

CORPORATE  
GOVERNANCE

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Report 2015

**EFFICIENCY  
LEADERSHIP**





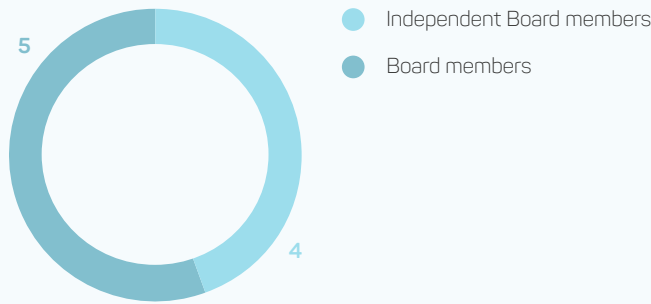
# Corporate governance review

**4 out of 9** Board members are independent directors  
Independent directors chair **2 out of 3** Board committees  
**2 out of 3** Remuneration committee members are independent directors

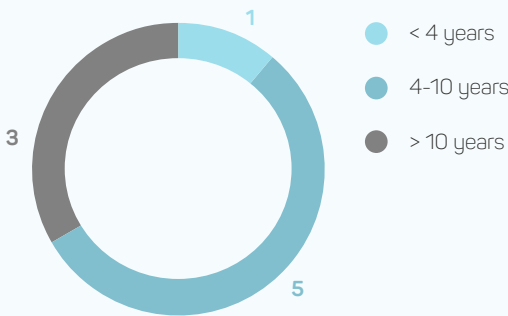
Corporate governance efficiency assessed as **high**  
**100%** of top managers are members of the Company's governance bodies  
**New dividend policy** provides more transparency and visibility, consistent with interests of all stakeholders



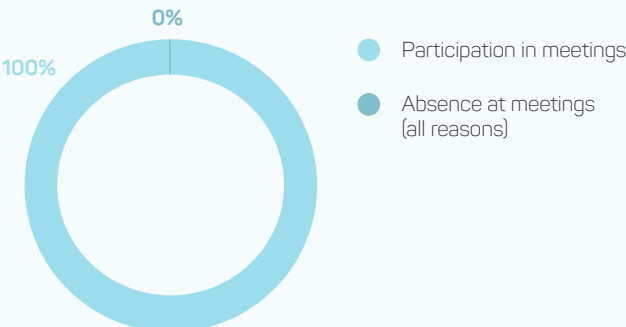
## BOARD OF DIRECTORS' STRUCTURE



## NLMK BOARD MEMBERS' LENGTH OF TENURE



## PARTICIPATION OF TOP MANAGERS IN MEETINGS OF THE COMPANY'S GOVERNING BODIES



**3**  
General Shareholders' Meetings



**12**  
Board meetings



**44**  
meetings of the Management Board

## Key 2015 corporate governance events



### CHANGES IN THE DIVIDEND POLICY

In 2015, the Company updated its dividend policy to ensure higher visibility of dividend payments. From 2015, dividends are paid on a quarterly basis subject to meeting the targets on net profit and free cash flow.



### ENHANCEMENT OF INDEPENDENT DIRECTORS' ROLES IN THE COMPANY'S GOVERNANCE BODIES

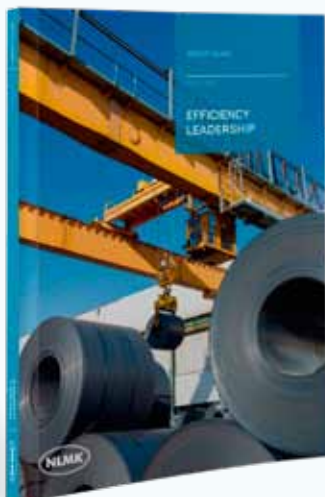
The Board of Directors was elected at the Annual General Shareholders' Meeting in June 2015 and included 4 independent directors (3 independent directors in the previous Board composition). In 2015, independent directors chaired 2 out of 3 Board committees. This enabled NLMK to enhance the roles of independent directors' in the Company's governance bodies.



### ADOPTION OF REVISED CORPORATE DOCUMENTS

In 2015, corporate governance bodies approved the revised versions of corporate documents, including the Charter, Corporate Governance Code, Regulations of General Shareholders' Meeting, Regulations of the Board of Directors, etc. The amendments in the documents mostly reflect the recommended corporate governance practices, including the OECD principles of corporate governance and recommendations of Bank of Russia.

## Modular Annual Report of NLMK for 2015



### ABOUT NLMK

- NLMK Profile
- Business model and value chain
- Geography of assets and sales
- Strategy in action
- Key highlights



### SUSTAINABILITY

- NLMK employees
- Health and safety
- Environmental protection
- Engaging stakeholders



### CORPORATE GOVERNANCE

- Leadership of NLMK
- Governance system
- Risk management
- Information for shareholders

# MANAGEMENT COMPOSITION

## BOARD OF DIRECTORS

NLMK Board of Directors was elected on 5 June 2015. There are 4 independent directors on the Board.

Main functions of the Board of Directors:

- To develop and implement the corporate strategy
- To approve priority business areas for the company

- To assess risks
- To approve budgets and business plans
- To set target indicators
- To assess the performance of the company and its bodies
- To control large-scale capital expenses; asset acquisition and sale transactions, etc.

Related corporate documents:

- Charter of NLMK
- Corporate Governance Code
- Regulations of the Board of Directors
- Remuneration and compensation to members of the Board of Directors

Composition of the Board of Directors of NLMK as at 31 December 2015

Full name	Position	Years on the Board	Independent	Participation in Strategic Planning Committee	Participation in Audit Committee	Participation in Human Resources, Remuneration and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	19		Chairman		<input checked="" type="checkbox"/>
Oleg Bagrin	Member of the Board of Directors	11		<input checked="" type="checkbox"/>		
Benedict Sciortino	Member of the Board of Directors	4	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chairman	
Helmut Wieser	Member of the Board of Directors	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Nikolai Gagarin	Member of the Board of Directors	14			<input checked="" type="checkbox"/>	
Karl Doering	Member of the Board of Directors	9		<input checked="" type="checkbox"/>		
Karen Sarkisov	Member of the Board of Directors	6		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Franz Struzl	Member of the Board of Directors	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Stanislav Shekshnya	Member of the Board of Directors	1	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	Chairman



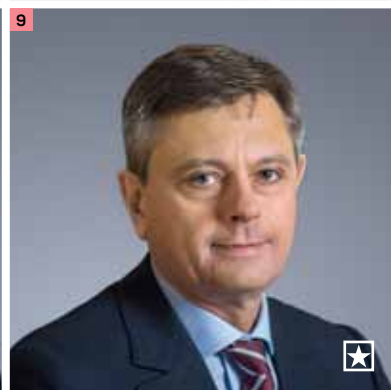
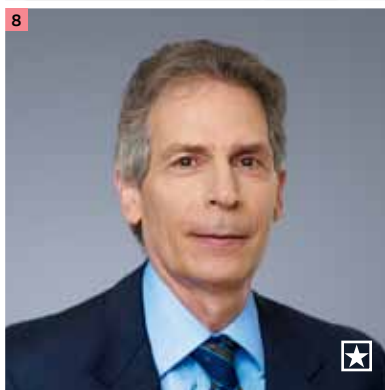
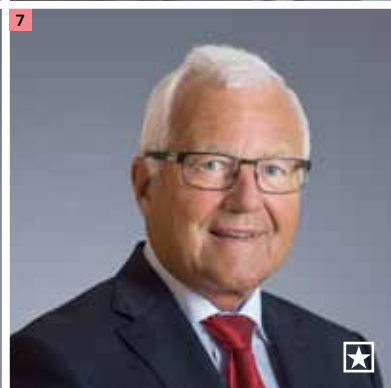
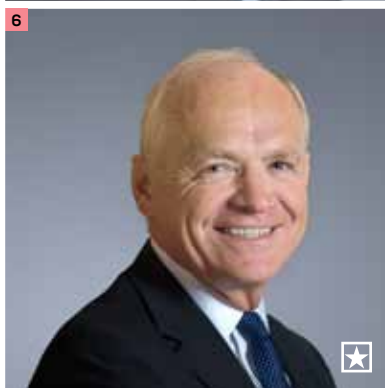
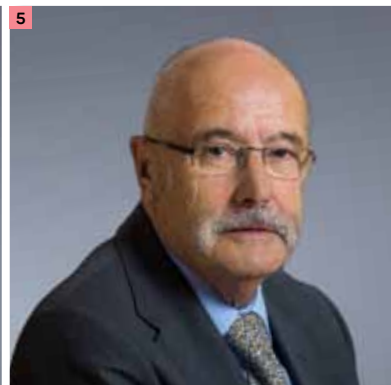
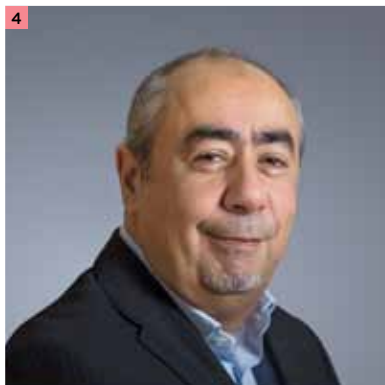
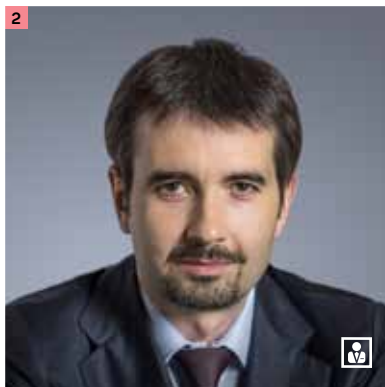
## Board of Directors as at 31.12.2015



Executive director



Independent directors



## 1 Vladimir Lisin Year of birth: 1956

Chairman of the Board of Directors

### Participation in BoD committee meetings

Member of the Human Resources, Remuneration and Social Policies Committee; and Chairman of the Strategic Planning Committee.

### Length of tenure

Board member since 1996, Chairman of the Board since 1998

### Professional experience

Started career in 1975 as electrical fitter. Worked at Tulachermet, rising through the ranks from assistant steelmaker to deputy shop manager. From 1986 worked in Kazakhstan, first as Deputy Chief Engineer, and later Deputy CEO of the Karaganda Steel Plant. Member of Boards of Directors of several leading Russian steel companies since 1993.

### Education

Graduate of Ordzhonikidze Siberian Metallurgic Institute, majored in Ferrous and Non-Ferrous Foundries. In 1990, graduated from the Higher School of Commerce with the All-Russian Foreign Trade Academy decorated with the order of International Friendship. In 1992, graduated from the Academy of National Economy under the Government of the Russian Federation, majored in Economics and Management. Ph.D., Tech.; Ph.D., Ec.; Professor, Associate Fellow of Russian Academy of Natural Sciences. Winner, USSR Council of Ministers prize for Science and Technology. Honorary Metallurgist of the RF. Knight of the Order of Honor.

## 2 Oleg Bagrin Year of birth: 1974

### Member of the Board of Directors, President (Chairman of the Management Board)

### Participation in BoD committee meetings

Member of the Strategic Planning Committee.

### Length of tenure

Member of NLMK Group Board of Directors (executive director) since 2004,

President (Chairman of the Management Board) of NLMK since 2012.

### Professional experience

Board member of a number of NLMK subsidiary and affiliate companies: NLMK International B.V. (Netherlands), NLMK Pennsylvania LLC, NLMK Indiana LLC, Sharon Coating LLC (USA). Chairman of the Board of Directors of investment company Libra Capital, management company Libra Capital, Moscow; Board member of Freight One, a railroad transportation company.

### Education

Holds a graduate degree in Operations Research and a post-graduate degree in Economics from State Management University, Moscow and a degree in Business Administration from the University of Cambridge, UK.

## 3 Nikolai Gagarin Year of birth: 1950 Member of the Board of Directors

### Participation in BoD committee meetings

Member of the Audit Committee.

### Length of tenure

Board member since 2001.

### Professional experience

In 2003 – being Managing Partner – he was appointed Chairman of the Board at Reznik, Gagarin, and Partners Law Offices. Chairman of the Board, Managing Partner at Reznik, Gagarin and Partners Law Offices, Moscow, since 2009.

### Education

Graduate of Moscow State University, majored in Law.

## 4 Karen Sarkisov Year of birth: 1963 Member of the Board of Directors

### Participation in BoD committee meetings

Member of the Strategic Planning Committee and member of the Audit Committee.

### Length of tenure

Board member since 2010

### Professional experience

He serves as an Aide to the Chairman of the Board of Directors on External

Economic Relations. He is also a member of the Board of Directors at NLMK International B.V.

From 2006 to 2007 Mr. Sarkisov served as the Chairman of the Board of Directors of VIZ-Steel. From the early 1990's to 2008 he worked at steel trading companies holding various executive positions at a number of international trading entities.

### Education

Graduated from the Tashkent State University majoring in Oriental Studies.

## 5 Karl Doering Year of birth: 1937 Member of the Board of Directors

### Participation in BoD committee meetings

Member of the Strategic Planning Committee.

### Length of tenure

Board member since 2006

### Professional experience

Currently heads Project Consulting, a consulting company. Represented the French USINOR in Central and Eastern Europe. Between 1967 and 2000 held senior positions in metallurgical companies in Eastern Germany. From 1979 to 1985 was Deputy Minister, Mining, Metals and Potassium Industry Ministry, German Democratic Republic, supervised technology development and capital expenditures.

