



NLMK
ANNUAL REPORT
2013



About us



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 costumers 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.

NLMK Group is consistently a financially stable business. The Company maintains a relatively low level of debt despite significant capital investments in major projects over the past decade. With the launch of NLMK Kaluga, NLMK completed its sustainable growth stage and focused on enhancing the efficiency of all business processes, improving product quality, and strengthening its position on the market.

NLMK actively invests in environmental projects, reducing its footprint in the regions where it operates and striving to comply with the highest environmental standards. NLMK Group creates safe working conditions through process improvements, professional training sessions for its employees, and application of the best global standards in occupational health and safety.

Stable operational and financial performance*

- Steel production: 15.4 m t (+3% y-o-y)
- Steelmaking capacity utilization: 95%
- Share of HVA products: 35% (-1 p.p.)
- Sales revenue: US\$ 10.9 bn (-10%)
- EBITDA margin: 14% (-2 p.p.)
- Investment: US\$ 0.76 bn (-48%)
- Net debt/EBITDA 1.80 (1.88 in 2012)
- Free cash flow: US\$ 544 m (+63%)

Efficient vertical integration of raw materials and energy resources

- 100% self-sufficiency in iron ore concentrate
- 100% self-sufficiency in coke
- 85% self-sufficiency in scrap
- 53% self-sufficiency in energy***

Widely diversified production model, product mix, and sales markets

- 80%/20% production — BOF/EAF routes
- 25% of rolling capacity in Europe**, 18% in the US
- Sales to over 70 countries worldwide
- Sales in the domestic market: c. 40% (in tonnes)

Product mix expansion and secure market positions

- Share of the global slab market: c. 18%
- Share of the global transformer steel market: c. 9%
- Share of Russian steel production: c. 21%
- >100 new grades of steel in 2000–2013 (long and flat products)***

High level of corporate social responsibility

- 61,700 employees; in 2013, 70% attended professional training sessions
- Environmental investment: US\$ 134 m (+74%)
- Specific atmospheric emissions: 21.9 kg/t (-3%)
- LTIFR 0.82 (-0.04 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 that include NLMK shares

- Moscow Exchange (RTS-MICEX)
- Moscow Exchange (RTS-MICEX) Metals and Mining Sector

Credit ratings

- Standard and Poor's BB+
- Moody's Baa3
- Fitch BBB-

** Hereinafter, all results given are for 2013*

***Including NLMK Belgium Holdings assets*

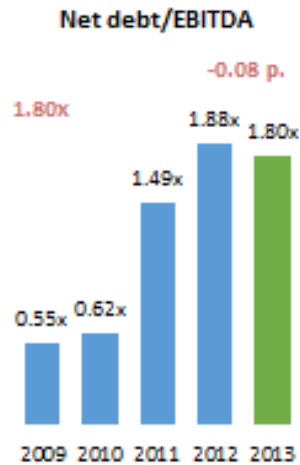
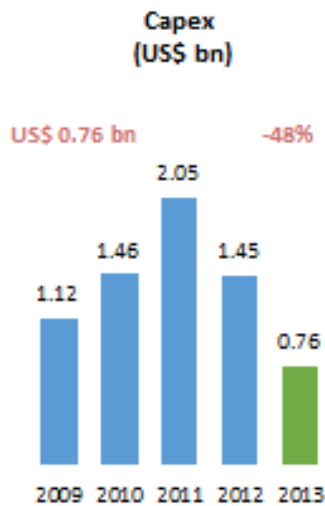
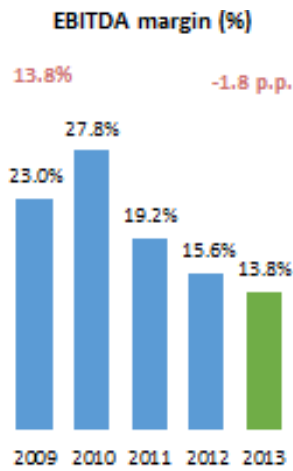
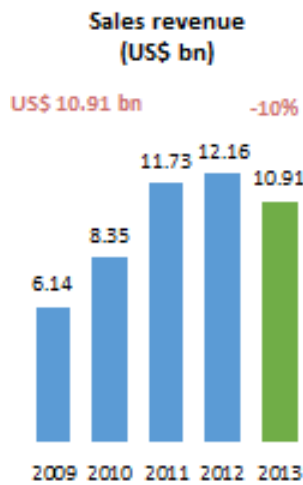
****Data for NLMK's main production site in Lipetsk*

