1. UNDERSTANDING NLMK

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

Mining and steelmaking are concentrated in cost-efficient regions; finished products are manufactured close to our main consumers in Russia, North America, and the EU.
Thanks to our self-sufficiency in key raw materials and energy, coupled with the technological superiority of our production capacity, NLMK is one of the most efficient and profitable steelmakers in the world. NLMK has a diversified product mix, ensuring our leading position in local markets and our sales effectiveness. By leveraging our advantages – our flexible production chain, balanced product mix, efficient sales system, and widespread customer base – we are able to react quickly to changing market conditions.

Having completed the investment phase of its development, NLMK Group turned its focus to increasing the efficiency of its business processes, developing its resource base, strengthening its positions in strategic markets and enhancing production safety. Structural savings of more than $500 million in 2013-2014, generated by operational efficiency programmes have increased business profitability.

In 2014, NLMK demonstrated consistent improvement in operational and financial performance, despite instability in sales markets.

Significant operational gains and conservative investments have enabled a substantial strengthening of the Company’s financial standing, as well as supporting deleveraging and providing for increased flexibility on dividends.

$1.7 bn
operating cash flow
(+46% y-o-y)

$0.6 bn
investment
(-26% y-o-y)

$1.2 bn
free cash flow
(+174% y-o-y)

$1.6 bn
net debt
(-41% y-o-y)

0.67
net debt/EBITDA
(1.80 in 2013)

$226 m
dividend payments during 2014
(+99% y-o-y)
EFFICIENT VERTICAL INTEGRATION OF RAW MATERIAL AND ENERGY RESOURCES

100%

self-sufficiency in iron ore concentrate

100%

self-sufficiency in coke

80%

self-sufficiency in scrap

54%

self-sufficiency in energy*

$283

slab cash cost *

* Data for NLMK’s main production site in Lipetsk

WIDELY DIVERSIFIED PRODUCTION MODEL, PRODUCT MIX, AND SALES MARKETS

80% / 20%

BOF/EAF production routes

25%

of rolling capacity in Europe*

80% / 20%

Sales to over

70
countries worldwide

43%

sales to the domestic market (in tonnes)

18%

of rolling capacity in the US

PRODUCT MIX EXPANSION AND SECURE MARKET POSITIONS

21%

share of Russian steel production

20%

share of the Russian rebar market

24%

share of the Russian CRC market

17%

share of the Russian HDG market

21%

share of the Russian pre-painted steel market

c. 18%

share of the global slab market

>100

new grades of steel in 2000–2014 (long and flat products)

* Including NLMK Belgium Holdings assets
NLMK is actively investing in environmental projects, reducing the environmental footprint in the regions where it operates as it strives to comply with the most demanding environmental standards. NLMK Group ensures safe working conditions through process improvement measures, investment in training of personnel and applying best global occupational health and safety practices.

**60,100** employees; 71% attended professional training sessions in 2014

**$141 m**

environmental investment (+5% y-o-y)

**20.3 kg/t**

specific atmospheric emissions (–7% y-o-y)

**LTIFR 0.55**

on Russian assets of NLMK Group (–0.28 p.)

**NLMK TICKER CODES**

**REUTERS**

NLMKq.L (LSE)

NLMK.RTS (RTS)

NLMK.MM (MICEX)

**BLOOMBERG**

NLMK LI (LSE)

NLMK RU (RTS)

NLMK RM (MICEX)

**INDICES**

INDICES THAT INCLUDE NLMK SHARES

RTS-MICEX

Moscow Exchange

RTS-MICEX

Moscow Exchange

**CREDIT RATINGS***

BB+ Standard and Poor’s

Ba1 Moody’s

BBB- Fitch

* Credit ratings as of April, 2015
2. KEY PERFORMANCE TRENDS

NLMK Group improved key performance indicators in 2014 on the back of highly efficient vertical integration, a balanced business model, a flexible system of sales and operational efficiency improvement programmes.

NLMK successfully achieved the sustainable development goals it set to ensure long-term leadership in the sector by relying on and further developing competitive advantages, focusing on improving efficiency across the board, and by recognizing the responsibility it has both to its own personnel and to society as a whole.
GROWTH OF OPERATIONAL PERFORMANCE INDICATORS

- Increase in steel output on the back of NLMK Kaluga ramp-up
- Higher capacity utilization
- Lower cash cost on the back of operational efficiency programmes

GROWTH OF FINANCIAL PERFORMANCE INDICATORS AND DELEVERAGING

- Structural increase of business profitability
- Growth of free cash flow
- Sufficient deleveraging
EFFICIENCY ENHANCEMENT AND STABLE BUSINESS DEVELOPMENT

- Higher labour productivity due to increased production efficiency
- Reduced energy intensity of production as a result of initiatives to enhance energy efficiency
- Lower specific atmospheric emissions due to the implementation of modern technologies and environmental initiatives
- Significant improvement in safety performance through the use of the best occupational health and safety practices, efficient risk management and active employee involvement in corporate safety programmes

**LABOUR PRODUCTIVITY**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
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<td>198</td>
<td>239</td>
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<td>268</td>
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**SPECIFIC ENERGY INTENSITY**

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<td>5.74</td>
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**SPECIFIC AIR EMISSIONS**

<table>
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<th>2012</th>
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<th>2014</th>
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<td>27.9</td>
<td>22.6</td>
<td>21.9</td>
<td>20.3</td>
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**LTIFR AT RUSSIAN ASSETS OF NLMK**

<table>
<thead>
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<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tr>
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<td>0.86</td>
<td>0.88</td>
<td>0.86</td>
<td>0.55</td>
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</tbody>
</table>
3. OUR MILESTONES

Our Company, Russia’s leading manufacturer of steel, is recognized as one of the world’s most competitive steelmakers.

