



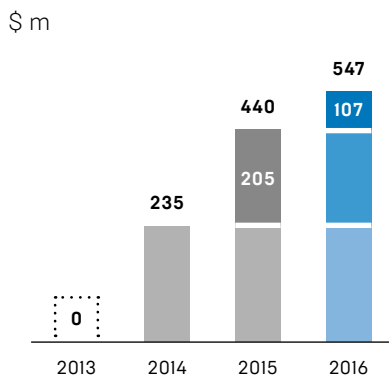
# ABOUT NLMK

REPORT/2016

# 2016 HIGHLIGHTS

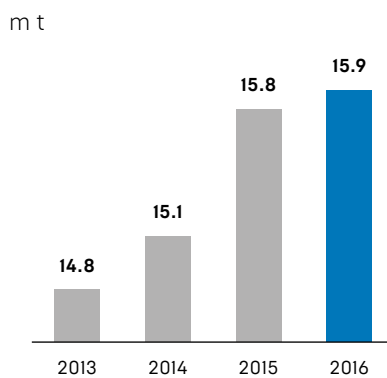
## SUCCESSFUL EXECUTION OF STRATEGY 2017\*

### SUBSTANTIAL NET GAIN FROM STRATEGIC INITIATIVES



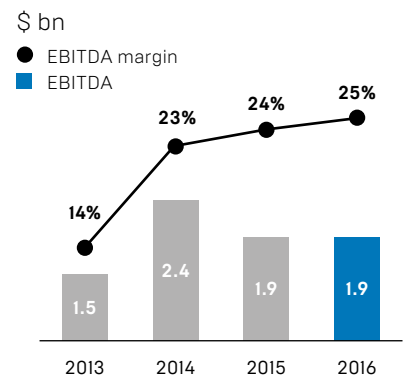
## RECORD OPERATING RESULTS

### CONTINUOUS GROWTH OF SALES VOLUMES



## GROWTH OF BUSINESS PROFITABILITY

### CONSISTENT GROWTH OF PROFITABILITY



The Group's self-sufficiency in pellets increased to

**100%**

November 2016: Pelletizing Plant launched at Stoilensky, with a capacity of

**6 m t** of pellets per year

**7%** growth in core equipment productivity

Blast Furnace #6 capacity increased by 7% to

**3.1 mtpa**

in October 2016, following major overhaul

## 2016 PLATTS GLOBAL METALS AWARDS

NLMK Group received the Steel Industry Leadership Award from global analytical agency S&P Global Platts in May 2016



### RELATED DOCUMENTS:

- [Strategy in Action, p. 27](#)
- [Key performance indicators, p. 32](#)

\* With NBH.

## KEY FACTS AND FIGURES

### Setting records in operations

In 2016, NLMK posted record operating results, steel output growing to 16.6 m t, and sales increasing to 15.9 m t.

### Stable financials and debt reduction

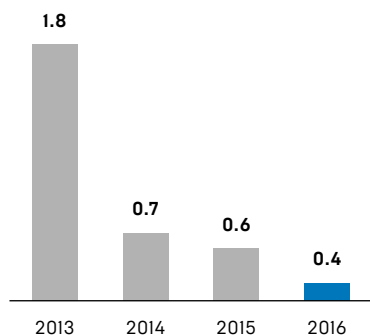
EBITDA margin expanded for a third year running to 25% in a weak market, due largely to gains from Strategy 2017. Debt was at a comfortable level below target.

### Growth in number of independent directors

Independent directors represent an overall majority on NLMK's Board of Directors. 2 of the 3 committees are chaired by independent directors.

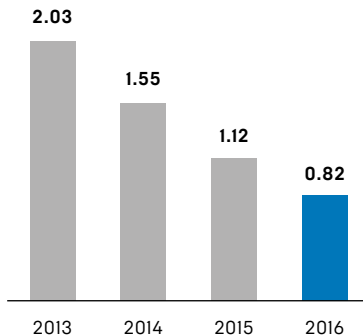
## STRENGTHENING FINANCIAL STANDING

### LOW LEVERAGE (NET DEBT / EBITDA)



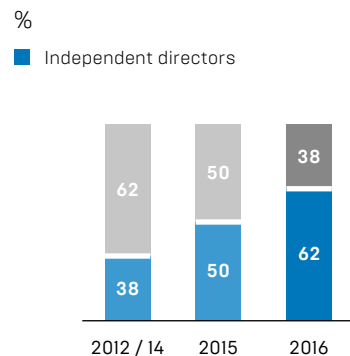
## ENHANCING OCCUPATIONAL HEALTH AND SAFETY

### CONSISTENT LTIFR\* REDUCTION (NLMK Group)



## IMPROVING CORPORATE GOVERNANCE

### INCREASE IN NUMBER OF INDEPENDENT DIRECTORS ON THE BOARD\*\*



A 7-year Eurobond was issued in June 2016 for

**\$700 million**

with a coupon rate of 4.5% and a maturity date of June 2023. This was used to cover short-term debt

## RESPONSIBLE LEADERSHIP

NLMK Group was ranked among the leaders in the 2016 rating compiled by the Russian Union of Industrialists and Entrepreneurs, in the 'Accountability and Transparency' and 'Vector of Sustainable Development' categories.

## EFFICIENT CORPORATE GOVERNANCE

Shareholders elected 5 independent members to the Group's Board of Directors in June 2016, which represents an overall majority.

[→ For more details](#)



# CEO STATEMENT

**OLEG BAGRIN**  
President and CEO of NLMK Group  
(Chairman of the Management Board)

Dear colleagues,

In 2016, NLMK Group once again performed exceptionally well, with a record high in both production and sales, leverage reaching a minimum and profitability growth for a third year running. Our occupational safety record is among the best in the global steel industry, and we further enhanced environmental performance.

## Market conditions

→ [For more details please refer to p.36 Market Review](#)

2016 proved to be a challenge. The year began with steel prices at a 12 year low and ended with price hikes in key steelmaking raw materials.

Unprecedented Chinese steel exports coupled with anaemic demand in several regions triggered a wave of protectionism and stronger localization of both supply and demand for steel products.

## NLMK leadership

→ [For more details please refer to p.38 2016 Financial and Operating Performance](#)

Vertical integration, cost control, sales diversification and a flexible business model enable NLMK to grow throughout the value chain and deliver outstanding operational and financial performance.

Our EBITDA margin reached 25%, compared to the industry average of 10%. Free cash flow increased and with it our level of liquidity, shoring up the Company's financial sustainability, as reflected by one of the highest credit ratings among Russian steel companies.

We were able to significantly increase dividends without jeopardizing financing for major investment projects.

Our successes were recognized by the expert community, with S&P Global Platts announcing NLMK as winner of the Industry Leadership Awards — Steel in 2016

## Strategy 2017 in action

→ [For more details please refer to p.27 Strategy in Action](#)

Over the past four years, we have implemented over a hundred investment projects and around 2,500 operational efficiency projects, which generated net gains of \$547 million. Operational efficiency and employee initiatives contributed about 70% of this.

Active employee engagement in continuous improvement processes not only impacts our bottom line today but also establishes the corporate culture that lays a strong foundation for the long-term growth and sustainable leadership of NLMK Group.

*Our successes were recognized by the expert community, with S&P Global Platts announcing NLMK as winner of the Industry Leadership Awards — Steel in 2016.*

*NLMK to grow throughout the value chain.*

Vertical integration,  
control over costs,  
diversification of sales,  
and a flexible business  
model



2017 will be  
decisive for NLMK  
both in terms  
of delivery of  
Strategy 2017,  
and in terms  
of further  
development.

In 2016, NLMK Group solidified its position on 'home' markets of Russia, Europe and the USA. A drop in demand couldn't prevent a sharp upturn in delivery of finished products in Russia and the USA. Our European operations were back to black thanks to an increase in sales of finished products that outstripped the market.

**THE EVENT OF THE YEAR IN THE RUSSIAN METALS & MINING INDUSTRY WAS THE LAUNCH OF THE STOILENSKY PELLETIZING PLANT, ONE OF THE LARGEST AND MOST MODERN IN EUROPE**

Captive production of iron ore pellets will deliver a gain of about \$150 million as early as 2017 by eliminating the need to buy expensive stock from the market.

### Looking to the future

We are counting on the gain from investment projects executed by NLMK companies to be around \$300 million over the next two years. We expect further gains of more than \$150 million from our operational efficiency projects.

We have begun development of a new strategic programme: Strategy 2022. We are discussing a number of developmental scenarios but it's already clear the new

cycle will be based on operational efficiency, profitable growth and innovation.

### One team

A well-balanced development strategy, highly efficient operations and the professionalism and engagement of our employees in business processes enable NLMK Group to look to the future with confidence.

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

I would like to express my sincere gratitude to our shareholders, customers, suppliers and contractors. I thank our employees across all of our divisions and companies for their commitment which enables NLMK Group to achieve its potential and be recognized as the leader of the global steel industry.

GROWTH OF SALES  
VS. 2013

**+7%**

GROWTH OF EBITDA  
MARGIN TO

**25%**

GROWTH OF LABOUR  
PRODUCTIVITY  
VS. 2013 BASE

**+22%**

GAINS FROM  
STRATEGY 2017

**+\$547<sup>M</sup>**

DECREASE IN LTIFR\*  
VS. 2013

**-60%**

→ Please see p.27 Strategy  
in Action for more details

# COMPANY PROFILE

NLMK Group is a leading international manufacturer of high-quality steel products with a vertically integrated business model.

## PRODUCTION CAPACITIES

**17** MILLION  
TONNES  
PER YEAR

**0.4x**

## NET DEBT/EBITDA

*Solid financial standing supported by a balanced financial policy and stable free cash flow generation*

**100%**

## STEELMAKING CAPACITY UTILIZATION RATE

*Capacity utilization of key sites running at 100% vs. a global average of about 70%*

**22%**

## OF RUSSIA'S STEEL PRODUCTION

*Leading steelmaker in Russia and among Top 20 leading steelmakers globally*

**\$194**

## CASH COST PER TONNE OF SLABS

*Most competitive cash cost among global steel manufacturers*

## EFFICIENT VERTICAL INTEGRATION

**55%**

*Self-sufficiency in energy*

**75%**

*Self-sufficiency in scrap*

**90%**

*Self-sufficiency in iron ore concentrate*

**100%**

*Self-sufficiency in pellets and coke*

**25%** EBITDA  
MARGIN

*Stable growth in profitability over the last few years against a backdrop of market instability thanks to execution of Strategy 2017*

## HIGH STANDARDS OF SUSTAINABILITY

*NLMK sustainability KPIs are in line with or approaching the level of best global practices for the steel industry, as a result of the Company's comprehensive initiatives:*

- Group LTIFR\* is 0.82 (0.34 for NLMK's Russian companies) vs. best practice of 0.6;
- Specific air emissions are 20.8 kg/t vs. best practice of 18.9 kg/t.

\* LTIFR — Lost Time Injury Frequency Rate (per million man-hours worked).

**MINING AND STEELMAKING  
OPERATIONS ARE LOCATED  
IN COST-EFFECTIVE  
REGIONS, AND FINISHED  
PRODUCTS ARE  
MANUFACTURED CLOSE  
TO CORE CUSTOMERS IN  
RUSSIA, NORTH AMERICA,  
AND THE EU.**

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## PRODUCTS

NLMK's steel products are used in a number of industries, from construction and engineering to the manufacture of power-generating equipment and offshore wind turbines.

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## PERFORMANCE

NLMK has the most competitive cash cost among global manufacturers and one of the highest levels of profitability in the industry.

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## SHARES

NLMK's ordinary shares, with a 16% free-float, are traded on the Moscow Exchange (ticker "NLMK") and its global depository shares are traded on the London Stock Exchange (ticker "NLMK:LI").