KEY PERFORMANCE TRENDS

Thanks to a well-balanced business model, a diversified product mix, and continuous efforts to enhance the efficiency of business processes, NLMK Group managed to maintain a high level of operational and financial performance. NLMK Group is one of the most financially stable companies in the industry. Optimization of production processes, innovative thinking, and commitment to the principles of corporate social responsibility have allowed the Company to achieve sustainable development goals that will ensure its long-term leadership in the sector.

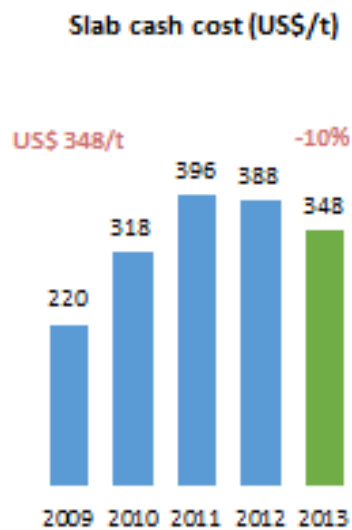
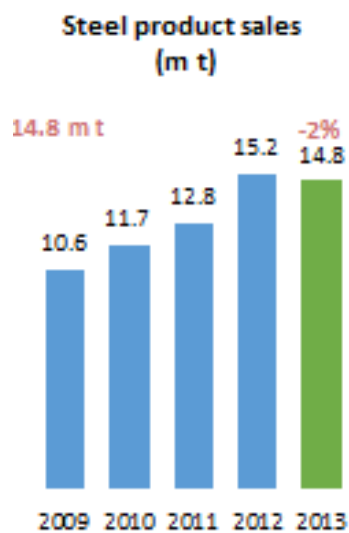
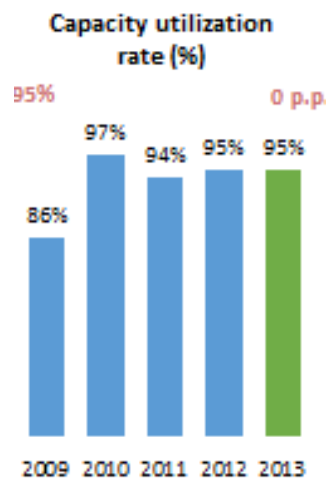
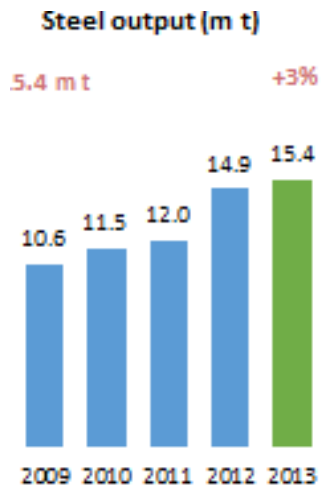
Robust financial position

- Maintaining an above-average EBITDA for the sector
- Transitioning to a less capital-intensive stage of development
- Maintaining one of the lowest debt levels in the industry



