JSC "NLMK" (Russia)

Novolipetsk Integrated Iron-and-Steel Works

Company’s business profile

Sample PDF

Moscow
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ANNOTATION

This report (company business profile) is a description of one of the largest Russian steel - JSC "NLMK".

The report consists of 12 sections, contains 131 pages and includes 3 applications, 10 tables and 12 figures.

The business is based on a portrait of a desk study. As information sources, data of Federal Service of State Statistics, the Federal Customs Service of Russia, official statistics of rail transport, annual and quarterly reports of companies, as well as internet-sites of company-producers.

The first section is an overview of the company.
In the second section presents data on the composition and powers of the company, its products range.

The third section gives an idea of the volume of production of products for various value added products and their dynamics, which are determined on the basis of trends.

The fourth section is devoted to sources of raw materials and suppliers, both domestic and foreign.

Marketing of products dedicated to the fifth section, with a separate delivery address for the domestic market and for export.

In the sixth section we consider the foreign activities of the company, data on exports.

In the seventh section we consider the competence of the company, which determine its competitiveness.

Data on productivity, staffing, compensation can be found in the eighth section.

The ninth section is devoted to one of the most important areas of functioning of the production companies at this stage - environmental performance.

The privatization of the company, its progress, the formation of the shareholders and its impact on the company's activities in the tenth section. Data on the financial condition of the company during 1999-2013 are given in the eleventh section.

The twelfth and final section is devoted to the program for the company.

The Appendices present information about the enlarged range of products, the geographical structure of exports of rolled steel by its kinds in 2004-2013 as well as address-phone book of the company.
1. General information

JSC NLMK (Novolipetsk Integrated Iron-and-Steel Works or Novolipetsk Steel Works), organised on the basis of Novolipetsk Integrated Iron-and-Steel Works in 1992, located in Lipetsk, Central Federal District of Russia, was commissioned in 1931 as Novolipetsk plant of cast iron. The plant was constructed next to great reserves KMA iron ore deposits and Krivorozhsky iron ore basin. The enterprise, in 1959, pioneered in mounting two continuous casters at electric furnaces. In 1960, production of cold-rolled non-grain-oriented steel began. Always NLMK had the best domestic and foreign equipment in the USSR (for instance, in mid-1980s, at NLMK the greatest in Europe dynamo steel CR plant was commissioned), and now, having upgraded equipment and technologies, NLMK produces high-grade and competitive products.

In 2013, NLMK (SteelWorks) became the greatest producer of iron and crude steel in Russia, and the 2nd greatest producer of rolled steel slightly after MMK). In 2013, NLMK produced 12.4 mln t of steel (18% of steel in Russia).

NLMK (Group) is an international high performance metallurgical company with vertically integrated model of business. Due to self-sufficiency in key raw materials and energy and high-efficient equipment NLMK Group is one of the most efficient and profitable steel producers in the world. In 2013, NLMK Group steel production increased by 3% to 15.4 million tonnes, due to high utilization of the steelmaking capacities and launching a new steel plant NLMK-Kaluga. The company maintained its leadership in terms of steel production in Russia with the share of more than 21% of total Russian production.

In 2013, the company strengthened its leadership in the domestic market: NLMK sales in Russia increased by 19% to 5.8 million tonnes. This increase was the result of increasing the company's presence in the markets of long products and increasing supplies of semis for the pipe industry.

Vertically integrated structure of the Group is divided geographically into 3 divisions, which include all production processes from raw material extraction to processing of steel into finished products. Service companies provide support to each of the regional divisions.

Key business-segment of the Group includes mining, coke, steel and rolled steel capacities of the company. 90% of the capacities for production of crude steel and 56% for rolled steel are located in Russia. They account for 60% of flat rolled steel and 100% long-rolled products output. The structure of NLMK Russia includes three divisions: Flat rolled steel, Long rolled steel and Raw material division.

In 2011, NLMK has formed new business-divisions: NLMK Europe and NLMK USA, comprising all the foreign assets of the Group, including on rolled steel of the company Steel Invest and Finance. Rolled steel capacities of the overseas divisions of NLMK are over 7 mln tpy or about 50% of all rolled steel capacities of the Group. This step enables strengthening the position of NLMK as a supplier of finished products in the major markets of Western Europe and the U.S., as well as expanding its product range.
NLMK supporting assets, involved in purchases and sales of products, are located in Russia, Europe and Asia. They contribute to the optimization of sales in key markets and provide direct access to the end users.