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## GLOBAL LEADERSHIP

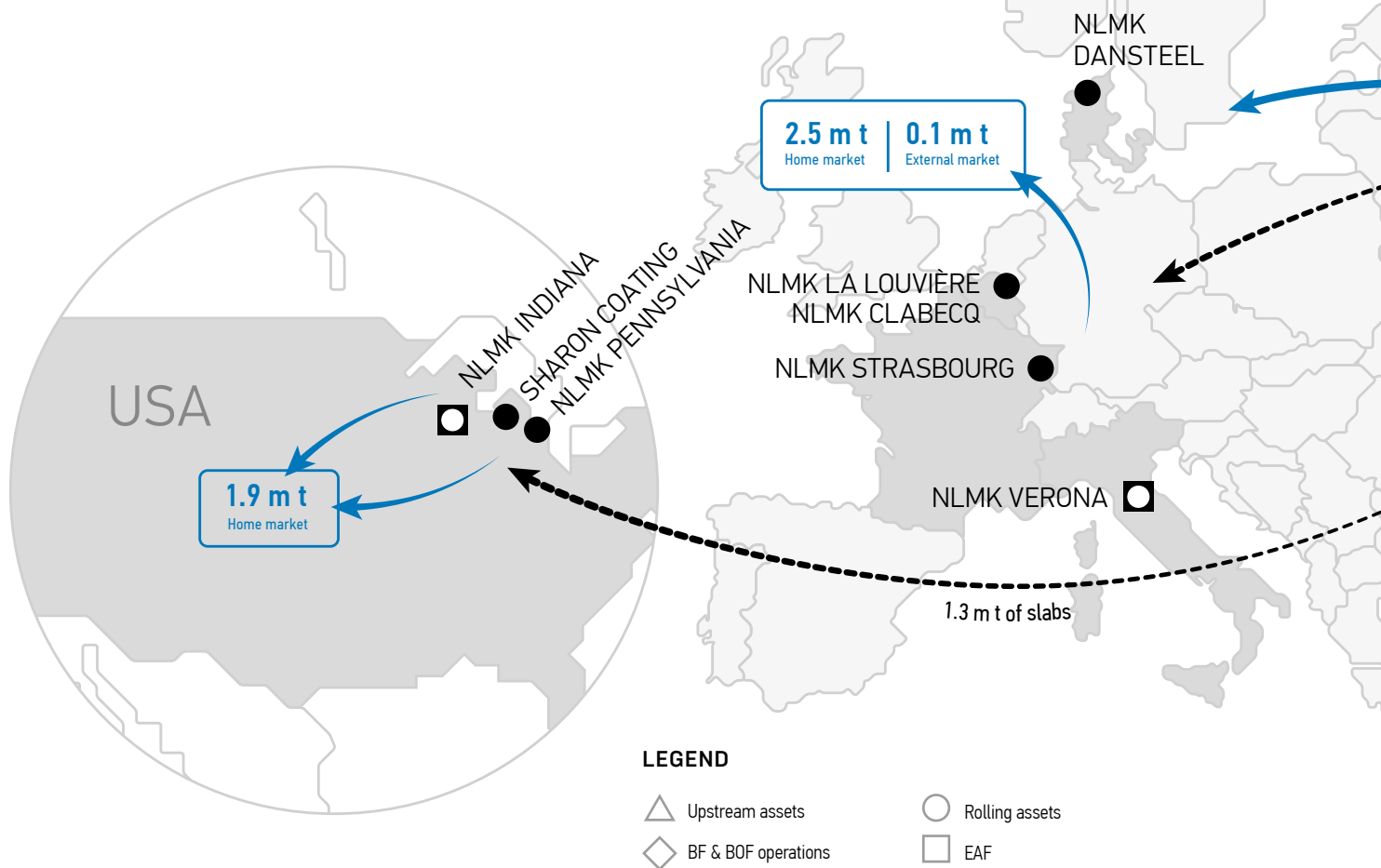
In 2016, NLMK Group received the Steel Industry Leadership Award from S&P Global Platts, a global analytical agency.

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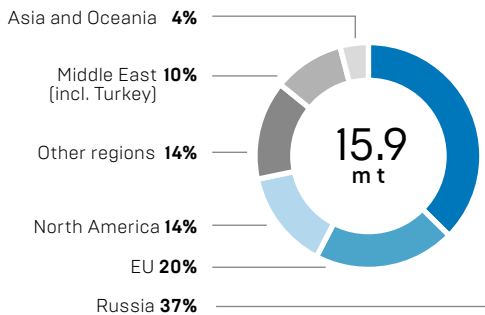
## OUR TEAM

Our corporate culture, which targets continuous development and brings together more than 54,000 professionals across multiple regions, serves as a solid foundation for further growth.

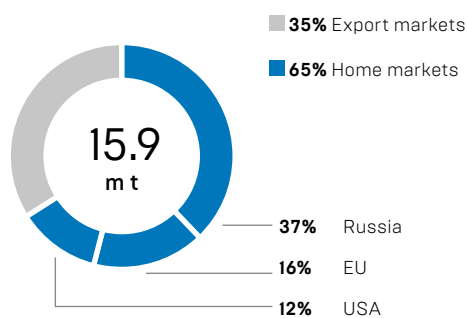
# WHERE WE MAKE AND MARKET STEEL



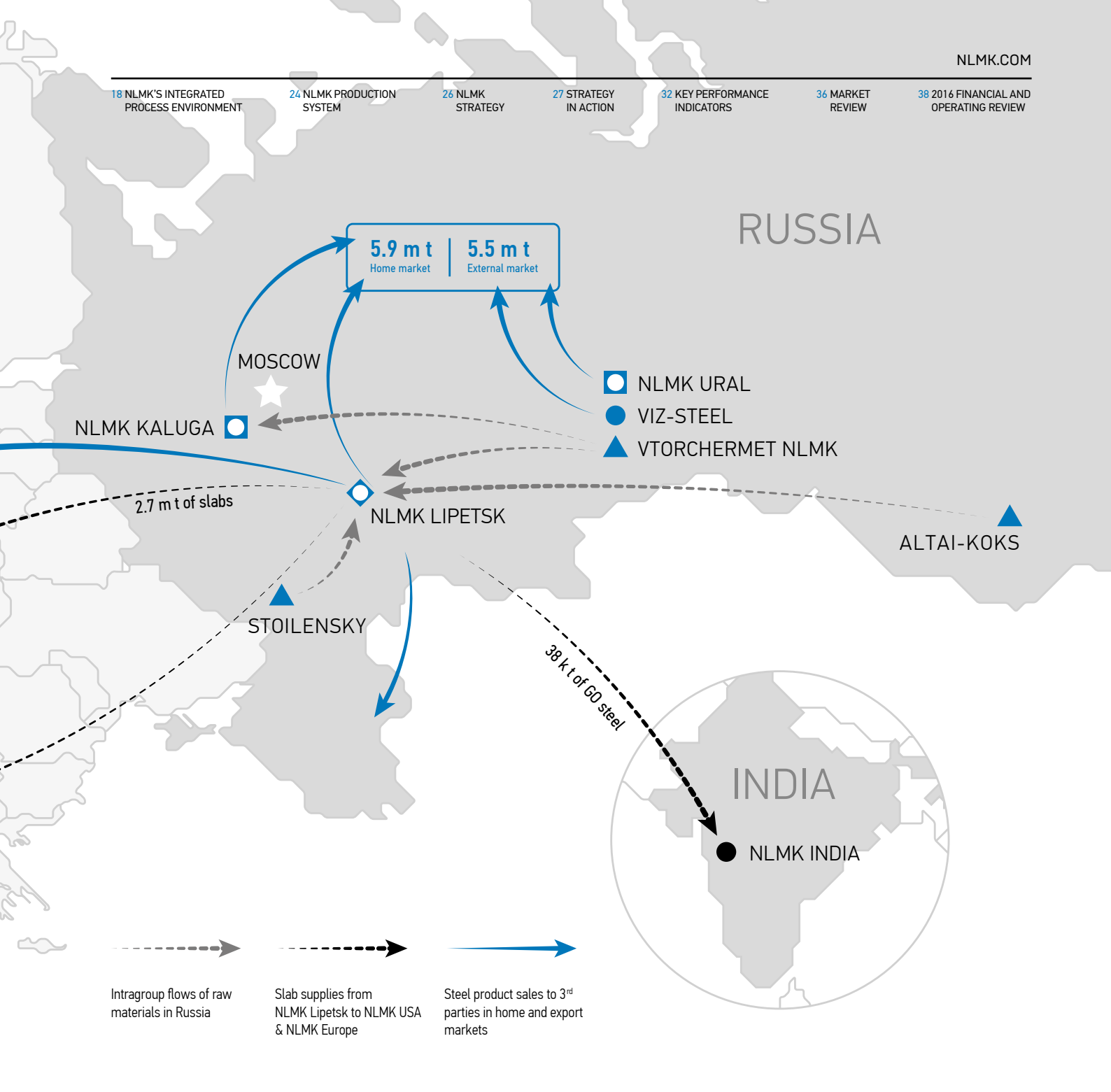
**STEEL PRODUCT SALES BY REGION**



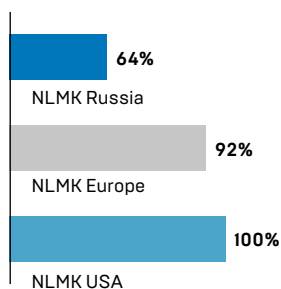
**STEEL PRODUCT SALES BY MARKET**





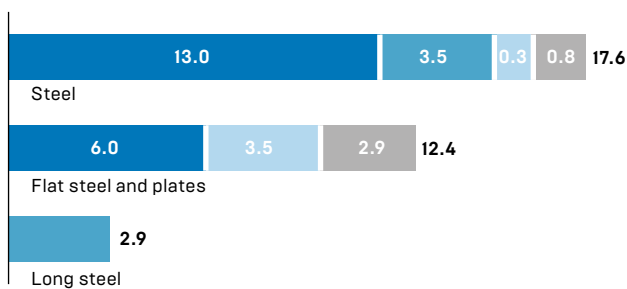


**SHARE OF FINISHED STEEL SALES IN HOME MARKETS**



**NLMK PRODUCTION CAPACITIES**

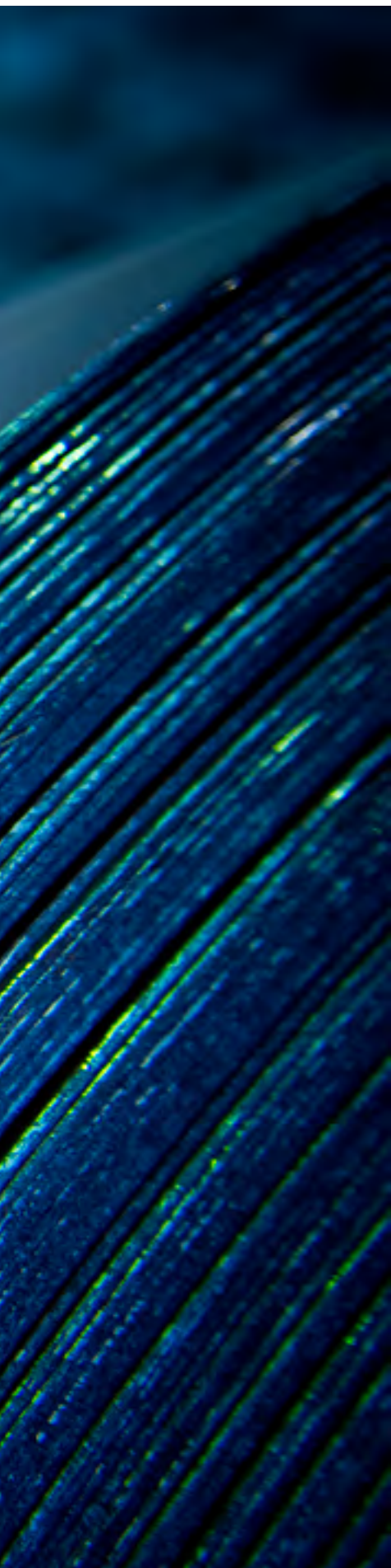
m t ■ NLMK Russia Flat ■ NLMK Russia Long ■ NLMK Europe ■ NLMK USA



NLMK 2016

# WHAT WE MAKE AND MARKET





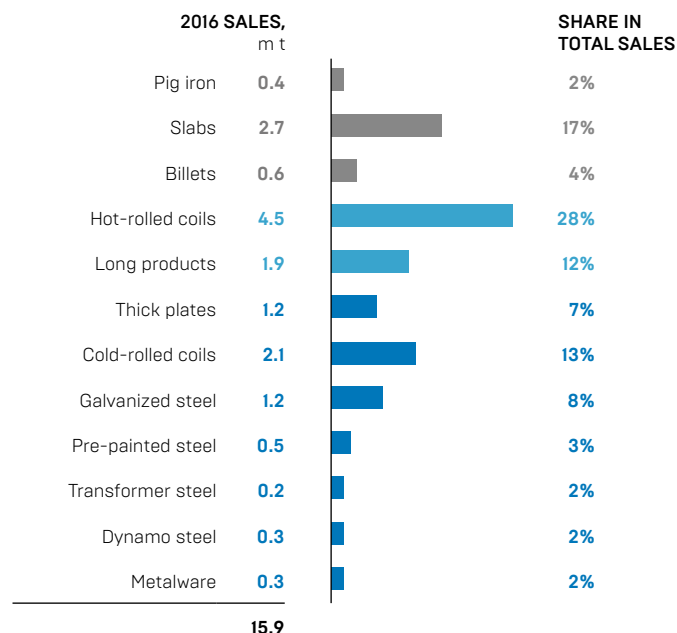
*NLMK 2016 steel product sales: 15.9 m t.*

## 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 80% of total output, 20% is accounted for by long steel used in construction.