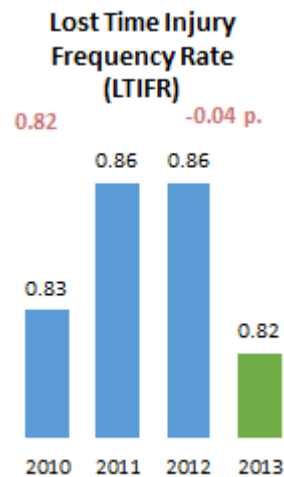
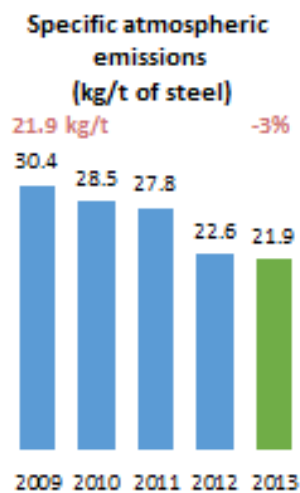
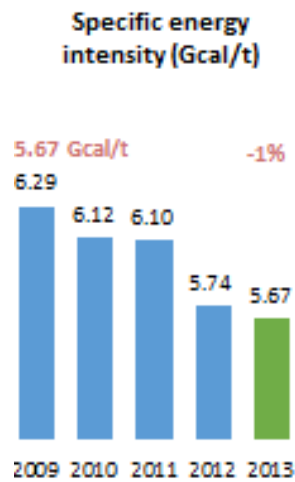
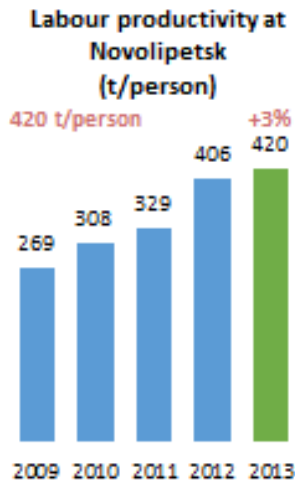
Stable operating performance

- Increased steel production following the launch of NLMK Kaluga
- High capacity utilization rates maintained
- Reduced production costs thanks to efficiency enhancement programmes



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
- Promotion of better occupational safety through improvements to the OHS system



OUR MILESTONES

Since its inception in 1931, 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 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. Our Company, Russia's leading manufacturer of steel, is recognized as one of the world's most competitive steelmakers.

1934 – Company founded

The first blast furnace produces the first tonne of pig iron.

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

During the first years following its privatization, the Company starts to build its raw materials base: NLMK acquires Stagdok and Dolomit, 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 m t; energy self-sufficiency rises to 40%.

2004–2006 – Shaping of NLMK Group's raw materials and rolling segments

NLMK acquires Stoilensky, which covers its iron ore concentrate and sinter ore needs.

NLMK acquires Altai-Koks, becoming 100% self-sufficient in coke.

- Significant hedging of raw material risks.

NLMK acquires VIZ-Steel, Russia's second-largest electrical steel producer.

NLMK acquires DanSteel, a Danish thick plate manufacturer.

NLMK and the Duferco 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/Duferco 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 m t 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 Duferco 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 5–200 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 – Focus on efficiency improvement

NLMK Group launches a large-scale programme to enhance efficiency at all of its sites.

- Hot-end optimization at Novolipetsk and Altai-Koks.
- Implementation of an optimization programme at NLMK Europe.
- Improvement of profitability by tapping into internal potential.
- Application of innovation in all areas: technology, production, process organization, energy, and logistics.
- Company savings in 2013 total US\$ 244 million.

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.

World Steel Dynamics confirms that NLMK is among the world's 35 most competitive steelmakers.

- Analysts highlight NLMK's competitive advantages, such as proximity to growing sales markets and customers, production of high value added products, and technological innovations, as well as the Company's activities in the areas of social and environmental responsibility and employee safety.

OUR BUSINESS MODEL

NLMK is a vertically integrated group with a well-balanced value chain, providing control over every stage of steel production, from the mining of raw materials to the sale of high-technology finished products to end users.

NLMK Group's vertically integrated 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:

1. Upstream

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.