Since its inception, NLMK has made innovation and development its key strategy. In order to achieve maximum levels of production efficiency for its high-quality steels, NLMK has controlled and optimized the use of its major resources, focused on innovation, and stressed the need for high levels of safety and corporate social responsibility with regard to both its employees and the areas in which it operates.
1934
NLMK GROUP STEEL OUTPUT (MT)
7.2
1992
7.4
1997
7.5
1999
8.9
2003
9.1
2004
8.5
2005
9.1
2006
9.2
2007
10.5
2008
11.5
2010
12.0
2011
14.9
2012
15.4
2013
15.9
2014
80 YEAR anniversary

1941–1950
Second World War and post-war restoration
Evacuation of equipment during the war
Restoration of production in the post-war period

1950–1991
Development of steel production prompted by innovations
Intensive development of crude steel and rolled steel production at the Lipetsk site is aided by the best domestic and international technologies

1992–1999
Emergence of a vertically integrated group
Privatization of NLMK
Acquiring Stagdok and Dolomit
The Company starts to build its raw materials base, covering its flux needs

2000–2003
Active equipment upgrades at the Lipetsk site
Energy, coke and chemical, and steelmaking capacities are actively upgraded at the Lipetsk site
- Production increases to 8.9 mt
- Energy self-sufficiency rises to 40%

2004–2006
Shaping of NLMK Group’s raw materials and rolling segments
NLMK acquires Stalensky
NLMK acquires Altai-Koks
NLMK acquires DanSteel A/S later renamed NLMK Dansteel
NLMK and the Durferco Group create a joint venture consisting of one steelmaking and five rolling mill companies, and a network of steel service centres in Europe and the USA
- Production of finished products from slabs supplied by the Lipetsk site begins close to end customers
- Further product mix and geographic diversification

2007
Development of the long products division
NLMK/Durferco joint venture acquires Sharon Coating (formerly Winner Steel), an American rolled steel manufacturer
- Further product and geographic diversification
NLMK acquires 50% plus one share in Maxi Group
- Diversification into long products and metalware, and higher self-sufficiency in scrap in the domestic market

2008
Optimization of the sales system and further geographic diversification
NLMK acquires international trading companies Novexco (Cyprus) and Novex Trading (Switzerland)
- Development of an effective sales system, optimization of commodity flows, and further enhancement of the Company’s presence in the core export markets
NLMK acquires Beta Steel (later renamed NLMK Indiana), a US-based steel and rolled product manufacturer
- Diversification into hot-rolled coils in the USA

2011
Expansion of operations
NLMK commissions a new steelmaking complex: the 3.4 mt Blast Furnace No. 7 and a new basic oxygen furnace
- NLMK’s low-cost production base in Russia expands by a third
- Stable supply of slabs to NLMK’s international rolling assets secured
NLMK acquires Steel Invest and Finance rolling assets, formerly part of the NLMK Durferco joint venture
- Growth of HVA production capacities
- Balancing of expanding low-cost steel production in Russia with downstream operations close to end users
NLMK Clabecq launches a unique quenching and tempering line, expanding its product mix to include high-strength abrasion-resistant Q&T plates
- Expansion of the Company’s presence in niche segments

2012
Consolidation of leadership
With a 20% share of the market, NLMK becomes Russia’s leading steelmaker, expanding its steelmaking capacity in a low-cost region
NLMK continues to upgrade its steelmaking capacity at the Lipetsk site
- Secondary treatment facilities allow the Company to produce specialized grades of steel that are in high demand on the market
- Facilities to produce wide and thick slabs expand NLMK’s semi-finished product mix
- International assets are almost fully supplied by in-house slabs; NLMK begins to supply slabs to large-diameter pipe manufacturers
NLMK DanSteel revamps its thick plate rolling mill, designed for plates of 50–200 mm in thickness and widths of up to 4,000 mm
- Consolidation of positions in the plate markets, including new high-growth markets such as offshore drilling platform manufacturing and the offshore wind sector

2013
Launch of NLMK Kaluga mini-mill
NLMK Group launches a large-scale programme to enhance efficiency at all of its sites
NLMK launches a next-generation EAF mill, NLMK Kaluga
- Increased long product production in an undersupplied region
- Strengthening of the Company’s position in the promising Russian market

2014
Beginning of a new phase of NLMK Strategy
In February 2014, NLMK announced new phase of the Company’s development
- Increasing efficiency is a key principle of the new strategy
- Completion of investment phase, structural reduction of investment
Celebration of NLMK 80 year anniversary
All-time record of operating results
Sufficient improvement of NLMK’s position on strategic markets (Russia, USA and Europe)
4. STRATEGY

In February 2014, NLMK Group announced a new phase of development.

“Strategy 2017” is focused on unlocking significant internal potential of the Group’s businesses by boosting operational and process efficiency across the entire production chain, enhancing vertical integration into key raw materials, increasing sales of high-value added (HVA) products, and pursuing environmental, safety and human capital development programmes.

OLEG BAGRIN, NLMK GROUP CEO, SAID:

“NLMK pursues global industry leadership in efficiency and shareholders’ value creation. We have a clear strategy and will continue to deliver on our commitments made in early 2014, when the new phase of our strategy was announced. In 2014, we have already achieved tangible results, including delivery of 40% of total net gains target set out in Strategy 2017.

Progress in delivering upon our strategic objectives allowed us to boost profitability of the business. Thanks to operational efficiency programmes rolled out across all of our divisions, we were able to revise our investment plans by way of identifying low-capex high-efficiency projects, and bring our medium term annual capex target down from $900 m to $550 m, including maintenance capex.

