anti-corruption |
| Strategic Planning Committee | <ul style="list-style-type: none"> Sustainable development risk assessment |
| Human Resources Remuneration, and Social Policies Committee | <ul style="list-style-type: none"> Integration of sustainable development KPIs in the remuneration system |
| Audit Committee | <ul style="list-style-type: none"> Performance monitoring and sustainability reporting |

ORGANIZATIONAL STRUCTURE FOR MANAGING SUSTAINABILITY ISSUES AT NLMK







CONTRIBUTION TO THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS ADOPTED BY THE UN GENERAL ASSEMBLY

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

We believe that the Group makes a valuable contribution to the achievement of global sustainability goals by engaging in responsible business and targeted activities that aim to reduce its environmental footprint, supporting local communities, and ensuring safe and decent working conditions.

NLMK GROUP'S CONTRIBUTION TO ACHIEVING UN SUSTAINABLE DEVELOPMENT GOALS

| UN Goal | NLMK Group's contribution |
|---|---|
|  | <p>Ensure healthy lives and promote wellbeing for all at all ages</p> <ul style="list-style-type: none">Implementing programmes aimed to help employees stay healthy and increasing the availability and quality of medical services for employeesInforming the Group employees and contractors about occupational safety rulesImplementing training programmes in occupational health and safetyImplementing initiatives aimed at reducing water consumption, pollutant emissions, and overall waste <p><i>See the following chapters of the Report: Our team, Developing local communities, Occupational health and safety, Human rights, Environmental protection, Supply chain management</i></p> |
|  | <p>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p> <ul style="list-style-type: none">Implementing training and development programmes to enhance professional skills of employeesImplementing external social programmes aimed to support education in the regions where the Company operatesCooperating with educational institutions to improve the quality of training programmes and vocational training for future employment opportunities <p><i>See the following chapters of the Report: Our team, Developing local communities</i></p> |
|  | <p>Ensure availability and sustainable management of water and sanitation for all</p> <ul style="list-style-type: none">Introducing water recycling systemsImplementing water treatment technologiesReducing water intake through equipment upgradesMonitoring and disclosing information on the use of water resources <p><i>See the following chapters of the Report: Environmental protection</i></p> |
|  | <p>Ensure access to affordable, reliable, sustainable, and modern energy for all</p> <ul style="list-style-type: none">Improving energy efficiencyTransitioning to captive energy generationConsuming energy from secondary resourcesMonitoring and disclosing information on the volume of energy consumed <p><i>See the following chapters of the Report: Energy efficiency</i></p> |

| UN Goal | NLMK Group's contribution |
|---|---|
|  | <p>Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all</p> <ul style="list-style-type: none">Fulfilling tax obligationsEnsuring equal access for all Group employees to social benefits and creating equal opportunities for high performance, professional growth, and the development of creative potentialCreating jobs in the regions where we operateImplementing training and development programmes to enhance employees' professional skillsEnsuring decent and safe working conditionsDeveloping NLMK Group's human rights policy prohibiting forced and child labour, recognizing the right to a minimum wage, outlawing discrimination, and guaranteeing safe working conditionsEnsuring the transparency of procurement proceduresSupplier's Code of Business Conduct, which is binding for all counterpartiesEvaluating supplier compliance with applicable occupational health and safety standards as part of auditing and qualifying suppliers and contractorsImplementing initiatives to minimize the Group's environmental footprint <p><i>See the following chapters of the Report: Our team, Developing local communities, Occupational health and safety, Human rights, Supply chain management, Environmental protection</i></p> |
|  | <p>Ensure sustainable consumption and production patterns</p> <ul style="list-style-type: none">Increasing the efficiency of natural resource usageRecycling ferrous scrapImplementing a series of measures aimed at improving energy efficiency and the efficiency of resource use and reducing the environmental footprint of operationsUpgrading equipment and improving technology in order to minimize their negative impact on human health and the environment <p><i>See the following chapters of the Report: Environmental protection</i></p> |
|  | <p>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels</p> <ul style="list-style-type: none">Countering corruption and fraud and preventing conflicts of interestIntroducing NLMK employees to the Code of Corporate Ethics and Anti-Corruption PolicyIntroducing counterparties to the Supplier's Code of Business ConductCreating and continuously improving efficient corporate governance practicesCreating and developing a system of government relationsEnsuring human rights protectionComplying with applicable laws, including occupational practicesOpenly interacting with stakeholders and informing stakeholders about the Company's positive and negative impactsCreating feedback channelsMonitoring and regular reporting on the management of environmental aspects and disclosing information about legal non-compliance, including with environmental protection and labour laws <p><i>See the following chapters of the Report: Corporate governance, Operational control and risk management, Information for shareholders and investors, Environmental protection</i></p> |
|  | <p>Strengthen the means of implementation and revitalize the global partnership for sustainable development</p> <ul style="list-style-type: none">Cooperating with government authorities to ensure that the interests of local communities are taken into account in decision-makingDisclosing information about payments to the state budgetsConcluding partnerships with NGOs to implement programmes which aim to develop local communitiesSupporting sustainability initiatives implemented by Russian and international industry organizationsStrengthening partnerships with other companies in the industryInvesting in the regions where the Company operates (volunteer and charitable projects as well as social support)Promoting sustainable development practices as part of stakeholder engagement (including through a regular environmental assessment of suppliers)Publishing non-financial reporting in accordance with the GRI standardsDeveloping practices of non-financial information collection throughout the Group <p><i>See the following chapters of the Report: Information for shareholders and investors, Developing local communities, Environmental protection, Supply chain management, About the Report</i></p> |

