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CEO’S STATEMENT

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
COMPANY PROFILE

NLMK Group is the largest integrated steelmaker in Russia and one of the most efficient in the world. 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 year.

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 depositary 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.

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 LTIR (contractors and employees) stands at 0.86
- Specific air emissions total 20.2 kg/t
- 100% self-sufficiency in iron ore concentrate
- 96% self-sufficiency in iron ore pellets
- >100% self-sufficiency in coke
- 65% self-sufficiency in scrap
- 65% self-sufficiency in energy
- 100% self-sufficiency in energy

Without crude steel production decrease at the Lipetsk site during overhauls in its BF and BOF operations
NLMK’s Integrated Process Environment

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 Ural Region 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
- Slagdok

**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 capacity**
- Iron ore concentrate: 17.9 m t
- Sinter ore: 10.0 m t
- Pellets: 7.0 m t

**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 by 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%.

**Financials**
- Revenue: $1,315 m (+9% yoy)
- EBITDA: $977 m (+10% yoy)
- Investments: $318 m (+9% yoy)

**NLMK Russia Flat**

**Production sites**
- NLMK Lipetsk
- VI2Steel
- Altai Koks

**Functions**
- Produces steel, including semi-rolled products 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

**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 34 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.
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

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.

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

Financials
- Total revenue: $1,757 m (-18% yoy)
- EBITDA: $89 m (-60% yoy)
- Investments: $50 m (+9% yoy)

NLMK USA

Production sites
- NLMK Pennsylvania
- NLMK Indiana
- Sharon Coating

Functions
- Produces flat steel

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

Sales geography
- 100% of steel sold in USA

Financials
- Total revenue: $1,715 m (-20% yoy)
- EBITDA: -$57 m (-115% yoy)
- Investments: $57 m (+65% yoy)

2019 fact
NLMK USA switched to third party supplies of slabs due to a 25% duty.
Production
● NLMK La Louvière
● NLMK Strasbourg

Functions
● Produces flat steel from slabs coming from the Lipetsk site

Products
● Hot-rolled steel, cold-rolled steel, galvanized steel, 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

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 Clabecq
● NLMK Verona

Functions
● Produces plates from semi coming from the Lipetsk site and from internally produced semi

Products
● Niche steel semi, and plates, including Q&T

Production capacity
● Steel 0.2 m t (+11% yoy)
● Plate 1.1 m t (+13% yoy)

Sales geography
● 93% of steel sold in EU

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

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.
17.2 m t

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 semifinished, 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.

NLMK SALES IN 2019

<table>
<thead>
<tr>
<th>Product</th>
<th>Sales 2019, m t</th>
<th>Share in total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slabs</td>
<td>1.1</td>
<td>18%</td>
</tr>
<tr>
<td>Pig iron</td>
<td>0.5</td>
<td>3%</td>
</tr>
<tr>
<td>Billet</td>
<td>0.3</td>
<td>2%</td>
</tr>
<tr>
<td>Hot-rolled steel</td>
<td>4.9</td>
<td>28%</td>
</tr>
<tr>
<td>Long products</td>
<td>2.3</td>
<td>11%</td>
</tr>
<tr>
<td>Cold-rolled steel</td>
<td>2.1</td>
<td>12%</td>
</tr>
<tr>
<td>Galvanized steel</td>
<td>1.6</td>
<td>9%</td>
</tr>
<tr>
<td>Hot-rolled steel plate</td>
<td>1.0</td>
<td>6%</td>
</tr>
<tr>
<td>Pre-painted steel</td>
<td>0.5</td>
<td>3%</td>
</tr>
<tr>
<td>Non-grain-oriented electrical steel</td>
<td>0.1</td>
<td>2%</td>
</tr>
<tr>
<td>Grain-oriented electrical steel</td>
<td>0.1</td>
<td>2%</td>
</tr>
<tr>
<td>Metalware</td>
<td>0.3</td>
<td>2%</td>
</tr>
</tbody>
</table>

1 With NBH
OUR PRODUCTS

SHARE OF TOTAL SALES

- **23%** Pig iron and semi-finished steel products for further processing into flat steel products; billets are processed into long steel products.
- **6%** 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.
- **29%** 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.
- **12%** 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**
- **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**
- **Automotive industry, electrical machines, transformers, power engineering, and instrument making**
- **Construction and machine building**
- **Construction, electrical machines, transformers, power engineering, and instrument making**