An increase in cash flow driven by higher profitability and lower capex allowed NLMK to substantially reduce debt reaching Strategy 2017 leverage target already in 2014. In the coming years, we are well positioned to start returning capital to our shareholders. We have proposed to the Board of Directors to change the Company’s dividend policy aiming at an increased payout, as well as higher visibility of future dividend payments.

Given the quality of our assets, solid financial standing, leading profitability and best-in-class operating practices, we believe we have all levers in place to ensure positive free cash flow generation, and we remain committed to delivering strong and sustainable shareholder returns.”

OLEG BAGRIN, NLMK GROUP CEO
Strategy 2017 is centred on gaining leadership in operational efficiency, developing a world-class resource base, and achieving leading positions in strategic markets. Special emphasis is placed on industrial safety, sustainability and human capital development. Based on the results of 2014, Strategy 2017 envisions overall development capex of $1 billion which will enable the Company to generate net gains of $1 billion per year.

**Key Aspects of Strategy 2017:**

1. **Leadership in Operational Efficiency**
   - **How We Do It:**
     - Maximum use of potential to enhance operational efficiency through investment programmes and NLMK Production System.
     - Target net gains from these measures: US$ 330 million/year over the 2013 level.

2. **World-Class Resource Base**
   - **How We Do It:**
     - Increased self-sufficiency in iron ore with a flexible charge structure and consequential reduced consumption of expensive resources.
     - Target net gains from these measures: US$ 480 million/year over the 2013 level.

3. **Leading Positions in Strategic Markets**
   - **How We Do It:**
     - Entering new or expanding presence in attractive product niches, industries, and regions; higher utilization rates at existing capacities; growth in domestic sales; and an increased share of HVA products.
     - Target net gains from these measures: US$ 190 million per year over the 2013 level.

4. **Leadership in Sustainability and Safety**
   - **How We Do It:**
     - Systematic minimization of our environmental footprint; compliance of production processes with the strictest environmental and OHS standards; leadership in labour productivity for the sector supported by empowered and motivated staff.
     - Creation of the conditions for high labour productivity through provision of opportunities for professional training and through fostering of a strong corporate culture.
5. STRATEGY IN ACTION

In 2014, NLMK Group achieved about $400 m net gains (40% of the 2018 target), ahead of the plan. These gains include structural savings of $288 m coming from operational efficiency programmes.
LEADERSHIP IN OPERATIONAL EFFICIENCY

$204\text{ m}$

$198\text{ m}$

of which

resulting from operational efficiency initiatives

$97\text{ m}$

$90\text{ m}$

of which

structural savings through operational efficiency improvements in the mining division

- Construction of the pelletizing plant at Stoilensky entered an active stage. We expect to launch the plant, which will provide NLMK with cheap pellets, in mid-2016.
- Iron ore concentrate production at Stoilensky increased by 1 mtpa y-o-y as a result of operational efficiency programme with further 0.4 mtpa of output targeted.
- Iron ore concentrate capacity expansion scaled down: $570\text{ m}$ investment project to build a new 5 mtpa beneficiation facility was replaced with debottlenecking initiatives adding 1.8 mtpa requiring only $120\text{ m}$ of capex.
- PCI technology was rolled out and now covers a third of the Group’s blast furnace capacities or over 4 mt annual capacity.

WORLD-CLASS RESOURCE BASE

$100\text{ m}$

$15.1\text{ mt}$

total net gains in 2014

steel sales in 2014 (+2% y-o-y)

LEADING POSITIONS IN STRATEGIC MARKETS

- Steel sales increased by 2% y-o-y to 15.1 mt driven by the ramp-up of NLMK Kaluga and higher sales of NLMK USA.
- Sales to the Russian market increased by 14% y-o-y to 6.6 mt and accounted for 43% of total sales vs 39% in 2013.
- NLMK Europe Plate increased sales of niche plates by 40% to 0.2 mt. NLMK Europe Flat products grew sales to the automotive industry by 10% to 0.4 mt. Sales of flat steel at NLMK USA increased by 11% to 2 mt.

LEADERSHIP IN SUSTAINABILITY AND SAFETY

LTIFR at NLMK Russian assets declined by 36% year-on-year to 0.55 which is an industry best practice level.

- Specific air emissions reduced by 7% y-o-y to 20.3 kg/t.
- Labour productivity grew 8% y-o-y across the Group.
CHANGING DIVIDEND POLICY ON IMPROVED FREE CASH FLOW AVAILABILITY TO SHAREHOLDERS

- Significant increase in profitability on the back of structural gains from operational efficiency programmes. EBITDA margin increased to 23% vs. 14% in 2013.
- NLMK completed deleveraging with net debt/EBITDA at the end of 2014 at 0.67x, below Strategy 2017 target of 1.0x.
- The Company has entered a less capital-intensive stage of development. In 2014, capex declined by 26% y-o-y to $0.56 billion. Mid-term average investment and maintenance capex is expected to total $0.55 billion.
- In 2014, free cash flow amounted to $1,155 m. Higher profitability, lower leverage and decline in capex enabled NLMK to structurally increase free cash flow available to shareholders.
- New dividend policy has been proposed by NLMK management to the Company’s Board of Directors (approved by Strategy Committee of the Board). Dividends are proposed to be paid on a quarterly basis with the payout in the range of:
  - 50% of net income and 50% of free cash flow, if Net Debt/EBITDA is 1.0x or less;
  - 30% of net profit and 30% of free cash flow, if Net Debt/EBITDA exceeds 1.0x.
6. OUR BUSINESS MODEL

NLMK has created a unique business model. A key factor is our ability to make the most of our strategic advantages based on the geographical location of our assets.
Mining and steel production (the most material- and resource-intensive aspects of the metallurgical process) are concentrated in low-cost regions, while finished products are manufactured much closer to the Group's client base.