### NLMK SALES TO THIRD PARTIES (WITH NBH)



- Semi-finished products
- Standard products
- High value added products

## OUR PRODUCTS

	 <b>SEMI-FINISHED PRODUCTS</b>	 <b>THICK PLATE</b>	 <b>HOT-ROLLED STEEL</b>	 <b>COLD-ROLLED STEEL</b>
<b>PRODUCTS</b>	<p>Semi-finished steel products for further processing: slabs are processed into flat steel products, billets are processed into long steel products.</p> <p>A wide range of semi-products, both standard and niche products with specific chemical composition, physical properties and dimensions.</p>	<p>Flat steel products. A range of standard products and niche abrasion-resistant and high-strength plates.</p> <p>Produced at NLMK Group's European plants from slabs supplied by NLMK Lipetsk.</p>	<p>Flat steel products that have been hot-rolled.</p> <p>A wide range of hot-rolled steel in sheets and coils with a variety of physical properties and performance characteristics.</p>	<p>Flat steel products that have been cold-rolled.</p> <p>A wide range of cold-rolled steel sheets and coils with a variety of physical properties and performance characteristics, including niche high ductility products.</p>
<b>SHARE OF TOTAL SALES</b>	<b>21%</b>	<b>7%</b>	<b>28%</b>	<b>13%</b>
<b>CONSUMING SECTORS</b>	Steelmaking, pipe industry.	Lifting and transport equipment, offshore wind power engineering, drilling platforms, shipbuilding, pipelines, boilers, tanks for aggressive environment (pressure, temperature, load, etc.).	Pipe industry, steel structures, shipbuilding, machine building, high-pressure vessels, yellow machinery, commercial, residential and infrastructure construction.	Automotive manufacturing, machine building, pipe industry, yellow machinery and white goods, commercial, residential and infrastructure construction.
<b>SITES</b>	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
<b>MARKET SHARE*</b>	<i>Global slab market</i> <b>12%</b>	<i>European market</i> <b>15%</b>	<i>Russian market</i> <b>11%</b>	<i>Russian market</i> <b>27%</b>

\* NLMK's share in apparent consumption.

## KEY FACTS AND FIGURES

### Balanced product portfolio

NLMK's product portfolio includes semi-finished products, as well as rolled steel with standard properties and unique products.

### Consumers in home markets

Our key customers in all our markets are the construction and the machine building industries, including automotive manufacturers, as well as the wind energy sector, ship building and yellow goods manufacturers in Europe. In Russia, we also supply our products to the pipe sector.

### NLMK's position in the global steelmaking sector

NLMK is one of the 20 largest steel producers in the world. The Company sells steel to 70 countries around the world. NLMK holds around 12% of the global slab market and is one of the world's largest producers of transformer steel.



### COATED STEEL

Galvanized and pre-painted steel from hot-rolled and cold-rolled steel.

Available in coils, strip and sheets.

**11%**

Automotive manufacturing, yellow and white goods, construction, facing materials.

NLMK Lipetsk  
NLMK Strasbourg  
Sharon Coating

Russian market  
**20%**  
galvanized steel

**24%**  
pre-painted steel



### ELECTRICAL STEEL

Dynamo (non-grain-oriented) and transformer (grain-oriented) electrical steel. Includes a range of standard products with ordinary properties and unique high-permeability steel.

Available in coils, strip and sheets.

**4%**

Electrical machines, transformers, power engineering, instrument making.

NLMK Lipetsk  
VIZ-Steel

Russian market  
**76%**  
dynamo steel

**~100%**  
transformer steel



### LONG PRODUCTS

Rebar in rods and coils, wire rod, sections.

**12%**

Construction.

NLMK Ural  
NLMK Kaluga

Russian market  
**20%**  
rebar



### METALWARE

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

**2%**

Construction, machine building.

NLMK Metalware

Russian market  
**21%**  
metalware

# NLMK GROUP BUSINESS MODEL

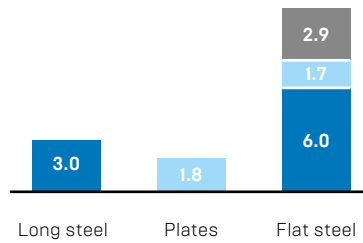
*A flexible and well-balanced business model secures industry leadership for NLMK Group.*



### FLAT STEEL PRODUCTION CAPACITIES

m t

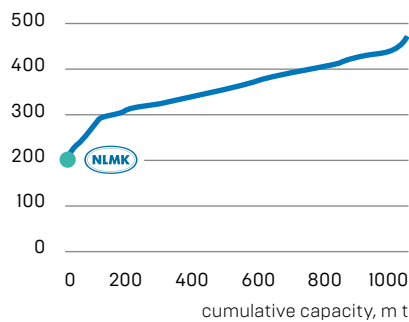
- Russia
- Europe
- USA



Production of a wide range of steel products from captive semis close to end consumers

### GLOBAL STEEL PRODUCTION COSTS IN 2016\* (integrated producers)

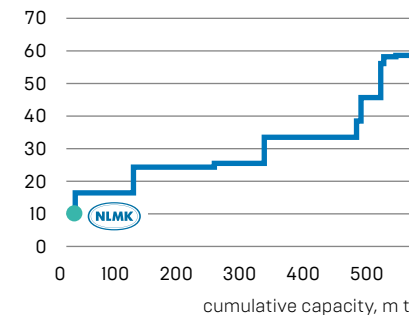
\$/t



High-quality cost-efficient steel produced from captive feedstock using advanced equipment

### IRON ORE CONCENTRATE PRODUCTION COST IN 2016\*\*

\$/t



One of the most cost-efficient iron ore producers in the world

\* Source: World Steel Dynamics.  
\*\* Source: Bloomberg.

# UPSTREAM

Worldwide cost leadership is achieved through a world-class resource base with leading-edge technology for mining and processing, an optimal process environment and the professionalism of the NLMK team.

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

## NLMK ADVANTAGES

### ➤ CAPTIVE ELECTRIC ENERGY

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

### ➤ CAPTIVE PRODUCTION OF COKE

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

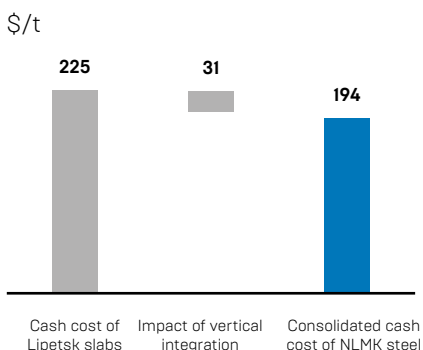
### ➤ IRON ORE PRODUCTION

Stoilensky is one of the most efficient iron ore producers in the world, with a production cost of around \$10/tonne of iron ore concentrate. Stoilensky's iron-ore reserves are upward of 5 billion tonnes. It is located 250 km from the Group's main production facility in Lipetsk.

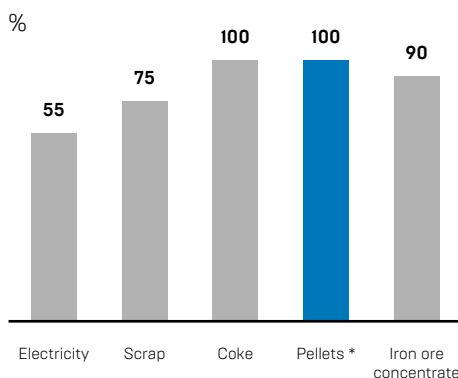
### ➤ NLMK'S SCRAP COLLECTION AND PROCESSING NETWORK

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

## IMPACT OF VERTICAL INTEGRATION ON REDUCTION IN CASH COST PER 1 TONNE OF STEEL IN 2016



## SELF-SUFFICIENCY IN KEY RESOURCES



## ORE RESERVES OF AROUND 5 BNT

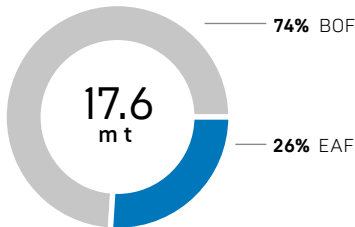
2016 FACTS AND FIGURES	IRON ORE PRODUCTION	PRODUCTION COST OF IRON ORE CONCENTRATE	PRODUCTION COST OF IRON ORE CONCENTRATE	DEVELOPMENT IN 2016	LAUNCH OF PELLETIZING PLANT WITH A PRODUCTION CAPACITY OF
	<b>17.2 MT</b> INCLUDING 0.2 M T OF PELLETS	<b>6.9 MT</b> EXCEEDS 100% OF NLMK LIPETSK'S NEEDS	<b>\$10</b>		<b>6 MT OF PELLETS PER YEAR</b> HIGH PRESSURE GRINDING ROLLER (HPGR) TECHNOLOGY AT STOILENSKY TO BOOST CONCENTRATE OUTPUT BY 1 M T

\* After pelletizing plant ramp-up.

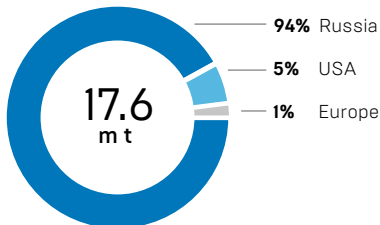
# MIDSTREAM

Leading-edge equipment and finely-tuned business processes enable the production of quality steel with a low production cost. NLMK Group's steel production capacity exceeds 17 million tonnes per year, 95% of which is made in Russia.

### NLMK STEEL PRODUCTION MIX (BY TYPE)



### NLMK STEEL PRODUCTION MIX (BY REGION)



## NLMK ADVANTAGES

### ➤ COST LEADERSHIP

NLMK is among the global leaders in cost. NLMK Group enjoys sustainable cost leadership through its unique business model and efficient vertical integration. The production cost of Lipetsk steel in 2016 was \$194 per tonne, compared to an industry average of \$340 per tonne.

### ➤ SALES VS. FURTHER PROCESSING

71% of NLMK steel is processed into finished products, 29% 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

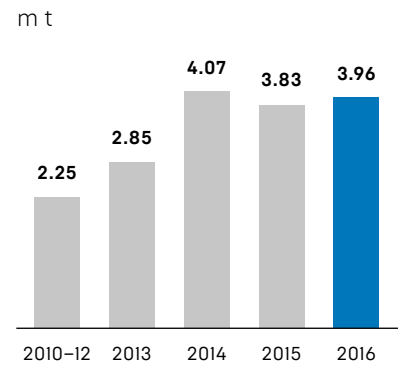
An expansive product offering and diversification of the Company's sales geography allow NLMK to maintain a high-capacity utilization rate.

NLMK's facility in Lipetsk, home to 80% of the Group's steel production capacity, posted 100% capacity utilization throughout the cycle in 2016, while the Group average was 95%.