2. 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 94% 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).

3. 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.

1. Upstream

The extraction and processing of raw materials used in steel production.

Our extensive resource base is situated in a low-cost region (Russia).

Iron ore

Iron ore concentrate and sinter ore 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.

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 2013, pulverized coal injection (PCI) technology was introduced at Novolipetsk's Blast Furnace No. 5, partially supplanting expensive coke and natural gas with a far more cost-effective alternative. Another innovation – the use of a petroleum coking additive – enabled us to improve the quality of the coke. The use of granulated tar pitch allowed us to reduce the amount of expensive coal grades in the charge.

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 85% 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 2013, NLMK's scrap processing site in the city of Podolsk commissioned a shredder, thus expanding NLMK's ferrous scrap processing capacity and maintaining a high level of self-sufficiency after the launch of NLMK Kaluga.

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 run mainly on by-product gases from coke and blast furnace operations. In 2013, the Lipetsk site was 53% energy self-sufficient. 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**
- **85% self-sufficiency in scrap**
- **53% self-sufficiency in energy**
- **Over 100% self-sufficiency in flux**

2. Midstream

This is the process of converting raw materials into the components used to charge the furnaces, as well as the production of crude steel and cast slabs.

NLMK's steelmaking capacities are located in close proximity to our raw material assets.

Process

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. The 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.

- **US\$ 348/t slab production cost at the main production site**
- **Steel production capacity of more than 17 m t/y**
- **80%/20% BOF/EAF production ratio**
- **100% of steel undergoes secondary metallurgy treatment**

3. Downstream

This is the process of creating rolled steel, ready for sale.

We roll steel close to our main customers.

Process

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.

Advantages

NLMK's strength is the proximity of its finished product manufacturing sites to its end consumers. Russia, the EU, and the US have traditionally been NLMK's key sales markets, and it is in these regions that the Group's rolling mills are located.

Having set up an efficient production flow and flexible sales strategy, NLMK can adjust its production programme according to the demands of the market. When demand shrinks for high value added (HVA) products, NLMK can switch to standard steel production with practically no losses, and direct sales to more profitable markets. When demand recovers, the Company can increase its HVA product output, balancing out production.

- **Over 14 m t/y total rolling capacity***
- **More than 90% of steel produced can be processed at our own rolling mills in Russia and abroad***
- **HVA accounts for 35% share of finished product output**
- **80% of rolled steel is sold close to where it is produced**

** including NBH capacities*

GROUP STRUCTURE

Our vertically integrated operations are organized into three clear geographical operating divisions, and span virtually the entire steelmaking value chain, from mining to processing steel into finished products.

Service centres and trading companies ensure uninterrupted, just-in-time deliveries and a high level of customer service in over 70 countries around the world.

NLMK Russia	NLMK Europe	NLMK USA
<p>This is the Group's key business segment comprising its mining, coke-chemical, steel production, and rolling assets. Over 90% of our steelmaking assets, including the NLMK Kaluga Mini-Mill launched in 2013, are located in Russia. This segment accounts for about 60% of flat steel products and 100% of long products. NLMK Russia comprises three business units: NLMK Russia Flat, NLMK Russia Long, and NLMK Russia Raw Materials.</p>	<p>NLMK Europe produces a wide range of HVA flats. NLMK's industrial model is unique in Europe and based on the efficient supply of semi-finished products (slabs) from Russia to flexible, high-quality European processing facilities close to key customers. NLMK Europe includes two business units: NLMK Europe Strip and NLMK Europe Plate.</p>	<p>NLMK USA comprises three flat steel production assets. The Division has an electric arc furnace (EAF), hot-rolling facilities, and a common distribution structure.</p>
Core businesses		
<p>NLMK Russia Flat: Novolipetsk VIZ-Steel</p> <p>NLMK Russia Long: NSMMZ NLMK Metalware NLMK Kaluga</p> <p>NLMK Russia Raw Materials: Stoilensky Altai-Koks Stagdok Dolomit Vtorchermet NLMK</p>	<p>NLMK Europe Strip*: NLMK La Louvière (Belgium) NLMK Coating (France) NLMK Strasbourg (France)</p> <p>NLMK Europe Plate*: NLMK DanSteel (Denmark) NLMK Clabecq (Belgium) NLMK Verona (Italy)</p>	<p>NLMK Indiana (Portage, IN, USA) Sharon Coating (Sharon, PA, USA) NLMK Pennsylvania (Farrell, PA, USA)</p>
Products		
<p>Slabs Hot-rolled steel Cold-rolled steel Galvanized steel Pre-painted steel Electrical steel: dynamo and transformer steel Billets Rebar Wire rod Sections Metalware Iron ore concentrate Sinter ore Coke Limestone Dolomite Scrap metal</p>	<p>Hot-rolled steel Cold-rolled steel Galvanized steel Pre-painted steel Thick plates, including quenched and tempered</p>	<p>Slabs Hot-rolled steel Cold-rolled steel Galvanized steel</p>

