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MAINTENANCE DEPARTMENT
DIRECTOR**

A large-scale joint project with SMS Siemag

NLMK GROUP

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HR Strategy

Interview with Stanislav Tsyrlin

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Dear colleagues!

The New Year for the Russian economy began with a collapse in the ruble exchange rate, a spike in inflation, a contraction in demand and market uncertainty. Just as they were six years ago, news headlines are peppered with words like ‘economic crisis’ and ‘anti-crisis measures’. Some of NLMK’s Russian customer base are in financial distress as a result of the skyrocketing interest rates on loans.

Did all this come as a surprise to the company? No, it didn’t. We observed the decline in related sectors throughout the course of H2 2014. We knew that such a negative scenario was a possibility and made sure we were prepared.

Our ability to stand strong in times of crisis, and look into the future with certainty, is largely rooted in the changes that the company made during 2013-2014. NLMK today is a completely different company to the NLMK of three years ago in terms of efficiency and financial stability.

NLMK has invested over 320 billion rubles in upgrades over the last decade, doubling the scale of its business and becoming the largest steel company in Russia. NLMK has launched the most advanced facilities including blast furnace No.7 and next-

generation EAF plant NLMK Kaluga. NLMK continued to evolve through the economic crisis of 2008 without giving up on complex projects; nor turning our back on our social obligations; and maintaining the number of jobs we provide.

This period of capital intensive growth, facility upgrades and geographical expansion was completed successfully in 2012. At that point we announced the next stage of our development, Strategy 2017, with the goals of achieving leadership in operational efficiency; leading positions in strategic markets; leadership in sustainability & safety; and building a world-class resource base.

At the core of the new strategy is our operational efficiency programme. Over the last two years, it has already generated gains of approximately 18 billion rubles. Today, it spans all units at all Group companies in Russia and abroad, growing exponentially with not just dozens; or hundreds; but now thousands of projects.

It has been a relatively short time since the strategy was launched, but it has already generated substantial gains: the Group’s key companies finished 2014 with record production volumes; and the company as a whole became one of the most efficient steelmakers in the world in spite of the weak global market. NLMK continued to implement its projects and programmes, reducing its environmental footprint and improving its level of occupational health and safety to that of best global practices.

The situation in the world today stems from great uncertainty. On the one hand, we are seeing negative trends in Russia; which continues to be our key market. On the other hand, there are new opportunities for business development. The fall in the ruble exchange rate creates greater potential for import replacement in sectors where the share of imports is traditionally high, such as the long product and coated steel market. This will enable us to increase the utilization rate at NLMK companies and increase our share in strategically important niche markets.

NLMK group today is one of the most sustainable steel companies in the world. NLMK’s position in the sector is strengthening, despite the economic uncertainty. Consistent and successful implementation of strategy allows us to maintain high business profitability; fulfill all of our social obligations; maintain our tradition of paying highly competitive salaries; and continue to implement investment projects and introduce new technologies. Advancing towards our strategic goals enables us to face the future with confidence.

Oleg Bagrin
NLMK Group CEO

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First Safety Workshop at NLMK International

Victor Togobetskiy, NLMK Group Safety Director, invited all Safety Managers of NLMK International, for 2 days, to a workshop in Verona. The main objective of this seminar was to create the NLMK International Safety organization gaining benefit of working together as a team rather than independently. This first experience was really successful for the attendees because they shared a lot of experiences and best practices.

Caroline Marlair

On the 27 of January, 14 safety managers from NLMK Europe and USA were ready to start their first safety workshop at NLMK International.

NLMK STRATEGY, RESULTS 2014 AND GROUP EXERCISES

First day started with the introduction and the team building session. Then Victor Togobetskiy presented the NLMK Strategy 2017, the safety

performance 2014 and the objectives for 2015. Two group exercises were organized: one to reflect on "How safety teams can support NLMK strategy" and a second one about "Employees Safety Engagement".

"NLMK Group was able to make a significant step forward supporting the company Strategy 2017 to become the safest steel company in the World," said Victor Togobetskiy, "All

plants of the Group worked in 2014, without fatalities (both employees and contractors). This was the safest period of NLMK history.

The reduction of Lost Time Injury Frequency Rate (LTIFR) Vs. 2013 has been achieved with following results:

- International assets– by 13.4 %;
- Russian assets– by 36 %;
- NLMK Group – by 22 %.