### Education

Graduated from the Moscow Institute of Steel and Alloys. Ph.D., Tech.; Ph.D., Ec.

## 6 Helmut Wieser Year of birth: 1953

### Member of the Board of Directors, Independent director

### Participation in BoD committee meetings

Member of the Strategic Planning Committee and member of the Human Resources, Remuneration and Social Policies Committee.

### Length of tenure

Board member since 2011 (independent director)



### Professional experience

Helmut Wieser was an Executive Vice President of Alcoa and Group President responsible for Alcoa's global mill products and rigid packaging businesses till November 2011. He also oversaw Alcoa's businesses in the Asia Pacific region, with a focus on China, the Australian rolled products businesses and Alcoa's operations in Russia. In addition, Helmut Wieser was a member of the Alcoa Executive Council, the senior leadership group that provides strategic direction for the company. He also serves on the board of governors of the International Graduate University in Washington, D.C. on Capitol Hill. Before joining Alcoa, Helmut Wieser worked for Austria Metal Group (AMAG) for 10 years, holding a series of management positions in its rolled products unit, culminating in 1997 as an executive member of the board and chief operating officer. Earlier, he held several senior management positions with Voestalpine in Austria and Venezuela, including President of Voestalpine Venezuela. Member of the Management Board at AMAG Austria Metall AG since March 2014; and Chief Executive Officer since April 2014.

Member of the Board of Directors (Independent Director) at Rain Carbon Inc. since 2014.



### Education

Helmut Wieser received a Master's degree in Mechanical Engineering and Economics in 1981 from the University of Graz.

### 7 Franz Struzl Year of birth: 1942



**Member of the Board of Directors, Independent director**



**Participation in BoD committee meetings**

Member of the Audit Committee and member of the Strategic Planning Committee.



**Length of tenure**

Board member since 2011



### Professional experience

In 1967 Franz Struzl joined Alpine Steelgroup, later renamed Voestalpine AG, based in Linz, Austria, serving the Company for over four decades. During

his career at Voestalpine Franz Struzl held various positions in a number of fields including strategic planning, commercial and technical areas. In 1981 he was appointed Chief Financial Officer before becoming Chief Executive Officer of Voestalpine Long Products Group and a member of the Executive Board in 1991. From 1995 until 2001 he served as Vice Chief Executive Officer of Group. In 2001 Franz Struzl was appointed as Voestalpine Group Chief Executive Officer and Chairman. He held the position until 2004, when he moved to become Chief Executive Officer of Voestalpine, Brazil – Villares Metals, remaining there until 2010. From 2011 he is General Director of RHI AG.



### Education

Franz Struzl graduated from the University of Economics, Vienna in 1964.

### 8 Benedict Sciortino Year of birth: 1950



**Member of the Board of Directors, Independent director**



**Participation in BoD committee meetings**

Chairman of the Audit Committee and member of the Strategic Planning Committee.



**Length of tenure**

Board member since 2012



### Professional experience

From 1977 to 1995 Benedict Sciortino worked as an attorney-at-law and a partner with Baker & McKenzie, New York. He joined Duferco in 1995. Now he serves as a member of the Board of Directors of Duferco S.A. responsible for Duferco Group North American and South African business as well as trading operations, finance and legal matters, mergers and acquisitions. Mr. Sciortino serves as a director of several operating companies.



### Education

Mr. Sciortino graduated from Queens College, New York with a BA degree and received JD and LL.M. degrees from New England School of Law (Boston, MA) and New York University Law School, New York.



### 9 Stanislav Shekshnya Year of birth: 1964



**Member of the Board of Directors, Independent director**



**Participation in BoD committee meetings**

Chairman of the Human Resources, Remuneration and Social Policies Committee and member of the Audit Committee.



**Length of tenure**

Board member since 2015



### Professional experience

From 1991 to 2002, Dr. Shekshnya held the positions of Director of Human Resources for Otis Elevator in Central and Eastern Europe, President and CEO of Millicom International Cellular in Russia and CIS, Chief Operating Officer of VimpelCom, and CEO of Alfa-Telecom. He has served as Chairman of SUEK, Vimpelcom-R and as Director of a number of Russian and Ukrainian companies. Stanislav was an independent director at DTEK BV, Ilim Timber Industry and Ener1. Currently Dr. Shekshnia is an independent director at Dentsu Aegis Network Russia Board of Directors. In 2002, Stanislav Shekshnia co-founded Zest Leadership International Consultancy.

Currently Stanislav Shekshnia is a Senior Partner of Howell Zest, Talent Equity Consulting Company, which has offices in Moscow, Paris, St. Petersburg, Kiev, Almaty and Riga. He focuses on leadership, leadership development, corporate governance and business in emerging economies. Dr. Shekshnia also provides personal coaching to business owners and corporate executives.

Dr. Shekshnia is an Affiliate Professor of Entrepreneurship at INSEAD. He has over 15 years of graduate level teaching experience in Russia, France and United States; and is the author, co-author, or editor of 7 books, and numerous articles, executive commentaries, interviews and case studies on entrepreneurship, leadership, people management, intercultural management and business and management in Russia.



### Education

Stanislav Shekshnia has a Master's Degree in Economics, a Ph.D. from Moscow State University, and an MBA from Northeastern University in Boston.



**MANAGEMENT BOARD**  
**as at 31.12.2015**

 President (Chairman of the Management Board)



## MANAGEMENT BOARD

The NLMK Group Management Board as at 31 December 2015 consists of 9 members and holds regular meetings. Members of the Management Board are in charge of the Group's every-day operations. They also monitor subsidiaries and affiliates, and other legal entities

Related corporate documents:

- Charter of NLMK
- Corporate Governance Code
- Regulations on Management Board

Composition of the Management Board as at 31 December 2015

Full name	Position
Oleg Bagrin	Member of the Board of Directors President (Chairman of the Management Board)
Brijesh Garg	Vice President, Procurement
Ilya Gushchin	Vice President, Sales
Yuri Larin	Vice President, Technology Development & Operational Efficiency
Sergey Likharev	Vice President, Logistics
Alexander Saprykin	Vice President, Strategic Raw Materials Division
Grigory Fedorishin	Vice President, Finance
Sergey Filatov	Managing Director
Stanislav Tsyrlin	Vice President, HR & Management System

### 1 Oleg Bagrin Year of birth: 1974



Member of the Board of Directors, President (Chairman of the Management Board)



#### Length of tenure

Member of NLMK Group Board of Directors (executive director) since 2004, President (Chairman of the Management Board) of NLMK since 2012



#### Professional experience

Board member of a number of NLMK subsidiary and affiliate companies: NLMK International B.V. (Netherlands), NLMK Pennsylvania LLC, NLMK Indiana LLC, Sharon Coating LLC (USA). Chairman of the Board of Directors of investment company Libra Capital, management company Libra Capital, Moscow; Board member of Freight One, a railroad transportation company.



#### Education

Holds a graduate degree in Operations Research and a post-graduate degree in Economics from State Management University, Moscow and a degree in Business Administration from the University of Cambridge, UK.

### 2 Brijesh Garg Year of birth: 1964

Vice President, Procurement



#### Length of tenure

Member of the Management Board since 2012



#### Professional experience

He started his career in 1985 with Tata Steel, India as Industrial Engineer and moved through various positions within the company and worked with other steel plants in New Zealand Steel (BlueScope Steel, Australia) and ArcelorMittal, Kazakhstan & Ukraine. He has about 14 years of experience in supply chain management and business processes re-engineering in steel industry and 13 year of experience in industrial engineering.



#### Education

Holds a Bachelor of Engineering degree with a major in Industrial Engineering, has CPIM Certification from American Production and Inventory Control Society (APICS) and is a certified SAP Solution Consultant.

### 3 Ilya Gushchin Year of birth: 1976

Vice President, Sales



#### Length of tenure

Member of the Management Board since 2014



#### Professional experience

From 2009 to 2013 he worked for SIBUR Group, including as head of SIBUR International; the group's export division. From 2008 to 2009, he served as Financial Director at Skolkovo School of Management, Moscow. From 2002 to 2007, he held various positions at Microsoft.



#### Education

Ilya Gushchin holds a Ph.D. in Economics; and is a graduate of the Faculty of Economics, Moscow State University.

**4 Yuri Larin****Year of birth: 1952****Vice President, Technology Development & Operational Efficiency****Length of tenure**

Member of the Management Board since 2006

**Professional experience**

From 2007 to 2013, Mr. Larin was NLMK Vice President for Long-Term Development & Environment. Vice President for Technical Development and Environment, NLMK, from 2006 to 2007. Prior to that he was Director of the NLMK Engineering Centre from 1999 to 2006, and from 1996 to 1999 he worked as Deputy Director of NLMK's Central Laboratory in charge of technology.

**Education**

Graduate of the Voronezh Polytechnic Institute. Ph.D., Tech. Honorary metallurgist of Russia.

**5 Sergey Likharev****Year of birth: 1964****Vice President, Logistics****Length of tenure**

Member of the Management Board since 2014.

**Professional experience**

Sergey Likharev joined NLMK in October 2013. From 2012 to 2013 he was Aviation Business Director at Russian Machines Group; and Chairman of the Board of Directors of the Aviacor aviation plant. After serving as CEO of Aviacor Aviation Plant in Samara from 2004 to 2007, he became CEO of the Basel Aero airport group from 2008 to 2012. From 1993 to 2004, he held senior positions at Interros, Ostankino Meat Processing Plant, Golden Telecom, Cannon Associates and Coopers & Lybrand. From 1990 to 1993 he worked as a researcher at Moscow State University.

**Education**

Sergey Likharev holds a PhD in Physics and Mathematics; and a Masters of Business Administration from Cornell University.

**6 Alexander Saprykin****Year of birth: 1967****Vice President, Strategic Raw Materials Division****Length of tenure**

Member of the Management Board since 2006

**Professional experience**

From 2007 to 2013, Mr. Saprykin was NLMK Vice President, Head of Coal Division. From 2006 to 2007, he served as Vice President, Head of Iron Ore Division. From 2002 until 2006, he headed the Raw Materials Market Department at Rumelco and served as General Director of RUDPROM between 1998 and 2001. In 1997 and 1998, Mr. Saprykin was General Director of VIZEL. Prior to that, he worked as chief specialist for Metallurg from 1996 to 1997.

**Education**

Graduated from the Moscow State Mining University.

**7 Grigory Fedorishin****Year of birth: 1979****Vice President, Finance****Length of tenure**

Member of the Management Board since 2012

**Professional experience**

From 2011 to 2013, he served as NLMK Director of Strategy and Business Development. From 2009 to 2012 served as an investment manager at Libra Capital, a Moscow-based investment management company. From 2001 to 2009 worked for PricewaterhouseCoopers consulting company where he held positions up to a director of business restructuring practice.

**Education**

Graduated from Academy of Finance, Moscow. Holds a master degree in Business Administration from INSEAD business school, France & Singapore. a member of an association of Certified Financial Analysts (CFA).

**8 Sergey Filatov****Year of birth: 1959****Managing Director****Length of tenure**

Member of the Management Board since 2013

**Professional experience**

On January 25, 2013 Sergey Filatov was appointed to the position of NLMK's Managing Director. Mr Filatov has been with NLMK since October 2012, serving as Deputy Senior Vice President - General Director for Production and Technology. From 2009 to 2012 he served as Chief Engineer at NTMK. From 2007 to 2009 he was Project Manager at NTMK Project Management Department.

**Education**

Mr Filatov graduated from the Moscow Institute of Steel and Alloys. He holds a Ph.D. (Tech.), and is an Honorary Metallurgist of Russia.

**9 Stanislav Tsyrlin****Year of birth: 1968****Vice President, HR & Management System****Length of tenure**

Member of the Management Board since 2005

**Professional experience**

From 2004 to 2006 served as Director for Strategy and Management Systems at NLMK, having previously worked for Rumelco (from 2003 to 2004). Prior to that he worked for the Boston Consulting Group from 1996 to 2003, serving initially as a consultant, then as a project manager before being appointed Deputy Director.

**Education**

Graduated from the Moscow Institute of Physics and Technology and from Stanford University.

# CORPORATE GOVERNANCE

## CHAIRMAN'S LETTER

*Dear Shareholders,*

*Over the past twelve months, NLMK has invested a lot of effort into enhancing its corporate governance system and practices.*

*The process of improving corporate governance practice included the revision of the Company's corporate documents to reflect amendments to corporate governance legislation of the Russian Federation, as well as guidance from the Central Bank of Russia.*

*NLMK's Board of Directors was a focus of the corporate governance improvement and enhancement initiatives undertaken in 2015.*

*A new independent director, Stanislav Shekshnya, joined the Board. Stanislav is an expert in the areas of leadership and corporate governance and his skills will undoubtedly be a tremendous asset to the Company in the future. The increase in the number of independent directors will ensure even greater effectiveness of the Board, including in its duties related to risk management and the protection of shareholders' interests.*

*We enhanced the role of independent directors in 2015 and they now chair 2 of the 3 Board committees.*

*We also updated the Company's dividend policy to reflect the current stage of the Company's development.*

*Particular attention was paid to the Company's risk management system, which covers all management levels, from shareholders to line managers across all NLMK Group companies.*

*In its relations with shareholders over the past year, NLMK maintained its commitment to the fundamental corporate governance principles of fairness, accountability, responsibility and transparency.*

*We focus all our efforts to ensure that NLMK's leadership in performance goes hand*

*in hand with the most advanced practices of corporate governance. We are constantly striving to remain aligned with the high standards of corporate governance that are expected of a public company.*

**Vladimir Lisin,  
Chairman of NLMK's Board  
of Directors**

## GENERAL INFORMATION ABOUT NLMK'S CORPORATE GOVERNANCE

As a public company, NLMK is constantly improving its corporate governance practices. In its activity, NLMK adheres to best international practices and high standards of corporate governance. NLMK corporate governance system is designed to ensure the Company's sustainable development and increase return on investment in equity in the long run. The Company maintains a policy of maximum openness and transparency that allows our shareholders and investors to have all the necessary information on the activities of NLMK provided in a timely manner so that they can make a grounded investment decision regarding the Company's securities.