This allows NLMK to minimize expenditure on production and logistics while at the same time swiftly and flexibly adapting to the changing requirements of our end users and the situation in local sales markets.

THE KEY STAGES OF OUR PRODUCTION CHAIN ARE:

- Upstream
- Midstream
- Downstream

UPSTREAM

Our extensive resource base is situated in a low-cost region (Russia). Our Russian assets fully supply the Group's requirements for iron ore concentrate, sinter ore, and coke, and the majority of our scrap and electrical power needs. NLMK manages one of the most efficient iron ore manufacturers in the world, which is situated close to the Group's main steel production facility and has reserves of over 6 billion tonnes. Novolipetsk and Altai-Koks have their own energy-generating capacities that run on by-product gases and cover the companies' energy needs. Altai-Koks even sells excess energy to third-party consumers.

Production process: extraction, beneficitation and processing of raw materials used in the steelmaking process.

IRON ORE

Iron ore concentrate (iron content is about 66%) and sinter ore (iron content is about 55%) are the key input materials in pig iron and BOF steel production.

Advantages

Stoilensky supplies all of the Group's requirements for iron ore concentrate and sinter ore, and when our pelletizing plant is completed, it will cover all NLMK's needs for iron ore, including iron ore pellets. In addition, its ferruginous sludge (waste) utilization technology will allow us to further reduce our consumption of iron ore. Iron ore production at Stoilensky increased by 800,000 tonnes in 2014 as a result of operational efficiency programme gains.

COKE AND COKING COAL

Coke is used as a raw material in the production of pig iron. It is obtained by baking a blend of several grades of ground coking coals.

Advantages

Altai-Koks and the coke batteries at the Lipetsk site supply more than 100% of the Group's requirements for coke, which is used in the blast furnaces to produce pig iron. In 2014, pulverized coal injection (PCI) technology was introduced at Novolipetsk's Blast Furnace No. 4, partially supplplanting expensive coke and natural gas with a far more cost-effective alternative. Currently more than 30% of Novolipetsk blast furnace capacities are equipped with the technology.

SCRAP

Steel is fully recyclable. At the end of their useful life, steel products can be used as input for smelting. Scrap is used in both EAF and BOF operations.

Advantages

Scrap processing businesses within NLMK Group provide about 80% of the ferrous scrap required by our Russian steelmaking plants. To supply the increased demand for scrap (taking into account the rise in scrap consumption following the launch of NLMK Kaluga), the Group is continuing to develop its scrap processing division. In 2014, the scrap processing division focused on operational efficiency initiatives.

FLUXES

Fluxes are used to manufacture refractories, and in sinter and BOF processes.

Advantages

Stagdok (limestone) and Dolomit (dolomite) fully cover our flux requirements.

ELECTRICITY

Electricity is one of the main energy sources used in steel production.

Advantages

NLMK has generating plants that run mainly on by-product gases from coke and blast furnace operations. In 2014, the Lipetsk site was 54% energy self-sufficient, due to the installation of a new turbine generator with a capacity of 50 MW. At Altai-Koks, enough energy is generated to meet all of the Company's requirements, and the excess is sold to third-party consumers.

- Over 100% self-sufficiency in coke
- 100% self-sufficiency in iron ore concentrate and sinter ore
- 80% self-sufficiency in scrap
- 54% self-sufficiency in energy
- Over 100% self-sufficiency in flux
MIDSTREAM

NLMK has a flexible production chain. Approximately 20% of our steel is produced using electric arc furnace (EAF-based) technology, and 80% is manufactured using basic oxygen furnaces (BOF) at one of the most economically run companies in the world: our site at Lipetsk. About 93% of our steelmaking capacity is located in Russia, next to our main sources of raw materials and close to key end users of our products (about 40% of our sales).

Production process: (1) production of pig iron in blast furnaces from raw materials, (2) steel smelting in basic oxygen furnaces or electric arc furnaces and secondary metallurgy treatment, (3) casting of semi-finished products (slabs or billets).

NLMK’s steelmaking capacities are located in close proximity to our raw material assets. The Group’s steelmaking operations are well balanced, using different methods: the basic oxygen furnace (BOF) route, representing over 80% (at the low-cost Novolipetsk site), is complemented by electric arc furnace (EAF) production, representing around 20% (at NLMK Russia Long, NLMK Europe Plate, and NLMK USA).

Advantages

This balanced business model allows us to quickly and flexibly adjust our production according to the market situation. Steel produced by our Group in Russia is one of the lowest-cost products in the world. This is facilitated by proximity to the sources of our raw materials, the relatively low cost of energy and labour, and the highly efficient technology we use.

Over the last few years, NLMK has been actively developing its secondary metallurgy capacity. This has allowed us to expand our product mix to include high-quality grades of steel that are in demand on the market.

Recently, this competitive advantage has allowed the Group to further expand its low-cost production base in Russia: in 2011, we commissioned a new blast furnace and basic oxygen furnace, increasing our steelmaking capacity by over a third. In 2013, we commissioned a next-generation EAF plant, NLMK Kaluga, with a capacity of approximately 1.5 million tonnes of steel. Steel production in 2014 was 1.0 mt.

• $283/t slab production cost at the main production site
• Steel production capacity of more than 17 mtpa, 93% of steelmaking facilities are situated in Russia
• 80%/20% BOF/EAF production ratio
• 100% of steel undergoes secondary metallurgy treatment

DOWNSTREAM

Production and sale of our wide range of finished products is evenly split between developing and mature markets, which ensures both growth and stability. A substantial proportion of finished products are manufactured by NLMK rolling facilities close to our wide client base, which has strict requirements in terms of product quality and delivery deadlines.