GENERATING ECONOMIC
VALUE

By implementing its activities in various areas of sustainable development, NLMK Group generates additional value for its stakeholders. In 2019, the volume of distributed economic value amounted to \$11,111 m¹.



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

| Indicator | Stakeholder group | 2016 | 2017 | 2018 | 2019 |
|--|----------------------------|---------|---------|----------|----------|
| Generated direct economic value | | 7,684 | 10,104 | 12,069 | 10,578 |
| Revenue | Wide range of stakeholders | 7,636 | 10,065 | 12,046 | 10,554 |
| Revenue from financial investments | | 39 | 29 | 21 | 18 |
| Income from sale of assets | | 9 | 10 | 2 | 6 |
| Distributed economic value | | (7,065) | (9,773) | (11,565) | (11,111) |
| Operating expenses | Wide range of stakeholders | (5,255) | (6,994) | (7,967) | (7,516) |
| Employee wages and other payments and benefits paid to employees | Employees | (824) | (960) | (979) | (970) |
| Payments to providers of capital | Shareholders and investors | (667) | (1,354) | (1,946) | (2,169) |
| – including dividends paid | | (583) | (1,285) | (1,890) | (2,120) |
| – including interests paid to creditors | | (84) | (69) | (56) | (49) |
| Payments to government | Government authorities | (307) | (454) | (662) | (445) |
| Community investments | Local communities | (12) | (11) | (11) | (11) |
| Non-distributed economic value | | 619 | 331 | 504 | (533) |

¹. Calculated as required by GRI Standard 201.

PARTICIPATION IN INDUSTRY
ASSOCIATIONS AND EXTERNAL
INITIATIVES

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

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

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

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

| Association/Initiative | NLMK Group's status |
|---|--|
| World Steel Association, an international association of iron and steel product manufacturers | <ul style="list-style-type: none">Membership in the Association2018 signatory to the Sustainable Development Charter of the World Steel AssociationParticipation in conferences and seminars enabling the sharing of best practices in occupational health and safetyProvision of information about sustainability indicators |
| UN Global Compact | <ul style="list-style-type: none">Participant in the Global Initiative |
| Russian Union of Industrialists and Entrepreneurs | <ul style="list-style-type: none">Membership in the Management Bureau and the BoardChairmanship of the Commission on MetalsParticipation in other Commissions and Committees, including: the Commission on Mining, the Committee on Corporate Social Responsibility and Demographic Policies, the Committee on Vocational Training and Qualifications, the Committee on Competition Development, and Committee on Ecology and Environment Management |
| Russian Steel | <ul style="list-style-type: none">President and Vice President of the AssociationMembership in all commissions of the Association, including the Commission for protection of labour, industrial and environmental safety |
| European Steel Association (EUROFER) | <ul style="list-style-type: none">Membership in the Association and on the BoardParticipation in working groups |
| Council of Electricity Consumers of the Russian Federation | <ul style="list-style-type: none">Membership in the Council |
| Expert Council of the Committee on Transport and Construction of the State Duma of the Russian Federation | <ul style="list-style-type: none">Participation in the Council as an expert |
| RUSLOM.COM (Non-Profit Partnership National Self-Regulatory Organization for the Recycling of Ferrous and Non-Ferrous Metal Scrap and Waste and Recycling of Vehicles) | <ul style="list-style-type: none">Party to the Partnership |
| Anti-Corruption Charter of Russian Business | <ul style="list-style-type: none">Party to the Charter |
| Steel Construction Development Association | <ul style="list-style-type: none">Participation in the Association |