SITES

- **NLMK Lipetsk, NLMK Kaluga**
- **NLMK DanSteel, NLMK Clapeco, NLMK Verona**
- **NLMK Lipetsk, NLMK La Louvière, NLMK Indiana, NLMK Pennsylvania**
- **NLMK Lipetsk, NLMK La Louvière, NLMK Pennsylvania**
- **NLMK Lipetsk, NLMK Ural, NLMK Kaluga**
- **NLMK Metalware**

MARKET SHARE

- **21%** Slabs
- **10%** Coated steel
- **11%** Electrical steel
- **31%** Long products

1. NLMK shares of apparent consumption

SHARE OF TOTAL SALES

- **12%** 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.
- **3%** 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.
- **13%** Rebar in rods and coils, wire rod, and sections.
- **2%** A wide range of low-carbon metalware. This includes wire and secondary products, with various coatings and surface finishes, nails, and fasteners.

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**
- **Automotive industry, electrical machines, transformers, power engineering, and instrument making**
- **Construction and machine building**
- **Construction, electrical machines, transformers, power engineering, and instrument making**

SITES

- **NLMK Lipetsk, NLMK Kaluga**
- **NLMK DanSteel, NLMK Clapeco, NLMK Verona**
- **NLMK Lipetsk, NLMK La Louvière, NLMK Indiana, NLMK Pennsylvania**
- **NLMK Lipetsk, NLMK La Louvière, NLMK Pennsylvania**
- **NLMK Lipetsk, NLMK Ural, NLMK Kaluga**
- **NLMK Metalware**

MARKET SHARE

- **Galvanized steel – 22%**
- **Pre-painted steel – 22%**
- **Electrical steel – 12%**
- **Long products – 10%**

- **18%** **21%** **22%** **11%**

Global market
European market
Russian market
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.

### Key Elements of Strategy 2022

<table>
<thead>
<tr>
<th>1</th>
<th>Leadership in operational efficiency</th>
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<tbody>
<tr>
<td><strong>Goal:</strong> Focus on operational efficiency and working towards best production practices; global leadership in the cash cost of steel production.</td>
<td></td>
</tr>
<tr>
<td><strong>Target structural EBITDA gain</strong></td>
<td>$0.5 bn</td>
</tr>
<tr>
<td><strong>Capex over the strategic period</strong></td>
<td>$0.05 bn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Growth in low-cost steel production</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal:</strong> 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.</td>
<td></td>
</tr>
<tr>
<td><strong>Target structural EBITDA gain</strong></td>
<td>$0.3 bn</td>
</tr>
<tr>
<td><strong>Capex over the strategic period</strong></td>
<td>$1.0 bn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3</th>
<th>World-class sales portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal:</strong> Growth of steel product sales; growth of high value-added (HVA) product output and sales.</td>
<td></td>
</tr>
<tr>
<td><strong>Target structural EBITDA gain</strong></td>
<td>$0.45 bn</td>
</tr>
<tr>
<td><strong>Capex over the strategic period</strong></td>
<td>$1.1 bn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th>Leadership in sustainability and safety</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal:</strong> Minimizing environmental footprint and ensuring safe operations.</td>
<td></td>
</tr>
<tr>
<td><strong>Target structural EBITDA gain</strong></td>
<td>$0.45 bn</td>
</tr>
<tr>
<td><strong>Capex over the strategic period</strong></td>
<td>$1.1 bn</td>
</tr>
</tbody>
</table>

### Additional EBITDA gains from all projects: $1.25 bn

- **Leadership in efficiency:** $0.50 bn
- **Growth in low-cost steel production:** $0.30 bn
- **World-class sales portfolio:** $0.45 bn

### BY GOAL

<table>
<thead>
<tr>
<th>Goal</th>
<th>Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership in efficiency</td>
<td>$0.50 bn</td>
</tr>
<tr>
<td>Growth in low-cost steel production</td>
<td>$0.30 bn</td>
</tr>
<tr>
<td>World-class sales portfolio</td>
<td>$0.45 bn</td>
</tr>
</tbody>
</table>

### BY TOOLS

- **Investment:** $0.68 bn
- **Operational efficiency:** $0.57 bn
- **Leadership in efficiency:** $0.50 bn

### 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**

### ANNUAL REPORT 2019

- **Strategy and business review**
- **Sustainability management**
- **2019 performance review**
- **About the Report**
- **Five-year highlights**

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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 coil change 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 pickles, and energy projects. As for electrical steels, the segment demonstrated strong results in terms of the G0 steel magnetic properties due to operational efficiency projects.

- Stolesky (+$62 m): an optimization programme brought in 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, ferrosiloyls, 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 the Group’s Russian companies. Now all NLMK Group employees are connected to the Bank of Ideas, with more than 100% self-sufficiency in iron ore raw materials. The Group completed a number of major projects during the reporting year.