Production process: processing of semi-finished steel products into flat or long products at rolling facilities.

NLMK’s steel processing plants are diversified both geographically and in terms of the products they manufacture. Our rolling facilities are located in Russia, Europe, and the USA. NLMK Group’s rolling assets are divided by product group, namely steel sheets, plates, and long products.
Production process efficiency and a flexible sales strategy allow NLMK to adjust its production programme depending on the market. If there is a weakening in demand for high value added products then production of standard grades of steel can be increased almost without loss for sale on more profitable markets; and when demand is restored the Group can increase output of high value added products, thus balancing out production.

▪ Rolling capacity: >14 mtpa*
▪ More than 90% of steel produced can be processed at NLMK Group’s own assets in Russia and abroad*
▪ Share of high value added products: >30% (38% with NBH)
▪ 80% of rolled products are sold in the region where they are produced

ROLLED SHEET PRODUCTION
Rolled sheets accounted for approximately 70% of NLMK’s finished products in 2014.

Capacities are located in Russia (Novolipetsk and VIŽ-Steel), Europe (NLMK Europe Strip) and the USA (NLMK USA).

This product group includes hot-rolled steel and high value added products such as cold-rolled, galvanized, pre-painted and electrical steel.

Advantages
A significant advantage NLMK enjoys is the proximity of the Group’s sites that manufacture finished products to key customers as finished products are manufactured in Europe, NLMK’s key sales market for plates.

NLMK continued to develop its product mix in 2014, mastering new grades of high-strength and abrasion-resistant plates. Division companies (and notably NLMK Dansteel) took active part in joint research and development projects, increasing deliveries of niche products which accounted for 18% of the division’s sales in 2014.

LONG STEEL AND METALWARE PRODUCTION

Deliveries of long products in 2014 increased by 20% year-on-year, as capacity utilization rates increased at the next-generation mini-mill NLMK Kaluga that was launched in 2013.

NLMK assets manufacture rebar, wire rod, sections, various types of wire and wire products, nails, fixing hardware, and other long products.

Assets are located in the Ural and Central Regions of Russia.

Advantages
NLMK’s key advantage in this market is the geographic location of its assets in fast-developing regions of Russia characterized by large volumes of construction; the key consumer of long products. These regions also provide good access to raw materials, i.e. ferrous scrap.

Division sites actively pursued operational efficiency initiatives in 2014. This enabled a reduction of wastage and increased equipment productivity. NLMK Kaluga mastered the production of sections in 2014.

* Including NBH capacities
7. INTEGRATED PRODUCTION SYSTEM

The Group’s vertically integrated structure covers all production processes, from the mining of raw materials to processing of steel into finished products. The Company’s service centres and trading companies ensure just-in-time delivery and high quality of service for customers in more than 70 countries around the world.

NLMK Group employs a total of 60,100 people.
DIVISIONAL STRUCTURE OF NLMK GROUP

NLMK RUSSIA
RAW MATERIAL PRODUCTION
Division structure: Stalensky, Altai-Koks, Dolomite, Vtorchermet NLMK, Stagluk, Novolipetsk
Production:
- Coke (dry weight) – 6.4 mt
- Iron ore concentrate – 14.9 mt
- Sinter ore – 1.6 mt
- Dolomite – 2.5 mt
- Limestone – 4.1 mt
- Scrap processing – 2.3 mt
Top management: Vladimir Dmitriev, Sergey Napolskikh

NLMK RUSSIA
FLAT PRODUCTS
Division structure: Novolipetsk, VIZ-Steel
Production:
- Pig iron – 0.32 mt
- Slab – 6.44 mt
- HR steel – 2.55 mt
- CR steel – 1.52 mt
- Galvanized steel – 0.62 mt
- Pre-painted steel – 0.50 mt
- NGO steel – 0.24 mt
- GO steel – 0.27 mt
Top management: Sergey Filatov

NLMK RUSSIA
LONG PRODUCTS
Division structure: NSMMZ, NLMK Kaluga, NLMK Metalware
Production:
- Billets – 0.29 mt
- Rebar and wire rod – 1.99 mt
- Metalware – 0.33 mt
Top management: Alexander Burylev

NLMK RUSSIA
IRON ORE, SINTER ORE, DOLOMITE, LIMESTONE, SCRAP

NLMK EUROPE
SLABS
Division structure: NLMK DanSteel (Denmark), NLMK Clabecq (Belgium), NLMK Verona (Italy)
Production:
- Semi-finished steel (ingots) – 0.09 mt
- Thick plate – 1.07 mt
Top management: Igor Sarkits

NLMK EUROPE
STRIP
Division structure: NLMK La Louviere (Belgium), NLMK Coating (France), NLMK Straasbourg (France)
Production:
- HR steel – 0.63 mt
- CR steel – 0.06 mt
- Galvanized steel – 0.26 mt
- Pre-painted steel – 0.05 mt
Top management: Ben De Vos

NLMK EUROPE
PLATE
Division structure: NLMK Indiana (USA), NLMK Pennsylvania (USA), Sharon Coating (USA)
Production:
- HR steel – 1.14 mt
- CR steel – 0.53 mt
- Galvanized steel – 0.32 mt
Top management: Robert Miller

NLMK USA
SCRAP
WHERE WE OPERATE

NLMK Group has assets on three continents. We sell our high-quality products to buyers in more than 70 countries worldwide.