2019 PERFORMANCE REVIEW¹

- Sales decreased to 17.1 m t (-3% yoy) due to lower steel output amid major repairs.
- Revenue decreased by 12% yoy to \$10.6 bn amid falling steel product prices and lower sales due to major repairs at the NLMK Lipetsk BF and BOF facilities.
- EBITDA totalled \$2.6 bn (-29% yoy) given a decrease in revenue and narrower steel/raw material spreads. EBITDA margin was down to 24% (-6 p.p. yoy).
- Free cash flow totalled \$1.5 bn. The 25% decline yoy is associated with a decrease in EBITDA and growth in capex as part of Strategy 2022.

OPERATING PERFORMANCE

Steel output² decreased by 10% yoy to 15.7 m t amid capital repairs at the NLMK Lipetsk BF and BOF facilities, and low demand for billets on export markets.

Sales³ decreased by 3% yoy to 17.1 m t, following a decline in production output, which was partially offset by selling off stocks that had accumulated by the end of 2018 at the beginning of the year.

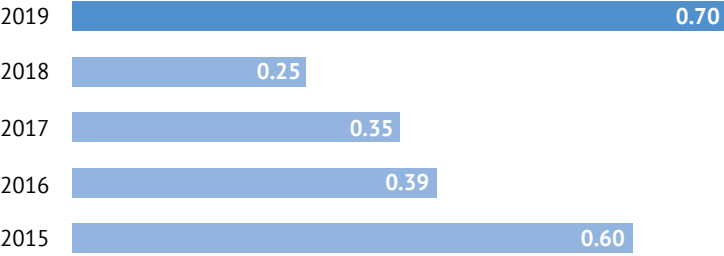
Sales breakdown: Finished steel sales increased by 3% yoy, up to 11.1 m t. HVA sales increased by 2% yoy to 5.1 m t. The share of HVA in the sales portfolio grew by 1 p.p. to 30%.

Sales by region: Sales on home markets (with NBH) increased to a record high of 11.4 m t (+7% yoy) due to an increase in Russian sales. U.S. sales decreased by 3% yoy due to lower demand for uncoated flats. Sales of NLMK's European companies remained flat yoy.

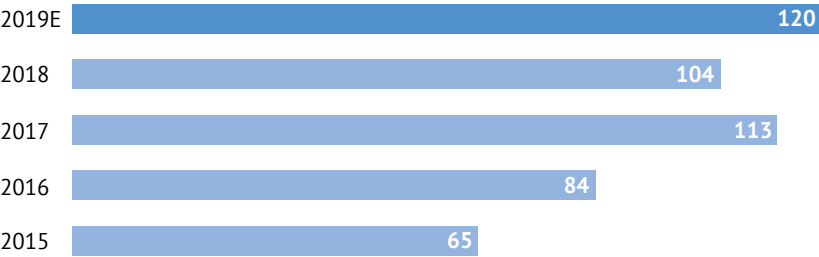
EBITDA MARGIN, %



DEBT LEVERAGE (NET DEBT/EBITDA)



DIVIDENDS PAYOUT, % OF FCF



SALES VOLUME, M T



FINANCIAL PERFORMANCE

Revenue

Revenue totalled \$10.55 bn (-12% yoy). The increase in the share of finished and HVA products in the sales mix partially offset the 10% yoy reduction in average sales prices and the decrease in steel product sales volumes.

The share of finished steel in revenue grew to 68% (+3 p.p. yoy). The share of HVA products totalled 38% (+2 p.p. yoy) amid lower sales of semis.

The Russian market's share of revenue grew by 7 p.p. yoy to 41%, driven by a 15% yoy increase in steel product sales on the Russian market. The shares of the US (18%) and the EU (18%) were down by 3 p.p. and 1 p.p. yoy, respectively.