### ➤ OPTIMAL LOGISTICS

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

### SLAB SUPPLIES TO SUBSIDIARIES AND AFFILIATES



2016 FACTS AND FIGURES	STEEL PRODUCTION	16.6 MT (INCL. NBH)
	NLMK GROUP STEELMAKING CAPACITY UTILIZATION RATE	95%
DEVELOPMENT IN 2016	PRODUCTION COST OF LIPETSK STEEL	\$194
	THE SCHEDULED OVERHAUL OF BLAST FURNACE NO.6 (BF-6) IN LIPETSK INCREASED ITS PRODUCTIVITY BY 7% TO	3.1 MT



# DOWNSTREAM

Finished products are made locally for the Company's strategic markets of Russia, the EU and the USA, in close proximity to consumers. With a total production capacity of finished products in excess of 15 million tonnes, NLMK can process as much as 90% 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.*

## NLMK ADVANTAGES

### ➤ HIGH QUALITY

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

### ➤ BALANCED PRODUCT PORTFOLIO

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

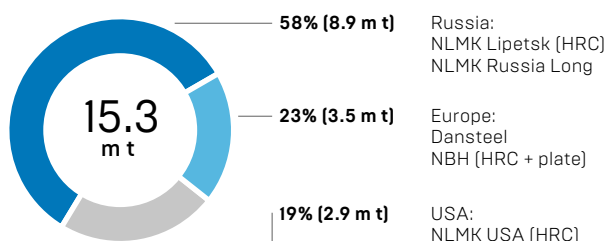
### ➤ DIVERSIFICATION OF SALES

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

### ➤ OPTIMAL PRODUCTION FOOTPRINT

*Due to the location of NLMK Group's rolling operations in strategic markets, 65% of steel is sold in the region where it was produced. This allows the Company to meet the customers' most challenging delivery timescales and respond rapidly to local demand fluctuations.*

## NLMK ROLLING CAPACITY BREAKDOWN (FLAT STEEL)



2016 FACTS AND FIGURES

MANUFACTURING OF FINISHED PRODUCTS

**12.2 MT** (INCL. NBH)

**+8%**

GROWTH IN SALES TO HOME MARKETS VS. 2013

SALES TO MORE THAN 70 COUNTRIES AROUND THE WORLD

**82%**

OF OUTPUT IS FLAT STEEL

**18%**

IS LONG PRODUCTS

DEVELOPMENT IN 2016

LIPETSK SITE:

OVERHAUL OF HOT-DIP GALVANIZING LINE NO. 1 INCREASED PRODUCTION CAPACITY OF HDG PRODUCTS BY 11% TO

**1.25 MT**

# NLMK'S INTEGRATED PROCESS ENVIRONMENT

Over the past decade, NLMK has transformed from a local steel producer into a global steel company with control over every production stage, from raw material extraction to the sale of HVA products to 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.

*All our facilities across the globe share common values and work for a common goal.*

## VALUE CHAIN

Up to 100% of resource needs covered by previous link in the chain



# NLMK RUSSIA

## UPSTREAM

### PRODUCTION FACILITIES:

Stoilensky  
Dolomit  
Stagdok

### FUNCTIONS:

Providing raw materials to NLMK Group production facilities

### PRODUCTS:

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

### HEADCOUNT:

**7,100**  
PEOPLE

### PRODUCTION:

**IRON ORE**

**17.2** MT  
[+1% yoy]

**FLUXES**

**6.3** MT  
[-9% yoy]

### TOTAL REVENUE:

**\$597** M  
[+1% yoy]

### EBITDA:

**\$318** M  
[+7% yoy]

### INVESTMENTS:

**\$218** M  
[-23% yoy]

**IN NOVEMBER 2016, STOILENSKY LAUNCHED A PELLETIZING PLANT WITH A PRODUCTION CAPACITY OF 6 MILLION TONNES, WHICH WILL MEET 100% OF NLMK GROUP'S DEMAND FOR PELLETS.**

### SALES:

**IRON ORE CONCENTRATE:** 15.4 m t  
(incl. 74% to the Lipetsk site)

**PELLETS:** 0.24 m t  
(100% to the Lipetsk site)

**SINTER ORE:** 1.6 m t  
(78% to the Lipetsk site)

**LIMESTONE:** 2.2 m t  
(80% to the Lipetsk site)

**DOLOMITE:** 3.6 m t  
(75% to the Lipetsk site)

### CONSUMERS:

**INTERNAL:** NLMK Group's Lipetsk site

**EXTERNAL:** steelmakers, road construction industry, agriculture

## NLMK RUSSIA FLAT

### PRODUCTION FACILITIES:

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

### FUNCTIONS:

Steel production, including semis for international subsidiaries and flat products

### PRODUCTS:

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

### HEADCOUNT:

**34,800**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**13.0** MT

**FLAT PRODUCTS**  
**6.0** MT

### PRODUCTION:

**COKE:** 6.9 m t [+1% yoy]

**PIG IRON:** 12.7 m t [-1% yoy]

**STEEL:** 13.0 m t [+1% yoy]

**COMMODITY SEMIS:**  
6.6 m t [-2% yoy]

**FINISHED STEEL:**  
5.8 m t [+2% yoy]

### TOTAL REVENUE:

**\$5,586** M  
[-8% yoy]

### EBITDA:

**\$1,342** M  
[-15% yoy]

### INVESTMENTS:

**\$301** M  
[+13% yoy]

### STEELMAKING CAPACITY UTILIZATION:

**100%**

### CONSUMERS:

**INTERNAL:** NLMK Group international rolling divisions

**EXTERNAL:** construction industry, pipe manufacturers, automotive industry, machine building, manufacturers of white goods and yellow goods, power industry and other sectors

**SALES OF FINISHED ROLLED STEEL TO EXTERNAL CONSUMERS INCREASED BY 3% YOY TO 5.7 MT, THE SHARE IN TOTAL SALES WAS 66% (+6 P.P. YOY)**

### SALES TO EXTERNAL CUSTOMERS:

**COMMODITY PIG IRON:**  
0.4 M T [-44% YOY]

**SLABS:** 2.6 M T [-13% YOY]

**HOT-ROLLED STEEL:** 2.6 M T [+3% YOY]

**COLD-ROLLED STEEL:** 1.5 M T [+2% YOY]

**GALVANIZED STEEL:** 0.6 M T [-5% YOY]

**PRE-PAINTED STEEL:** 0.5 M T [+23% YOY]

**NGO STEEL:** 0.3 M T [+11% YOY]

**GO STEEL:** 0.2 M T [-11% YOY]

### EXTERNAL SALES GEOGRAPHY:

Russia [51% of sales], European Union, North America, Middle East, Latin America, the CIS



**NLMK RUSSIA LONG**

**PRODUCTION FACILITIES:**

Vtorchermet NLMK scrap collection and processing network  
 NLMK Ural  
 NLMK Kaluga  
 NLMK Metalware

**FUNCTIONS:**

Processing of scrap for the Group's steelmaking operations in Russia  
 Production of long products and metalware

**PRODUCTS:**

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

**HEADCOUNT:**

**9,000**  
 PEOPLE

**PRODUCTION CAPACITIES:**

**STEEL**  
**3.5** MT

**LONG PRODUCTS**  
**2.9** MT

**STEELMAKING CAPACITY UTILIZATION:**

**82%**

**TOTAL REVENUE:**

**\$1,293** M (+12% yoy)

**EBITDA:**

**\$138** M (+181% yoy)

**INVESTMENTS:**

**\$16** M (-35% yoy)

**CONSUMERS:**

Construction industry, machine building

**THE DIVISION'S TOTAL SALES OF STEEL PRODUCTS INCREASED YOY BY 18% TO REACH 2.8 MILLION TONNES, THANKS TO EXPANSION OF SALES GEOGRAPHY**

**PRODUCTION:**

**SCRAP TREATMENT:** 2.1 m t (-6% yoy)

**STEEL:** 2.9 m t (+14% yoy)

**LONG PRODUCTS:** 1.9 m t (+1% yoy)

**METALWARE:** 0.3 m t (-5% yoy)

**SALES TO EXTERNAL CUSTOMERS:**

**BILLETS:** 0.6 m t (+114% yoy)

**LONG PRODUCTS:** 1.9 m t (+6% yoy)

**METALWARE:** 0.3 m t (-4% yoy)

**EXTERNAL SALES GEOGRAPHY:**

Russia (59% of sales), European Union, North Africa



## NLMK USA

### PRODUCTION FACILITIES:

NLMK Pennsylvania  
NLMK Indiana  
Sharon Coating

### FUNCTIONS:

Production of flat steel from slabs shipped from NLMK Lipetsk, in addition to slabs produced by NLMK USA itself

### PRODUCTS:

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

### SALES GEOGRAPHY:

100% of sales in the USA

### HEADCOUNT:

**1,000**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**0.8<sup>MT</sup>**

**FLAT PRODUCTS**  
**2.9<sup>MT</sup>**

### TOTAL REVENUE:

**\$1,162<sup>M</sup>** (+6% yoy)

### EBITDA:

**\$178<sup>M</sup>** (+291% yoy)

### INVESTMENTS:

**\$19<sup>M</sup>** (-2% yoy)

### STEELMAKING CAPACITY

UTILIZATION: **73%**

**THE DIVISION'S SALES INCREASED BY 5% IN SPITE OF A 5% REDUCTION IN US STEEL CONSUMPTION**

### PRODUCTION:

**STEEL:** 0.6 m t (+23% yoy)

**FLAT PRODUCTS:** 1.8 m t (+2% yoy)

### SALES:

**HOT-ROLLED STEEL:** 0.9 m t (+1% yoy)

**COLD-ROLLED STEEL:** 0.5 m t (+10% yoy)

**GALVANIZED STEEL:** 0.4 m t (+10% yoy)

### CONSUMERS:

Construction industry, pipe manufacturers, automotive industry, machine building, manufacturers of white goods and yellow goods



# NLMK EUROPE

## NLMK EUROPE STRIP

**PRODUCTION FACILITIES:**

NLMK La Louvière\*  
NLMK Strasbourg\*

**FUNCTIONS:**

Production of flat steel from slabs shipped from NLMK Lipetsk

**PRODUCTS:**

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

**PRODUCTION:**

**FLAT PRODUCTS:**  
1.3 m t (+4% yoy)

**HEADCOUNT:**

**900**  
PEOPLE

**PRODUCTION CAPACITIES:**

**FLAT PRODUCTS**  
**1.7** MT

**ROLLING CAPACITY UTILIZATION:**

**84%**

**NLMK LA LOUVIÈRE DEMOTHBALLED A SECOND COLD-ROLLING LINE WITH A 150,000 T CAPACITY ON THE BACK OF STRONG DEMAND**

**SALES:**

**HOT-ROLLED STEEL:** 1.0 m t (+12% yoy)  
**COLD-ROLLED STEEL:** 0.1 m t (+17% yoy)  
**GALVANIZED STEEL:** 0.3 m t (-16% yoy)  
**PRE-PAINTED STEEL:** 0.1 m t (+8% yoy)

**CONSUMERS:**

Construction industry, pipe manufacturers, automotive industry, machine building, manufacturers of white goods and yellow goods

**SALES GEOGRAPHY:**

92% of sales within the European Union



## NLMK EUROPE PLATE

### PRODUCTION FACILITIES:

NLMK Dansteel  
NLMK Clabecq\*  
NLMK Verona\*

### FUNCTIONS:

Production of plates from slabs shipped from NLMK Lipetsk in addition to semis produced by NLMK Europe itself

### PRODUCTS:

Niche steel semis, thick plates, including branded Quard and Quend grades

### HEADCOUNT:

**1,200**  
PEOPLE

### PRODUCTION CAPACITIES:

**STEEL**  
**0.2<sup>MT</sup>**

**THICK PLATES**  
**1.8<sup>MT</sup>**

### ROLLING CAPACITY UTILIZATION:

**87%**

**IN 2016, THE SALES OF QUARD AND QUEND NICHE PLATES INCREASED BY 25% YOY TO 89,000 TONNES, ACCOUNTING FOR 23% (+2 P.P. YOY) OF TOTAL SALES**

### SALES:

**PLATE:** 1.2 m t (+12% yoy)

### SALES GEOGRAPHY:

92% of sales within the European Union

### CONSUMERS:

Producers of heavy vehicles and loading equipment, offshore wind turbines, drilling rigs, shipbuilding sector, pipe manufacturers, boilers and vessels designed for use in hostile environments

### PRODUCTION:

**STEEL:** 0.2 m t (+5% yoy)

**PLATE:** 1.2 m t (+8% yoy)

# NLMK PRODUCTION SYSTEM

## NLMK PRODUCTION SYSTEM IS BASED ON THE FOLLOWING PRINCIPLES:

- ↗ BALANCED OBJECTIVES
- ↗ SYSTEMATIC ACHIEVEMENT OF RESULTS THROUGH PROCESS IMPROVEMENT
- ↗ TRANSPARENCY AND OBJECTIVITY OF INFORMATION, CONTINUOUS IMPROVEMENT
- ↗ ENGAGEMENT OF PERSONNEL OF ALL LEVELS IN JOINT PROBLEM SOLVING
- ↗ LEADERSHIP SUPPORT

*NLMK Production System is a business management approach based on a combination of processes and optimization tools which maximize the use of existing resources and eliminate losses.*

## BUILDING A CULTURE OF CONTINUOUS IMPROVEMENT

### NLMK Production System covers 100% of the Group companies

The key elements of NLMK Production System are lean tools, training systems, visual efficiency control and feedback loops. The core of the system are the Company's employees: their attitude, behaviour, perceptions and engagement in processes.