All targets/project indicators have

been achieved at Group level."

Then, the Safety Director of the Group talked about the celebration of the World Safety Day 2015:

"The World Safety Day, 28 April, is a great opportunity to continue development of the new NLMK Safety culture continuously engaging our employees into safety programs."

This first day concluded with a dinner, a friendly moment without any pressure, just time to relax with NLMK international colleagues.

Fabien Coulon, Safety manager – NLMK Coating said:

"We were a small group, a perfect size to generate a lot of exchanges between safety colleagues. I would like to congratulate NLMK Verona safety team for their level of safety! I appreciated meeting our USA colleagues and I think it will be also interesting to meet colleagues from Lipetsk because they have better results in safety. Maybe for next time?"

Mario Macri, Safety engineer – NLMK Verona said: "This seminar was very interesting for me because we were only safety people. I mean we

speak the same language looking for the solutions of the same difficulties, we shared a lot of best practices."

VISIT TO VERONA PLANT AND SHARING OF BEST PRACTICES

The second day was more practical with the visit to NLMK Verona. Marcello Calcagni, the Chief Executive Director of NLMK Verona welcomed the Safety Managers and presented the plant. The group visited the plant after a safety briefing.

After the visit, the Safety Managers discussed good practices and opportunities of the plant safety. It was very constructive for NLMK Verona. "The plant was clean, well-managed with highly competent leaders and we met open and friendly employees," said Victor Togobetskiy.

During the afternoon, each participant presented the best practices of his plant.

Thomas Burke, Director Safety and Security - NLMK Pennsylvania:

"It was the first time for me to go to Europe. The best part of the seminar was the networking with European colleagues. It was interesting to talk

with them about their safety practices. NLMK Verona plant is very similar than our plant but smaller. We must continue to communicate and network on best practices to ensure safety improvements continue as the top priority for NLMK."

Abelone Lind Andersen, Senior Health & Safety Manager – NLMK DanSteel:

"This seminar was a good idea to get to know each other. Our Italian colleagues organized it very well. It was great to visit the plant and to meet our colleagues. We share the same challenges. Next time it would be nice to have more workshops because it is easier to discuss in a small group."

Thierry Jacob, Safety and Environment Manager – NLMK Strasbourg added: "This workshop was interesting to exchange best practices and experiences. During these 2 days we created a network of safety managers in the Group. Now we have to implement the safety policy of the Group in our plant."

Victor Togobetskiy concluded: "I achieved my objectives; safety managers have now new friends who might help each other at any time. I am going to organize similar events every year!"



Scale, centralization and development

NLMK Group Vice President for HR & Management System Stanislav Tsyrlin talks about the human resources developments of Strategy 2017, the evolution of the firm's management team and a new matrix management system

Yulia Taranova

The goal of Strategy 2017 is to bring all functions in line with best global practices



STRATEGY 2017

The announcement of Strategy 2017 was one of the most important events for the Group in 2014. The key element of this strategy is NLMK's operational efficiency programme. What objectives have been set for HR?

The goal of Strategy 2017 is to bring all functions in line with best global practices. This translates into a number of projects for human resources. Firstly, this requires the assembly of a management team to transition to a matrix management model which covers all divisions and processes. Secondly, we need to devise a unified quality standard for HR procedures that will be implemented throughout the entire Group. And thirdly, we will continue operational efficiency projects within HR and other functional areas, including business process optimization.

How is optimization different under the new matrix management model?

In the past, optimization efforts had been organized on a site-by-site basis, focusing mostly on identifying non-core

and auxiliary activities. Systematic solutions, such as the creation of the Repair and Maintenance Centre in Lipetsk; or the centralization of NLMK Long Products repair services as part of the ZITR (InTechRemont) factory were few and far between.

The current model focuses on corporate functions. Functional heads are responsible for creating single management principles which are applied across the Group; as well as for optimizing processes and structures. Of course, actual implementation still occurs at the production sites; but there is now a uniform approach.

We are currently coordinating more than 80 operational efficiency projects, including initiatives to improve the efficiency of HR itself. We aim to reduce the amount of administrative tasks performed manually through increased automation. Some of these

projects have already been completed. We are planning to complete all of our optimization projects by the end of 2015.

What drives optimization?