30% progress vs. the 2023 target in 2019

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.

EBITDA GAIN BY SEGMENT IN 2019, $ M

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.

+$680 m pa
total EBITDA gain in 2019 (vs. 2018)

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.

+$41 m pa
target EBITDA gain by 2023

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 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 products 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.

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 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.

INVESTMENTS

$+41 m

Mining

NLMK EU

NLMK Russia Flat

NLMK Russia Long

$+680 m pa

Mining

NLMK EU

NLMK Russia Flat

NLMK Russia Long

$+173 m

NLMK Russia Flat

NLMK Russia Long

NLMK USA

NLMK EU

$+41 m

Mining

NLMK EU

NLMK Russia Flat

NLMK Russia Long

$+41 m
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.

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
**BUSINESS MODEL EFFICIENCY**

**CRUDE STEEL PRODUCTION**
Total crude steel production of all NLMK Group facilities, m t

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17.7</td>
<td>17.9</td>
<td>17.8</td>
<td>16.6</td>
<td>16.3</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12.2</td>
<td>17.4</td>
<td>16.5</td>
<td>15.9</td>
<td>15.8</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>256</td>
<td>266</td>
<td>250</td>
<td>194</td>
<td>206</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.5</td>
<td>2.0</td>
<td>1.3</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.70</td>
<td>0.70</td>
<td>0.55</td>
<td>0.59</td>
<td>0.60</td>
</tr>
</tbody>
</table>

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, %

<table>
<thead>
<tr>
<th>Year</th>
<th>2019%</th>
<th>2018%</th>
<th>2017%</th>
<th>2016%</th>
<th>2015%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>120</td>
<td>104</td>
<td>113</td>
<td>84</td>
<td>65</td>
</tr>
</tbody>
</table>

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

**FINANCIAL PERFORMANCE**

**EBITDA**
Earnings before interest, taxes, depreciation and amortization received from NLMK Group’s core businesses, $ bn

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.6</td>
<td>3.6</td>
<td>2.7</td>
<td>1.9</td>
<td>1.9</td>
</tr>
</tbody>
</table>

EBITDA decreased due to narrowing price spreads.

**EBITDA MARGIN**
Profitability of the Company’s operations before interest, taxes, depreciation and amortization, %

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24</td>
<td>30</td>
<td>26</td>
<td>25</td>
<td>24</td>
</tr>
</tbody>
</table>

EBITDA margin decreased due to narrowing price spreads.

**NET PROFIT**
NLMK Group’s profit after income and expense, $ bn

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
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<tbody>
<tr>
<td></td>
<td>24</td>
<td>30</td>
<td>26</td>
<td>25</td>
<td>24</td>
</tr>
</tbody>
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Net profit decreased by 40% yoy due to the decrease in EBITDA and higher effective income tax rate.

**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

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<td>84</td>
<td>65</td>
</tr>
</tbody>
</table>

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

**KEY PERFORMANCE INDICATORS**
**NLMK GROUP’S BUSINESS MODEL**

**1. Upstream**
- Iron ore production – Stoilensky
  - Production: 18.4 m t
- Captive coke production
  - Altai-Koks, NLMK Lipetsk
  - Production: 5.9 m t
- Scrap collection – NLMK Vtorchermet
  - Scrap processing: 2.2 m t
- Captive electric power generation

**2. Midstream & Downstream**
- A FLEXIBLE AND WELL-BALANCED BUSINESS MODEL SECURES NLMK GROUP’S INDUSTRY LEADERSHIP
  - Primary processing, semi-finished products
  - Finished products localized on home markets
- Slabs & billets, m t
  - Russia: 14.8
  - USA: 0.7
  - Europe: 0.2
- Flat steel, m t
  - Russia: 5.7
  - USA: 2.1
  - Europe: 2.7
- Long steel, m t
  - Russia: 2.5

**3. Sales**
- Sales to more than 70 countries around the world. Wide range of products – from conventional hot-rolled steel to custom electrical steels and other niche products (83% of flat steel, 17% of long steel), allows the Company to diversify sales by sector, reducing the dependency of sales volume on demand fluctuations in individual sectors.