NLMK Group began developing its Production System in 2009, bringing together the best practices of leading global manufacturers such as Toyota and BMG, selecting tools suitable as solutions for specific applications and adapting them for NLMK Group's environment, or developing in-house ones where necessary. The challenge then was to develop an integrated system of tools like those we know so well today, such as 6S, A3, the control charts and the initiative system.

The development and roll-out of the NLMK Production System have quickly gone from strength to strength. Strategic goals have been defined, a set of effective tools established and a system of optimization programmes launched.

Today NLMK Production System covers every company within the Group and 42 production stages, providing 11 efficiency improvement tools and enabling online monitoring of 280 technical and financial indicators, of which 95% are within 10% of their targets.

During the scale up of NLMK Production System it became clear there are areas which require improvement and further development.

The main objective of the new stage is to change the approach to production management, engaging employees of all levels in the continuous improvement process by changing their way of thinking and their behaviour.



#### RELATED DOCUMENTS:

- [Corporate Magazine, Issue # 1 2016, p. 28 \[PDF\]](#)
- [Capital Markets Day presentation, 2017 \[PDF\]](#)



## KEY FACTS AND FIGURES

### NLMK Production System (NLMK PS)

Systematic use of a suite of tools and practices for increasing production efficiency and engaging personnel in continuous improvement process.

### Initial stage of PS implementation complete

Strategic goals are established and a set of efficient tools created based on best global practices, a system of optimization programmes is being implemented.

### Corporate culture transformation

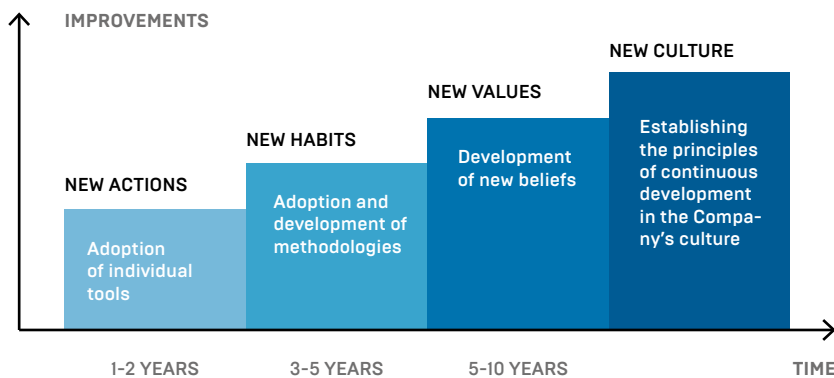
The key task at hand is to alter approach to production management, engaging employees at all levels in the process of continuous improvement through changes in thinking and behaviour.



## Progress in 2016

In 2016, NLMK Production System began the transition to a new development stage which aims to involve each and every employee of the Company in the process of continuous improvement. It kicked off with a pilot project

at NLMK Kaluga in collaboration with DuPont, a leader in the hi-tech marketplace. During the project, a team of NLMK specialists will receive invaluable experience engaging personnel and further upscaling the Production System throughout NLMK Group.



*"The greatest possible use of NLMK's internal resources can only be achieved if the Company's operations are organized as a single business process aimed at achieving strategic objectives by optimizing the use of material and intellectual resources. For this reason, the development and roll-out of NLMK Production System is currently the Company's key optimization process."*

**TATIANA AVERCHENKOVA,**  
Vice President, Operational Efficiency

# NLMK STRATEGY

## GOALS OF STRATEGY 2017

- AN ANNUAL NET GAIN OF \$1 BILLION VS. 2013 EBITDA
- A SIGNIFICANT REDUCTION IN ANNUAL CAPEX
- CONSERVATIVE LEVERAGE: TARGET NET DEBT/EBITDA OF 1.0X
- STABLE POSITIVE FREE CASH FLOW
- PAYMENT OF DIVIDENDS ACCORDING TO NLMK GROUP'S REVISED DIVIDEND POLICY

Strategy 2017 has a modular structure and includes projects designed to improve the Group's operating efficiency and business processes, as well as to increase self-sufficiency in strategic resources and ensure leadership in strategic markets.

### KEY ELEMENTS OF STRATEGY 2017 ARE:

#### 1 GLOBAL LEADERSHIP IN EFFICIENCY

Increased productivity delivered by an investment programme and development of the NLMK Production System.

*Target net gain from leadership in efficiency: \$330 million per year vs. 2013*

#### 2 WORLD-CLASS RESOURCE BASE

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

*Target net gain from world-class resource base: \$480 million per year vs. 2013*

#### 3 LEADERSHIP IN STRATEGIC MARKETS

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

*Target net gain from leadership in strategic markets: \$190 million per year vs. 2013*

#### 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

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

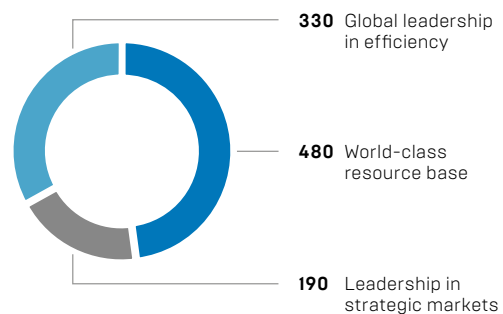


#### RELATED DOCUMENTS:

- [Strategy in Action, p. 27](#)
- [Strategy 2017 announcement, 2014 \[PDF\]](#)
- [Strategy page \[website\]](#)
- [Capital Markets Day presentation, 2017 \[PDF\]](#)

### EXPECTED IMPACT OF STRATEGY 2017 ON EBITDA

\$ m



# STRATEGY IN ACTION

*“NLMK Group continues to implement its strategy. Our goals of strengthening NLMK’s position as one of the world’s most efficient steelmaking companies and generating \$1 billion of EBITDA per year remain unchanged.”*

“We’ve accomplished a lot over the past three years, the long-term financial impact of our strategy to date is an annual net gain of \$547 million, despite the challenging market conditions.

“We achieved record steel output and improved profitability. NLMK’s debt leverage is several times below the industry average, and a moderate capex plan enables us to generate significant free cash flow.

Our shareholders enjoy the full benefit of our financial success through high and stable dividends.

“In 2017, we will continue closing in on our targets, while developing the next phase of our strategy, Strategy 2022, focusing on further consolidation of our competitive advantages and seizing value-creative growth opportunities that our flexible business model opens for us.”

**OLEG BAGRIN,**  
NLMK Group President and CEO  
(Chairman of the Management Board)

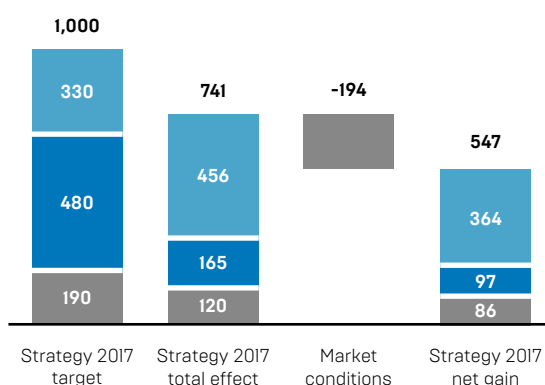
## KEY ACHIEVEMENTS OF STRATEGY 2017

**OVER THE COURSE OF 2014–2016, NLMK GROUP’S STRATEGY 2017 DELIVERED AN ANNUAL NET GAIN OF \$547 MILLION**

**THE KEY OBJECTIVE OF STRATEGY 2017, AN ANNUAL NET GAIN OF \$1 BILLION ON 2013 EBITDA, REMAINS UNCHANGED. NLMK IS ON TRACK TO ACHIEVE THIS GOAL IN 2017–2018**

### KEY ACHIEVEMENTS OF STRATEGY 2017 IN 2014–2016

- 1 Global leadership in efficiency
- 2 World-class resource base
- 3 Leadership in strategic markets

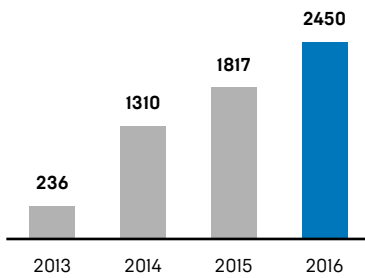


# 1 GLOBAL LEADERSHIP IN EFFICIENCY

## TARGET: COST REDUCTION AND GROWTH IN PRODUCTIVITY

Enhancing operational efficiency is an ongoing process which encompasses all of the Group's operations and stages of production. Over the past three years we have implemented around 2,500 efficiency enhancement initiatives, which required zero or minimal capex.

### OPERATIONAL EFFICIENCY PROJECTS



## NET GAIN OF \$364 MILLION PER YEAR, OR 110% OF THE DECLARED TARGET

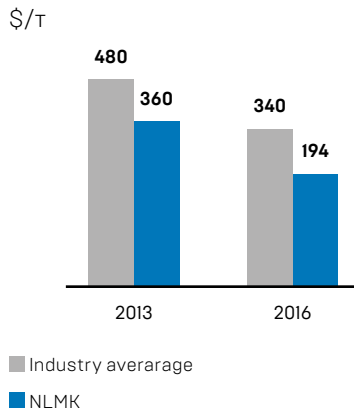
This has led to significant cost reduction and growth in production:

- Cost leadership maintained: in 2016, the slab cash cost decreased by almost 50% from the 2013 level

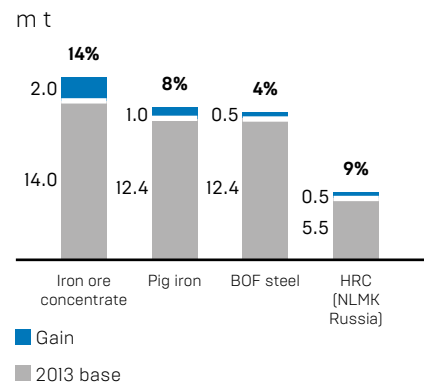
to \$194 per tonne, which is 43% below the industry average.

- Equipment productivity increased: NLMK Group increased pig iron output by 1 million tonnes, while total HRC output at NLMK Lipetsk increased by 500,000 tonnes from the 2013 level.

### STEEL CASH COST, \$/T



### NLMK GROUP EQUIPMENT PRODUCTIVITY GROWTH 2013-2016



### CASE STUDY

OVERHAUL BOOSTS FURNACE PERFORMANCE BY **7%**



## NLMK LIPETSK BOLSTERS RELIABILITY AND EFFICIENCY OF BLAST FURNACE OPERATIONS

NLMK put Blast Furnace No.6 (BF-6) back into operation after a scheduled overhaul at the Group's main production site in Lipetsk.

The overhaul enables uninterrupted operation of the blast furnace and excellent product quality for the long term. It also increases the maximum output of the furnace by 7%, from 2.9 million to 3.1 million tonnes per year.

Additionally, a new gas treatment system has been introduced at BF-6, which provides a five-fold increase in the efficiency of blast furnace gas treatment. The overpressure produced by blast furnace gas is to be utilized by the top-pressure recovery turbine, a 'green' energy generating facility with a 14 MW capacity.

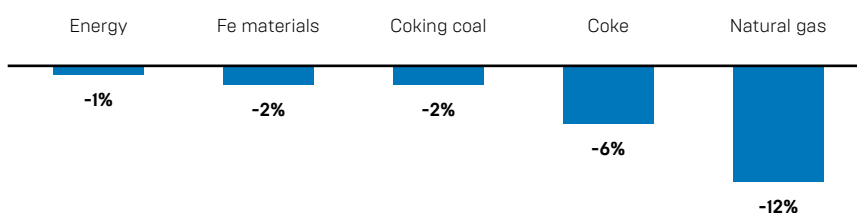
# 2 WORLD-CLASS RESOURCE BASE

## TARGET: GREATER SELF-SUFFICIENCY IN KEY RAW MATERIALS AND LOWER CONSUMPTION OF EXPENSIVE RESOURCES

- Self-sufficiency in iron ore increased from 80% in 2013 to 90% in 2016. Stoilensky Pelletizing Plant was launched in November 2016 with a production capacity of 6 million tonnes of pellets per year and the potential to increase output to 7.2 million tonnes.
- Lower consumption of expensive resources vs. 2013: key production sites have reduced consumption of all types of resources, from Fe materials to natural gas.
- In 2017-2018, additional gains are expected from completed and late stage Strategy 2017 investment projects, such as:
  - Ramp-up of Stoilensky Pelletizing Plant, with output of 5.5 million tonnes of pellets anticipated in 2017.
  - An 1.7 million tonnes per year increase in iron ore fines output during 2017, to reach 16.6 million tonnes by 2018, in order to increase feedstock supply to the newly launched Pelletizing Plant.
- There are also projects aimed at reducing consumption of expensive resources through substitution with cheaper alternatives. The Company plans to expand usage of pulverized coal injection (PCI) technology in 2017 across blast furnace operations and increase energy production from secondary energy resources.