In many cases, optimization is achieved through the centralization of standard operations. A good example of this is the creation of an NLMK Accounting Centre that has enabled us to unify all the standard accounting operations of the various sites. Today, one accountant that arranges salary payments is in charge of transfers to 3200 bank accounts; and there are just 15 people needed to process salaries for the Group's entire workforce.

According to our estimates, labor productivity for this operation has increased by at least 50% in comparison with calculation of salaries by dedicated accountants at each individual company. As a result of

We are currently coordinating more than 80 operational efficiency projects, including initiatives to improve the efficiency of HR itself



We are creating a new structure with dedicated HR expert centers

process centralization, audits are made simpler, the amount of errors is reduced and there are increased training opportunities. Another advantage is that when resources are centralized, management is easier and less managers are needed.

But this works only for non-core functions, right?

Of course, it is impossible to centralize production functions in such a way because they are tied to the sites. The focus here is instead on the efficiency of operational processes. For example, when we started our project on energy function, we identified hidden potential, such as a foreman and senior foreman do the same rounds one after another; and in certain instances it is possible to replace process personnel with repair experts; or to merge organizational units bringing down the number of managers, etc. Or in the maintenance department, for instance, workers often have to wait around for spare parts to be delivered, or for cranes to be brought in, etc. Of course, optimization of production processes has to be done carefully and rationally, because you cannot completely eliminate reserves as we operate continuous production.

What is going to change in how the HR service itself functions in light of the new objectives?

For one, we are creating a new structure with dedicated HR expert centers. For example, Lipetsk has extensive experience in working with college and



universities to train workers. The new model will enable this experience to be applied at all of our sites.

Secondly, we are creating a business partnership function whereby a HR specialist acts as a 'one stop shop' for function heads on all HR issues ranging from head hunting and employee development; to bonuses and conflict management. So Logistics will be assigned a person with experience in the field that will act as their dedicated HR partner; whilst Finance will have their own HR partner with experience working with finance experts, and so forth.

Thirdly, we are working on strategic staffing initiatives at all levels. This involves identifying managers with strong leadership

We are committed to preserving and developing all the best of what has been achieved over the years

skills, developing a talent pool and complying with qualification requirements when bringing new people on board.

And of course, we are continuously training HR employees to prepare them for complicated challenges and helping them live up to the leader status of the company.

Most importantly, we are committed to preserving and developing all the best of what has been achieved by Human Resources in the NLMK Group sites over the years.

What do you mean?

For instance, our Novolipetsk site has one of the best systems in the country for cooperation between an employer

and leading colleges and universities. The company has a system for training personnel based on professional standards and process sequence maps that uses unique methodologies; with computer simulators, in certain cases there are physical simulators and computerized testing.

Our success hasn't just brought us numerous government and industry awards. The strength of our training programs is evidenced by our many victories in regional and federal competitions. For example, this year our drivers filled the podium at the All-Russian "Best professional" competition; and our mechatronics team came second in the All-Russian World Skills competition. We are giving serious

consideration to competing for a place on the Russian national team to take part in the world championship.

TEAM BUILDING

You've talked about team building and developing horizontal connections as some of your key priorities. Does the management system really need to be fine-tuned further?

We have switched to a matrix management system that covers all divisions and processes. Within this new model, horizontal, or functional ties become significantly more important. This means that the priorities of plant managers, for instance, are shifted towards the functioning of the entire Group, whereas before they were focused exclusively on the interests of their individual plant. Nothing is going to change for production and repairs functions; but the heads of functions such as finances, sales and indeed HR will now report to two leads: one administrative and one functional.

Such a system is, of course, more difficult to manage, but this is the only way of ensuring uniform approaches and quality standards; to achieve our strategic goals; and to be a global leader. Transitioning to the new system requires the training and coordination of all the parts of the management chain, and top-managers are no exception. For them, we organize team-building sessions that enable us to bring people together in a friendly environment to discuss issues and challenges shared by all the managers; to formulate common goals; and establish means of communicating and mutual supporting. We have already held three such sessions.

Do you think that talent management drives team building?

Consultants use the term *fad* when they talk about inventing a new

name for old concepts to sell them more efficiently. Talent management is a fad. The term became popular about a decade ago after McKinsey published an article saying that whereas previously companies had to fight for financial resources, now they have to fight for human resources, for talent. The concept of talent management isn't new. For example, the Soviet program of youth support was essentially talent management and was in fact rather effective. Young university graduates that had good academic records were offered a secure environment for career growth: they could not be fired in the first three years, and they had every opportunity to excel and grow professionally.