Sales markets		
Global market: 18% of the global slab market Russian market: Cold-rolled steel: 24% Pre-painted steel: 21% Galvanized steel: 17% Rebar: 18% 14% of Russian iron ore concentrate production	2% of the EU strip market 8% of the EU plate market	3% of the US flat steel market
2013 production highlights**		
14.6 m t of crude steel (+5% y-o-y) 5.4 m t of flat steel (+5% y-o-y) 2.0 m t of long steel and metalware (+16% y-o-y) 6.7 m t of coke, 6% moisture (-6% y-o-y) 15.4 m t of iron ore (-1% y-o-y) 2.3 m t of dolomite (+10% y-o-y) 3.9 m t of limestone (+7% y-o-y) 2.2 m t of scrap processed (+4% y-o-y)	0.1 m t of steel (-13% y-o-y) 1.0 m t of flat steel (-12% y-o-y) 1.0 m t of thick plate (+4% y-o-y)	0.7 m t of steel (-7% y-o-y) 1.8 m t of flat steel (+2% y-o-y)
Employees		
~58,100 people	~2,500 people**	~1,100 people

Our service assets

Our supporting businesses include service and trading assets that allow us to diversify our sales, enhance our access to core export markets, and establish better control over export operations. Sales operations in the Group's export markets are handled through our traders.

** NLMK's European rolling assets, with the exception of NLMK DanSteel, were united under NLMK Belgium Holdings. Starting from 30 September 2013, its results are not consolidated when preparing NLMK Group's financial reporting*

*** Including NLMK Belgium Holdings results; reference data is presented without taking account of the deconsolidation of the asset in Q4 2013*

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.

Service assets

NLMK's service assets, which facilitate the purchase and sale of products, are located in Russia, Europe, and Asia. They help to optimize sales in key end markets and enable direct access to end users.