**4. EBITDA**
- Revenue in 2019:
  - $2.56 bn
  - $10.6 bn
- Share of finished products in total revenue is 68%

**SELF-SUFFICIENCY IN RESOURCES FOR STEEL PRODUCTION**, %
- Coke: 100
- Iron ore concentrate: 96
- Pellets: 65
- Scrap: 65
- Energy*: 65

**Up to 100% of raw materials produced are used in the steel production stage**

**NLMK can process as much as 93% of captive crude steel at its own rolling facilities**

**66% of sales are in home markets**

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* Russian assets
* Lipetsk site

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ANNUAL REPORT 2019

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Sustainability management
2019 performance review
About the Report
Five-year highlights

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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 bnt.

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

<table>
<thead>
<tr>
<th>Cumulative capacity, m t</th>
<th>Cumulative cash cost savings, $/t</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>1.0</td>
</tr>
<tr>
<td>200</td>
<td>2.0</td>
</tr>
<tr>
<td>300</td>
<td>3.0</td>
</tr>
<tr>
<td>400</td>
<td>4.0</td>
</tr>
<tr>
<td>500</td>
<td>5.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lipetsk slab cash cost</th>
<th>Impact of vertical integration</th>
<th>Consolidated NLMK slab cash cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>332</td>
<td>276</td>
<td>256</td>
</tr>
</tbody>
</table>

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 1.0 m t of sinter ore (-0.5 m t yoy), including:
- 7.0 m t of pellets (+0.3 m t yoy)
- 10.4 m t of commercial concentrate (+0.3 m t yoy)
- 1.6 m t of sinter ore (-0.5 m t yoy)

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.

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 dewaters 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 scrap collection
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 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 2019

In 2019, NLMK launched a green coke and chemical by-product recovery complex. The project helped to increase the production of raw materials for the chemical industry and the agricultural sector, and halve the scope’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.
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**CEO’s Statement**

**Strategy and business review**

**Sustainability management**

**2019 performance review**

**About the Report**

**Five-year highlights**

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## Downstream

**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 ability to divert sales of steel products to the most attractive market, ensuring the full utilization of production capacity throughout the value chain.

**Balanced product portfolio**

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

---

### Development in 2019

- Following large-scale upgrades, NLMK Lipetsk has launched 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.

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### 2019 facts and figures:

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

---

### 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 30%, 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 furnaces’ advanced control system based on a learning mathematical 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 530HMC and 550HMC high-strength HRC (yield strength 530 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 DageSteel’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.
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.
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 SUSTAINABLE DEVELOPMENT PRIORITIES

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 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

NLMK GROUP'S SUSTAINABLE DEVELOPMENT PRIORITIES

<table>
<thead>
<tr>
<th>Priority</th>
<th>Areas of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational efficiency</td>
<td>- Reducing the consumption of certain types of resources through the introduction of cutting-edge technologies and advanced waste processing methods</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>- Increasing production of the Group's captive power generation by utilizing by-product fuel gases</td>
</tr>
<tr>
<td>Developing local</td>
<td>- Helping to solve the most acute social problems faced by the regions where we operate in partnership with government bodies and the public</td>
</tr>
<tr>
<td>communities</td>
<td>- Charitable initiatives and programmes</td>
</tr>
<tr>
<td></td>
<td>- Developing culture, science, education, and sport</td>
</tr>
<tr>
<td></td>
<td>- Work with children and young people</td>
</tr>
<tr>
<td>Personnel development</td>
<td>- Hiring and retaining qualified staff and the development of a motivation and remuneration system</td>
</tr>
<tr>
<td></td>
<td>- Organizing vocational training</td>
</tr>
<tr>
<td></td>
<td>- Maintaining and developing a safety culture among NLMK Group employees and contractors</td>
</tr>
<tr>
<td>Occupational health and</td>
<td>- Applying best practices in occupational health and</td>
</tr>
<tr>
<td>safety</td>
<td>- Managing occupational safety risks</td>
</tr>
<tr>
<td></td>
<td>- Implementing energy-saving initiatives</td>
</tr>
<tr>
<td>Minimizing environmental</td>
<td>- Carrying out planned environmental and technological initiatives</td>
</tr>
<tr>
<td>footprint</td>
<td>- Implementing projects from NLMK Group's investment programme</td>
</tr>
<tr>
<td></td>
<td>- Making efficient use of natural resources</td>
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<td>- Restoring contaminated land and conducting rehabilitation work</td>
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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 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