NLMK as Novolipetsk SteelWorks is core asset of a vertically integrated NLMK Steel Group, including above companies in 13 countries with total staff of around 61,700 employees, and its operations are conducted through the following major segments: steelmaking, long-rolling, mining (production of iron ore resources, dolomite, limestone), coke (producer JSC Altai-Coke (Altaiikoks) - a leading Russian coke-chemical plant) segments and other segments (infrastructure, logistic assets, power generation, etc.).

### Table 1: NLMK Group Structure

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<tr>
<th>Business-divisions</th>
<th>Segment</th>
<th>Enterprise</th>
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<tr>
<td><strong>NLMK RUSSIA</strong></td>
<td>Flat rolled</td>
<td>NLMK, Russia (steel and flat rolled steel)</td>
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<td></td>
<td>steel</td>
<td>VIZ-Steel, Russia (electrical steel)</td>
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<td></td>
<td>Long rolled</td>
<td>JSC NSMMZ, Russia (steel and long-rolled steel)</td>
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<td></td>
<td>steel</td>
<td>MLLMK-Metz (former CJSC UZPS), Russia (metalware)</td>
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<td>Сырье</td>
<td>LLC NLMK-Kaluga (former CJSC KNPEMS, Russia, crude steel and long rolled steel) – launched in mid-2013</td>
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<td><strong>NLMK EUROPE</strong></td>
<td>Flat rolled</td>
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<td>steel</td>
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<td>NLMK Clabeq, Belgium (plate rolled steel)</td>
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<td><strong>NLMK USA</strong></td>
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<td>NLMK Indiana, USA (crude steel and hot-rolled steel)</td>
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<td>Novexco Ltd., Cuprus (export trader)</td>
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<td>Novex Trading S.A., Switzerland (export trader)</td>
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NLMK’s main steelmaking and rolling facility is located in Lipetsk, in the centre of European Russia.

NLMK is export-oriented enterprise: the bulk of its production volume is sold at world market.

In the first quarter of 2006, NLMK acquired 100% of the Danish steel rolling company, DanSteel A/S. Overall annual production capacity of DanSteel A/S is approximately 500 thousand tonnes of hot-rolled steel plates. In August 2006, the Works completed the acquisition of a 100% stake in VIZ-Steel, the second largest Russian electrical steel manufacturer located in Yekaterinburg with design capacity of 200,000 tpy of transformer and dynamo steel. In 2007, NLMK and VIZ-Steel had a combined share of 9% of the global electrical steel market and about 75% of the domestic market. VIZ-Steel is a leading producer of cold-rolled electrical steels and the largest producer of grain-oriented electrical steel in Russia. Its share in the global grain-oriented electrical steel production is almost 11 per cent. Over 80 per cent of its products are exported. VIZ-Steel feature is modern technological equipment. Production facilities have an annual capacity to produce about 200,000 tonnes of electrical steel. In 2006, the Company produced 180,000 tonnes of grain-oriented steel and 16,000 tonnes of non-grain-oriented steel.

NLMK owns 100% of Stoilensky GOK, Russia’s third-largest iron ore concentrate producer, which completely satisfied the Works demand for iron ore concentrate and sintering ore, and, after construction of a pelletising plant, will completely satisfy NLMK demand for iron ore resources, including iron ore pellets. At that, processes, using iron-containing sludges (wastes) will allow in future to decrease consumption of iron ore resources.

In 2006, the Works purchased a 94% interest in coke producer JSC Altai-Coke (Altaikoks), a leading coke-chemical plant that enables NLMK to fully supply its needs in coke and take leading positions in coke production and processing in domestic market. In future, introduction of a number of process solutions will allow decreasing costs, connected with purchase of coking coal. Pulverized coal-injection process will enable replacing expensive coke and natural gas with cheaper substitutes, and pitch use process will allow decreasing coke consumption.

NLMK is increasingly self-sufficient in electricity, supplying 53% of own main facility's energy needs in 2013.

NLMK’s diverse range of products includes iron, slabs, hot-rolled steel, and a variety of value-added steel products, such as cold-rolled sheet, electrical steel and other specialty flat products. The works has the largest share of Russia’s cold-rolled and polymer-coated steel market, and are one of Europe’s largest producers of...
electrical steel. NLMK is one of the greatest Russian steelmakers, specializing in production of electrical-sheet steel and rolled sheet.

To diversify its activity, the company, besides steelmaking, is involved in manufacturing of ammonium, nitrate fertilizers and consumer goods. NLMK has own power complex with TETS (heat and power plant) and oxygen production.

The great bulk of NLMK freight traffic falls to South-Eastern Railway Company (in turn, share of NLMK in freight traffic of South-Eastern Railway Company reaches 28%). Annually 21.5b tonnes resources arrives NLMK and above 10m tonnes products are shipped by NLMK.