We have switched to a matrix management system that covers all divisions and processes. Within this new model, horizontal, or functional ties become significantly more important

We are working on strategic staffing initiatives at all levels. This involves identifying managers with strong leadership skills, developing a talent pool and complying with qualification requirements when bringing new people on board

And how does this work at NLMK?

Hundreds of young people join NLMK every year. The questions they are asking are: "How do I excel?"; "If I do well, where will I be within this company in a year, in five years, in ten years?"; "How soon can I get to an executive position?" These are the right questions to be asking, but there is no simple answer to them, because there is no way of completely eliminating organizational limitations, nor the element of chance. One talented worker can find himself in the right place at the right time. Another, equally as talented, could find himself in a career trap: his boss isn't much older than him, and he is working alongside young people who are just as driven and talented, with no clear growth prospects. We have created a talent management program based on objective achievement assessments and performance tests to give all our workers an equal chance, and to find the truly talented and committed ones.

Once we've identified the most talented ones, how do we help them grow?

First and foremost, through continuously developing such workers and involving them in project activities. However, at a certain point the question of career growth, i.e. promotions, inevitably comes up. Some companies, including TNK-BP, took radical measures: they set a maximum term of, say, five years, after which a position had to be vacated to allow for the next talent in line. Another imperative solution is when managers are allocated minimum talent pool quotas.



We opted for a more flexible solution, and coordinate promotion of talented employees with their direct managers, who remain in charge of allocating career opportunities within their respective departments. If such promotions are not forthcoming, Human Resources develops a career plan for the individual taking into consideration their growth opportunities in other departments and even companies.

Tell us about the talent pool program. Is it going to change?

The key goal of the program is to ensure management succession in the company. All positions must be backstopped with candidates from the talent pool. The talent pool program partially overlaps with the concept of talent management, but the goals are different. The goal of talent management is to develop employee potential; whilst the goal of the talent pool program is to ensure management succession. ☺

A single environment

Five years ago NLMK Group and business management system developer SAP announced the launch of an ERP system based on SAP solutions. In our review we look back at what has been achieved over the last 5 years.

Natalia Sviridenko

The scale to which the Group has grown and the speed at which it has done so called for a powerful, fully-functional solution based on the most advanced technologies in corporate business process management. The solution was to implement an ERP system in NLMK Group that was supplied by SAP. It has been five years since the project was launched. The company has achieved great progress and put significant effort into implementing the system by optimizing technical parameters and providing IT support and user training. Today, NLMK is among the most successful cases of the implementation and development of such a system in the sector.



NLMK Group decided that the time was right to implement the SAP system due to the need for standardization of key business processes and to increase their efficiency

SAP&NLMK: AN EFFICIENT SOLUTION

As Oleg Bagrin, NLMK Group President, noted, sooner or later all companies face the challenge of enabling efficient mechanisms for exchange of information. The only system that can rise to this challenge effectively is ERP (Enterprise Resource Planning), a corporate system of business process management. The goal of ERP is to bring all units and all necessary functions in a single environment together.

An ERP system has a single database for all tasks which significantly simplifies access to information, and even more importantly provides different business units with a tool for exchanging information. ERP systems usually employ a modular approach, and to a certain extent cover all key processes within a company.