NLMK GROUP'S SUSTAINABLE DEVELOPMENT PRIORITIES

<table>
<thead>
<tr>
<th>Priority</th>
<th>Areas of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational efficiency</td>
<td>- Reducing the consumption of certain types of resources through the introduction of cutting-edge technologies and advanced waste processing methods</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>- Increasing production of the Group's captive power generation by utilizing by-product fuel gases</td>
</tr>
<tr>
<td>Developing local</td>
<td>- Helping to solve the most acute social problems faced by the regions where we operate in partnership with government bodies and the public</td>
</tr>
<tr>
<td>communities</td>
<td>- Charitable initiatives and programmes</td>
</tr>
<tr>
<td></td>
<td>- Developing culture, science, education, and sport</td>
</tr>
<tr>
<td></td>
<td>- Work with children and young people</td>
</tr>
<tr>
<td>Personnel development</td>
<td>- Hiring and retaining qualified staff and the development of a motivation and remuneration system</td>
</tr>
<tr>
<td></td>
<td>- Organizing vocational training</td>
</tr>
<tr>
<td></td>
<td>- Maintaining and developing a safety culture among NLMK Group employees and contractors</td>
</tr>
<tr>
<td>Occupational health and</td>
<td>- Applying best practices in occupational health and</td>
</tr>
<tr>
<td>safety</td>
<td>- Managing occupational safety risks</td>
</tr>
<tr>
<td></td>
<td>- Implementing energy-saving initiatives</td>
</tr>
<tr>
<td>Minimizing environmental</td>
<td>- Carrying out planned environmental and technological initiatives</td>
</tr>
<tr>
<td>footprint</td>
<td>- Implementing projects from NLMK Group's investment programme</td>
</tr>
<tr>
<td></td>
<td>- Making efficient use of natural resources</td>
</tr>
<tr>
<td></td>
<td>- Restoring contaminated land and conducting rehabilitation work</td>
</tr>
</tbody>
</table>
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.

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.

**SUSTAINABLE DEVELOPMENT POLICY**

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

<table>
<thead>
<tr>
<th>Board Committee</th>
<th>Key aspect of sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Planning Committee</td>
<td>Environment</td>
</tr>
<tr>
<td></td>
<td>• Emissions, including greenhouse gases</td>
</tr>
<tr>
<td></td>
<td>• Discharges and waste</td>
</tr>
<tr>
<td></td>
<td>• Use of resources</td>
</tr>
<tr>
<td></td>
<td>• Biological diversity</td>
</tr>
<tr>
<td>Human Resources, Remuneration, and Social Policies Committee</td>
<td>Social</td>
</tr>
<tr>
<td></td>
<td>• Operational health and safety</td>
</tr>
<tr>
<td></td>
<td>• Training and development</td>
</tr>
<tr>
<td></td>
<td>• Social policy</td>
</tr>
<tr>
<td></td>
<td>• Diversity and equal opportunities</td>
</tr>
<tr>
<td></td>
<td>• Non-discrimination</td>
</tr>
<tr>
<td></td>
<td>• Local communities</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>Governance</td>
</tr>
<tr>
<td></td>
<td>• Corporate governance</td>
</tr>
<tr>
<td></td>
<td>• Business ethics</td>
</tr>
<tr>
<td></td>
<td>• Anti-corruption</td>
</tr>
<tr>
<td>Strategic Planning Committee</td>
<td>Sustainable development risk assessment</td>
</tr>
<tr>
<td>Human Resources Remuneration, and Social Policies Committee</td>
<td>Integration of sustainable development KPIs in the remuneration system</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>Performance monitoring and sustainability reporting</td>
</tr>
</tbody>
</table>

**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**
--- | ---
**1. Good health and well-being** | Ensure healthy lives and promote well-being for all at all ages
- Implementing programmes aimed to help employees stay healthy and increasing the availability and quality of medical services for employees
- Informing the Group employees and contractors about occupational health and safety rules
- Implementing training programmes in occupational health and safety
- Implementing initiatives aimed at reducing water consumption, pollutant emissions, and overall waste
See the following chapters of the Report: Our team, Developing local communities, Occupational health and safety, Human rights, Environmental protection, Supply chain management

**2. Quality education** | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Implementing training and development programmes to enhance professional skills of employees
- Implementing external social programmes aimed to support education in the regions where the Company operates
- Cooperating with educational institutions to improve the quality of training programmes and vocational training for future employment opportunities
See the following chapters of the Report: Our team, Developing local communities

**3. Clean water and sanitation** | Ensure availability and sustainable management of water and sanitation for all
- Implementing water treatment technologies
- Reducing water intake through equipment upgrades
- Monitoring and disclosing information on the use of water resources
See the following chapters of the Report: Environmental protection

**4. Affordable and clean energy** | Ensure access to affordable, reliable, sustainable, and modern energy for all
- Improving energy efficiency
- Transitioning to captive energy generation
- Consuming energy from secondary resources
- Monitoring and disclosing information on the volume of energy consumed
See the following chapters of the Report: Energy efficiency