In 2015, the Company continued to improve its corporate governance in a broader effort to revise its corporate actions procedures.

All corporate documents determining the principles and rules of corporate governance are freely accessible at NLMK Group's corporate website.

## NLMK CORPORATE GOVERNANCE SYSTEM

NLMK corporate governance system is built on the requirements of the existing Russian legislation, principles provided by the Organization for Economic Co-operation and Development and provisions of the Corporate Governance Code approved by the Central Bank of Russia, and fully meets

the existing legislation of the countries where the Company operates.

The Corporate Governance Code adopted by the Company in 2015 is the basic document describing all the key corporate governance principles.

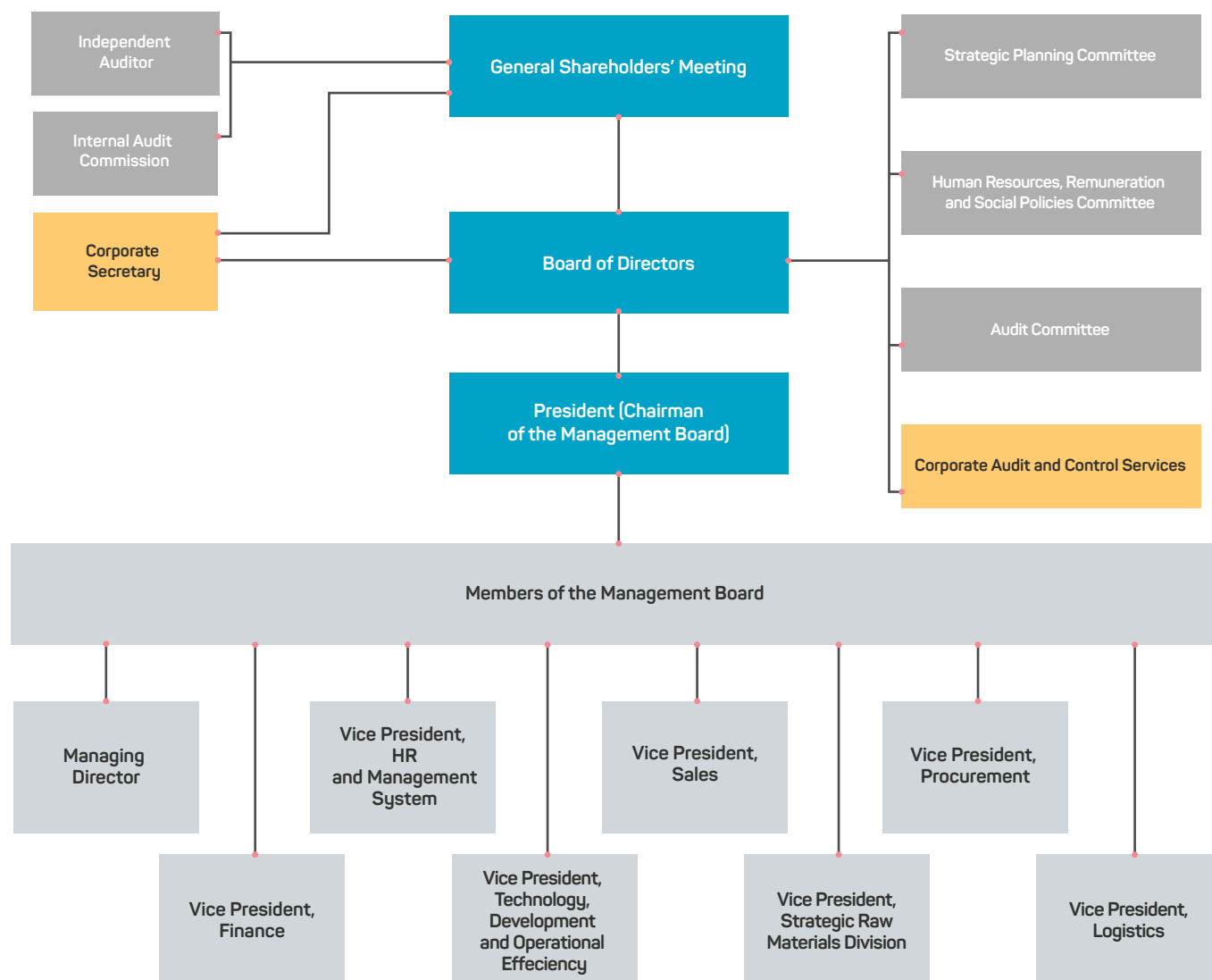
Key principles lying at the core of our Corporate Governance are to:

- Ensure equal and fair treatment of all shareholders when they use their right to be involved in management processes, receive dividends from the Company, participate in meetings, vote on issues on the agenda and get up-to-date information on the Company's activities and its governing bodies.
- Ensure equal treatment of all shareholders, including foreigners and minority shareholders.
- Ensure reliable and effective registration of title to shares and guarantee the opportunity to alienate them freely and without encumbrances.
- Ensure compliance with the existing laws, principles of the Corporate Governance Code and international corporate governance standards.
- Strictly observe the rights of third parties, including their creditors and employees, as required by the law, the Charter and other regulatory documents.
- Pursue a common corporate policy in respect of subsidiary companies, affiliates and other legal entities in which NLMK is the founder, a participant or a member.
- Maintain a policy of open and transparent communications, including by disclosing full and up-to-date information about the Company to give shareholders and investors an opportunity to make informed decisions, as well as by providing documents (information) related to the Company upon shareholders' request.
- Promote a policy of complying with business ethics in conducting its operations.

According to acting corporate documents, the governance structure includes:

- General Meeting of Shareholders, which is the supreme governing body of the Company that makes decisions on the key business issues.
- The Board of Directors, which is responsible for strategic management of NLMK, controls

# NLMK Corporate Governance Structure (as at 31 December 2015)



executive bodies, determines the principles of and approaches to organization of the Company's risk management system and internal control, develops NLMK's executive compensation policy, controls corporate governance practices and plays the key role in the Company's significant corporate events.

- The executive bodies of the Company including the President (Chairman of the Management Board) and the Management Board that manage day-to-day activities of the Company and ensure its efficient

operation, while implementing the objectives set by the Board of Directors.

- The Corporate Secretary, who ensures interaction with shareholders, coordinates the Company's activities aimed at protection of shareholders' rights and interests and supports the Board of Directors and the Management Board.
- An independent auditor, the Internal Audit Commission, Audit Committee and Internal Audit department oversee financial and economic activities.

## CORPORATE GOVERNANCE EFFICIENCY IN 2015

The Internal Audit Directorate carried out several audits in 2015 to assess the Company's corporate governance for compliance with all its principles. The audits examined the following areas: shareholders' rights; the Board of Directors; the compensation system for the Board of Directors, executive bodies and key managers; risk management, internal control and internal audit; Corporate Secretary; disclosure of information about the Company



and the Company's information policy; significant corporate actions; and corporate social responsibility, business ethics and compliance.

The auditors assessed the existing corporate governance practices for compliance with the Corporate Governance Code recommended by the Bank of Russia and mandatory requirements set out in MICEX Stock Exchange Listing Rules, and verified the information given in the Company's external corporate governance reports.

Overall, the corporate governance system was highly rated by the auditors, which means that the Company observes the Russian corporate governance laws and follows the majority of recommendations provided in the Corporate Governance Code.

In March 2016, the efficiency of the Board of Directors was evaluated by means of anonymous online survey. All Members of the Board participated in the survey. The results showed that the Board of Directors owns diverse functional expertise (finance, risk management, talent management) and industry experience. The Board bases its work on the Strategy, has an efficient decision-making process and follows up the implementation of the decisions. The Board of Directors effectively interacts with the President and the management in general. The evaluation has identified some areas of improvement, namely, in the work of the Committees.

### IMPROVEMENT OF CORPORATE GOVERNANCE PRACTICES IN 2015

In 2015, the Company focused on improving the quality of its corporate governance system and practices.

Throughout the year, all the components of the Company's corporate governance system were thoroughly assessed for compliance with the Corporate Governance Code recommended by the Central Bank of Russia, as well as with the Moscow Exchange Listing Rules.

By increasing the number of independent directors in its Board of Directors, the Company enhanced the efficiency of the Board, including with regard to its duties related to risk management and protection of shareholders' interests.

According to the Moscow Exchange Listing Rules and recommendations provided in the Corporate Governance Code, the Audit

Committee and the Human Resources, Remuneration and Social Policies Committee shall be headed by independent directors.

Aiming to harmonize its internal documents, NLMK approved in 2015 the Company's internal documents that reflect recent legislative changes in Russia and follow the Corporate Governance Code recommendations:

- In April 2015, the Company's Board of Directors approved the Dividend Policy
- In June 2015, the General Meeting of Shareholders approved an updated version of Regulations on Remuneration of Members of the Board of Directors
- In December 2015, the General Meeting of Shareholders approved an updated version of the Charter of NLMK, Regulations on the General Shareholders' Meeting and Regulations on the Board of Directors
- In December 2015, the Company's Board of Directors approved Regulations on the Board of Directors Audit Committee; Regulations on the Strategic Planning Committee; Regulations on the Human Resources, Remuneration and Social Policies Committee; and the Corporate Governance Code

Also, the Company adopted its first time ever Regulations on Corporate Secretary, which govern the activities and detail the procedures of the Corporate Secretary.

The Company is taking consistent steps to ensure compliance with other principles and recommendations of the Corporate Governance Code.

### GENERAL SHAREHOLDERS' MEETING

#### NLMK corporate governance practices

The General Meeting of Shareholders is NLMK's supreme governing body responsible for substantive issues related to the Company's activities. NLMK's shareholders are entitled to make decisions at the General Meeting of Shareholders. Such decisions include election to the Company's key governing bodies; approval of annual reports; profit distribution; amendments and additions to the Company's Charter or approval of a new version of the Company's Charter; approval of internal documents governing the activities of the Company's bodies, etc.

NLMK strives to ensure equal and fair treatment of all shareholders when they use their right to participate in the Company's management processes.

NLMK has Regulations on the General Shareholders' Meeting that comply with the recommendations of the Corporate Governance Code and determine the key procedures for organizing, calling and holding the General Meeting of Shareholders (some of the procedures for organizing, calling and holding the General Meeting of Shareholders are also regulated by the Charter of NLMK).

The procedure for holding the General Meeting of Shareholders aims to ensure that the rights of shareholders are observed; it is fully compliant with the current legislation and follows global best practices in corporate governance.

The Company provides its shareholders with easily accessible communication channels such as a hotline or email so that they can share their opinions and ask questions concerning the agenda during preparation for the General Meeting of Shareholders.

We inform our shareholders about an upcoming General Meeting by posting an announcement on NLMK's website at least 30 days prior to the date of the meeting (unless the Russian legislation requires doing it earlier).

NLMK provides access to meeting materials at least 30 days prior to the date of the General Meeting of Shareholders and supplies shareholders with additional information and materials, as recommended by the Corporate Governance Code. In addition, the Company publishes travel information, a sample form for a power of attorney that a shareholder can give to his or her representative for participation in the meeting, and information on the procedure for its attestation.

The information (materials) provided to persons entitled to participate in the General Meeting of Shareholders is published on NLMK's website ([www.nlmk.com](http://www.nlmk.com)).

The Company also publishes all the information in English to ensure equal treatment of all shareholders, including foreigners.



In the course of preparation for a General Meeting of Shareholders, NLMK Board of Directors approves regulations that determine the procedure for questions on the Company's activities from the shareholders to members of the governing bodies, the person responsible for the Company's accounting, the Company's auditors and candidates for the governing bodies.

Participants of the General Meeting of Shareholders are entitled to freely contact and consult each other on issues on the meeting's agenda without violating the meeting procedure (regulations).

NLMK corporate governance system and practices provide a level playing field for all shareholders, including foreigners and minority shareholders, and ensure equal treatment for all of them.

NLMK adheres to a policy that prevents unfair redistribution of corporate control, because NLMK does not have preferred shares and there are no quasi-treasury shares on the balance sheets of its subsidiaries and affiliates.

According to the corporate documents, a meeting of shareholders is deemed valid (has a quorum) if shareholders owing collectively more than 50% of NLMK's voting shares have participated in it.

#### Activity in 2015

In 2015, NLMK updated its dividend policy and shifted to paying dividends on a quarterly basis, which resulted in more frequent meetings of the company's shareholders, since the payout is to be approved at the General Meeting of Shareholders, according to NLMK's corporate procedures.