The locality of our business model

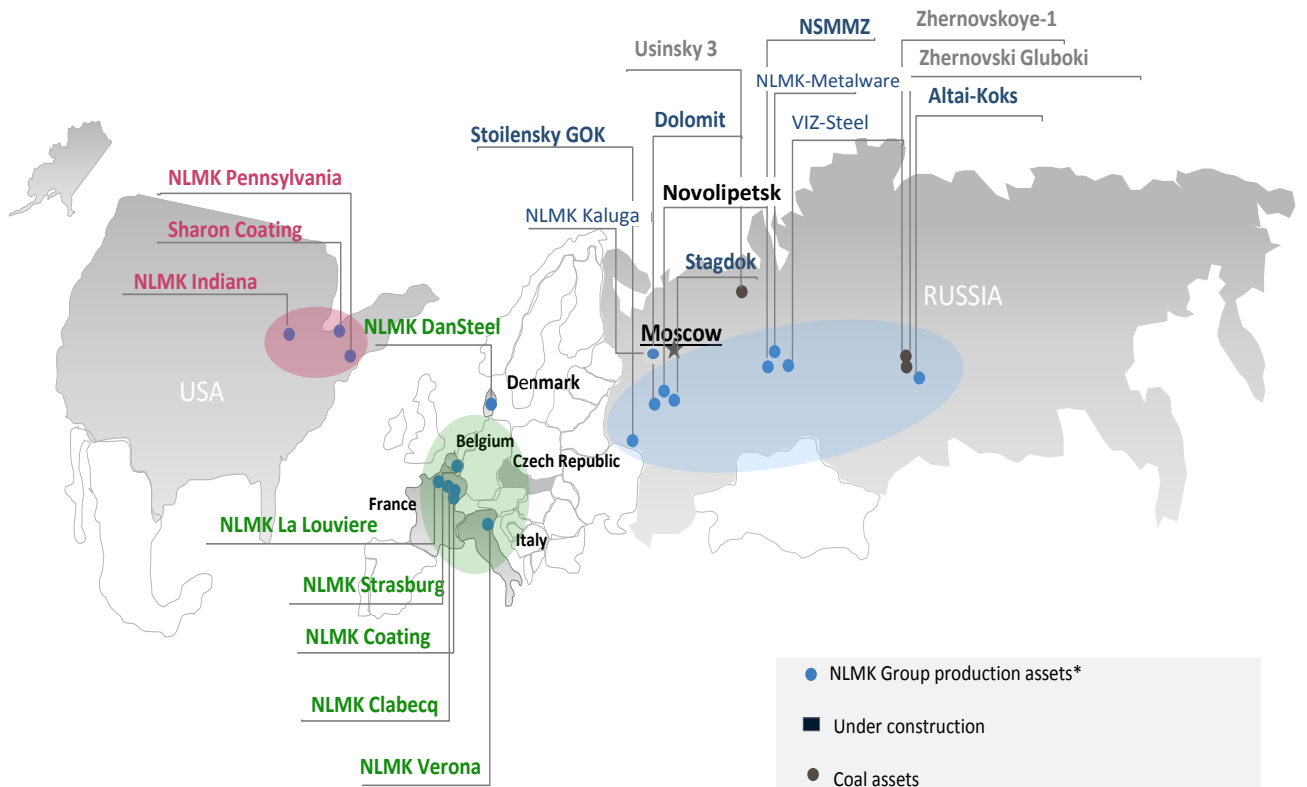
Breakdown by capacity

	Upstream	Midstream	Downstream
Russia	100%	94%	56%
Europe		1%	25%
USA		5%	19%

- We operate on three continents
- Our assets are located in 13 countries
- We have 16 service centres and trading companies in key end markets
- We sell our steel in more than 70 countries worldwide

Steel product sales by region in 2013

<i>Country/ region</i>	m t	Share	\$ bn	Share
Russia	5.79	39%	4.37	40%
EU	2.53	17%	2.07	19%
North America	2.10	14%	1.56	14%
Asia and Oceania	1.44	10%	0.79	7%
Middle East, incl. Turkey	1.46	10%	0.88	8%
Other regions	1.51	10%	1.23	11%
Total	14.83	100%	10.91	100%

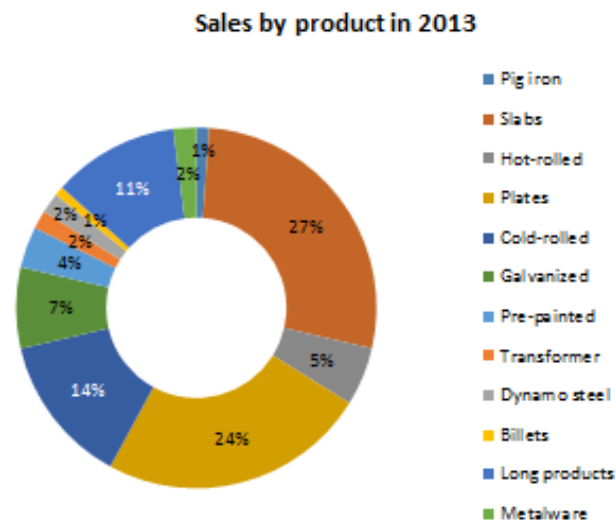


- NLMK Group production assets*
- Under construction
- Coal assets

*NLMK Group also includes a number of scrap collecting assets located in 39 regions of Russia