**NET GAIN IN 2014-2016 OF \$97 MILLION, OR 20% OF THE TARGET LEVEL**

## RESOURCE CONSUMPTION FOR NLMK'S RUSSIAN FACILITIES, 2016 VS. 2013



**CASE STUDY**

AT CURRENT PRICES, THE NET GAIN IN EBITDA IS CA.

**\$150** MILLION PER YEAR

## COMMISSIONING OF STOILENSKY PELLETIZING PLANT

The launch of the key investment project of Strategy 2017 enables NLMK Group to reduce the cost of iron ore used in blast furnace operations at NLMK Lipetsk, which results in a lower cash cost of NLMK steel.

The Pelletizing Plant has a design capacity of 6 million tonnes of pellets per year, while the plant's equipment allows for a 20% expansion of capacity to reach 7.2 million tonnes of pellets per year.

The high-tech facility took two years to build. The active phase of the project, the largest in its region, began in 2014 and required total investment of around \$680 million (RUB 34 billion).

The best available technology and hardware was selected during the design phase. The largest induration furnace in Europe ensures the high performance of the plant, with a production output of 780 tonnes of pellets per hour.

# 3 LEADERSHIP IN STRATEGIC MARKETS

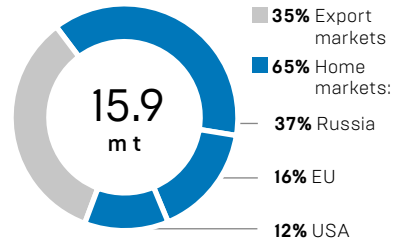
**TARGET: HIGHER CAPACITY UTILIZATION RATES, GROWTH OF SALES IN KEY MARKETS**

- Sales reached a record 15.9 million tonnes in 2016, climbing for a third year running. Total sales volume has grown 7% vs. 2013.
- Sales in NLMK Group’s home markets of Russia, the EU and the USA grew by 8% vs. 2013 to 10.3 million tonnes. Sales growth by the Group’s divisions outperformed

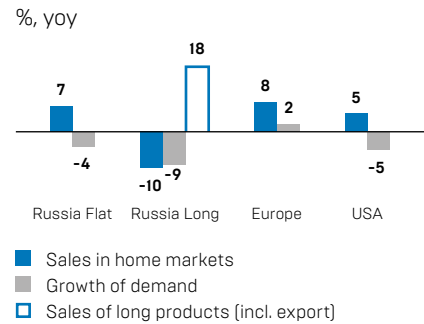
**NET GAIN OF \$86 MILLION IN 2014-2016, OR 45% OF THE TARGET LEVEL**

- the growth of steel consumption in its home markets, which collectively accounted for 65% of sales in 2016.
- The share of finished products in total sales increased by 12%, from 10.9 million tonnes in 2013 to 12.2 million tonnes in 2016.

## BREAKDOWN OF STEEL PRODUCT SALES IN 2016



## GROWTH OF NLMK SALES VS. TRENDS IN HOME MARKETS, 2016/2015



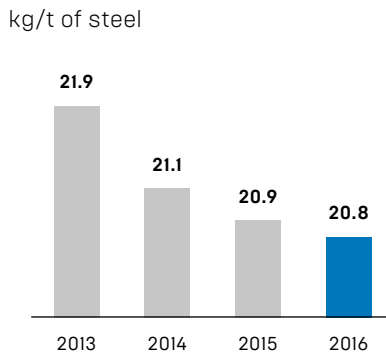
# 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

**TARGET: ENSURE WORKPLACE SAFETY, MINIMIZE ENVIRONMENTAL FOOTPRINT, ENHANCE LABOUR PRODUCTIVITY**

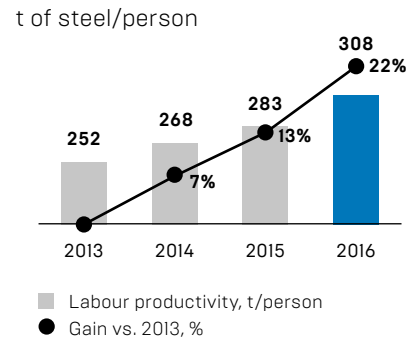
Leadership in sustainability and safety is a priority for NLMK Group.

- LTIFR declined to 0.82 for the consolidated Group and to 0.34 for Russian assets, representing a 60% improvement on 2013 levels.
- Specific air emissions reduced by 5% to 20.8 kg/t vs. 2013.
- Employee productivity grew by 22% vs. 2013.

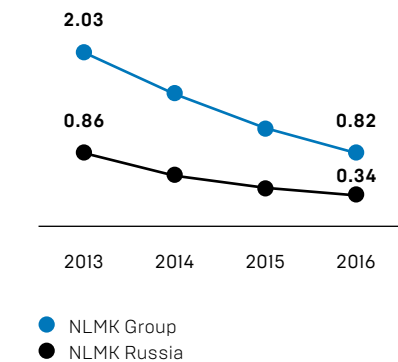
## REDUCTION OF SPECIFIC AIR EMISSIONS (NLMK Russia)



## NLMK GROUP LABOUR PRODUCTIVITY



## LTIFR\*



\* LTIFR – Lost Time Injury Frequency Rate

## KEY FACTS AND FIGURES

### Gains from Strategy 2017 implementation in 2014–2016

Structural net gain in EBITDA was \$547 mpa in 2016, which is over 25% of total 2016 EBITDA.

### \$1 billion objective will be met in late 2018

In 2017–2018, NLMK Group will unlock a further \$0.46 billion through launch of investment projects and implementation of operational efficiency programmes.

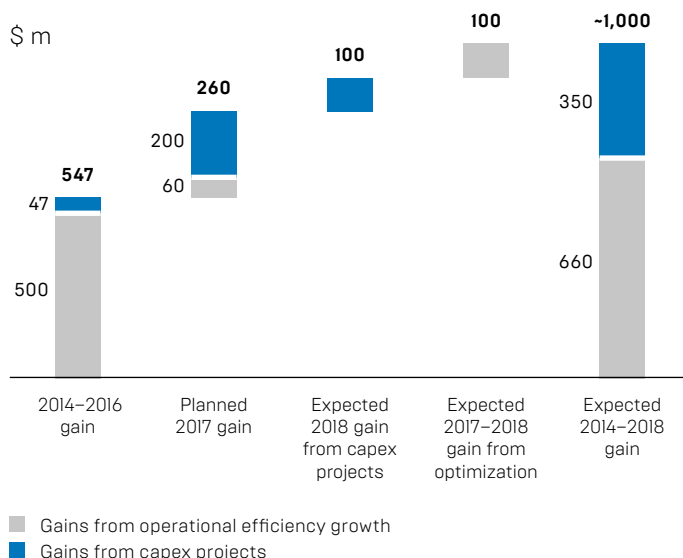
### The key development vectors of Strategy 2022 have been established

A combination of long-term growth projects, ongoing operational efficiency initiatives and the implementation of innovative solutions.

## EXPECTED RESULTS OF STRATEGY 2017 IN 2017–2018

NLMK is confident that the Strategy 2017 target of an annual net gain of \$1 billion will be achieved in 2017–2018, thanks to increased returns on capex and operational efficiency projects, including scale-up of the NLMK Production System.

### EXPECTED EFFECT FROM STRATEGY 2017



## KEY ELEMENTS OF STRATEGY 2022

*The Company is actively developing the next phase of its strategy, Strategy 2022, which is scheduled for announcement in early 2018.*

This new phase of NLMK's strategy will involve a balanced combination of long-term growth projects, further enhancement of operational efficiency and integration of innovative solutions. The Company remains dedicated to excellence in safety and sustainability.

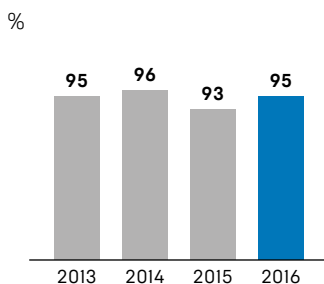
In Strategy 2022, NLMK Group will target a balance between investments in growth projects, a conservative financial policy and high returns for NLMK shareholders.

# KEY PERFORMANCE INDICATORS

## BUSINESS MODEL EFFICIENCY

### STEELMAKING CAPACITY UTILIZATION

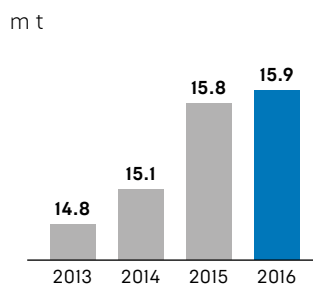
Utilization rate of crude steel production capacities



2016 targets met

### STEEL PRODUCT SALES

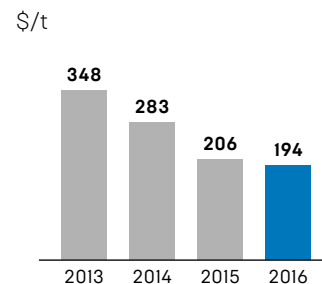
Total sales of steel products to external consumers of all NLMK Group's facilities



2016 targets exceeded

### SLAB CASH COST

Consolidated cash cost for slab production at NLMK Lipetsk



Target reduction in cash cost related to initiatives employed achieved

## 2016 COMMENTS

NLMK Group was able to ensure high utilization rate of steelmaking capacity thanks to a balanced sales portfolio and its cost advantage

Sales reached a record 15.93 million tonnes (+1%) in 2016, driven by increased sales of HVA products and strong positions in 'home' markets (markets where production facilities are located)

Slab cash cost at NLMK Lipetsk decreased by 5% to \$194 per tonne in 2016, thanks primarily to the implementation of operational efficiency programmes

## 2017 TRENDS

**UTILIZATION RATE OF STEELMAKING CAPACITIES AT ALL NLMK GROUP'S FACILITIES WILL REMAIN HIGH**

**NLMK GROUP PLANS TO MAINTAIN A HIGH SALES VOLUME AND FURTHER INCREASE THE SHARE OF FINISHED PRODUCTS SOLD**

**THE COST OF STEEL WILL BE POSITIVELY IMPACTED UPON BY THE LAUNCH OF THE PELLETIZING PLANT DELIVERING A REDUCTION IN RAW MATERIAL COSTS**

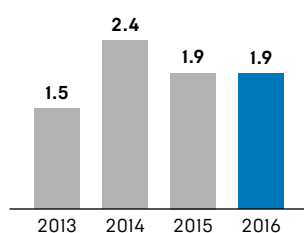


# FINANCIAL PERFORMANCE

## EBITDA

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

\$ bn

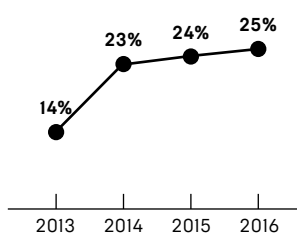


2016 targets exceeded by over 20%

## EBITDA MARGIN

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

%

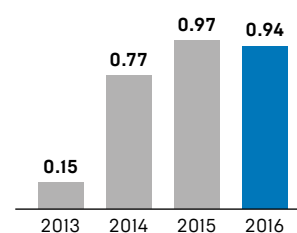


2016 targets exceeded

## NET PROFIT

NLMK Group's profit after income and expenses. One of the elements used to determine dividend payments

\$ bn



## 2016 COMMENTS

Strong profit in 2016 was largely driven by gains from Strategy 2017 initiatives, which offset the negative impact of market factors

In spite of challenging market conditions an increase in EBITDA margin was achieved thanks to net gains from operational efficiency programme and optimized sales portfolio

A 3% decrease in net profit was largely the result of exchange rate fluctuations and the effect of one-off items in 2015

## 2017 TRENDS

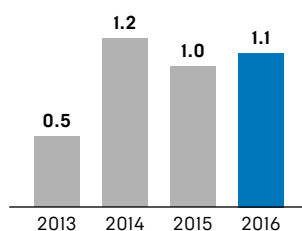
**WE EXPECT SIGNIFICANT STRUCTURAL NET GAINS DRIVEN BY THE IMPLEMENTATION OF STRATEGY 2017 CAPEX AND OPTIMIZATION PROJECTS THAT WILL BOOST NLMK GROUP'S PROFITABILITY**