Three General Meetings of Shareholders (one annual and two extraordinary meetings) were held in 2015, including one meeting in person and two meetings in the form of absentee voting.

General Meeting of Shareholders by status	Number
---	--------

Annual meeting	1
Extraordinary meeting	2

NLMK's Annual General Shareholders' Meeting for FY2014 was held on 5 June 2015. Shareholders and shareholder representatives holding a total of 89.97% of NLMK's shareholder capital were present, meeting the

quorum requirements. During the meeting, the following issues were reviewed and decisions taken:

On approval of NLMK's 2014 annual report, annual financial statements, including the 2014 profit and loss statement and distribution of NLMK's profits (including announcement of dividends) based on the results of the 2014 fiscal year, the following decisions were made:

- Approve NLMK's 2014 annual report, annual financial statements, including the 2014 profit and loss statement.
- Approve distribution of NLMK's profits based on the results of the 2014 fiscal year:
  - Pay (announce) dividends for FY2014 in the amount of 2.44 rubles per ordinary share. With consideration of the interim dividends paid for H1 2014 in the amount of 0.88 rubles per ordinary share, the amount outstanding for payment is 1.56 rubles per ordinary share. Set the date upon which the shareholders entitled to receive dividends are to be determined as June 16th 2015.
  - Make the balance of profits not paid as dividends available for NLMK.

On payment (announcement) of dividends on the basis of Q1 2015 results, a decision was made to pay (announce) dividends for Q1 2015 in the amount of 1.64 rubles per ordinary share. Set the date upon which the shareholders entitled to receive dividends are to be determined as June 16th 2015.

On declaring NLMK's Dividend Policy approved at NLMK's Annual General Meeting of Shareholders on 6 June 2014 invalid, a decision was made to declare NLMK's Dividend Policy approved at NLMK's Annual General Meeting of Shareholders on 6 June 2014 invalid.

On election of NLMK's Board of Directors, a decision was made to elect the following members to the Board of Directors:

- Oleg Bagrin
- Helmut Wieser\*
- Nikolai Gagarin
- Karl Doering
- Vladimir Lisin

\* These members of NLMK's Board of Directors were elected as independent directors.

- Karen Sarkisov
- Stanislav Shekshnya\*
- Benedict Sciortino\*
- Franz Struzl\*

On election of NLMK's President (Chairman of the Management Board), a decision was made to elect Oleg Bagrin President (Chairman of the Management Board).

On election of the members of NLMK's Internal Audit Commission, a decision was made to elect the following members to NLMK's Internal Audit Commission:

- Vladislav Ershov
- Natalia Krasnykh
- Vladimir Markin
- Sergey Nesmeyanov
- Galina Shipilova

On payment of remuneration to the members of NLMK's Board of Directors, a decision was made to approve payment of remuneration to the members of NLMK's Board of Directors.

On approval of the revised versions of NLMK's internal corporate documents, a decision was made to approve the revised version of NLMK's Regulations on Remuneration of Members of the Board of Directors.

On approval of the base remuneration for the members of the Board of Directors, a decision was made to approve the base remuneration paid to each member of NLMK's Board of Directors in the amount of \$160,000 (one hundred and sixty thousand US dollars).

On approval of NLMK's Auditor, a decision was made to approve ZAO PricewaterhouseCoopers Audit as the Auditor of NLMK's 2015 financial statements prepared in accordance with Russian Accounting Standards (RAS). ZAO PricewaterhouseCoopers Audit was authorized to audit NLMK's 2015 consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

At NLMK's Extraordinary General Meeting of Shareholders held on 30 September 2015, a decision was made to pay (announce) dividends on the basis of the Company's H1 2015 results in the amount of 0.93 rubles per ordinary share. The date upon which the shareholders entitled to receive dividends were to be determined was set as 12 October 2015.

At the Extraordinary General Meeting of Shareholders held on 21 December 2015, the following decisions were made:

- Pay (announce) dividends based on the results of nine months of 2015 in the amount of 1.95 rubles per ordinary share. The date upon which the shareholders entitled to receive dividends were to be determined was set as 8 January 2016.
- Approve the revised version of the Company's Charter.
- Approve Regulations on the General Shareholders' Meeting and declare Regulations on Holding NLMK's General Shareholders' Meeting approved at the Annual General Meeting of Shareholders on 6 June 2014 to be no longer in force.
- Approve the revised version of NLMK's Regulations on the Board of Directors.

NLMK's Extraordinary General Meetings of Shareholders were held in the form of absentee voting:

Name	Date	Percentage of shareholders participating in the meeting
NLMK's Extraordinary General Meeting of Shareholders	30 September 2015	91.75%
NLMK's Extraordinary General Meeting of Shareholders	21 December 2015	91.63%



- Declare NLMK's Corporate Governance Code approved at NLMK's Annual General Meeting of Shareholders on 6 June 2006 to be no longer in force.

## BOARD OF DIRECTORS

### NLMK corporate governance in action

The Board of Directors is a key element of the Company's corporate governance system. The Company's Board of Directors is responsible for strategic management of Public Joint Stock Company "Novolipetsk Steel", supervises activities of the Company's executive bodies, determines principles of and approaches to the risk management and internal control system, the Company's policy on remunerations for members of the executive bodies, controls the corporate governance practice and plays a key part in the Company's significant corporate events.

NLMK's Board of Directors reports to the Company's shareholders.

NLMK's Board of Directors is an efficient and professional governing body able to form independent opinions and make decisions serving the interests of the Company and its shareholders.

NLMK's Regulations on the Board of Directors govern the procedures of the Board of Directors and, in particular, include the procedure for arranging and holding meetings of the Board of Directors, which allows the members of the Board of Directors to prepare for the meetings properly, and stipulates the following:

- The period of notice of an upcoming meeting given to the members of the Board of Directors
- The deadline for sending out documents (ballots) for voting and receiving the filled-in documents (ballots) when meetings are held in the form of absentee voting
- A possibility for the members of the Board of Directors who are absent at an in-person meeting to send a written opinion on issues included in the agenda of the meeting of the Board of Directors
- A possibility for discussion and voting by means of a conference call or video conference

According to the current corporate documents, the Board of Directors, acting within its powers:

- Ensures execution of resolutions passed by the General Meeting of Shareholders.

- Assesses political, financial and other risks impacting Company's operations, as well as operations of subsidiaries, associates and other legal entities in which the Company is a founder, participant or member.

- Determines approaches to investment and participation in other organizations.

- Assesses the performance of the Company and its bodies.

- Determines the terms of dividend payment.

- Develops remuneration incentive methods and systems for company employees.

- Ensures the disclosure of information about the Company.

- Supervises activities of the Company's executive bodies.

- Ensures the Company's compliance with the applicable legislation.

- Defines materiality criteria for the subsidiaries, associates and other legal entities in which the Company is a founder, participant or member, for decision-making concerning the issues that fall within the powers of the Management Board.

- Ensures compliance with corporate governance principles.

The Board of Directors operates in the form of meetings held in accordance with the Schedule approved by the Chairman of the Board of Directors. Meetings of the Board of Directors are held on a regular basis at least 6 times a year.

The most important issues are resolved at meetings of NLMK's Board of Directors held in person (convening and holding the Annual General Meeting of Shareholders, including recommendations on the distribution of profits and payment of dividends, preliminary approval of the Company's annual reports, financial statements and budget, etc.).

The Board of Directors is guided by the following principles in its decision-making process:

- Prevent prejudice of shareholders' legal right to participate in the management of the Company.
- Balance interests of different shareholder groups and make the most impartial decisions in the interests of all shareholders of the Company.

- Make informed decisions based on reliable information about the Company's operations.

### Chairman of the Board of Directors

The Chairman of the Board of Directors organizes the work of this body and contributes to the most efficient performance of its functions.

The Chairman of the Board of Directors ensures a constructive environment at the meetings and free discussion of issues on the agenda, and supervises execution of resolutions passed by the Board of Directors.

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

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

### Independent board members

One of the essential prerequisites for efficient operation of the Board of Directors is its independent directors who play a crucial part in preventing internal conflicts in the Company and carrying out significant corporate actions by the Company. Independent directors also ensure that the Board forms impartial opinions on the issues under discussion, which, in its turn, helps build up investors' and shareholders' confidence in the Company.

The Company's Board of Directors includes four independent directors who contribute to the implementation of one of the fundamental corporate governance principles developed by the Organisation for Economic Co-operation and Development, according to which the Board of Directors should be able to pass independent impartial judgments on corporate matters. Participation of independent directors in the work of the Board of Directors is a primary way to ensure that such judgments are formed since independent directors view the Company and its management objectively.

Independent directors fully meet the independence criteria recommended by the Code. The Company's Regulations on the Board of Directors include the criteria to determine independence of the members of the Board of Directors which fully comply with the recommendations specified in the Code.

NLMK's independent directors are people with sufficient professional expertise, experience and independence to form their

own attitudes and pass objective and honest judgments, which are not influenced by the Company's executive bodies, individual groups of shareholders or other stakeholders.

### Composition of the Board of Directors

The composition of the Company's Board of Directors is balanced in terms of

qualification, experience, knowledge and business acumen. The members of the Board of Directors have impeccable business reputation, knowledge, skills and experience in steelmaking, mining, science, economics, business management, and law.

As at 31 December 2015, the Board of Directors consists of 9 people, including

4 members of the Board of Directors who are independent.

The members of NLMK's Board of Directors conducted no equity transactions in 2015.

There was no conflict of interests between NLMK Board of Directors members in 2015.

Composition of the Board of Directors of NLMK as at 31 December 2015

Full name	Position	Years on the Board	Independent	Participation in Strategic Planning Committee	Participation in Audit Committee	Participation in Human Resources, Remuneration and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	19		Chairman		<input checked="" type="checkbox"/>
Oleg Bagrin	Member of the Board of Directors	11		<input checked="" type="checkbox"/>		
Benedict Sciortino	Member of the Board of Directors	4	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Chairman	
Helmut Wieser	Member of the Board of Directors	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Nikolai Gagarin	Member of the Board of Directors	14			<input checked="" type="checkbox"/>	
Karl Doering	Member of the Board of Directors	9		<input checked="" type="checkbox"/>		
Karen Sarkisov	Member of the Board of Directors	6		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Franz Struzl	Member of the Board of Directors	5	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Stanislav Shekshnya	Member of the Board of Directors	1	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	Chairman

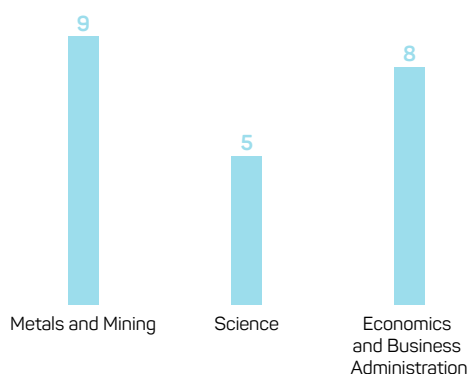
Shares owned by members of NLMK Board of Directors\*

Full name	Position	Share of the authorized capital stock of NLMK
Vladimir Lisin	Chairman of the Board of Directors	Not an NLMK shareholder
Oleg Bagrin	Member of the Board of Directors	Not an NLMK shareholder
Benedict Sciortino	Member of the Board of Directors	Not an NLMK shareholder
Helmut Wieser	Member of the Board of Directors	Not an NLMK shareholder
Nikolai Gagarin	Member of the Board of Directors	Not an NLMK shareholder
Karl Doering	Member of the Board of Directors	Not an NLMK shareholder
Karen Sarkisov	Member of the Board of Directors	Not an NLMK shareholder
Franz Struzl	Member of the Board of Directors	Not an NLMK shareholder
Stanislav Shekshnya	Member of the Board of Directors	Not an NLMK shareholder

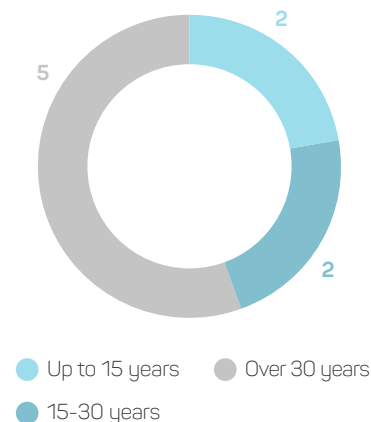
\* The structure of the share capital with beneficiary ownership specified is available in the Information for Shareholders section.