**5. Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all** | Ensure sustainable consumption and production patterns
- Increasing the efficiency of natural resource usage
- Recycling ferrous scrap
- Implementing a series of measures aimed at improving energy efficiency and the efficiency of resource use and reducing the environmental footprint of operations
- Upgrading equipment and improving technology in order to minimize their negative impact on human health and the environment
See the following chapters of the Report: Environmental protection

**6. Partnerships for the goals** | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels
- Countering corruption and fraud and preventing conflicts of interest
- Introducing NLMK employees to the Code of Corporate Ethics and Anti-Corruption Policy
- Introducing counterparties to the Supplier’s Code of Business Conduct
- Creating and continuously improving efficient corporate governance practices
- Creating and developing a system of government relations
- Ensuring human rights protection
- Complying with applicable laws, including occupational practices
- Openly interacting with stakeholders and informing stakeholders about the Company’s positive and negative impacts
- Creating feedback channels
- Monitoring and regular reporting on the management of environmental aspects and disclosing information about local non-compliance, including with environmental protection and labour laws
See the following chapters of the Report: Corporate governance, Operational control and risk management, Information for shareholders and investors, Environmental protection

**7. Strengthen the means of implementation and revitalize the global partnership for sustainable development** | Cooperating with government authorities to ensure that the interests of local communities are taken into account in decision-making
- Discussing information about payments to the state budgets
- Concluding partnerships with NGOs to implement programmes which aim to develop local communities
- Supporting sustainability initiatives implemented by Russian and international industry organizations
- Strengthening partnerships with other companies in the industry
- Investing in the regions where the Company operates (volunteer and charitable projects 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 standards
- Developing practices of non-financial information collection throughout the Group
See the following chapters of the Report: Information for shareholders and investors, Developing local communities, Environmental protection, Supply chain management, About the Report

See the following chapters of the Report: Confidential, About the Company, Strategy and business review, Sustainability management, 2019 performance review, About the Report, Five-year highlights.
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 m.\(^1\)

### ECONOMIC VALUE GENERATED AND DISTRIBUTED, $ M

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Stakeholder group</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generated direct economic value</td>
<td>Total range of stakeholders</td>
<td>7,684</td>
<td>10,104</td>
<td>12,046</td>
<td>12,069</td>
</tr>
<tr>
<td>Revenue</td>
<td>Total range of stakeholders</td>
<td>7,636</td>
<td>10,065</td>
<td>12,046</td>
<td>10,354</td>
</tr>
<tr>
<td>Revenue from financial investments</td>
<td>Total range of stakeholders</td>
<td>39</td>
<td>29</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Income from the sale of assets</td>
<td>Total range of stakeholders</td>
<td>9</td>
<td>10</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Distributed economic value</td>
<td>Total range of stakeholders</td>
<td>(7,065)</td>
<td>(9,773)</td>
<td>(11,363)</td>
<td>(11,111)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Total range of stakeholders</td>
<td>(5,255)</td>
<td>(6,994)</td>
<td>(7,965)</td>
<td>(7,316)</td>
</tr>
<tr>
<td>Employee wages and other payments</td>
<td>Employees</td>
<td>(824)</td>
<td>(960)</td>
<td>(979)</td>
<td>(979)</td>
</tr>
<tr>
<td>Payments to providers of capital</td>
<td>Total range of shareholders and</td>
<td>(667)</td>
<td>(1,354)</td>
<td>(1,946)</td>
<td>(2,169)</td>
</tr>
<tr>
<td>- including dividends paid</td>
<td>Shareholders and investors</td>
<td>(583)</td>
<td>(1,285)</td>
<td>(1,890)</td>
<td>(2,120)</td>
</tr>
<tr>
<td>- including interest paid to creditors</td>
<td>Government authorities</td>
<td>(84)</td>
<td>(69)</td>
<td>(56)</td>
<td>(49)</td>
</tr>
<tr>
<td>Payments to government</td>
<td>Government authorities</td>
<td>(107)</td>
<td>(454)</td>
<td>(662)</td>
<td>(445)</td>
</tr>
<tr>
<td>Community investments</td>
<td>Local communities</td>
<td>(12)</td>
<td>(11)</td>
<td>(11)</td>
<td>(11)</td>
</tr>
<tr>
<td>Non-distributed economic value</td>
<td></td>
<td>619</td>
<td>331</td>
<td>504</td>
<td>(533)</td>
</tr>
</tbody>
</table>

\(^1\) Calculated as required by GRI Standard 20L.