ERP systems are shown to boost productivity

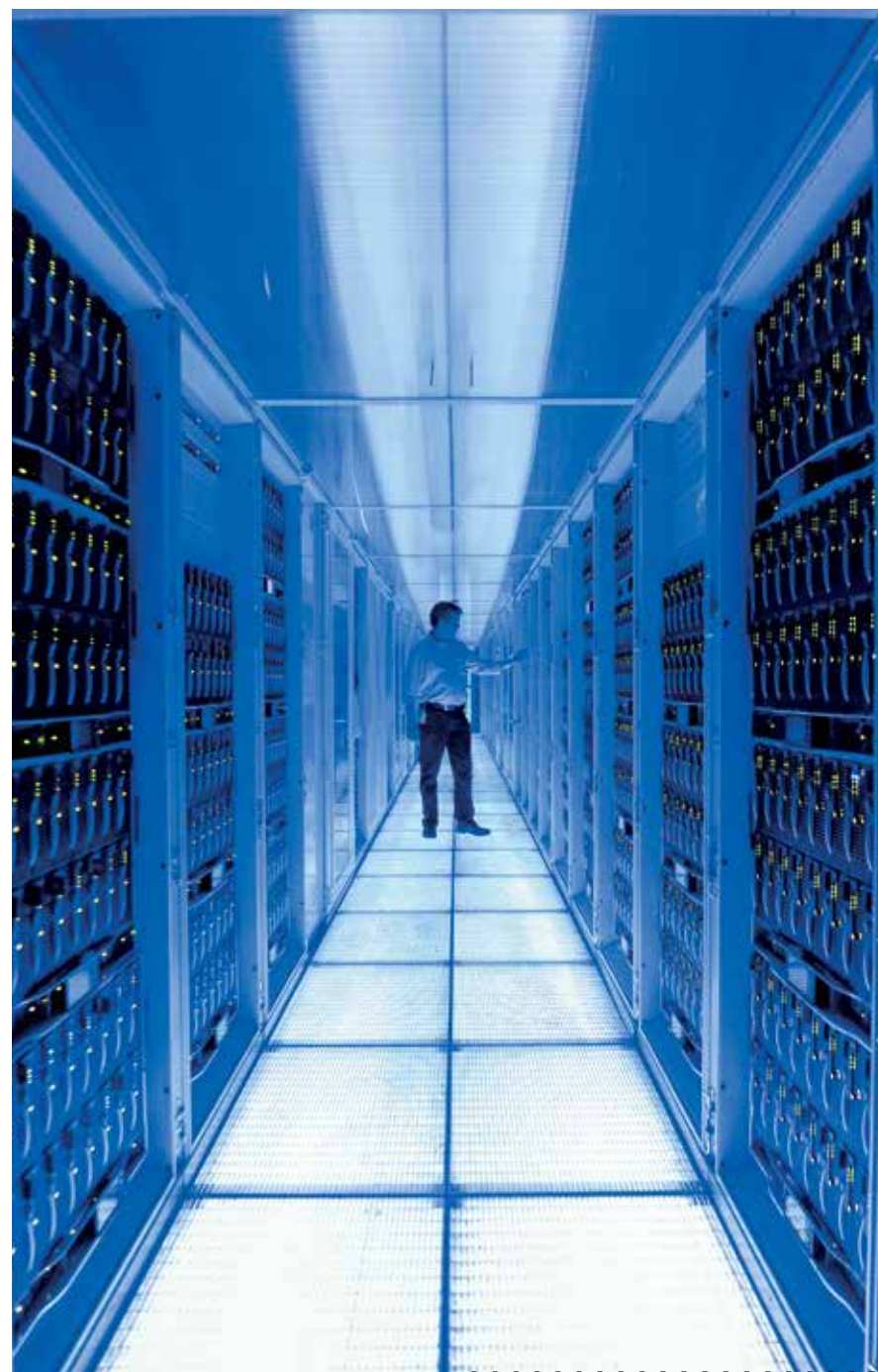
ERP systems became wide-spread in the 90s, when large industrial companies began implementing business process management systems based on a single integrated set of corporate data. ERP systems are shown to boost productivity and improve the quality of services offered to customers.

NLMK Group decided that the time was right to implement the SAP system in order to support the development and expansion of company operations; to improve interaction between assets and business units; to provide information support; and due to the need for standardization of key business processes and to increase their efficiency.

Implementation of the SAP system provided the company with the technical means to unify its business processes, prior to which the Group found it difficult to properly control business processes at different NLMK sites, each having its own information systems.

Sooner or later all companies face the challenge of enabling efficient mechanisms for exchange of information

NLMK Group announced its large-scale ERP plans for the first time in 2008



Despite the challenges faced transitioning to the new system, there is a whole range of advantages. First of all, it ensures the stability and unification of all management processes; their optimization and automation which guarantees that all company processes are fully transparent. This increases the investor appeal of the company whilst cutting costs and giving the company a competitive edge.

System implementation at Stoilensky was completed in 2009

IMPLEMENTATION BACKGROUND

NLMK Group announced its large-scale plans for the first time in 2008. BDO Unicon Consulting was the general contractor for the implementation project. Implementation of a single information system took off at Stoilensky almost instantly in autumn 2008; with completion in summer 2009. The project was then launched at Novolipetsk. Implementation was completed a year later, in April 2010. After that, the system was rolled out to the Group's Russian assets as well as at international assets where the system had already existed but had to be brought in line with the Group's unified standard.