The share of the Group's revenue from sales on its home markets (Russia, the US, and the EU), including NBH JV sales, grew by 5 p.p. yoy to 71%.

EBITDA⁴

EBITDA declined by 29% yoy to \$2.56 bn due to the narrowing of steel/raw material price spreads, which was partially offset by an improvement in the product portfolio structure and operational efficiency gains.

Net profit

Net profit decreased by 40% yoy in 12M 2019 due to a decrease in EBITDA and higher effective income tax rate (NLMK USA loss).

“The overall situation on steel product markets in 2019 was rather challenging. H2 2019 saw prices fall below the cycle average. The dive was so deep that we estimate that 80% of global steel production was loss-making. The margins in the sector were further pressured by increasing prices for raw materials.

“Given the low phase of the market, NLMK carried out major overhauls at its blast furnace and BOF operations, resulting in a 3% yoy reduction in steel sales in 2019.

“NLMK Group revenue in 2019 decreased by 12% yoy. EBITDA was \$2.6 bn, which is 29% lower than the previous year. The major factor that drove down our financial performance was the decline in prices for steel products. EBITDA margin decreased by 6 p.p. yoy to 24%.

“In 2019, we saw the first gains from Strategy 2022. The total structural EBITDA gains from operational efficiency programmes and investment programme projects exceeded \$200 m pa (relative to the 2018 cost base).

“The net debt/EBITDA ratio reached 0.7x. The growth was associated with the active implementation phase of our investment programme as part of Strategy 2022, and a higher dividend payout in line with NLMK’s new Dividend Policy adopted in March 2019.

“Free cash flow totalled \$1.5 bn. A positive free cash flow and keeping the net debt/EBITDA ratio below 1.0x enabled NLMK management to recommend that the Company’s Board of Directors pay out Q4 dividends in the amount of RUB 5.16 per share.

“Additional information is available in the Company’s press release on 12M 2019 IFRS financial results and in five-year highlights on our website.”

Shamil Kurmashov,
NLMK Group CFO

^{1.} Excluding NBH, unless otherwise specified
^{2.} Steel output with NBH
^{3.} Consolidated sales are given excluding NBH

^{4.} EBITDA used in NLMK’s financial releases is calculated as operating profit before equity share in the results of joint ventures, impairment of non-current assets and losses from fixed asset retirement, adjusted for depreciation and amortization. EBITDA is not an indicator of operating profit, operating activity, or liquidity under IFRS, and NLMK discloses it because equivalent indicators could be used by investors and analysts. That said, NLMK’s EBITDA should not be viewed on a standalone basis, or in place of profit before tax, or cash flows from operations, as defined by IFRS, or as an indicator of operational efficiency, or as the sum of free cash funds that NLMK can invest into business development. NLMK’s EBITDA margin and EBITDA might not be comparable to similar indicators disclosed by other companies as there are no commonly accepted rules for calculating them. For instance, NLMK’s EBITDA is calculated similar to what is termed as ‘Adjusted EBITDA’ at other companies, as NLMK’s EBITDA excludes other profit/loss items in addition to interest payments, income tax, depreciation, and amortization.

Free cash flow

Free cash flow decreased by 25% yoy to \$1.5 bn with a reduction in cash flow from operating activities and higher capex as part of Strategy 2022. Operating cash flow decreased by 4% yoy to \$2.6 bn, driven by the reduction in EBITDA, which was partially offset by the release of cash from working capital.

Cash inflow from working capital totalled \$465 m (vs. an outflow of \$261 m during 2018) due to:

- +\$314 m: a decrease in receivables driven by lower steel product sales volumes and prices
- +\$284 m: inventory reduction due to lower prices, lower exports of slabs and long products, as well as inventory optimization across the supply chain
- -\$132 m: decrease in payables

Investment

NLMK Group's investment increased by 59% yoy to \$1.1 bn in 12M 2019 in line with the guidance. The growth in investment was associated with the overhauls of the BF and BOF operations at NLMK Lipetsk and the active phase of the investment programme as part of Strategy 2022.

Dividends

The Board of Directors recommended NLMK shareholders approve Q4 2019 dividends in the amount of RUB 5.16 per share. Taking into account dividends accrued in Q1-Q3 2019, dividends for 12M 2019 can total RUB 19.4 per share, which is approximately 120% of NLMK Group's free cash flow in 2019.