### 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

<table>
<thead>
<tr>
<th>Association/Initiative</th>
<th>NLMK Group's status</th>
</tr>
</thead>
</table>
| World Steel Association, an international association of iron and steel product manufacturers | - Membership in the Association  
- 2018 signatory to the Sustainable Development Charter of the World Steel Association  
- Participation in conferences and seminars enabling the sharing of best practices in occupational health and safety  
- Provision of information about sustainability indicators |
| UN Global Compact                                            | - Participant in the Global Initiative                                               |
| Russian Union of Industrialists and Entrepreneurs            | - Membership in the Management Bureau and the Board of Directors  
- Chairmanship of the Commission on Metals  
- Participation 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 the Committee on Ecology and Environment Management |
| Russian Steel                                                | - President and Vice President of the Association  
- Membership in all commissions of the Association, including the Commission for protection of Labour, industrial and environmental safety |
| European Steel Association (EUROFER)                        | - Membership in the Association and on the Board  
- Participation in working groups |
| Council of Electricity Consumers of the Russian Federation   | - Membership in the Council                                                        |
| Expert Council of the Committee on Transport and Construction of the State Duma of the Russian Federation | - 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) | - Party to the Partnership |
| Anti-Corruption Charter of Russian Business                  | - Party to the Charter                                                             |
| Steel Construction Development Association                   | - Participation in the Association                                                 |
**2019 PERFORMANCE REVIEW**

- 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 output** decreased by 3% 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.

**Sales** 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.

### 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%.

**EBITDA**

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 2019 due to a decrease in EBITDA and higher effective income tax rate (NLMK USA loss).

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1. 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.

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**SALES VOLUME, M T**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>15.8</td>
</tr>
<tr>
<td>2016</td>
<td>15.9</td>
</tr>
<tr>
<td>2017</td>
<td>16.5</td>
</tr>
<tr>
<td>2018</td>
<td>17.6</td>
</tr>
<tr>
<td>2019</td>
<td>17.1</td>
</tr>
</tbody>
</table>

**EBITDA MARGIN, %**

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>24</td>
</tr>
<tr>
<td>2016</td>
<td>25</td>
</tr>
<tr>
<td>2017</td>
<td>26</td>
</tr>
<tr>
<td>2018</td>
<td>30</td>
</tr>
<tr>
<td>2019</td>
<td>24</td>
</tr>
</tbody>
</table>

**DEBT LEVERAGE (NET DEBT/EBITDA)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.60</td>
</tr>
<tr>
<td>2016</td>
<td>0.59</td>
</tr>
<tr>
<td>2017</td>
<td>0.55</td>
</tr>
<tr>
<td>2018</td>
<td>0.35</td>
</tr>
<tr>
<td>2019</td>
<td>0.70</td>
</tr>
</tbody>
</table>

**DIVIDENDS PAYOUT, % OF FCF**

<table>
<thead>
<tr>
<th>Year</th>
<th>Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>12</td>
</tr>
<tr>
<td>2016</td>
<td>133</td>
</tr>
<tr>
<td>2017</td>
<td>104</td>
</tr>
<tr>
<td>2018</td>
<td>85</td>
</tr>
<tr>
<td>2019</td>
<td>65</td>
</tr>
</tbody>
</table>
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
- $152 m: decrease in payables

Investment

NLMK Group’s investment increased by 59% yoy to $1.1 bn in 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 $3.66 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 50% 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 -$27 m against last year’s earnings of $153 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 -$17 m.

NLMK DanSteel and plate distribution network

EBITDA was $8 m (vs. a $27 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 -$114 m (-$111 m, excluding non-operating provisions for NLMK Clabecq accrued in Q2) vs. -$87 m in 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/cf of steel in 2018 to 1.94 t/cf 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.

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.

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 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 ABOUT NLMK OPERATIONS AND SUSTAINABILITY ACTIVITIES

Russia

NLMK Russia Flat Products
NLMK Lipetsk Steel and flat products
NLMK Kaluga Steel and long products
NLMK Katanga Steel and long products
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
Vostozhermet NLMK Scrap processing

Mining Division (Russia)
Stolensky 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
NBM Segment
NLMK Clabecq S.A. Plate
NLMK Venosa 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

Sustainable development is the process of defining the Report’s content, which was based on the requirements set out in the GRI Standards. The heads of NLMK’s functional areas identified significant economic, environmental, and social topics that are of the greatest importance to the Company and its stakeholders. These topics were prioritized based on 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.