As part of the ERP project, a number of key business processes were automated, including finance, sales, procurement, operational management; production planning; asset management; financial and tax reporting; etc. Within NLMK Group, SAP is an integrated system with a single database and with common information and interface for all individual companies. This solution allows savings to be made on system support.

Of course, implementing SAP was a challenging process; closing a financial logistic period in the ERP system involves making changes to the company's internal processes; and changes to the way the employees are used to working; but it has proved itself to be well worthwhile. Over the 5 years since SAP was introduced there have been significant improvements in the quality of IT support, and the technical parameters of the system. Another important aspect is that employees working with the system have significantly improved their skills.

"SAP implementation at NLMK is an excellent success story, taking into account the project schedule and the company's investment. And this is not just my personal opinion; this



Oleg Bagrin,
NLMK Group President:

"Sooner or later, all companies face the challenge of enabling efficient mechanisms for exchange of information. The minimum requirement for this is a platform that consolidates all internal sources of information and guarantees the consistency and transparency of data.

"Creating a single information environment at NLMK began with the implementation of a common information and analytical system across Group sites. Over the course of the last 5 years, all companies have begun working in a single ERP system that ensures data consistency, high quality analytics, and faster management decision-making. Today, we are using the same approach on many levels: from implementing new SAP modules by function; to creating a single system of internal communication for NLMK Group companies."



Vadim Uryas,
Vice President for IT:

"The SAP system integrated NLMK Group's best practices. We are now rolling it out to our different divisions. The key IT achievement last year was the transition of SAP ERP to a new HANA database. NLMK is the first Russian company to do this. The new database enables us to work with SAP in an online model, something which no other Russian company can."



Ilya Gushchin,
Vice President for Sales:

"There is no doubt that SAP is a great help in our work; that it optimizes it. We have no real issues with the way the system functions; we have full support from NLMK-IT. On our end, we continue to improve and fine-tune it by adding CRM and adjusting the planning module."



Grigory Fedorishin,
CFO:

"SAP-based software solutions enabled us to significantly improve our payment management process. The Group's payment transactions were fully automated. These are now managed by two centralized treasury centers in Lipetsk and Yekaterinburg. The speed of transactions has increased; and the risk of erroneous or unsanctioned payments has diminished due to transparent payment approval routes within the system. An electronic archive of bank statements was created based on SAP, significantly reducing our volume of paperwork.

"As a result, SAP implementation has allowed to enforce payment discipline and control over the way money is spent; improving the quality of liquidity projections; and decreasing the labor intensity of the process.

"The clear business process structure that the ERP system is based on has a significant impact on the quality and expediency of cost analysis. For instance, SAP provides a focus on key factors behind changes in cash cost; determining operational efficiency potential; and for estimating profitability margins by products in different development scenarios.

"We are currently working together with NLMK-IT to develop the system to tackle new objectives, both for our function and for the company at large."



Anatoly Khebnev,

Deputy Vice President for Procurement:

"The SAP ERP system provided a lot of advantages for the procurement function. As a manager responsible for the efficiency of procurement, it is important that standardization and optimization covers not only reporting but the processes themselves; right down to operations."

"The system has allowed us to improve the quality of operations; ridding our employees of unnecessary paperwork; facilitating the approval process, making it faster; and at the same time improving the level of control and transparency."

"We can finally see full procurement reporting for the entire Group. High-quality ERP implementation has allowed us to efficiently develop other SAP modules, such as SAP SRM. The next step in developing IT in procurement is to implement a reporting visualization system."

"Moreover, the company is planning a large-scale project on integrated planning. Alongside SAP modules, MES systems will be implemented to optimize our orders, sales, and production. It's a very complex, multi-level project. There are very few companies in the world to have fully implemented it."



Olga Zarubina,

General Director, NLMK Accounting Center:

"Our accounting team participated in the implementation of the majority of system modules, as information from all the modules is the source and the basis for all types of reporting."

"After the integrated information system SAP ERP was introduced, internal documents began to be generated within the system; there was no more need to fill in additional papers as all information required is generated in real-time mode. Moreover, there is no longer the need to physically displace a lot of documents for them to be signed and approved. Processes have been significantly optimized. As a consequence this has allowed us to streamline our accounting personnel across all NLMK companies, which are now serviced by a single Accounting Center."