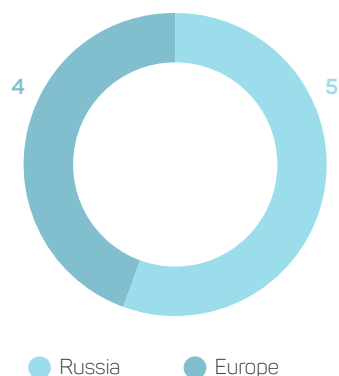
## Directors' expertise and professional background



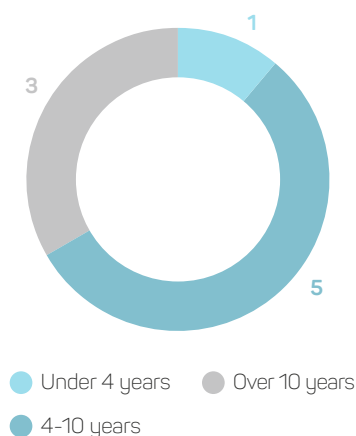
## Directors' expertise in the steel sector



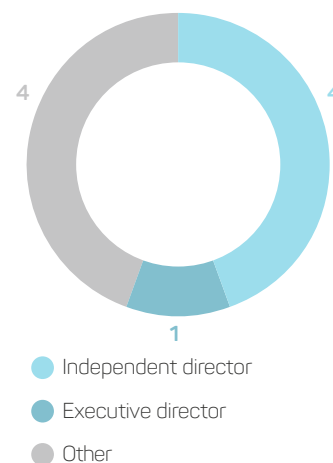
## Directors' location



## Directors' length of tenure



## Composition of the Board of Directors by director status



## The Board of Directors' activity in 2015

In 2015 there were 12 meetings of the Board of Directors of NLMK, 9 of which were held by absentee ballot.

The following are the main issues that were examined by the Group's Board of Directors in 2015:

- Reviewing proposals on the agenda of the General Shareholders' Meeting and proposals on nomination of candidates to NLMK's governing bodies received from NLMK shareholders
- Convening the Annual General Shareholders' Meeting and approving the date to provide a list of persons entitled to participate in the Annual General Meeting of Shareholders
- Approving the Company's draft annual report for 2014, annual financial statements, including the 2014 profit and loss statement, as well as the NLMK's 2014 annual consolidated financial statements prepared in accordance with the US Generally Accepted Accounting Principles (US GAAP)
- Providing recommendations to NLMK's Annual General Meeting of Shareholders regarding the distribution of profits
- Providing recommendations to the Annual General Meeting of Shareholders regarding the payment of remuneration to the members of NLMK's Board of Directors
- Providing recommendations to the Annual General Meeting of Shareholders regarding approval of NLMK's Auditor
- Approving the agenda, draft documents and measures necessary for preparing for and holding the Annual General Shareholders' meeting
- Chairman of the Board of Directors
- Formation of Committees under the Board of Directors of NLMK
- Approving the plan for holding the meetings of NLMK's Board of Directors
- Approving the consolidated budget of the Group
- Restructuring the European assets of NLMK Group
- Approving related party transactions
- Approving the amount of payment for NLMK auditor services
- Establishing the Company's priority areas of activity (including signing an addendum to the agreement on creating a consolidated group of taxpayers (including new participants))

- Approving the composition of the NLMK Management Board
- Approving internal corporate documents of NLMK
- Approving the Corporate Secretary of the Company
- Convening an Extraordinary General Meeting of Shareholders (EGM); approving the agenda, draft documents and events required to prepare for and organize the EGM
- The members of NLMK's Management Board concurrently holding management positions in other companies
- The long-term incentive program for NLMK Group's executives

Participation of Members of the Board of Directors in the Meetings of this Body in 2015

Board of Directors' Member	Participation in meetings
Vladimir Lisin	12
Oleg Bagrin	12
Benedict Sciortino	12
Helmut Wieser	12
Nikolai Gagarin	12
Karl Doering	12
Karen Sarkisov	12
Franz Struzl	12
Stanislav Shekshnya	8*

\* Stanislav Shekshnya was elected to the Board of Directors at the Annual General Shareholders' Meeting held on 5 June 2015.

## COMMITTEES OF THE BOARD OF DIRECTORS

One of the key instruments of the corporate governance system and a prerequisite for efficient operation of the Board of Directors is streamlined operation of its committees. Best practices and the Corporate Governance Code adopted in 2014 and recommended by the Central Bank of the Russian Federation provide for establishing a number of committees within the Boards of Directors – the Audit Committee, Human Resources, Remuneration and Social Policies Committee, and Strategic Planning Committee.

The committees are advisory bodies of the Board of Directors; they are established primarily for preliminary review and analysis of the most significant issues within the powers

of the Board of Directors. The composition of the committees is supposed to allow them to hold in-depth discussions of the issues involved taking into consideration various opinions.

The members of the committees have professional qualifications, knowledge and experience in the committee's area as well as other specific expertise, ability and time required to serve and fulfill their functions as members of the committee.

The status, goals, objectives and functions of the committees as well as their composition, establishment and operation are set out in regulations on committees approved by the Company's Board of Directors.

### Strategic Planning Committee

#### Committee's activities and powers

The Strategic Planning Committee drafts and submits recommendations to the Board regarding priority areas for company activities and its development strategy, including long-term actions to improve effectiveness, and to promote asset growth, profitability and a stronger investment case.

The main objectives of the Strategic Planning Committee are:

1) To provide consulting support required by the Board of Directors for:

- Setting strategic objectives aimed at the long-term development of the Company
- Developing initiatives aimed at increasing the Company's profitability and its investment appeal
- Coordinating the activities of the Company's structural units and the Board of Directors with regard to strategic planning

2) To exercise control over the execution of resolutions adopted by the Board of

Directors with regard to determining priority directions for business development and strategic planning;

3) To assess the Company's investor and shareholder relations policy.

The Committee membership had been changed during 2015

The Committee membership before June 2015:

- Vladimir Lisin (Chairman of the Committee);
- Oleg Bagrin
- Benedict Sciortino
- Karl Doering
- Helmut Wieser
- Franz Struzl
- Karen Sarkisov
- Aleksey Lapshin

The Committee membership between June and December 2015:

- Vladimir Lisin (Chairman of the Committee);
- Oleg Bagrin
- Benedict Sciortino
- Karl Doering
- Helmut Wieser
- Franz Struzl
- Karen Sarkisov

According to Regulations on the Strategic Planning Committee approved in December 2015, the Strategic Planning Committee with the following membership was established at the meeting of the Company's Board of Directors:

- Vladimir Lisin (Chairman of the Committee)
- Oleg Bagrin

Participation of committee members in committee meetings in 2015

Full name	Position	Participation in Committee meetings in 2015
Vladimir Lisin	Chairman of the Committee	3
Oleg Bagrin	Member of the Committee	3
Karen Sarkisov	Member of the Committee	3
Karl Doering	Member of the Committee	3
Benedict Sciortino	Member of the Committee	3
Franz Struzl	Member of the Committee	3
Helmut Wieser	Member of the Committee	3

- Benedict Sciortino
- Karl Doering
- Helmut Wieser
- Franz Struzl
- Karen Sarkisov

Secretary of the Committee: Grigory Fedorishin (Vice President, Finance)

### Results of the Committee's activity in 2015

In 2015, the Strategic Planning Committee held three meetings, including one meeting in person and two meetings in the form of absentee voting.

Resolutions on the following key issues were passed at the meetings of the Committee:

- Updating NLMK's dividend policy
- Developing NLMK Belgium Holdings' assets
- Implementing NLMK Group's investment program, including the development of Stoilensky

### Audit Committee

#### Activity description, authority

The Audit Committee chaired by an independent director was established to contribute to effective performance of functions related to supervision of the Company's financial and business activities by the Board of Directors.

The Committee's main objectives are to improve efficiency of internal control, risk management and corporate governance systems, verify the accuracy of financial statements, supervise the internal and external audit, and prevent fraud by employees and other parties.

The Committee membership had been changed during 2015

The Committee membership before June 2015:

- Benedict Sciortino (Chairman of the Committee)
- Karen Sarkisov
- Nikolai Gagarin
- Karl Doering
- Franz Struzl

The Committee membership between June and December 2015:

- Benedict Sciortino (Chairman of the Committee)
- Karen Sarkisov
- Nikolai Gagarin
- Franz Struzl

According to Regulations on the Audit Committee approved in December 2015, the Audit Committee with the following membership was established at the meeting of the Company's Board of Directors: (as at 31.12.2015):

- Benedict Sciortino (Chairman of the Committee)
- Karen Sarkisov
- Nikolai Gagarin
- Stanislav Shekshnya
- Franz Struzl

Secretary of the Committee: Andrei Dozhdikov (Head of Consolidated Financial Statements Department)

### Results of the Committee's activity for 2015

In 2015 there were 6 meetings of the Audit Committee held in-person, including 3 held by conference call.

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

- Review of the results of the audit of NLMK's 2014 US GAAP Consolidated Financial Statements
- Review of the results of the audit of NLMK's 2014 IFRS Consolidated Financial Statements
- Review of draft interim abridged US GAAP Consolidated Financial Statements for Q1 and H1 2015; and IFRS Consolidated Financial Statements for 9M 2015
- Review of potential auditors for NLMK Group's RAS and IFRS-based consolidated financial statements for 2015
- Review of the report on the progress of the Risk Management, Internal Control and Internal Audit business process development
- Review of the results of risk management activities and the risk matrix for 2015
- Review of the report on the Internal Audit Service performance in 2014, and the audit plan for 2015
- Review of the reports on the interim results of the Group's Internal Audit Service operation, risk management and internal control activities

### Human Resources, Remuneration and Social Policies Committee

#### Committee's activities and powers

The Human Resources, Remuneration and Social Policies Committee chaired by an independent director was established for preliminary review of issues related to the development of efficient and transparent practices of remuneration, human resource planning (succession planning), areas of expertise and performance of the Board of Directors. The main purpose of the Committee is to ensure efficient decision making by the Company's Board of Directors on the following issues:

- Appointment of members of the Company's governing bodies and other key executives, and succession planning for management and other key positions in the Company
- Assessment of members of the Company's governing bodies and other key executives
- Remuneration of members of the Company's governing bodies and other key executives
- The Company's social policy

### Participation of committee members in committee meetings in 2015

Full name	Position	Participation in meetings in 2015*
Benedict Sciortino	Chairman of the Committee	6 (6)
Franz Struzl	Member of the Committee	6 (6)
Stanislav Shekshnya**	Member of the Committee	-
Nikolai Gagarin	Member of the Committee	6 (6)
Karen Sarkisov	Member of the Committee	6 (6)

\* The number of the Committee's meetings over the period of the person's participation as a member of the Committee is specified in brackets.

\*\* Elected to the Committee in December 2015.

The main objective of the Committee is to review, develop and provide recommendations to the Company's Board of Directors on the following issues:

- The priority areas for appointment, assessment, development and remuneration of members of the Company's governing bodies and other key executives
- Human resource planning, expanding the range of expertise and improving performance of the Company's Board of Directors
- Human resource planning and succession planning for management and other key positions in the Company
- Development of efficient and transparent practices of remuneration for members of the Company's governing bodies and other key executives
- Other issues, including the development of the social policy

The Committee membership had been changed during 2015:

The Committee membership before June 2015:

- Vladimir Lisin (Chairman of the Committee)
- Oleg Bagrin
- Aleksey Lapshin

The Committee membership between June and December 2015:

- Stanislav Shekshnya (Chairman of the Committee)
- Vladimir Lisin
- Oleg Bagrin
- Helmut Wieser

According to the Regulations on the Human Resources, Remuneration and Social Policies Committee approved in December 2015, the Human Resources, Remuneration and Social Policies Committee with the following membership was established at the meeting of the Company's Board of Directors: (as at December 31, 2015):

- Stanislav Shekshnya (Chairman of the Committee)
- Vladimir Lisin
- Helmut Wieser

Secretary of the Committee: Irina Bevz (Director, Talent Management)

#### **Results of the Committee's activity for 2015**

In 2015, there were four meetings of the Human Resources, Remuneration and Social Policies Committee, including one meeting in person and three meetings in the form of absentee voting.

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

- Approve the objectives, scope and schedule of the Committee's activities in 2015–2016 and the Secretary of the Committee
- Adopt the 2015–2016 HR Strategy approved by the NLMK's Management Board
- Take into consideration the new MICEX requirements related to criteria of independent directors' connection with the issuer (the maximum length of tenure on the Board of Directors cannot exceed seven years)
- Identify the current best practices for assessing a board of directors and develop an assessment procedure on their basis. Use the ideal target vision of the Board of Directors' performance as a benchmarking criterion when assessing the Board of Directors
- Recommend to NLMK's Board of Directors to approve the proposed methodology and schedule for assessment of the Board of Directors. Conduct the assessment of the Board of Directors in accordance with the proposed methodology and schedule

#### **CORPORATE SECRETARY**

NLMK's Corporate Secretary ensures effective interaction with shareholders, coordinates

#### **Participation of committee members in committee meetings in 2015**

Full name	Position	Participation in meetings in 2015
Stanislav Shekshnya	Chairman of the Committee	2 (2)
Vladimir Lisin	Member of the Committee	4 (4)
Helmut Wieser	Member of the Committee	1 (2)

NLMK's activities aimed at protecting the rights and interests of its shareholders, and supports the operation of the Board of Directors.

Functionally reporting to the Board of Directors and administratively reporting to NLMK President (Chairman of the Management Board), the Corporate Secretary is appointed and dismissed by NLMK President (Chairman of the Management Board) on the basis of a decision by the Board of Directors.

NLMK's Corporate Secretary ensures interaction with shareholders, coordinates NLMK's activities aimed at protecting the rights and interests of its shareholders, supports the operation of the Board of Directors and acts as the Head of the Management Board Secretariat, which helps improve the efficiency of NLMK's corporate governance. The duties performed by the Corporate Secretary are in line with recommendations given in the Code, and the Corporate Secretary has sufficient resources to exercise his powers.