In the process of defining the Report’s content, NLMK identified 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

1. Approach to defining major themes
   - Analysis of public information about the Company and the metals and mining sector
   - Benchmarking of major themes that are disclosed by international and Russian companies in the metals and mining sector
   - Analysis of the requirements of ESG analysts that determine ratings for sustainability practices: RobecoSAM, MSCI, Sustainalytics, and FTSE Russell

2. Analysis of stakeholder views
   - Interviews conducted with the Group’s functional experts
   - Analysis of the results of a survey completed by internal stakeholders (members of the working group)

3. Listing major themes
   - Approval of the amended list of major themes by members of the working group
   - Approval of the list of major themes by the Group CEO
   - Amended list of major themes
   - Approved list of major themes

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.
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. See the following chapters of the Report: Environmental protection – Greenhouse emissions.

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. Email: ir@nlmk.com

NLMK Representative Office in Moscow: 119017 40-3, Bolshaya Ordynka St., Moscow.

FIVE-YEAR HIGHLIGHTS

FINANCIAL PERFORMANCE, $ M

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>8,008</td>
<td>7,536</td>
<td>10,063</td>
<td>11,046</td>
<td>10,954</td>
</tr>
<tr>
<td>Net profit</td>
<td>967</td>
<td>935</td>
<td>1,450</td>
<td>2,238</td>
<td>1,139</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,943</td>
<td>1,943</td>
<td>2,653</td>
<td>3,589</td>
<td>2,564</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>24%</td>
<td>25%</td>
<td>26%</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>1,622</td>
<td>1,699</td>
<td>1,899</td>
<td>2,741</td>
<td>2,623</td>
</tr>
<tr>
<td>Investment</td>
<td>595</td>
<td>559</td>
<td>592</td>
<td>680</td>
<td>1,080</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,161</td>
<td>761</td>
<td>923</td>
<td>891</td>
<td>1,786</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>992</td>
<td>1,092</td>
<td>1,266</td>
<td>2,027</td>
<td>1,523</td>
</tr>
<tr>
<td>Dividends, $ per share</td>
<td>0.1076</td>
<td>0.1533</td>
<td>0.2364</td>
<td>0.3524</td>
<td></td>
</tr>
</tbody>
</table>

OPERATING PERFORMANCE, ’000 T

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel output</td>
<td>15,866</td>
<td>16,418</td>
<td>16,850</td>
<td>17,285</td>
<td>15,531</td>
</tr>
<tr>
<td>Steel output (with NBH)</td>
<td>16,060</td>
<td>16,641</td>
<td>17,076</td>
<td>17,493</td>
<td>15,696</td>
</tr>
<tr>
<td>Steel product sales</td>
<td>15,829</td>
<td>15,925</td>
<td>16,469</td>
<td>17,591</td>
<td>17,069</td>
</tr>
<tr>
<td>Finished steel sales</td>
<td>9,793</td>
<td>10,211</td>
<td>10,759</td>
<td>10,762</td>
<td>11,056</td>
</tr>
<tr>
<td>Sales to home markets</td>
<td>10,140</td>
<td>10,225</td>
<td>10,650</td>
<td>10,573</td>
<td>11,377</td>
</tr>
</tbody>
</table>

SUSTAINABILITY PERFORMANCE

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>NLMK Group headcount, ’000 people</td>
<td>56.7</td>
<td>54.7</td>
<td>53.2</td>
<td>53.4</td>
<td>52.8</td>
</tr>
<tr>
<td>Labour productivity, t of steel/pers., NLMK Lipetsk</td>
<td>483</td>
<td>482</td>
<td>502</td>
<td>505</td>
<td>448</td>
</tr>
<tr>
<td>LTFR, NLMK Group employees</td>
<td>1.12</td>
<td>0.82</td>
<td>0.97</td>
<td>0.69</td>
<td>0.76</td>
</tr>
<tr>
<td>LTFR, NLMK Group employees + contractors</td>
<td>1.13</td>
<td>0.85</td>
<td>1.12</td>
<td>0.77</td>
<td>0.86</td>
</tr>
<tr>
<td>Specific air emissions, kg/t of steel</td>
<td>20.1</td>
<td>20.0</td>
<td>19.3</td>
<td>18.9</td>
<td>20.2 (18.9)</td>
</tr>
<tr>
<td>Specific CO₂ emissions, t/t of steel (Scope 1+2)³</td>
<td>2.04</td>
<td>1.98</td>
<td>1.97</td>
<td>1.96</td>
<td>2.04 (1.98)</td>
</tr>
</tbody>
</table>

¹ Excluding NBH, unless otherwise specified
² Including NBH, unless otherwise stated
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