Debt leverage

Total debt in 2019 increased by 28% yoy to \$2.66 bn, which was related to the placement of \$500 m in 7-year Eurobonds. Quarter-on-quarter, the Company's total debt decreased by 1% due to the scheduled repayment of Eurobonds.

Net debt in 2019 reached \$1.79 bn, driven by the implementation of the investment programme as part of Strategy 2022, coupled with a cash outflow towards dividend payments. Net debt/EBITDA stood at 0.7x. Quarter-on-quarter, net debt increased by 3%.

Segmental performance

NLMK Russia Flat

EBITDA decreased by 36% yoy amid narrower steel/raw material spreads.

NLMK Russia Long

EBITDA decreased by 60% yoy, following a narrowing of price spreads, which was partially offset by operational efficiency gains and a weaker ruble.

Mining Division

EBITDA increased by 10% yoy following the increase in revenue. EBITDA margin grew to 74%.

NLMK USA

EBITDA was -\$37 m against last year's earnings of \$253 m. The indicator took a steep dive due to a narrowing of slab/rolled steel spreads related to rolled product price adjustments and the use of Lipetsk slabs purchased in early 2019, with a 25% import tariff priced into slabs. NLMK USA stopped purchasing Lipetsk slabs in Q2 2019. Excluding import tariffs from the stock, 2019 EBITDA would be +\$27 m.

NLMK DanSteel and plate distribution network

EBITDA was \$8 m (vs. a \$17 m loss the previous year), supported by a wider plate/slab price spread and product mix expansion following the implementation of the investment programme.

JV performance (NBH)

EBITDA was -\$134 m (-\$111 m, excluding non-operating provisions for NLMK Clabecq accrued in Q2) vs. -\$87 m the previous year, amid narrower rolled product/slab price spreads and lower plate sales.

SUSTAINABILITY PERFORMANCE

Occupational safety

NLMK Group adopted its OHS strategy in 2019 based on the principles of the global Vision Zero concept and conducted a risk factor analysis for the period of 2014–2019, which will help reduce injury rates and prevent accidents at NLMK facilities on the Strategy 2022 horizon.

Minimizing environmental footprint and energy efficiency improvement

The Group allocated \$78 m to green investment projects in 2019. One of the key events of 2019 was the approval by the Group's Board of Directors of the NLMK Group CO₂ Emission Reduction Programme, which aims to reduce specific CO₂ emissions across NLMK Group from 1.96 t/t of steel in 2018 to 1.94 t/t of steel in 2023.

An important step made in 2019 was the launch of a new power plant project, which will use by-product gases from steelmaking processes as fuel. Once this power plant is put into operation, the Lipetsk site's energy self-sufficiency will jump from the current level of 65% up to 94% which, in turn, will make it possible to reduce greenhouse gas emissions (CO₂) by 650,000 t per year.

Renewable energy sources made up 5.1% of total energy consumption in 2019.

Our team and local communities

One of the Company's significant achievements in 2019 was the implementation of a major project to switch to performance-based compensation management. Starting from 2019, more than 90% of NLMK employees switched to this system.



In 2019, the Management Board approved the NLMK Group Social Strategy through 2022.

An employee relocation policy was also developed in 2019 to allow employees to move freely to new work locations in any regions where the Company operates, thus enhancing opportunities for career and professional growth.

In 2019 the Company expanded the geographical scope of its 'Steel Tree' grant competition, which aims to support employees' environmental initiatives and social projects.

Promoting responsible business practices

Another important step made in 2019 was the approval of the Sustainable Development Policy, which defines NLMK Group's principles, goals, and objectives in environmental protection, occupational health and safety, ethical, social, economic, and other aspects of sustainable development, and also establishes a mechanism to pursue the related agenda at the level of the NLMK Board of Directors.

On top of that, the Company adopted revised Regulations on the Board of Directors committees in 2019, which put the Board's committees in charge of defining the Company's goals and strategies in mitigating its environmental footprint and enforcing the full disclosure of sustainability information.

Joining global initiatives

In 2019, the Company joined the UN Global Compact – a UN global initiative for sustainable development and social responsibility of businesses. By joining the initiative, NLMK Group confirmed its commitment to incorporating the Ten Principles of the UN Global Compact covering human rights, labour, environment, and anti-corruption in its strategies, policies and procedures, and to supporting and sharing the sustainable development goals.