We make every effort to optimize each step of the production process in order to minimize logistics costs and provide access to the end user.
### Where We Operate

- **3** continents where we operate
- **17** service centres and trading companies in key end markets
- **13** countries where NLMK assets are located
- **70+** sales markets

### Steel Product Sales by Region in 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales ($bn)</th>
<th>Sales (mt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.1</td>
<td>15.1</td>
</tr>
<tr>
<td>US</td>
<td>2.1</td>
<td>15.1</td>
</tr>
<tr>
<td>Russia</td>
<td>4.4</td>
<td>15.1</td>
</tr>
<tr>
<td>EU</td>
<td>1.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Other regions</td>
<td>1.1</td>
<td>15.1</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>0.3</td>
<td>15.1</td>
</tr>
<tr>
<td>Middle East, inc. Turkey</td>
<td>0.6</td>
<td>15.1</td>
</tr>
<tr>
<td>Other regions</td>
<td>1.1</td>
<td>15.1</td>
</tr>
<tr>
<td>EU</td>
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</tr>
<tr>
<td>EU</td>
<td>2.9</td>
<td>15.1</td>
</tr>
</tbody>
</table>

### NLMK Assets

- **100** countries where NLMK assets are located
- **42%** EU
- **43%** Russia
- **19%** Middle East, incl. Turkey
- **11%** North America
- **6%** Asia and Oceania
- **57%** Steel production assets
- **18%** Coating
- **11%** Metalware
- **6%** Other regions

### Breakdown by Capacity / %

- **Upstream**: 100%
- **Midstream**:
  - Russia: 100%
  - Europe: 93%
  - USA: 7%
- **Downstream**:
  - Russia: 100%
  - Europe: 57%
  - USA: 25%

* NLMK Group also includes a number of scrap collecting assets located in 39 regions of Russia
The Company's integrated production model enables it to offer its customers a diversified portfolio of high-quality products and be responsive to changes in market conditions.
NLMK is a leading international steelmaker. Our steel is used in many different industries for a variety of products:

**CONSTRUCTION**
including construction infrastructure – supporting structures and facing materials, reinforced concrete structures, roof tiles, air conditioning systems, railway infrastructure, highway construction, bridges, etc.

**VEHICLE MANUFACTURING**
body panels and parts for cars and commercial vehicles.

**PIPES**
pipelines, large-diameter pipes for the oil and gas industry, water and gas pipes.

**MECHANICAL ENGINEERING**
mining equipment, agricultural and construction (yellow) machinery, lifting and transport equipment, railway engineering, shipbuilding, wind power engineering, heating and power plants, and offshore drilling platforms.

**ELECTRICAL EQUIPMENT AND INSTRUMENT MAKING**
transformers, electric motors, and generators.

**HOUSEHOLD GOODS**
gas and electric ovens, washing machines, refrigerators, dishwashers, extractor fans, household boilers, etc.

NLMK is a leading provider of high-quality steel products in key markets. Our range of high value-added products includes cold-rolled steel, galvanized steel, pre-painted steel, electrical steel (transformer and dynamo), a wide range of thick plates, and metalware. The Company is consistently growing its portfolio of downstream products through organic expansion as well as the acquisition of rolling assets with direct access to key market segments.

In 2014, we maintained a high level of HVA sales: 4.7 million tonnes, accounting for 31% of total sales. A large volume of HVA products is produced by NLMK Group’s Russian assets; there was a structural shift in the product mix towards an increased share of finished products following the consolidation of European and American assets specializing in the production of HVA products.
FLAT PRODUCTS

Flat steel is most widely used in sectors such as construction, electrical equipment, machine building (including automotive), energy, shipbuilding and pipe manufacture.

- Hot-rolled steel is mainly used in the production of steel structures, guardrails, ship hulls, machine casings, road-building machinery components, pressure vessels, and building structures.
- Cold-rolled steel* is widely used in the production of body parts for machines and equipment, load-bearing structures, pipes, lighting masts, and agricultural equipment.
- Galvanized steel* is used in the production of machine body parts, roofing materials, and load-bearing structures in hostile environments.
- Pre-painted steel* is used in construction for the production of roofing and finishing materials, and casings for consumer and commercial technology (household appliances).
- Transformer (grain oriented) steel* is used in the electrical industry for the manufacture of transformer cores and fixed components for electrical equipment.
- Dynamo (non grain oriented) steel* is used for the production of electrical equipment, such as components for electric motors and generators.
- Hot-rolled thick plates* are used in the manufacture of pipes, pressure vessels, ship hulls, and bedplates for wind turbines and compressors, as well as in the construction of bridges.
- Rebar is used in the construction of reinforced concrete structures for road and building construction.
- Wire rod is drawn into wire and used mainly in construction, as well as in transport engineering (steel cords).
- Metalware products* are primarily used in the construction sector (fasteners, nails, mesh), as well as in transport engineering.
- Cold-rolled steel* is widely used in the production of body parts for machines and equipment, load-bearing structures, pipes, lighting masts, and agricultural equipment.
- Hot-rolled thick plates* are used in the manufacture of pipes, pressure vessels, ship hulls, and bedplates for wind turbines and compressors, as well as in the construction of bridges.
- Metalware products* are primarily used in the construction sector (fasteners, nails, mesh), as well as in transport engineering.

LONG PRODUCTS

Long products are used primarily in construction and infrastructure projects, which account for over two thirds of the total consumption of this type of product.

- Pre-painted steel* is used in construction for the production of roofing and finishing materials, and casings for consumer and commercial technology (household appliances).
- Hot-rolled thick plates* are used in the manufacture of pipes, pressure vessels, ship hulls, and bedplates for wind turbines and compressors, as well as in the construction of bridges.
- Metalware products* are primarily used in the construction sector (fasteners, nails, mesh), as well as in transport engineering.