"Over many years we have focused on unifying accounting approaches used in different companies within NLMK Group. However, in a number of instances we came up against certain restrictions related to the companies' legacy systems. SAP ERP implementation provided the necessary technological support for our efforts to unify accounting policies and processes. It has also allowed to service several companies almost simultaneously on a 'single screen'."

"I have to say that the Accounting Center and a centralized accounting function owe their very existence to the implementation of the SAP integrated information system. It was one of the prerequisites for our centralization. In this light, we had to radically review our interaction with NLMK's structural units, line personnel; and universally reconsider the role of the accounting service within the Group."

is confirmed by representatives of the sector on the whole. Implementing such large-scale infrastructure projects is always a risk. Proving that there will be a return on investment in the form of profit and advantages is the key challenge. Looking back, I can confidently say that a number of good decisions helped us to achieve success," said Deputy Vice President for Sales Anatoly Khebnev.

RESULTS

The system is currently in place at the majority of NLMK Group companies. It is used by over 3500 employees each week. Experts confirm that it covers all the requirements of a modern steel company.

First and foremost, the SAP system with a single data model enables the best management decisions to be made using accurate, real-time information.



Over the 5 years since SAP was introduced there have been significant improvements in the quality of IT support, and the technical parameters of the system

to procurement planning for specific materials; and equip it with a set of control functions. The planning and control systems enable efficient management of costs incurred by the company.

"Additional functions are added annually, allowing us to optimize more processes. The system is being expanded adding new functionality; and by connecting new companies to the system," said Vice President for IT Vadim Uryas.

For the last five years a continuous system improvement process has been in effect, supported by NLMK-IT experts.

The system is used by over 3500 employees each week

Another advantage is the consolidation of information. This solution is unique for a Group with companies that operate in different regions and have different reporting standards.

SAP has also helped to formalize the planning system; from budgeting



7 questions

for the Director of NLMK Maintenance Department

Alexey Popov talks about the large-scale joint project between SMS Siemag Service and Novolipetsk Maintenance Department

Olga Nikulshina



1. What is the joint project between NLMK and SMS Siemag Service all about?

This project is for the outsourcing of the maintenance and repair of equipment in the first and second BOF shops at NLMK's Novolipetsk production site in Lipetsk. NLMK Group experts and SMS Siemag Service have been negotiating the contract for the last

18 months. The agreement provides for the permanent outsourcing of the maintenance of the steelmaking equipment.

2. What is going to happen to the employees that were previously in charge of maintaining steelmaking equipment at Novolipetsk?

270 maintenance department workers that were responsible for the maintenance of steelmaking equipment will be transferred to SMS Siemag Service. All the conditions of their work, including salaries and social safeguards will be maintained. If, after a five-year period, the outsourcing agreement is terminated then the workers will resume employment at NLMK. These workers

A key indicator of the economic efficiency of the project is the reduction of costs by 4-5% annually



THE CHOICE OF SMS GROUP AS A PARTNER WAS FAR FROM RANDOM. IT IS A GLOBALLY RENOWNED COMPANY THAT PRODUCES EQUIPMENT SIMILAR TO OUR OWN AND HAS A WORLD-CLASS MAINTENANCE SERVICE

will be trained to use a radically different approach to repairs. Leading global experts will organize training sessions both in Lipetsk and abroad. This will be undertaken to develop skills and master cutting edge practices, which will be maintained and passed on to the next generation of repair experts in charge of the maintenance of NLMK equipment.

3. What is the anticipated economic effect of the project?

A key indicator of the economic efficiency of the project is the reduction of costs by 4-5% annually. After a five year period, NLMK plans to increase the productivity of its continuous casters and to boost their availability rate. This will result in an additional economic effect from the creation of additional product volumes.

4. What stage is the project at today?

The project is currently in the preparatory stage. SMS and NLMK experts are developing organizational management structures for production; economic and financial planning; training personnel; and organizing



*WE ARE IMPLEMENTING
SUCH A PROCESS
FOR MAINTENANCE
AND REPAIR SERVICES
FOR THE FIRST TIME*



The key goals of the project are to reduce and optimize repair costs; and analyze the work load of inhouse repair workers and contractors

warehousing facilities. The plan is to complete this preparatory stage within the next three months, after which work will begin on transitioning the maintenance system at the plant itself.