ABOUT THE REPORT

OUR APPROACH TO PREPARING REPORTS

NLMK Group's 2019 Annual Report (the Report) discloses information about financial and business operations along with data on the Company's achievements in sustainability management for the period from 1 January 2019 to 31 December 2019. [GRI 102-50](#)

NLMK prepares its Annual Report on a yearly basis. The Report includes information about the Company's sustainability activities in the relevant topic-specific sections. The Company's most recent annual report was published in April 2019. Electronic versions of previous reports can be found on the Company's official website. [GRI 102-51, 102-52](#)

Starting from 2018 the Company uses the recommendations of the Global Reporting Initiative (GRI Standards). The core¹ option was selected for information disclosure. The GRI Content Index listing the disclosures included can be found in the Appendix. [GRI 102-54, 102-55](#)

The Report also covers compliance with the principles of the UN Global Compact to which the Company acceded in 2019 and the OECD Principles of Corporate Governance based on which the Group strives to conduct its activities.

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

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

SCOPE OF REPORTING

[GRI 102-45](#)

Information about the Group's financial and business activities is disclosed in accordance with its 2019 IFRS consolidated financial statements.

Data relating to NLMK's operating activities and sustainability information are presented within the scope shown in the table below, unless otherwise indicated in the text of the Report.

SCOPE OF REPORTING ABOUT NLMK OPERATIONS AND SUSTAINABILITY ACTIVITIES

| | |
|--|---|
| Russia | |
| NLMK Russia Flat Products | |
| NLMK Lipetsk | Steel and flat products |
| VIZ-Steel | GO electrical steel |
| Altai-Koks | Coke |
| NLMK Trading SA | Trader (located in Switzerland) |
| NLMK Russia Long Products | |
| NLMK Ural | Steel and long products |
| NLMK Kaluga | Steel and long products |
| NLMK Metalware | Metalware |
| Vtorchermet NLMK | Scrap processing |
| Mining Division (Russia) | |
| Stoilensky | Extraction and processing of iron ore |
| Stagdok | Extraction and processing of flux limestones |
| Dolomit | Extraction of flux dolomite |
| USA | |
| NLMK USA | |
| NLMK Pennsylvania LLC & Sharon Coating LLC | Flat products |
| NLMK Indiana LLC | Steel and flat products |
| EU | |
| NLMK DanSteel and plate distribution network | |
| NLMK DanSteel A/S | Plate |
| NBH Segment | |
| NLMK Clabecq S.A. | Plate |
| NLMK Verona SpA | Plate |
| NLMK La Louviere S.A. | Strip |
| NLMK Strasbourg S.A. | Strip |
| Service and Supporting Businesses | |
| NLMK Trade House | Sales of NLMK Group products |
| Novolipetsk Steel Service Centre (Metallobaza) | Sales of NLMK Group products, manufacturing of plastic and steel products |
| Ussuriysk Steel Service Centre (Metallobaza) | Sales of NLMK Group products |
| NLMK Engineering | Design and survey operations |
| SMT NLMK | Construction |
| NLMK IT | IT and computing services |
| NLMK Communications | Telecom services |
| VIZ | Steel baths |
| VIZ-Broker | Customs brokerage services |
| Gazobeton-48 | Gas-concrete blocks |
| NLMK INDIA Service Center Pvt Ltd | Cutting and sales of GO steel |
| Other | - |

^{1.} The GRI Standards: Core option requires obligatory disclosure of a selected set of indicators from GRI Standard 102 (General disclosures), as well as at least one indicator from the selected topic-specific GRI Standards

THE PROCESS OF DEFINING MAJOR THEMES

GRI 102-46

In the process of defining the Report's content, NLMK identified significant economic, environmental, and social topics that are of the greatest importance to the Company and its stakeholders. This approach was developed based on the requirements set out in the GRI Standards.