The Corporate Secretary's main duties are to:

- Contribute to preparing for and organizing of General Meetings of Shareholders
- Support the operation of the Board of Directors and its Committees
- Contribute to the execution of NLMK's disclosure policy and oversee the storage of NLMK's corporate documents
- Support the interaction between NLMK and its shareholders
- Support the interaction between NLMK and regulators, brokerage firms, the registrar and other players in the securities market, as well as NLMK's affiliates, within the powers assigned to the Corporate Secretary
- Secure compliance with the procedures established by the law and NLMK's internal documents that provide for the enforcement of rights and legitimate interests of shareholders; and control their execution
- Contribute to improving NLMK's corporate governance system and practices

The rights and duties of NLMK's Corporate Secretary are governed by Regulations on the Corporate Secretary (which were approved for the first time in 2015), the Company's Charter and Regulations on the Board of Directors.

Valery Loskutov has been the Company's Corporate Secretary from 2005.

The Corporate Secretary oversees the Corporate Secretary Office.

## MANAGEMENT BOARD

### NLMK corporate governance in action

According to NLMK's current corporate documents, the implementation of the approved strategy and specific decisions of the Board of Directors is delegated to the President and the Management Board.

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

- Efficient and objective decision-making that favors the interests of the Company and its shareholders
- Fair, timely and efficient execution of the decisions of the General Shareholders' Meeting and the Board of Directors
- Cooperation with trade unions of the Company's employees with the purpose of taking into account the employees' interests
- Cooperation with government agencies and local authorities on the most important issues.

The key issues that the Management Board is responsible for addressing are as follows:

- Devising and conceptualizing the developmental steps, long-term plans and core areas of activity for the Company and its subsidiaries and affiliates; and submitting them to the Board of Directors for approval
- Developing modes of interaction between the Company and other companies and

legal entities in which the Company holds shares or interest or of which the Company is a founder, participant or member

- Approving proposals concerning the agenda of the General Meetings of Shareholders/participants as well as the list of candidates to the governing bodies which supervise the subsidiaries, affiliates and other legal entities of which the Company is a founder, participant or member
- Approving the Company's representatives for participation in the General Meetings of Shareholders and participants held at subsidiaries, affiliates and other legal entities of which the Company is a shareholder, founder or member, as well as approving guidelines for voting on agenda items for those representatives
- Giving recommendations and opinions on issues concerning approval of budgets, key development trends, governance structure, and other critical issues, which are considered by the governing bodies of subsidiaries, affiliates and other legal entities of which the Company is a founder, participant or member
- Advising the Board of Directors on major and/or related party transactions submitted for review by the Board of Directors in accordance with its powers
- Approving transactions involving the Company's assets in cases where the value of the deal or property in question exceeds 10% of the Company's asset book value
- Deciding on Company participation or termination of participation in other organizations in cases where the value of

### Composition of the Management Board as at 31 December 2015

Full name	Position
Oleg Bagrin	Member of the Board of Directors, President (Chairman of the Management Board)
Brijesh Garg	Vice President, Procurement
Ilya Gushchin	Vice President, Sales
Yuri Larin	Vice President, Technology Development & Operational Efficiency
Sergey Likharev	Vice President, Logistics
Alexander Saprykin	Vice President, Strategic Raw Materials Division
Grigory Fedorishin	Vice President, Finance
Sergey Filatov	Managing Director
Stanislav Tsyrlin	Vice President, HR & Management System

There was no conflict of interests between NLMK Management Board members in 2015.



the acquired (disposed) property is less than 2% of the Company's asset book value

- Setting up and dissolving Company's branches and representative offices, as well as approving, revising and amending regulations on branches and representative offices

The make-up and structure of members of the Management Board is approved by the Board of Directors with consideration of the opinion of the President (Chairman of the Management Board). The composition of the Management Board is approved by the Board of Directors based on recommendations from the President (Chairman of the Management Board).

### President (Chairman of the Management Board)

President (Chairman of the Management Board) manages the day-to-day activities of the Company, excluding issues that fall within the exclusive competence of the General Shareholders' Meeting, the Board of Directors and the Management Board; arranges for the execution of the decisions made by the General Shareholders' Meeting and the Board of Directors. President (Chairman of the Management Board) acts without any Power of Attorney on behalf of the Company.

According to the corporate documents, President (Chairman of the Management

Board) cannot simultaneously be the Chairman of the Board of Directors of the Company.

The President (Chairman of the Management Board) is elected by the General Shareholders' Meeting for a period lasting until the next Annual Meeting, unless otherwise stipulated by the General Shareholders' Meeting. Oleg Bagrin has been the President (Chairman of the Management Board) since 2012 and is also a member of the Board of Directors. He was last elected on 5 June 2015.

### Activity of the Management Board in 2015

In 2015, there were 44 meetings of the Management Board, including 22 meetings that were held using absentee ballots. The following issues were considered at these meetings:

- Meeting Group's key performance indicators in occupational health & safety
- Group's consolidated budget execution
- Achievement of NLMK Group's KPIs and implementation of its companies' optimization programmes
- Participation/withdrawing participation of the Group in other companies
- Approval of draft decisions on matters within the competence of the General Shareholders' Meetings of companies in which the Group is the sole participant/shareholder

Participation of Members of the Management Board in Meetings of this body in 2015

Full name	Participation in meetings
Oleg Bagrin	44
Brijesh Garg	44
Ilya Gushchin	44
Yuri Larin	44
Sergey Likharev	44
Alexander Saprykin	44
Grigory Fedorishin	44
Sergey Filatov	44
Stanislav Tsyrlin	44

- Execution of the development programmes of NLMK's divisions (functional areas)
- Recommendations to the Company's Board of Directors (with regard to approval of related party transactions, dividend payments and NLMK's draft annual report for 2014)
- Recommendations to the governing bodies of subsidiaries and affiliates
- Approval of transactions
- Efficiency of sales portfolio management
- Comprehensive risk management system
- Approval of the Management Board's meeting schedule for 2015

Shares owned by members of the Management Board

Full name	Position	Share of the authorized capital stock of NLMK
Oleg Bagrin	Member of the Board of Directors, President (Chairman of the Management Board)	Not an NLMK shareholder
Brijesh Garg	Vice President, Procurement	Not an NLMK shareholder
Ilya Gushchin	Vice President, Sales	Not an NLMK shareholder
Yuri Larin	Vice President, Technology Development & Operational Efficiency	0.00083 %
Sergey Likharev	Vice President, Logistics	Not an NLMK shareholder
Alexander Saprykin	Vice President, Strategic Raw Materials Division	Not an NLMK shareholder
Grigory Fedorishin	Vice President, Finance	Not an NLMK shareholder
Sergey Filatov	Managing Director	Not an NLMK shareholder
Stanislav Tsyrlin	Vice President, HR & Management System	Not an NLMK shareholder

### REPORT ON REMUNERATION TO GOVERNING BODIES

The levels of remuneration are sufficient to attract, motivate and retain competent and properly qualified executives. Remuneration is paid to members of NLMK's Board of Directors in accordance with the approved Regulations on Remuneration.

The Regulations on Remuneration contain transparent mechanisms for determining the levels of remuneration paid to members of NLMK's Board of Directors, and govern all types of payments, benefits and perks offered to them.

### Remuneration and compensation of members of the Board of Directors

The remuneration system for members of the Board of Directors serves to align

their financial interests with the long-term financial interests of shareholders.

The levels of remuneration and compensation paid to members of NLMK's Board of Directors are determined on the basis of Regulations on Remuneration of Members of the Board of Directors of Novolipetsk Steel approved by the General Meeting of Shareholders on 5 June 2015 (Minutes of Meeting No. 40). The Regulations outline the terms and conditions and the procedure for payment of remuneration and compensation for expenses to members of NLMK's Board of Directors related to their performing the functions of members of the Board of Directors during their term / from their election to the Board of Directors till the date of termination of office of the member of the Board of Directors.

Remuneration is paid to the members of the Board of Directors for reasonable and faithful exercise of their rights and their duties in the interests of NLMK. Remuneration to members of the Board of Directors consists of base remuneration and a bonus.

The amount of base remuneration is determined on the basis of a resolution by the General Meeting of Shareholders. The Annual General Meeting decided to set the base remuneration for 2014 paid to each member of the Board of Directors at \$160,000 (one hundred and sixty thousand US dollars).

A member of the Board of Directors may receive a bonus that shall not exceed two base remunerations. The amount of the bonus is determined on the basis of the member's contribution to the work of the Board of Directors and its Committees and recommendations given by the Human Resources, Remuneration and Social Policies Committee.

Remuneration is paid following a decision by NLMK's General Meeting of Shareholders.

Regulations on Remuneration of Members of the Board of Directors of Novolipetsk Steel set the rules for reimbursing Board members' work-related expenses. The following expenses are considered to be reimbursable:

- Transportation costs of the members of the Board of Directors incurred while travelling to meetings
- Costs for accommodation incurred while attending meetings
- Representation expenses
- Costs associated with obtaining the professional advice of experts on issues under consideration at the meetings of the Board of Directors

- Costs associated with translating materials to be studied by members of the Board of Directors into a foreign language.

The maximum amount of a Board member's expenses reimbursed by NLMK during a settlement period is determined by a decision of the General Meeting of Shareholders and shall not exceed 30% of the base remuneration. The compensation shall be paid only if the member of the Board of Directors participated in more than a half of meetings held by the Board of Directors.

Since the Company does not have any stock option programmes, members of the Board of Directors are not provided with an opportunity to participate in them, and their right to sell their NLMK shares is not linked to performance.

### Remuneration and compensation of members of the Management Board

The remuneration system for members of NLMK's executive bodies and other key executives links the remuneration to NLMK's performance and their contribution to it. NLMK is consistently implementing a long-term motivation programme for members of NLMK's executive bodies and other key executives.

In accordance with the Regulations on the Management Board, members of the Board shall receive remuneration and compensation for expenses related to the performance of their responsibilities as members of the Board for their period of service. The conditions and procedure for remuneration of Management Board members are governed by an agreement that is concluded with Board members as advised by the Human Resources, Remuneration, and Social Policies Committee. The Management Board shall be compensated in monetary form.

The following principles outline the mechanism for determining the amount of compensation that is awarded to NLMK top management:

- Honest and efficient performance of their duties by members of the Management Board
- Rational use of the rights that are granted to them
- The size of the bonuses awarded to members of the Management Board is dependent on their achievement of key performance indicators (KPIs) and on the Company's overall results during the reporting period
- Active involvement by members of the Management Board in the work of the Group's executive bodies.

### Remuneration paid to Board members in 2014–2015

	2014 '000 rubles	2015 '000 rubles	2015 \$ million
Payments to Board members, incl.:	<b>125,585</b>	<b>162,549</b>	<b>2.67</b>
Remuneration	<b>123,605</b>	<b>160,054</b>	<b>2.63</b>
Salary	–	–	–
Bonuses	–	–	–
Commission	–	–	–
Benefits	–	–	–
Refunded expenses	<b>1,980</b>	<b>2,495</b>	<b>0.04</b>
Other types of remuneration	–	–	–

### Remuneration paid to Management Board members in 2014–2015

	2014 '000 rubles	2015 '000 rubles	2015 \$ million
Payments to Board members, incl.:	<b>486,545</b>	<b>560,604</b>	<b>9.20</b>
Salary	<b>120,576</b>	<b>198,191</b>	<b>3.25</b>
Bonuses	<b>362,846</b>	<b>359,957</b>	<b>5.91</b>
Commission	–	–	–
Benefits	–	–	–
Refunded expenses	<b>3,123</b>	<b>2,440</b>	<b>0.04</b>
Other types of remuneration	–	<b>16</b>	<b>0.00</b>

# OPERATIONAL CONTROL AND RISK MANAGEMENT

## SUPERVISION OVER THE FINANCIAL AND BUSINESS ACTIVITIES

### Transition to new consolidated financial reporting standards

Keeping up with the recent regulatory changes in Russia, NLMK switched to reporting its consolidated financial results under the International Financial Reporting Standards (IFRS) starting from its report for the first nine months of 2015.

The date of the first-time adoption of IFRS is 1 January 2013; the first reporting under IFRS was NLMK's consolidated financial statement for the year ending on 31 December 2014, with data for 2013 as the benchmark. The timeframe for the transition to IFRS was due to the narrowing gap between US GAAP and IFRS principles in 2012–2014; this made data reported under US GAAP and IFRS more easily comparable and helped improve the transition process.

The transition to IFRS had no significant effect on the Company's financial performance data.

### External Auditor

According to the legislation of the Russian Federation, the Group's General Shareholders' Meeting selects auditors on an annual basis. The Audit Committee advances candidates for Group auditor who are recognized independent auditors with strong professional reputation for consideration by the Board of Directors.

The Audit Committee is guided by the following core principles when making its recommendations:

- The qualifications of the audit organization and its professional reputation
- The quality of its services
- Its compliance with auditor independence requirements.

AO PricewaterhouseCoopers Audit was selected at the Annual General Shareholders' Meeting held in June 2015, to conduct an audit of financial statements prepared in accordance with Russian Accounting Standards (RAS), the US Generally Accepted Accounting Principles (US GAAP), and International Financial Reporting Standards (IFRS). Address: 10 Butyrsky Val, Moscow, 125047, Russia.