5. Why did NLMK choose SMS as its partner, entrusting it with a key equipment element?

The choice of SMS group as a partner was far from random. It is a globally-renowned company that produces equipment similar to our own and has a world-class maintenance service. SMS group has handled equipment

serving for steel companies the world over. The company has great potential when it comes to engineering projects, with a cutting-edge troubleshooting system, advanced repair techniques and a unique database.

6. Has NLMK ever had similar projects in the past?

This is a new venture for NLMK as we are implementing such a process for maintenance and repair services for the first time. We plan to roll out this arrangement to other types of equipment and production stages in the future.



7. What can you say about other projects being implemented at the repair unit at the same time?

Over the next three years, we will undertake pilot projects to create positions for experts in availability and planning at the repair units in the main shops, in line with best global practices. The key goals of the project are to reduce and optimize repair costs; and analyze the work load of in-house repair workers and contractors. These

measures will increase equipment availability by reducing unplanned downtime.

A brief summary of our other priority projects. We are planning a number of initiatives to streamline our contractor relations. We are also focused on mapping all repair activities to allow for repair time optimization without jeopardizing quality. These and a number of other projects will allow us to significantly improve the efficiency of our repair and maintenance processes. ☺

Novolipetsk innovation programme gains for 2014 up three-fold

Economic gains generated by implementing innovative solutions at Novolipetsk, NLMK Group's main production site in Lipetsk, reached 543 million rubles during 2014; three times higher than the 2013 total.

Maria Simonova



This threefold increase in economic gains was driven by the implementation of several successful high-yield solutions. For instance, innovators suggested a change to the fuel regime of the recovery co-generation plant boilers which resulted in the share of blast furnace gas in heat energy generation increasing from the projected rate of 60% to 85%; meaning that the share of gas dropped from 40% to 15%. Natural gas purchases decreased five-fold to 4000-5000 m³/h, making a saving of 305.5 million rubles per year.

More than 2,400 innovative solutions were implemented in 2014. The most efficient were aimed at improving equipment operations and

technological processes; optimizing the use of material and energy resources; and improving product quality.

Sergey Filatov,

Novolipetsk Managing Director, said:

"We are currently seeing an increase in the gains from a programme that was given new impetus in 2007, after we adopted our Regulations on employee involvement in cost-cutting initiatives. In 2014, around 1,700 company employees proposed over 2,500 new technical solutions aimed, among other things, at achieving the best operational efficiency results in the sector".

To stimulate research and the development of employees' intellectual potential, Novolipetsk is running a personnel training and financial incentive system. There

are bonuses offered to employees depending on the economic or the technical effect of their solutions.

Participation in innovative activities for employees under 30 years of age is a great way for them to boost their career in the company; it also helps them improve their living conditions through participation in the corporate 'Housing for Young Steelmakers' programme.

NLMK organizes annual viewings of innovative research and development solutions proposed by young workers to determine the efficiency of innovative initiatives. 383 employees participated in the event in 2014. Best young innovator and their supervisors received bonuses. Economic gains from innovations proposed by young NLMK employees alone exceeded 138 million rubles in 2014.

Dear colleagues,
We would like to invite you
to watch NLMK Group's

new corporate film 'Special Steel'

We made the film in conjunction with 'Kartina Mira' studio. This fine film tells the story of how special steel produced in Lipetsk from Stoilensky iron ore is helping to develop wind energy in North Europe.

Wind energy is one of the fastest growing energy sectors. According to the World Wind Energy Association (WWEA), in 2014 an additional 16% of energy production capacity was made available. This is the highest figure in the entire history of wind energy generation across the globe. However, this is not the only record that was set in 2014.

In Denmark, native country of NLMK Group's DanSteel A/S, which is the only manufacturer of plates for wind energy and one of the largest in Europe, the amount of wind energy consumed during 2014 increased by 39%. This is also a world record! Denmark is 12th in the world in terms of wind energy generation capacities with 4.9 GW. China is number one with 114.8 GW and this is not the limit.

Denmark plans to fully transition to renewable energy sources by 2050, by which time global wind energy will have enabled a 1.5 billion tonne reduction in annual CO2 emissions. Together we can make the world a better place.



nlmkonair

www.youtube.com/user/nlmkonair

WE REALLY HOPE THAT YOU ENJOY THE FILM





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