For the preparation of the 2019 Report, the heads of NLMK's functional areas updated the list

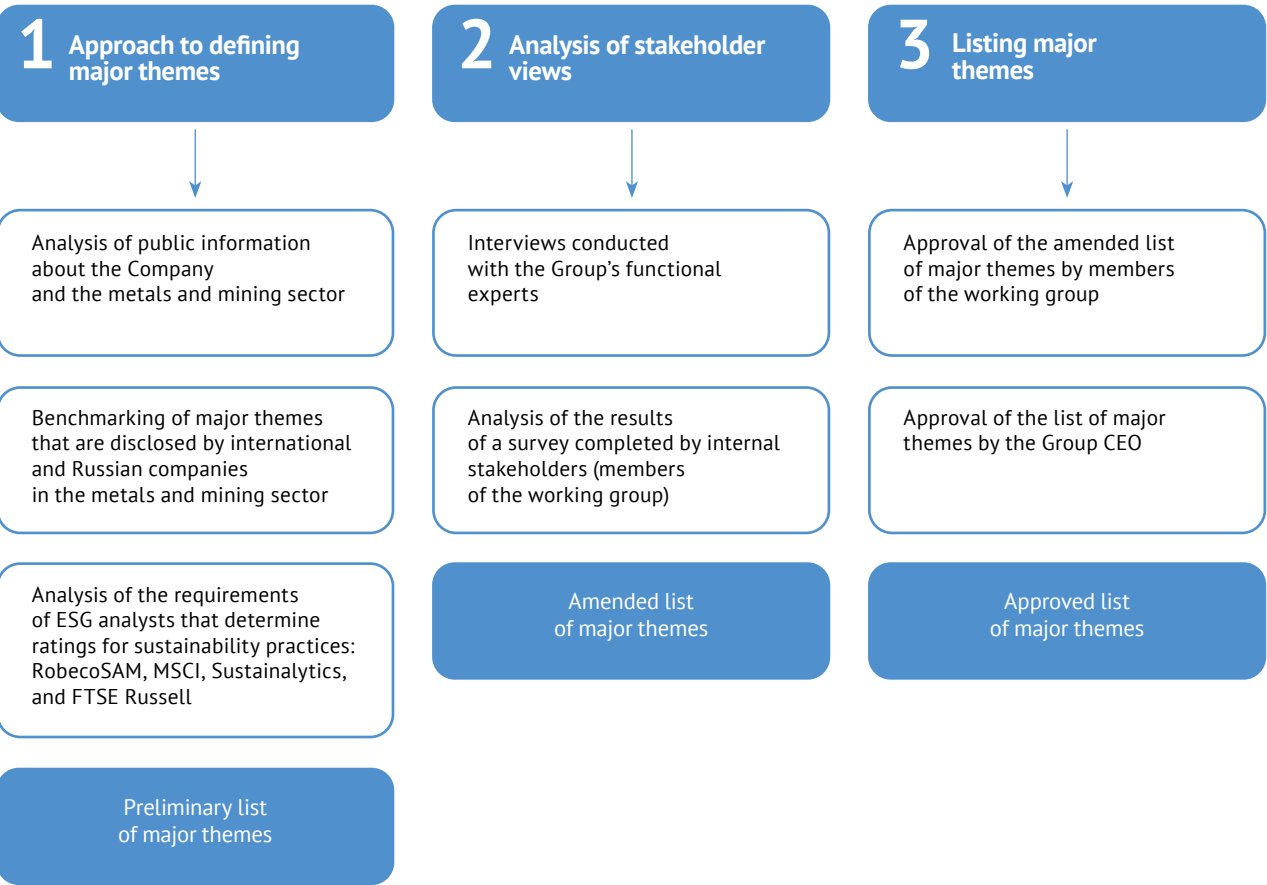
of major themes based on an analysis of stakeholder (shareholders, investors, and analysts) requirements pertaining to the environment, the social sector, corporate governance, local communities, the authorities, market and social trends, and GRI Standards.

A total of 16 major themes were identified and approved based on the analysis, including disclosures from each of the following categories: economic, environmental, and social.

These disclosures were also prioritized on the basis of a survey of internal stakeholders.

The GRI information disclosure requirements were met to the same extent for all topics regardless of their level of materiality. At the same time, topics with a high level of materiality were given special attention: additional detailed information about them is provided in the Report.