### Remuneration

The Board of Directors has determined the amount of remuneration for audit services (review) of the US GAAP consolidated financial statements of NLMK for H1 2015, the IFRS consolidated financial statements of NLMK for 9M 2015, 12M 2015 and Q1 2016, and the RAS Statements for 2015 to be US\$ 1,000,000 and 32 million rubles (excluding VAT).

### Independence of external auditors

In 2015, AO PricewaterhouseCoopers Audit performed audits of consolidated financial statements prepared in accordance with US GAAP and IFRS; and financial statements of NLMK Group's major companies in accordance with RAS.

AO PricewaterhouseCoopers Audit has several systems to ensure the independence of its auditors, for example, it regularly rotates the key staff in its audit working group (at least once every seven years).

The Group has hired AO PricewaterhouseCoopers Audit and other PricewaterhouseCoopers companies (hereafter PwC) to provide consulting (non-audit) services.

The management of NLMK has conducted the necessary procedures, and is sure that these services do not affect the independence of the auditor and are not related to financial reporting. The share of consulting (non-audit) services provided

by ZAO PricewaterhouseCoopers Audit for NLMK in 2015 did not exceed 10% of the total amount of services performed.

### Internal Audit Commission

#### Corporate governance in action

The Internal Audit Commission is a full-time internal control authority exercising continuous supervision over the financial and business activities of the Company. The Internal Audit Commission operates under the Charter and the Internal Audit Commission Regulations. It audits the financial and business activities of NLMK Group in order to obtain adequate assurance that the activities of NLMK Group comply





with applicable Russian Federation laws and do not infringe upon the rights of Company shareholders, and that the Company reports and accounts contain no material misstatements.

The Internal Audit Commission acts for the protection of the shareholders' investments and the Group's assets and is elected by the General Meeting of Shareholders for a term until the next Annual General Meeting of Shareholders. The Internal Audit Commission report is an essential part of NLMK's RAS Financial Statements.

The members of the Internal Audit Commission were elected on 5 June 2015 at the Annual General Meeting of Shareholders. As of 31 December 2015 the Internal Audit Commission had the following composition:

- Vladislav Ershov
- Natalia Krasnykh
- Vladimir Markin
- Sergey Nesmeyanov
- Galina Shipilova

#### *Activities of the Internal Audit Commission in 2015*

The newly elected Internal Audit Commission held one meeting in 2015 to discuss its operation in 2015, elect its chairman and approve an audit plan and programme. The Commission reviewed the Group's financial and business activities for 2015 in accordance with its powers and on the basis of the approved plan.

#### *Remuneration*

Remuneration to members of the Internal Audit Commission is paid in accordance with the Regulations on NLMK Group's Internal Audit Commissions approved by NLMK's President (Chairman of the Management Board) on 25 November 2014. According to the Regulations, the main criterion for determining whether to pay the remuneration is participation in audits of the Company's

Remuneration paid to Internal Audit Commission members in 2014–2015

	2014 '000 rubles	2015 '000 rubles
Payments to Commission members, incl.	18,142	6,700
Salary	6,912	3,670
Bonuses	1,445	2,906
Remuneration for participation in the Commission's activities	180	–
Refunded expenses	–	–
Other types of remuneration	9 605	124



financial and business operations. The remuneration paid to members of the Internal Audit Commission shall be equal to the amount of base remuneration, which is determined by the Regulations.

The total remuneration paid to members of the Internal Audit Commission for audits of NLMK's operations in 2015 was 220,000 rubles (\$4,000).

## Audit Committee

### Committee's activities and powers

The Audit Committee chaired by an independent director was established to contribute to effective performance of functions related to supervision of the Company's financial and business activities by the Board of Directors.

The Committee's main objectives are to improve efficiency of internal control, risk management and corporate governance systems, verify the accuracy of financial statements, supervise the internal and external audit, and prevent fraud by employees and other parties.

According to Regulations on the Audit Committee approved in December 2015, the Audit Committee with the following membership was established at the meeting of the Company's Board of Directors:

- Benedict Sciortino (Chairman)
- Karen Sarkisov
- Nikolai Gagarin
- Stanislav Shekshnya
- Franz Struzl

Secretary of the Committee: Andrei Dozhdikov (Head of Consolidated Financial Statements Department)

### Results of the Committee's activity for 2015

In 2015 there were 6 meetings of the Audit Committee held in-person, including 3 held by conference call.

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

- Review of the results of the audit of NLMK's 2014 US GAAP Consolidated Financial Statements
- Review of the results of the audit of NLMK's 2014 IFRS Consolidated Financial Statements
- Review of the results of the audit of NLMK's 2014 RAS Financial Statements
- Review of draft interim abridged US GAAP Consolidated Financial Statements for Q1 and H1 2015; and IFRS Consolidated Financial Statements for 9M 2015
- Review of potential auditors for NLMK Group's RAS and IFRS-based consolidated financial statements for 2015
- Review of the report on the progress of the Risk Management, Internal Control and Internal Audit business process development
- Review of the results of risk management activities and the risk matrix for 2015
- Review of the report on the Internal Audit Service performance in 2014, and the audit plan for 2015

- Review of the reports on the interim results of the Group's Internal Audit Service operation, risk management and internal control activities

## Internal Audit

### Practices

Internal Audit is an integral part of NLMK's internal control system, exercising continuous supervision over the financial and business activities of the Company. Internal auditing is an activity designed to provide objective and impartial assurance and consulting in order to enhance the organizational activities. The key functions of the Internal Audit Department are as follows:

- Assess efficiency of the internal control system
- Assess efficiency of the risk management system
- Assess efficiency of corporate governance
- Consulting

Internal auditing activity is performed by the Internal Audit Department and local Internal Audit offices of NLMK Group's companies. Head of Internal Audit interacts with the local Internal Audit offices by undertaking:

- General functional management of local Internal Audit offices
- Organization of methodological support for Internal Audit activities
- Quality control
- Organization of consulting services

### Internal Audit activities in 2015

In 2015, Internal Audit experts performed the following activities:

- Audits of risk management efficiency in relation to material risks and assessments of efficiency of the internal control system applicable to business processes. The audits revealed both insignificant and significant deficiencies. It confirms that the risk management system is in place, yet certain organizational weaknesses and/or control procedure compliance issues exist which could have an impact on achieving process objectives
- Assessment of NLMK's corporate governance efficiency. The efficiency was assessed as high and complying with the requirements of Stock exchanges
- Audits of Company's financial and business activities; compliance with

### Participation of committee members in committee meetings in 2015

Full name	Position	Participation in meetings in 2015*
Benedict Sciortino	Chairman of the Committee	6 (6)
Franz Struzl	Member of the Committee	6 (6)
Stanislav Shekshnya**	Member of the Committee	-
Nikolai Gagarin	Member of the Committee	6 (6)
Karen Sarkisov	Member of the Committee	6 (6)

\* The number of the Committee's meetings over the period of the person's participation as a member of the Committee is specified in brackets.

\*\* Elected to the Committee in December 2015.



financial and tax accounting regulations; and preparation of financial (tax) statements

- Experts of Internal Audit Department conducted internal audits in NLMK Group's companies in accordance with the laws on joint-stock companies and charters of limited liability companies. Internal audits were conducted in 17 subsidiaries and affiliates followed by reports on validity of accounting (financial) statements
- Consulting services: consulting services were provided to business units of the Lipetsk site and other NLMK Group's companies on issues related to taxation and financial and business activities; auditors participated in meetings of commissions and work groups and shared their opinions on subject matters
- Audits of repair and construction activities

Following the audits, auditors provided recommendations on how to improve NLMK Group activities, including improvement of the company's risk management and internal control system. Internal Audit consistently monitors implementation of its recommendations. In 2015, 95% of auditors' recommendations were implemented.

### Anti-corruption efforts

NLMK Group is guided by high ethical standards and principles of business transparency. Respect for existing legislation, professionalism and honesty are essential for all NLMK Group employees.

NLMK adheres to best corporate governance practices and deems any form of corruption to be unacceptable, including bribery, collusion, corrupt payments, abuse of position, facilitation payments, etc. Direct and indirect involvement of NLMK Group employees in corrupt activities is prohibited without exception.

NLMK Group is a member of the Anti-Corruption Charter of the Russian Business, which was established by the Russian Union of Industrialists and Entrepreneurs; this underlines NLMK's commitment to promoting fair business and corporate governance

practices in Russia and encouraging fair competition and sustainable economic growth.

NLMK Group companies have an extensive internal communications network that enables all employees to report any instances of corruption, past and future. At Novolipetsk, concerns can be reported to a special hotline; at a face-to-face meeting with executives or the person in charge of anti-corruption enforcement, or to Asset Protection. Staff members can also send e-mails to a special address, anticorruption@nlmk.com, or use 'help boxes' placed at entrance checkpoints.

NLMK Group adopted special practices for operations with the highest risk of fraud: conflicts of interest should be declared, and employees should undergo psychophysiological tests. Their Internal Regulations were amended to include anti-corruption responsibilities.

Acknowledgement of and compliance with the principles and practices set out in the Anti-Corruption Charter of the Russian Business is one of the standard qualification criteria our potential counterparties should meet to become NLMK Group's partners. The Roadmap of the Charter is an integral part of the standard contractual relationship between NLMK Group companies and their partners.

The formalization and implementation of processes within our anti-corruption system are expected to be completed in 2016.

## RISK MANAGEMENT

### NLMK risk management system

NLMK Group's business is exposed to various risks. The Group has adopted a risk management system to make optimal decisions in the course of its activities. The system includes risk identification, classification and impact assessment procedures, as well as development of risk management measures and mitigation of the negative impact of external factors.

Our risk management policy is aimed at protecting the interests of shareholders,

stakeholders and the Company in general through an efficient risk management system.

Risk mitigation is one of the key prerequisites for achieving our targets and improving key performance indicators.

The Group has a number of regulations concerning the risk management system in general and the key risk management methodologies and procedures.

The responsibilities within the risk management system are allocated as follows:

- The Management Board approves the critical/significant risk matrix and risk management action plan and monitors the performance of the risk management system.
- The Audit Committee approves the critical/significant risk management programme and monitors the performance of the risk management system.
- The Risk Management Committee performs day-to-day risk management duties, determines assessment approaches and risk structure and develops risk management and impact mitigation measures.
- Risk owners identify new threats and implement the approved risk management programme.

### Changes introduced to the risk management system in 2015

The Company continued with integration processes in 2015 to further develop its risk management system. Specifically, it appointed risk management and internal control coordinators across NLMK Group operations and functions. Their main task is to communicate the approaches and values of the risk management system to all business units.

In 2015, NLMK Group approved its Credit Policy, improved the Maintenance Schedule and developed a draft Anticorruption Policy.

## Risks NLMK is exposed to

Risk	Impact level	Description	Mitigation measures
<b>PRODUCTION RISKS</b>			
<b>Business continuity risk</b>	Critical risk	Risks related to downtime caused by equipment failure, human errors, supply of low-quality raw materials, or other sources of risk, including acts of nature	Maintenance and repair programmes, a system for controlling incoming raw materials and supplies
<b>Equipment productivity reduction risk and low quality product risk</b>	Significant risk	Risks related to limited equipment availability and lower equipment productivity and quality of end products	Operational efficiency programme
<b>COMMERCIAL RISKS</b>			
<b>Price risk</b>	Critical risk	Risk associated with unfavourable changes in market prices and the government's position on energy pricing	<ul style="list-style-type: none"> <li>Monitoring spreads between steel products and key raw materials.</li> <li>Development of a purchasing strategy by category of material.</li> </ul>
<b>Credit risk</b>	Critical risk	Risk caused by counterparty default on payment or supply of products (accounts receivable and advance payments) or NLMK Group's bank deposits	The credit risk is minimized through credit security, accounts receivable insurance, limits on certain types of credit, and concentration risk management
<b>Risk of inefficient ready inventory management</b>	Critical risk	Risk caused by inefficient inventory management: non-compliance with (absence of) standards, unlawful actions by inventory keepers or poor logistics chain	Development of raw material and end product stock keeping standards, audit and stock taking
<b>FINANCIAL RISKS</b>			
<b>Currency risk</b>	Critical risk	Risks associated with fluctuations in currency rates. The Company receives the majority of its revenues from exports in foreign currency, while the majority of expenditure is established in Russian rubles.	Control of open foreign exchange position
<b>INVESTMENT RISKS</b>			
<b>Investment risk</b>	Critical risk	Risk associated with failure to achieve project KPIs, including completion deadlines, project budget and surplus inventory	<ul style="list-style-type: none"> <li>Application of project management principles</li> <li>Assessment of risks related to each project</li> <li>Root cause analysis for key risks. Development of preventive measures</li> </ul>
<b>REGULATORY RISKS</b>			
<b>Tax risk</b>	Significant risk	When accounting, declaring and paying taxes, the Company seeks to comply with all requirements of the applicable legislation. Nonetheless, changes in tax laws and regulators' enforcement practices, as well as introduction of new business processes and operations expose the Company to tax risks	<ul style="list-style-type: none"> <li>Continuous monitoring of tax legislation</li> <li>Regular diagnostic and strengthening of internal control for tax accounting, declaration and payment processes</li> </ul>