* High value added products
Against the backdrop of a global overcapacity crisis the key factors for success are operational efficiency and product quality that meet the customer’s expectations.

10.

RESEARCH, DEVELOPMENT AND INNOVATION
Steelmaking is a highly competitive business. There are a few dozen large steelmakers that compete for global leadership.

Every industry that consumes steel is undergoing active change. There are more stringent safety and environmental requirements for vehicles, changing standards in construction, increased production and use of renewable sources of energy. New technologies are being introduced to ensure that materials can be used in ultra-low or ultra-high temperatures, in aggressive environments and under heavy load.

Intensive development of materials technologies is also putting unprecedented pressure on steelmaking with conceptually new materials now available where there were previously no alternatives to steel.

The only possible response to these circumstances is to ensure timely, intensive and innovative development and enhancement of operational efficiency. In order to become a true leader in the industry, a company must anticipate market trends and develop new products and technologies before they are in widespread demand.

A commitment to innovative ideas lies at the heart of NLMK's business culture. Our Company has historically provided a platform from which new technologies have been developed. These technologies have been adopted successfully by other companies and have spread around the world. In cooperation with the consumers of our products, we develop new or adapt existing solutions that fully meet the changing requirements and offer the best options to help our customers improve their competitiveness. Furthermore, we actively cooperate with specialist universities and academic and research institutions when developing innovations.

Today, NLMK Group employs around 700 staff in R&D and their work has resulted in approximately 183 active patents for inventions and useful models; 22 trademark certificates; and 5 software certificates. NLMK Group invested around $20 million in research and development in 2014, and around $170 million over the last 5 years.

**NLMK ALSO PARTICIPATES IN A NUMBER OF JOINT R&D PROGRAMMES**

In May 2014, NLMK DanSteel joined the European research and development programme aimed at improving the construction of foundations for offshore wind turbines in order to reduce their weight and cost, as well as raise the investment appeal of wind generation. As part of the experimental programme, NLMK DanSteel will supply thick plates of special dimensions made from high-strength steel to be made into piles used in the foundations for new-generation turbines.

In addition to the intellectual potential of its own employees, NLMK Group actively involves universities and research and development institutes in its research, including H&K Industrieanlagen GmbH (Germany), Freiberg Mining Academy (Germany), CRM (Belgium), Bardin Central Research Institute of Ferrous Metallurgy, National University of Science and Technology MISiS; Ural Institute of Metals; Moscow State Technical University; Ural Federal University named after Boris Yeltsin; and the All-Russian Research Institute of High-Frequency Currents (Russia).

**PRODUCT INNOVATION**

Through continual interaction with our customers we are able to identify market trends in the consumer sectors and address the needs of our customers. They also guide us in the development of new high-quality products and the adaptation of our existing product line. Cooperation with clients is mutually beneficial as it promotes the NLMK brand and increases consumer confidence, while our innovations help customers to improve the quality of their products and services and, ultimately, enable them to strengthen their position on the sales market.

Innovative products are a key success factor for the modern steel company. NLMK is able to diversify sales by industry and region by consistently expanding our product mix, providing the Company with greater flexibility and making it less susceptible to negative trends in commercial-grade product markets.

NLMK Group sold 1.7 million tonnes of innovative products in 2014.

**INNOVATIVE PRODUCT SALES BY THE LIPETSK SITE IN 2010–2014**

Innovative products such as cold-rolled coils produced from dual phase and IF steels, laser treated transformer steel, high-strength galvanized coils from low-alloy steel and high quality commercial slabs up to 2,200 mm wide and 355 mm thick; as well as other products developed and mastered by NLMK in recent years; account for approximately 11% of sales and 16% of revenue from product sales to end-consumers (excluding slab supplies to the Group’s own companies) generated by the Lipetsk site.

NLMK’s international assets also have a significant share of innovative products. NLMK’s European assets produce ultra-high-strength plates from alloy steel, Quard and Quend quenched and tempered plates, electrogalvanized steel and other types of high-tech products; whilst NLMK USA produces high-strength, alloyed and hot-dip galvanized steel.

New products are being developed for all key market segments:

**STEEL FOR CONSTRUCTION**

The construction sector is a key market, accounting for approximately 80% of the Group’s Russian sales. In recent years, the Group has developed the production of galvanized steel based on hot-rolled substrate with a gauge of 2.5–3.5 mm, in order to expand its presence in this market. Our technology allows us to produce galvanized steel with high ductility and high strength, a product that is in great demand in the construction industry. NLMK has also developed a technology for continuous hot-dip galvanizing of cold-rolled steel with a gauge of 0.22–0.29 mm. This allows us to obtain hot-rolled steel sheet, which was previously produced in Russia only by electrolytic zinc coating. NLMK has developed technologies for production of rolled steel with thick and textured high-strength polymer coatings, based on special enamels. NLMK NSMMZ, NLMK Metalware and NLMK Kaluga continue to develop and improve the production of a wide range of long products.
NLMK Group produced a total of 282,900 tonnes of innovative products for construction in 2014, of which 75,000 tonnes was produced at Novolipetsk, and 228,300 tonnes at NLMK Russia Long.

NLMK Group produced a total of 218,000 tonnes of innovative products for the energy and electronics sectors in 2014.

STEEL FOR ENERGY AND ELECTRONIC EQUIPMENT

NLMK is the global industry leader in the production of electrical steel for the energy and electronics sectors. The rapid development of these sectors and the trend towards global energy efficiency has resulted in more intensive requirements on the properties and quality of grain-oriented and non-grain-oriented steel. A number of innovative patented solutions, including decarburizing, nitriding and laser treatment of grain-oriented steel sheet, will improve the productivity of the transformers that use our products, reducing specific energy losses to 15%.