APPROACH TO DEFINING MAJOR THEMES



MAJOR THEMES GRI 102-47

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

EXTERNAL ASSURANCE

Proper disclosure of qualitative and quantitative information prepared in accordance with the GRI Standards for selected indicators (sample information) has been verified in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits

or Reviews of Historical Financial Information. The independent auditor's opinion on the results of the audit, which provides limited confidence in the sample information, can be found in the Appendix. The independent auditor was AO PricewaterhouseCoopers Audit. GRI 102-56

METHODOLOGY FOR PREPARING
AND REVISING DATA

The calculation, collection, and consolidation of the operational, social, and environmental indicators presented in the Report were carried out in accordance with the reporting principles and requirements of the GRI Standards based on the Group's existing processes for collecting and preparing business information. [GRI 102-48, 102-49](#)

Financial information is presented in US dollars or Russian rubles in accordance with the financial reporting system used in the Group. In cases where financial data were recalculated in dollars, the weighted average rate for 2019 was used: USD 1 = RUB 64.74 or the rate on 31 December 2019: USD 1 = RUB 61.91.

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

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

For the sake of comparing data, the most significant indicators of the Group's activities will be presented not only for the reporting period, but also for the previous four years. The scope of 2019 information



disclosure covers both the Group's Russian and international companies, unless the text states otherwise.

In 2019, the Company significantly expanded its disclosure of greenhouse gas emissions, including direct and indirect emissions (in m t) and specific emissions per dollar of revenue generated. In the next reporting periods, the Company plans to continue disclosing this information. Major step in 2019 was disclosure of information about electrical power generated from renewables.

The 2019 Report reveals the Company's approach to managing the tailings storage facility. The decision to add this information to the Report was made in response to the international community's increased concern about dam management following the incident in Brazil in January 2019. The list of health and safety indicators disclosed has also been expanded.

CONTACT DETAILS

We will be happy to answer additional questions regarding this Report as well as to receive feedback from our stakeholders in order to further develop and improve the content of the Company's future public reports. [GRI 102-53](#)

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FIVE-YEAR
HIGHLIGHTS

FINANCIAL PERFORMANCE¹, \$ M

| Indicator | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|--------|--------|--------|--------|--------|
| Revenue | 8,008 | 7,636 | 10,065 | 12,046 | 10,554 |
| Net profit ² | 967 | 935 | 1,450 | 2,238 | 1,339 |
| EBITDA | 1,943 | 1,943 | 2,655 | 3,589 | 2,564 |
| EBITDA margin | 24% | 25% | 26% | 30% | 24% |
| Operating cash flow | 1,622 | 1,699 | 1,899 | 2,741 | 2,623 |
| Investment | 595 | 559 | 592 | 680 | 1,080 |
| Net debt | 1,161 | 761 | 923 | 891 | 1,786 |
| Free cash flow | 992 | 1,092 | 1,266 | 2,027 | 1,523 |
| Dividends, \$ per share | 0.1076 | 0.1535 | 0.2384 | 0.3524 | - |

OPERATING PERFORMANCE¹, '000 T

| Indicator | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|--------|--------|--------|--------|--------|
| Steel output | 15,866 | 16,438 | 16,850 | 17,285 | 15,531 |
| Steel output (with NBH) | 16,060 | 16,641 | 17,076 | 17,493 | 15,696 |
| Steel product sales | 15,829 | 15,925 | 16,469 | 17,591 | 17,069 |
| Finished steel sales | 9,793 | 10,211 | 10,759 | 10,762 | 11,056 |
| Sales to home markets | 10,140 | 10,225 | 10,650 | 10,573 | 11,377 |

SUSTAINABILITY PERFORMANCE

| Indicator | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|------|------|------|------|---------------------------|
| NLMK Group headcount, '000 people | 56.7 | 54 | 53.2 | 53.4 | 52.8 |
| Labour productivity, t of steel/pers., NLMK Lipetsk | 463 | 482 | 502 | 503 | 448 |
| LTIFR, NLMK Group employees | 1.12 | 0.82 | 0.97 | 0.69 | 0.76 |
| LTIFR, NLMK Group employees + contractors | 1.15 | 0.85 | 1.12 | 0.77 | 0.86 |
| Specific air emissions, kg/t of steel | 20.1 | 20.0 | 19.5 | 18.9 | 20.2 (18.9 ³) |
| Specific CO ₂ emissions, t/t of steel (Scope 1+2) ⁴ | 2.04 | 1.98 | 1.97 | 1.96 | 2.04 (1.98 ³) |

¹ Excluding NBH, unless otherwise specified
² Net profit attributable to NLMK shareholders
³ Specific emissions without influence of temporary factors associated with steel output reduction
⁴ See the following chapters of the Report: Environmental protection – Greenhouse emissions