Risk	Impact level	Description	Mitigation measures
<b>Free trade restriction risks</b>	Significant risk	The significant volume of exports and imports make the Company vulnerable to tariff and non-tariff measures, as well as other restrictions imposed by foreign regulators on raw and other materials and equipment purchased by the Company, and the products the Company sells	<ul style="list-style-type: none"> <li>Monitoring of foreign regulators' activities</li> <li>Promotion of the Company's interests through available legal tools, transparency and effective interaction with regulators</li> <li>Sales channel management to minimize the negative effect of sanction regimes</li> </ul>
<b>OPERATIONAL RISKS</b>			
<b>Environmental risk</b>	Critical risk	Risk of environmental changes or unfavourable long-term consequences of these changes resulting from negative environmental impact	The Company is implementing a comprehensive investment programme aimed at upgrading pollution prevention equipment, introducing new, more eco-friendly production technologies and ensuring compliance with environmental standards
<b>Occupational health and safety risks</b>	Significant risk	Risks associated with the occurrence of accidents and other incidents	<ul style="list-style-type: none"> <li>Development and implementation of a corporate OHS management system with unified standards across all sites</li> <li>Development of NLMK Group's preventative fire safety system</li> <li>Ensuring employees are supplied with the latest personal protection and hygiene equipment</li> <li>OHS training for managers and experts.</li> </ul>
<b>Fraud, corruption and asset theft risk</b>	Significant risk	Risk associated with illegal actions (fraud) taken by employees, counterparties and third parties to benefit themselves to the prejudice (at the expense) of NLMK's interests	<ul style="list-style-type: none"> <li>Promotion of principles stipulated in the Anticorruption Policy and Ethics Code</li> <li>Declaration of absence of a conflict of interests by employees in positions that are most vulnerable to the risk</li> <li>Development of the Company's hotline as an important and secure channel for informing the Company about corruption and fraud</li> <li>Qualification of counterparties engaged by the Company with regard to their compliance with anticorruption principles</li> <li>Regular diagnostic of the Company's internal control system</li> </ul>
<b>IT risks</b>	Significant risk	<ul style="list-style-type: none"> <li>The Company is exposed to IT risks as its processes and data flows are heavily dependent on applied IT solutions. There are two key areas of IT risk management:</li> <li>Protection of information classified as trade secrets, personal data and information intended for internal use</li> <li>Delivery of business process continuity and high availability of IT systems and infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening of NLMK Group's regulations concerning information security, business continuity procedures and emergency response plans</li> <li>Implementation of several projects aimed at strengthening the Company's information security, including introduction of SAP GRC access control tools, comprehensive roll-out of information protection tools and a project to improve the maturity of critical business system change management</li> </ul>

# INFORMATION FOR SHAREHOLDERS

## ORDINARY SHARES

The Group's share capital is divided into 5,993,227,240 shares with a nominal value of RUB 1 each. NLMK's shares are traded on the MICEX and RTS trading platforms of the Moscow Stock Exchange, as well as in the form of Global Depositary Shares (GDS) (1 GDS = 10 ordinary shares) on the London Stock Exchange (LSE).

LSE (London) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
Bloomberg Ticker Code	– NLMK LI for GDS traded on the LSE – NLMK RX for shares traded on the MICEX platform of the Moscow Exchange
Reuters Ticker Code	– NLMKq.L for GDS traded on the LSE – NLMK.MM for shares traded on the MICEX platform of the Moscow Stock Exchange

## Indices that include NLMK shares

- RTS Index (NLMK's share as at 15.03.16 – 0.76%)
- MICEX index (NLMK's share as at 15.03.16 – 0.76%)
- Moscow Stock Exchange Metals & Mining (NLMK's share as at 15.03.16 – 13.86%)
- FTSE Russia IOB index.

## Global Depositary Shares (GDS)

The ratio of Global Depositary Shares to ordinary shares is 1:10. The volume of Global Depositary Shares issued by NLMK and traded on the London Stock Exchange amounted to 8.56% of share capital as of 31 December 2015.

The Company's depositary bank is Deutsche Bank Trust Company Americas.

## Share price

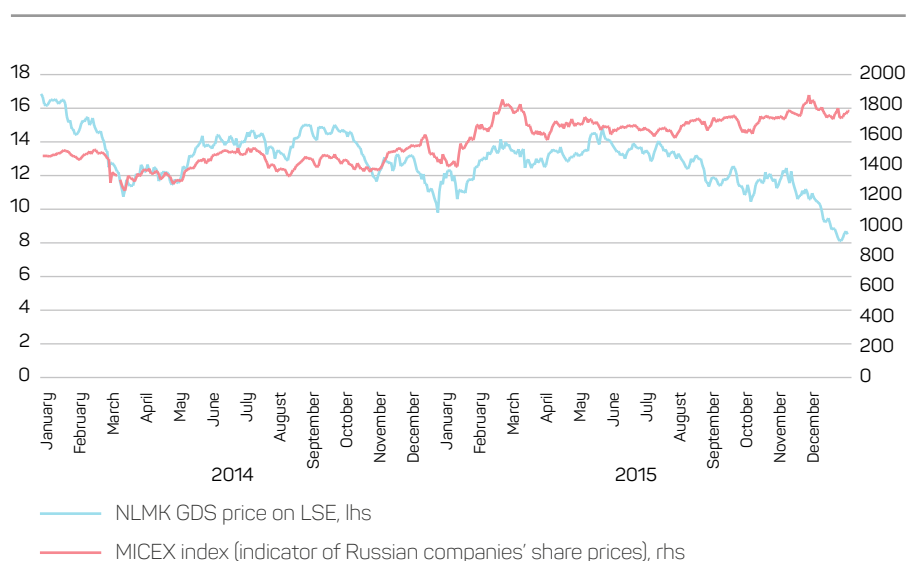
### NLMK Global Depositary Shares on the London Stock Exchange

Price of GDS (US\$)	2015	2014
Maximum	14.80	16.69
Minimum	8.11	9.80
Mean	12.36	13.45
End of year	8.51	11.48

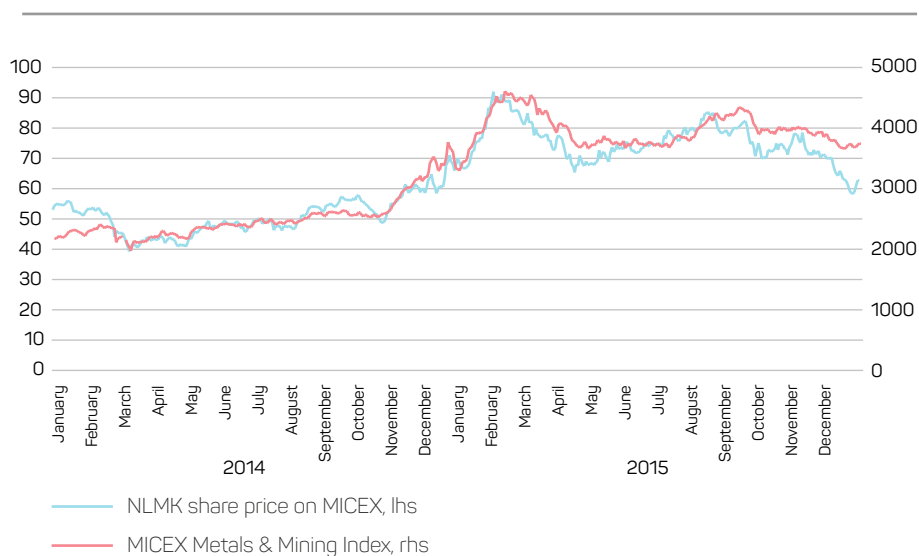
### Ordinary NLMK shares on MICEX

Share price (RUB)	2015	2014
Maximum	92.00	71.02
Minimum	58.29	39.30
Mean	75.21	51.66
End of year	62.6	67.41

### NLMK GDS price on the London Stock Exchange (LSE) (\$/GDS)



NLMK share price on MICEX (RUB/share)



### Market capitalization

NLMK market capitalization in 2015 was largely in line with the general trends seen in capital markets and the global steel market. Average market capitalization of the Company on the London Stock Exchange was US\$ 7.4 billion (~8% year-on-year). At the end of 2015, NLMK share price was US\$0.85, or US\$8.51 per GDS, consistent with capitalization of US\$5.1 billion.

### Taxation

#### Legal entities

Tax treatment of organizations' revenues received as dividends on shares is governed by Chapter 25 'Tax on Organizations' Profit' of the Russian Tax Code. Dividends paid to organizations that are Russian taxpayers are subject to a 0% or 13% income tax (subclauses 1 and 2 of Clause 3 of Article 284 of the Russian Tax Code); foreign organizations are subject to a 15% income tax (subclause 3 of Clause 3 of article 284 of the Russian Tax Code).

#### Individuals

The personal income tax rate is 13% for Russian individuals (Clause 1 of Article 224 of the Russian Tax Code) and 15% for foreign individuals (paragraph 2 of Clause 3 of article 224 of the Russian Tax Code).

Note: Information on taxation is provided for general information purposes only. Potential and existing investors should consult with their

own advisors regarding the tax consequences of investing in the Company's shares, including Global Depositary Shares (GDS).

### DIVIDENDS

#### Dividend policy

The dividend policy was updated in 2015 to improve the transparency of dividend payouts.

According to the current dividend policy, dividends are to be paid with the payout in the range of:

- 50% of net income and 50% of free cash flow calculated based on US GAAP/ IFRS

Dividend history (US\$ m)



consolidated financial statements, if Net debt/ EBITDA is 1.0x or less.

- 30% of net profit and 30% of free cash flow calculated on US GAAP/IFRS consolidated financial statements, if Net Debt/EBITDA exceeds 1.0x.
- Dividends are paid annually. If conditions for financial stability are maintained, NLMK will strive to pay interim dividends on a quarterly basis.
- The amount to be paid as a dividend for a specific period is approved by company shareholders in line with recommendations by the Board of Directors.

### Dividends payable to GDS holders

Any dividends paid on shares certified by GDS will be declared and paid to the Depositary in roubles or foreign currency, converted into US dollars by the Depositary (in the case of dividend payment in a currency other than US dollars), and distributed to the holders of GDS, net of fees and Depositary expenses.

The Board of Directors recommends that the Annual General Meeting of NLMK Shareholders pay (announce the payment of) 2015 dividends for ordinary shares in the amount of RUB 6.95 in cash per one ordinary share. Taking into account that interim dividends have been paid in the amount of RUB 4.52 per one ordinary share, the remaining balance to be paid per one ordinary share is RUB 2.43.

The Board of Directors recommended using the balance of profits after payment of dividends for funding investment programmes and paying dividends in the future.



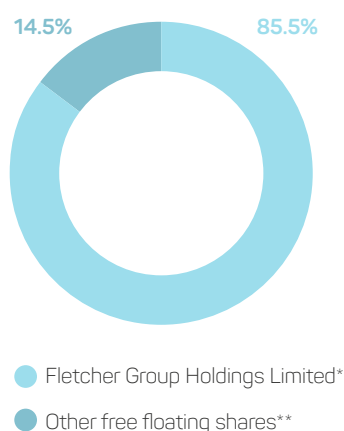
## CORPORATE DOCUMENTS

The Group's corporate documents, including the Company Charter, are available at [www.nlmk.com](http://www.nlmk.com).

## FINANCIAL REPORTING AND DISCLOSURE

The Group posts announcements of financial results on the London Stock Exchange website via the regulatory news service (RNS) and then publishes them on the Group website in the form of press releases, and distributes them to the media. The Company publishes its financial results on a quarterly basis. The annual report is published in electronic form on the Group website, [www.nlmk.com](http://www.nlmk.com), on the day of its official publication. The Group shall give notice of this date in a specially issued press release. A hard copy of the annual report is available on request in the office of the Register of Shareholders and NLMK PR Consultants' office in London.

Structure of share capital as at 31 December 2015



\* The company's beneficiary is Vladimir Lisin, according to the definition of 'beneficiary' in the Russian legislation.

\*\* All other free-floating shares, including global depository shares traded on the London Stock Exchange (Deutsche Bank Trust Company Americas is NLMK's depository bank) and shares traded on Moscow Exchange.

## Financial calendar for 2016

Date	Event
19-5 January 2016	Q4 2015 trading update
24 March 2016	12M 2015 consolidated financial results
24 March 2016	NLMK Capital Markets Day
25 March 2016	12M 2015 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
14 April 2016	Q1 2016 trading update
22 April 2016	Meeting of the Board of Directors (BoD)
17 May 2016	Q1 2016 consolidated financial results
3 June 2016	Annual General Meeting of Shareholders
14 July 2016	Q2 2016 trading update
25-29 July 2016	H1 2016 consolidated financial results
8-12 August 2016	Meeting of the Board of Directors (BoD)
26-30 September 2016.	Extraordinary General Meeting of Shareholders
13 October 2016	Q3 2016 trading update
31 October -4 November 2016	9M 2016 consolidated financial results
14-18 November 2016	Meeting of the Board of Directors (BoD)
19-21 December 2016	Extraordinary General Meeting of Shareholders

## CONTACTS FOR SHAREHOLDERS

### Registrar

The register of holders of NLMK securities is maintained by the Regional Independent Registrar Agency (RIR Agency).

Registered address: 10 B, 9 Maya St., Lipetsk, 398017, Russia

Telephone: +7 (4742) 44-30-95

E-mail: [info@a-rnr.ru](mailto:info@a-rnr.ru)

### Depository bank

Deutsche Bank Trust Company Americas

### New York Headquarters

60 Wall St., New-York, NY, 10005

USA

### London Office

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