Implementation of technology for the production of nanostructured high-permeability grain-oriented steel, an entirely new product developed by NLMK engineers, continues at the Lipetsk site. After this technology has been adapted for manufacture by Novolipetsk, the production of high-permeability grain-oriented steel will be introduced at VIZ-Steel, which has practically completed the preliminary work and modernization of production units as necessary for this new product to be brought to market. In 2014, NLMK tested the production of grade М250-35А, М270-35А and М270-50А dynamo steel with ultra-low specific magnetic loss.

STEEL FOR THE AUTOMOTIVE INDUSTRY

The completion of a set of initiatives to enable secondary treatment of steel at the Lipetsk site has allowed us to develop new high-ductility and high-strength products that help automotive manufacturers to improve the safety of vehicles, reduce their weight and therefore decrease their fuel consumption.

We have mastered the production of grade DX57D high-ductility galvanized steel sheet based on IF steel, and grade HX380LAD high-strength low-alloyed galvanized steel.

Finally, the use of modern technology has allowed us to master the production of grade HCT600X dual-phase cold-rolled steel, which combines high ductility and strength, as well as grade HC220Y high-strength IF cold-rolled steel. In 2014, NLMK also tested the production of grade HC180Y steel, with annealing in bell-type furnaces.

NLMK does not rest on its laurels. Every year we upgrade equipment and improve production technologies in order to expand the range of products available and satisfy growing demand from Russian and international automotive manufacturers.

In 2014, NLMK mastered the technology for producing Quard® 500 grade plates with
about us / report 2014

five-year highlights

item | 2010 | 2011 | 2012 | 2013 | 2014
--- | --- | --- | --- | --- | ---
production | | | | | |
capacity utilization rate, % | 97% | 94% | 95% | 95% | 96%
steel output, '000 t | 11,547 | 11,968 | 14,923 | 15,429 | 15,921
sales | | | | | |
steel product sales, '000 t | 11,731 | 12,840 | 15,184 | 14,828 | 15,126
including share of finished product sales, % | 60% | 67% | 70% | 71% | 68%
share of sales to russian market, % | 32% | 33% | 32% | 39% | 43%
share of sales to export market, % | 68% | 67% | 68% | 61% | 57%
financial indicators | | | | | |
revenue, US$ m | 8,351 | 11,729 | 12,157 | 10,909 | 10,396
EBITDA, US$ m | 2,322 | 2,254 | 1,900 | 1,505 | 2,383
EBITDA margin, % | 27.8% | 19.2% | 15.6% | 13.8% | 22.9%
net profit*, US$ m | 1,255 | 1,358 | 596 | 189 | 845
dividends to net profit (US GAAP), %** | 30% | 28% | 20% | 35% | 37%
capital expenditures, US$ m | 1,463 | 2,048 | 1,453 | 756 | 560
free cash flow, US$ m | 32 | 243 | 371 | 421 | 1,155
net debt, US$ m | 1,454 | 3,355 | 3,574 | 2,704 | 1,590
net debt / EBITDA | 0.63 | 1.49 | 1.88 | 1.80 | 0.67
social and environmental indicators | | | | | |
headcount, '000 people | 59.4 | 60.4 | 62.5 | 62.0 | 60.1
labour productivity of NLMK Group, t/person | 195 | 198 | 239 | 249 | 268
specific air emissions per tonne of steel, kg/t | 28.5 | 27.8 | 22.6 | 21.9 | 20.3
energy consumption per tonne of steel at the lipetsk site, Gcal/tonne | 6.12 | 6.10 | 5.74 | 5.67 | 5.72
LTIR at Russian assets of NLMK Group | 0.67 | 0.85 | 0.88 | 0.86 | 0.55

Notes:
* net profit attributable to NLMK shareholders
** dividend data is based on the resolution of the Annual General Meeting of Shareholders. dividend payments in 2013 amounted to 35% of NLMK’s US GAAP net profit, adjusted to one-off non-monetary factors (creating a reserve), as well as expenses related to previous periods. 2014 dividends are a recommendation

720,000 t of slabs for the production of large diameter pipes in 2014

semi-finished products

NLMK’s main production facility in Lipetsk continues to develop technology for the production of ultra-low sulfur (<0.002%) and hydrogen (<0.002%) commercial-grade slabs with greater accuracy of measuring quantities of alloying elements and non-metallic impurities. This enables us to deliver unique extra-high quality large-sized slabs for rolling into finished products that must meet very strict chemical and physical property requirements; for delivery to the Company’s European and American assets as well as Russian large-diameter pipe manufacturers.

NLMK supplied 720,000 tonnes of slabs for the production of large diameter pipes in 2014.

we work continuously to improve the chemical composition of our steels by reducing the amount of harmful impurities and specifying the content of alloying elements; the process improves the performance properties of goods made from our products. In 2015, we plan to master the industrial production of Quard® 550 and Quend® 1100 grade plates.

Quard® and Quend® plates are unique on the market, and in contrast to traditional heavy plates, enable buyers to reduce the weight and to increase the performance qualities of their manufactured goods. Quenched and tempered plates will be in high demand among the Group’s niche consumers, including wind power facilities, offshore oil and gas drilling platforms and producers of abrasion-resistant machinery parts, thus allowing the Company to strengthen its position as a supplier of reliable, high-quality solutions for the machine building industry. these products are being brought to market at an encouraging rate; in 2014, sales of quenched and tempered plates reached around 61,000 tonnes. For more detailed information, please visit [http://quard.eu.nlmk.com](http://quard.eu.nlmk.com) and [http://quend.eu.nlmk.com](http://quend.eu.nlmk.com).
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