## FINANCIAL PERFORMANCE

### 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

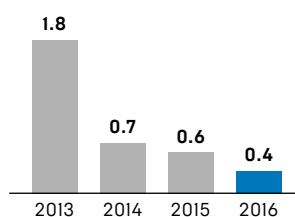
\$ bn



2016 targets exceeded

### NET DEBT / EBITDA

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

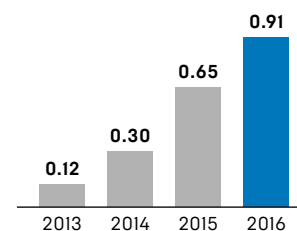


2016 targets exceeded

### DIVIDENDS

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

\$ bn



Above the target level of the dividend policy

## 2016 COMMENTS

Consistently high free cash flow is secured by substantial profit, conservative capex policy and low cost of debt servicing

Thanks to a substantial free cash flow, net debt/EBITDA ratio is maintained below the target set out in Strategy 2017

Thanks to a stable financial position and the growth of free cash flow, dividend payments increased by almost 50% to \$0.9 billion

## 2017 TRENDS

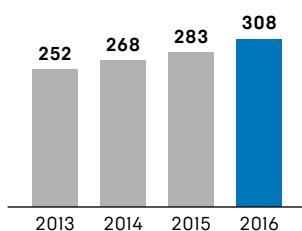
**THE COMPANY IS EXPECTING A POSITIVE FREE CASH FLOW. THE LEVEL OF DEBT LEVERAGE IS EXPECTED TO REMAIN BELOW 1.0X TARGET. THE COMPANY WILL ADHERE TO ITS DIVIDEND POLICY, EXCESS LIQUIDITY WILL BE RETURNED TO SHAREHOLDERS IN THE FORM OF DIVIDENDS**

# SUSTAINABILITY PERFORMANCE

## LABOUR PRODUCTIVITY

Tonnes of crude steel per employee

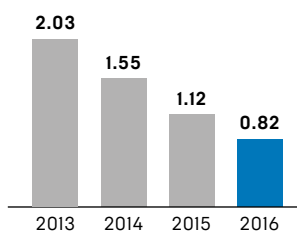
t/person



2016 targets exceeded

## LTIFR

Lost time injury frequency rate across NLMK Group

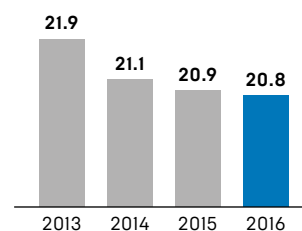


2016 targets exceeded

## SPECIFIC AIR EMISSIONS

All types of air emissions (gases, dust, etc.) per tonne of crude steel

kg/t



2016 targets met

## 2016 COMMENTS

Growth in labour productivity in 2016 driven by increased operational efficiency

There was a gradual reduction in occupational injury rates thanks to the management's operational safety improvement initiatives

NLMK has continued to reduce air emissions thanks to significant investment in environmental projects and increased environmental safety standards

## 2017 TRENDS

**FURTHER GROWTH IN LABOUR PRODUCTIVITY IS EXPECTED ACROSS NLMK GROUP**

**THE COMPANY TARGETS AN ONGOING REDUCTION IN THE INJURY FREQUENCY RATE**

**REDUCTION OF SPECIFIC EMISSIONS BY 0.1 KG/T STEEL VS. 2016**

# MARKET REVIEW

*Global steel production increased by 1% in 2016 to 1.628 billion tonnes, and capacity utilization stood at an international average 69.3%, according to World Steel Association.*

## STEEL MARKET RECOVERY IN 2016 AFTER PRICES HIT A 10-YEAR LOW

Steelmaking in China, which holds a 50% share in worldwide production, increased by 1.6% to 807 million tonnes. Apparent worldwide demand in 2016 was up by 1.1% year-on-year to 1.516 billion tonnes, while demand in China alone increased by 1.3% year-on-year to 681 million tonnes.

Steel consumption in developed markets remained flat year-on-year, while Chinese steel exports contracted by 3% year-on-year to 109 million tonnes. The increase in trade investigations on international markets continued apace in 2016, in support of domestic producers.

### USA MARKET

Steel production in the USA in 2016 remained at the same level as the previous year.

Imports of steel products decreased by 15% to 30 million tonnes, while steel product exports decreased by 7% to 8.5 million tonnes.

Consumption of finished steel products in 2016 decreased by 4.7% to 91.6 million tonnes, against the backdrop of destocking by consumers and trading companies and a reduction in demand from the energy sector.

### EU MARKET

Steel production in the EU declined in 2016 for the second consecutive year to 162 million tonnes, which is a 2.3% year-on-year decrease.

Apparent consumption of steel in the EU in 2016 increased by 2.3% year-on-year to 157.4 million tonnes, thanks to upward trends in key sectors, aside from construction (-0.2%).

### RUSSIAN MARKET

There was a 4% decrease in apparent consumption of finished steel during 2016, against a backdrop of continued economic slowdown.

Russian steel production in 2016 remained unchanged at 70.8 million tonnes, thanks to a 9% increase in exports alongside a 4% decrease in imports.

Prices on the Russian steel market demonstrated a recovery throughout 2016 in line with that of global steel prices.

## KEY FACTS AND FIGURES

### Global steel production

A moderate recovery of production (+1%) to 1.63 billion tonnes, which is below the 2014 peak value of 1.66 billion tonnes. Low steelmaking capacity utilization rate in the world of 69.3%. Continued growth of protectionism.

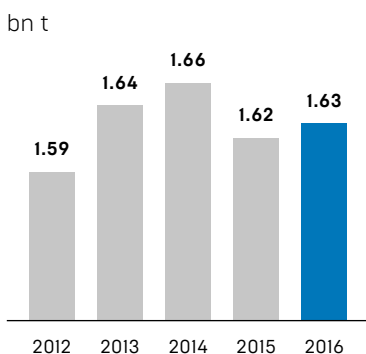
### Regional trends

EU and US markets saw demand recover. In Russia, the drop in demand decelerated, with production levels kept stable.

### Slowdown of exports from China and price trends

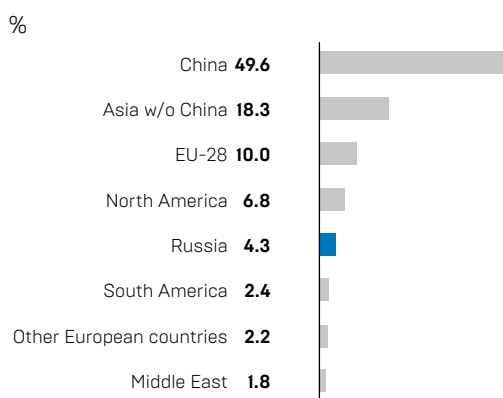
China's exports surged, resulting in a slump in prices at the end of 2015. This trend ceased in 2016. Prices for steel and raw materials at the beginning of 2016 hit a 10-year low.

### GLOBAL STEEL PRODUCTION

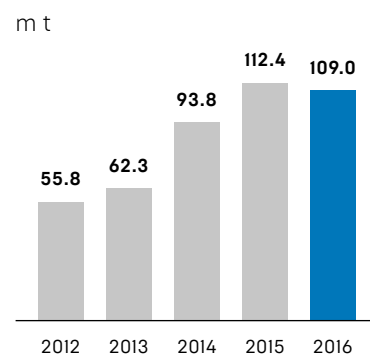


The Russian share of global steel production in 2016 was 4.3%

### REGIONAL BREAKDOWN OF STEEL PRODUCTION IN 2016



### CHINESE EXPORTS



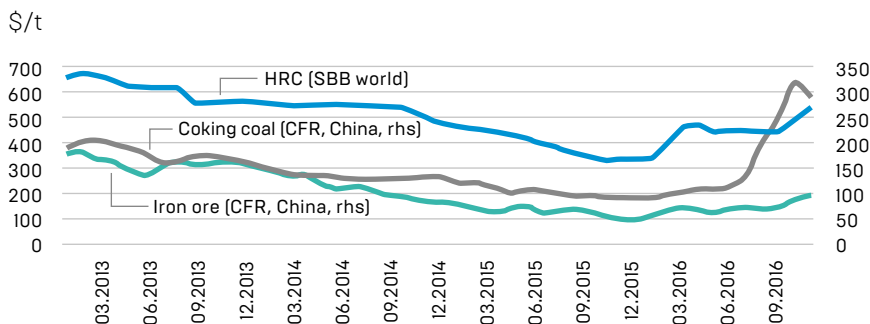
Source: Bloomberg

## PRICE TRENDS

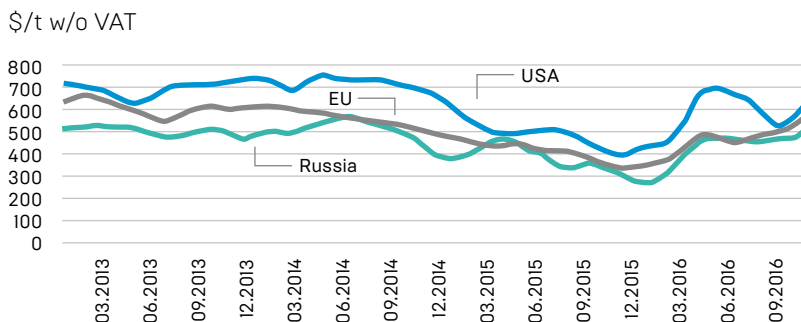
Prices for raw materials and steel products recovered during 2016 from the ten-year low experienced at the turn of the year. The price of iron ore concentrate and coal increased 2x and 2.5x, respectively, from the beginning of the year. Average steel product prices remained relatively flat year-on-year; despite 60-90% price spikes since the beginning of the year tied mainly to raw material price increases.

### GLOBAL PRICES

Source: Metal Bulletin



### HRC 'DOMESTIC' PRICES



# 2016 FINANCIAL AND OPERATING REVIEW



## KEY FACTS AND FIGURES

### Record operational performance

All-time high output and sales thanks to a unique business model and quality of facilities.

### Sustainable profitability growth

Cost leadership, growing vertical integration and implementation of optimization programmes enable profitability growth despite a weak market.

### Financial flexibility

Increase in profitability and low leverage enable great financial flexibility and deliver high returns for shareholders.



*“NLMK’s business model, which is built on operational efficiency, a world-class resource base, and leading positions in key markets, has delivered strong operational and financial results.*

*“Our proximity to end consumers in the markets where we operate and our well-oiled supply chain from Russia have supported high capacity utilization and sales growth to an all-time record 15.9 million tonnes.*

*“The gradual recovery of prices from their early 2016 bottom, increased productivity and operational efficiency emerged as the main factors driving EBITDA margin expansion to 25%.*

*“Increasing profitability and restrained investment have led to a free cash flow of \$1.1 billion and a reduction of net debt to \$0.7 billion. This strengthening of the Company’s financial standing has enabled NLMK to increase dividend payout to above our Dividend Policy targets.”*

**GRIGORY FEDORISHIN,**  
NLMK Group Senior,  
Vice President and Deputy CEO

## OPERATING PERFORMANCE

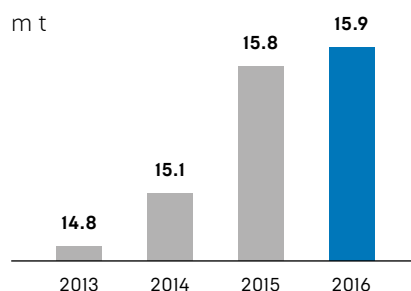
**C** rude steel output: all-time high crude steel output of 16.64 million tonnes (+4% yoy) achieved on the back of improved equipment productivity across NLMK Group sites.

Sales hit an all-time high of 15.93 m t (+1%) in 2016. This growth was the result of an improved sales mix and strong performance in NLMK’s ‘home’ markets (markets where production is localized).

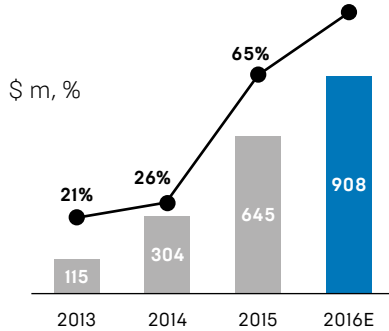
‘Home’ markets accounted for 65% of sales in 2016. Sales to external markets were primarily exports from our Russian operations to the Middle East and Turkey, Europe and Latin America.