NLMK and Duferco Group formed a joint venture through Steel Invest & Finance S.A. (Luxembourg), a limited liability company (société anonyme) (Steel Invest&Finance) established under the laws of Luxembourg in which they both held 50% interest (NLMK owned the 50% share until mid-2011). NLMK acquired its interest for approximately USD 805 million.

The joint venture holded 100% or majority stake in one steelmaking plant and five steel rolling facilities (located in Belgium, France, Italy and USA) with total finished steel output of 4.5 million tonnes as well as 9 steel service centers (located in EU countries) that were earlier owned by Duferco Group.

In 2011, NLMK completed the acquisition of 50% interest in Steel Invest & Finance with a view to further integration into the production of high value added downstream products and expanding its presence in foreign markets. As a result, SIF moved to 100% ownership of NLMK. The transaction was fully financed from the NLMK Group's equity. The deal amounted to about $ 600 mln. Currently these assets became parts of NLMK Europe and NLMK USA.

In 2007, NLMK Group acquired JSC Maxi-Group with its daughter companies, which is involved in collection and processing of ferrous scrap, steelmaking and long-rolled steel manufacture.

Currently the operating production facilities of long-rolling segment of NLMK Group are located in the Sverdlovsk Region and Kaluga Region.

In the Sverdlovsk Region the facilities are united within JSC NSMMZ:
- Electric steel production – Revda city;
- Production of long-rolled – Nizhnie Sergii and Berezovsky cities;
- Metalware production – Berezovsky city.

Production-collection sites of Scrap-Collection Division Vtorchermet NLMK operate in 37 Russian regions.

In 2008 NLMK purchased international trading companies Novexco Limited (Cyprus) and Novex Trading SA (Switzerland) to build an effective sales system and optimize the movement of goods flows.

In 2008 NLMK purchased the American company Beta Steel manufacturing of crude steel and rolled steel in order to provide diversification in the USA hot-rolled steel segment.

In 2010, NLMK purchased company LLC VMI Recycling Group (VMI) to increase scrap collecting capacity, which increased self-sufficiency of NLMK Group in scrap to 80%.
In 2011 NLMK purchased service center in India, specializing in cutting and distribution of transformer steel, thereby strengthening the position of NLMK in the Indian market.

In 2011, NLMK has won an auction for the right to develop coal site Zhernovksy Deep in the Kemerovo region, and got right to develop the third mine field of Usinsk coal deposit (Usinsk-3) in the north of the Republic of Komi that contributed to the further integration of NLMK in production of their own quality raw materials.

NLMK Group has consistently demonstrated high financial stability. Despite significant capital investments in large investment projects over the last decade, the company maintains relatively low debt burden. With the launch of the plant NLMK-Kaluga the company has completed the stage of sustainable growth and focuses on improving efficiency of business processes, improving product quality and strengthening its market position.

In connection with the global financial-economic crisis in 2008 NLMK Group ought to sell some assets. For instance, in December 2008 NLMK closed a deal on sale of 69.41% share in JSC Tyapse merchant sea port (JSC TMTP) to company Universal Cargo Logistics Holding B.V. (UCLH) for 7.105 bln Rubles (around $254 mln). The received funds from the deal are to be invested in financing current investment projects and paying off short-term liabilities of the Group.

In 2011, NLMK has sold LLC Independent transport company (NTK), which provided transport services.

In 2013, NLMK-Kaluga electro-steelmaking plant (Kaluga Region) has been commissioned.

NLMK is a member of non-commercial partnership Russian Steel, found in 2001 by NLMK and Evrazholding.

In 2012, NLMK Group took second place in the rating of 35 most competitive steel companies. The rating was prepared by World Steel Dynamics, a leading international research company, on the basis of 23 evaluation parameters including capacity expansion, proximity to growing markets and customers, production of products with high added value, profitability, technological innovations and other.

World Steel Dynamics praised such advantages of NLMK as low cost of production, self-sufficiency in raw materials, strong financial performance, proximity to markets, prices, the company's activities in the field of social and environmental responsibility and safety.

In 2012 - 2013, a number of positive developments in the area of corporate governance of NLMK Group took place. Composition and structure of BoD was renewed, including introducing new manager’s positions in the field of logistics and supply - the most important business areas of the company.

In February 2014, NLMK Group announced the launch of "Strategy 2017", which will strengthen the company's leading position in global metallurgical industry through implementation of investment projects and management initiatives aimed at improving operational effectiveness.