Sales of finished goods increased by 4% yoy to reach 10.21 million tonnes, thanks to a 5% yoy increase in long product sales, driven mainly by exports, and a 4% yoy increase in flat products sales predominantly in the ‘home’ markets of Russia, Europe and the USA. The share of finished product sales totalled 64% (+2 p.p. yoy).

### CONTINUOUS GROWTH OF SALES VOLUMES

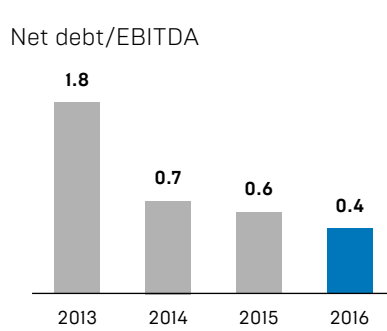


**HIGHER DIVIDENDS**

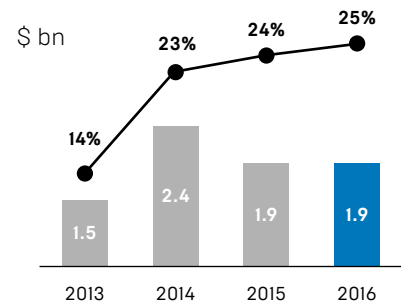


■ Dividends  
● Share of FCF

**LOWER DEBT**



**CONSISTENT GROWTH OF PROFITABILITY**



■ EBITDA  
● EBITDA margin

**FINANCIAL REVIEW**

**REVENUE**

2016 revenue contracted by 5% to \$7,636 m due to somewhat lower average sales prices. At the same time, 2016 saw an improvement in the sales mix, with the revenue share of finished products climbing to 67% (+3 p.p. yoy).

'Home' markets accounted for 70% of 2016 revenue (flat yoy). Operations in external markets accounted for 30% of revenue, including 8% from sales to the Middle East and Turkey, and 4% from sales to South East Asia.

**OPERATING PROFIT**

Operating profit\* in 2016 was up 7% yoy to \$1,489 m, against a backdrop of a decrease in costs which outstripped and offset the drop in sales prices.

**FREE CASH FLOW**

Free cash flow in 2016 was up 9% yoy to \$1,089 m, against a backdrop of growth in operating profit and a 6% reduction in capex.

Operating cash flow in 2016 was up 3% yoy to \$1,695 m, taking into account the \$34 million decrease in working capital at year-end: growth

of payables fully offset the growth of inventory.

Capex in 2016 was down by 6% yoy to \$559 million, with maintenance capex totalling \$296 million.

**DIVIDENDS**

The cash outflow for dividends in 2016 amounted to \$583 million, which includes dividend pay-out for Q4 2015 and Q1-Q3 2016.

At a meeting held on 3 March 2017, the NLMK Group Board of Directors recommended shareholders approve dividends of RUB 3.38 per share

<p><b>FY2016 HIGHLIGHTS</b></p>	<p>STEEL SALES GREW TO AN ALL-TIME HIGH OF</p> <p><b>15.9<sup>MT</sup></b></p>	<p>EBITDA WAS FLAT AT</p> <p><b>\$1.94<sup>BN</sup></b></p>	<p>REVENUE TOTALLED</p> <p><b>\$7.64<sup>BN</sup></b></p> <p><i>thanks to stable sales volume</i></p>
	<p>NET DEBT DECREASED TO</p> <p><b>\$0.69<sup>BN</sup></b></p>	<p>NET DEBT/EBITDA DECREASED TO</p> <p><b>0.4X</b></p>	<p>2016 DECLARED DIVIDENDS WERE**</p> <p><b>₹9.22 / PER SHARE</b></p> <p><i>or 83% of free cash flow</i></p>
<p>CAPEX DECREASED TO \$559 M BY</p> <p><b>6%</b></p>			

\* Operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets.  
\*\* Preliminary.



for Q4 2016. The total amount of dividends recommended for Q4 2016 was \$347 m (at the prevailing FX rate). Taking into consideration the dividends which had already been paid for Q1-Q3 2016, this represents 83% of the free cash flow and 97% of net profit for 2016.

## DEBT LEVERAGE

NLMK's total debt decreased by 15% to \$2.27 billion.

Short-term liabilities account for 21% of debt. These are represented by ruble bonds, targeted investment loans and revolving credit lines to finance working capital.

Net debt in 2016 was down by 37% yoy to \$0.69 billion as a result of growth in free cash flow. Net debt/EBITDA at the end of 2016 was 0.4x (0.6x at the end of 2015).

Debt portfolio optimization resulted in the average maturity of the Company's debt increasing from 2.9 years to 3.6 years due to the following measures:

- In June 2016, the Company announced a buyback offer for its outstanding Eurobonds (7-year bonds with a coupon rate of 4.95% for a total of \$500 million due in 2019 and 5-year bonds with a coupon rate of 4.45% for a total of \$800 million due in 2018). Investors took up the offer to a total of \$571 million. The buyback in July 2016 was financed by a new issue of 7-year Eurobonds for a total of \$700 million with a coupon rate of 4.5% due in 2023.
- In Q3 2016, NLMK paid off a total of RUB 15 billion (\$232 million) of ruble bonds using its own funds.

- In Q4 2016, NLMK paid off \$200 million, ahead of schedule, of the \$400 million PXF (pre-export finance) loan taken out in 2015.

Interest payments in 2016 decreased to \$104 million (-13% yoy), including \$40 million of capitalized interest expenses accounted for as capex.

## SEGMENTAL ANALYSIS

### *Russian Flat Products*

EBITDA was down in 2016 by 15% yoy to \$1,342 million as a result of the 3% reduction in sales volume and 8% reduction in revenue. These factors were partially offset by operational efficiency gains, and an improved sales mix. EBITDA margin was 24% (-2 p.p. yoy).

### *Russian Long Products*

EBITDA in 2016 increased 2.8 times yoy to \$138 million, thanks to an 18% increase in sales volume, a widening of the spreads between long product and scrap prices, and operational efficiency gains. EBITDA margin increased to 11% in 2016 (+7 p.p. yoy).

### *Mining Segment*

EBITDA in 2016 was up by 7% yoy to \$318 million, with a 2% increase in sales volume to 17.3 million tonnes, and productivity improvements from operational efficiency enhancements. EBITDA margin was 53% (+3 p.p. yoy).

### *NLMK USA*

EBITDA increased to \$178 million, driven by both widening spreads between the price of feedstock slabs from NLMK Lipetsk and finished products, and a 5% increase in sales

volume to 1.9 million tonnes. EBITDA margin was 15% vs. -9% the previous year.

### *NLMK DanSteel and plate sales network*

EBITDA came back into the black to \$0.3 million (+0.1% EBITDA margin) as a result of an 11% increase in sales volume to 500,000 tonnes and operational efficiency gains that partially offset the decline in prices.

### *Associated company (NBH) results*

In spite of decreasing average sales prices, the widening of price spreads, an 8% increase in sales volume to 2.2 million tonnes and operational efficiency gains enabled the Company to almost break-even in 2016 EBITDA at (-) \$2 million, compared to a (-) \$92 m loss in 2015.



#### RELATED DOCUMENTS:

- [Financial press release FY2016](#)
- [Capital Markets Day presentation, 2017 \(PDF\)](#)
- [5-year highlights](#)

# GLOSSARY

## HIGH-PRESSURE GRINDING ROLLS (HPGR) TECHNOLOGY

An iron ore crushing technology employed in the production of iron ore concentrate. HPGR, which is new to the Russian market, has a superior ore crushing capacity to conventional methods. Feed is subjected to high pressure by the rolls, which not only crush the ore but cause micro-cracks that disrupt its mineral-crystalline structure. The resulting supply of iron ore for onward processing at Stoilensky requires less additional fine grinding, which delivers a significant saving in resources such as grinding charge, balls and electricity.

## PULVERIZED COAL INJECTION (PCI) TECHNOLOGY

This technology involves feeding natural gas and fine coal granules into the blast furnace, which enables a reduction in the consumption of expensive raw materials. Usage of natural gas and coke is reduced through introduction of a cheaper alternative mix of power-generating coal. This delivers a reduction in the cash cost of pig iron, and therefore the cost of steelmaking, without affecting quality and efficiency.

## IRON ORE PELLETS

An enriched form of iron ore moulded into small circular pellets which are used in the steelmaking processes. Has an iron (Fe) content of around 65%. A pelletizing plant was launched in November 2016 at Stoilensky to produce pellets for NLMK operations.

## NLMK PRODUCTION SYSTEM

An approach to business management based on a combination of processes and optimization tools which maximize the use of existing resources and eliminate losses.

## OPERATIONAL EFFICIENCY GAINS

Net gains in EBITDA generated by the implementation of initiatives to increase productivity and/or reduce cash cost, mainly as a result of improvement to business processes, optimization of technologies etc., which require zero or minimal investment.

## INVESTMENT PROJECT EFFECTS

Net gains in EBITDA generated by the implementation of investment projects, such as the effect of the anticipated cost reduction following the launch of the Stoilensky pelletizing plant.

## HOME MARKETS

Markets where production of steel products is located, for instance, the Russian market is the 'home' market for NLMK Russia, North America is the 'home' market for NLMK USA, EU countries are the 'home' market for NLMK Europe.

## LTIFR

Lost Time Injury Frequency Rate per 1,000,000 man-hours worked.

# 10-YEAR HIGHLIGHTS

## FINANCIAL PERFORMANCE\*, \$ m

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales revenue	7,719	11,699	6,140	8,351	11,729	12,157	10,818	10,396	8,008	7,636
Net income**	2,247	2,279	215	1,255	1,315	596	145	773	967	935.1
EBITDA	3,412	4,689	1,414	2,322	2,254	1,900	1,480	2,381	1,948	1,941
EBITDA margin, %	44	40	23	28	19	16	14	23	24	25
Operating cash flow	2,524	2,781	1,394	1,431	1,315	1,825	1,333	1,806	1,651	1,695
Investments	958	1,934	1,121	1,463	2,048	1,453	756	563	595	559
Net debt	302	842	796	1,454	3,355	3,574	2,736	1,598	1,091	689
Free cash flow	1,566	846	273	-32	-243	371	536	1,153	997	1,089
Dividend per share, \$ (2016E)	0.123	0.079	0.007	0.063	0.063	0.061	0.019	0.051	0.108	0.152

## OPERATING PERFORMANCE, '000 t

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Steel production (w/o NBH)	10,840	10,955	10,614	11,544	11,968	14,923	15,429	15,921	15,866	16,438
Total steel sales	9,230	10,261	10,600	11,730	12,840	15,184	14,831	15,126	15,863	15,925
Finished product sales	5,280	5,995	6,324	7,051	8,664	10,607	10,929	10,223	9,793	10,211
Sales to home markets	3,353	4,246	3,485	4,644	6,012	8,684	9,537	10,605	10,173	10,275

## SUSTAINABLE DEVELOPMENT INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NLMK Group headcount, '000 people	60.2	70.1	62.8	59.4	60	62.5	62.1	60.1	56.7	54.0
Labour productivity, t of steel / person	260	249	269	308	329	406	420	437	463	482
LTIFR for NLMK Group's Russian assets	n/a	n/a	n/a	n/a	0.87	0.87	0.86	0.55	0.43	0.34
Specific air emissions, kg/t of steel	37.0	30.5	30.4	28.5	26.1	22.6	21.9	21.1	20.9	20.8

## ALSO IN THIS SERIES

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### OUR TEAM

2016



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

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

**Oleg Bagrin,**  
President and CEO  
of NLMK Group

### ENVIRONMENT

2016



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

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*"We adopt new technologies and solutions in an effort to reduce our environmental footprint."*

**Galina Khristoforova,**  
NLMK Group's Director  
for the Environment

### GOVERNANCE

2016



This brochure aims to showcase NLMK Group's corporate governance practices, how the process of continuous improvement of corporate governance is arranged, and how we ensured our leadership in investor relations.

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*"In everything we do, we try to be very attentive to best practices. At the same time, we know – we remember – that corporate governance is the area where continuous evolution is a more effective way of progressing, compared to revolutionary transformation. So we're very attentive to what is going on outside of the company and we're applying best practices step by step."*

**Stanislav Shekshnia,**  
Independent Director,  
Chairman of the Human  
Resources, Remuneration  
and Social Policies Committee



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