PRODUCTS AND USES

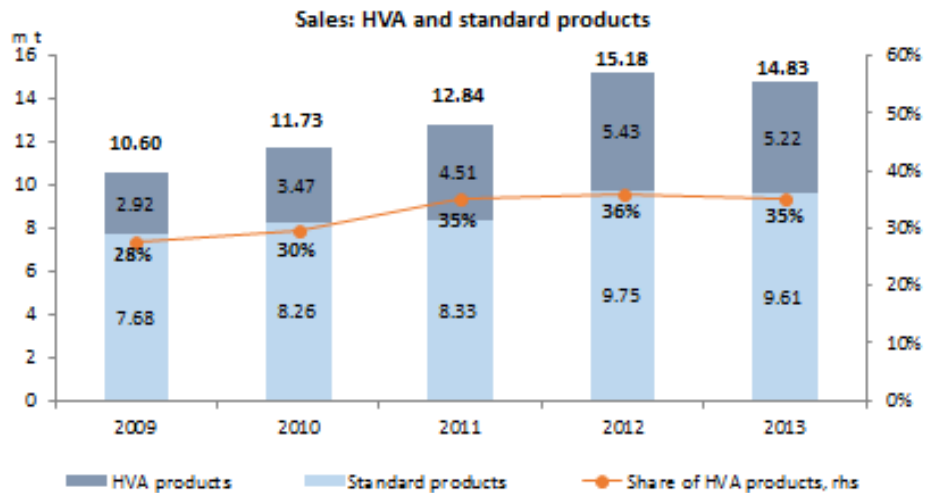
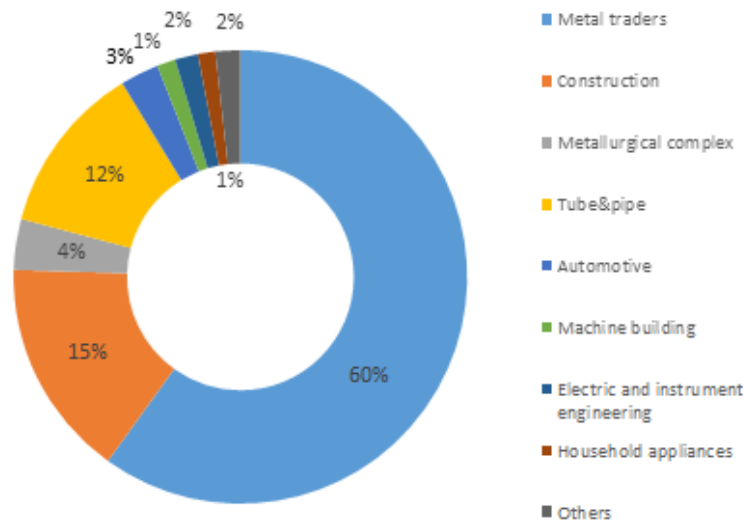
The Company's integrated production model enables it to offer its customers a diversified portfolio of high-quality products and be responsive to changes in market conditions.



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

Russian sales by industry



HVA products

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 2013, we maintained a high level of HVA sales: 5.2 million tonnes, accounting for 35% 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.

Products

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.

- *13% share of the Russian market*

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.

- *8% share of the European market*

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.

- *24% share of the Russian market*

Galvanized steel* is used in the production of machine body parts, roofing materials, and load-bearing structures in hostile environments.

- *17% share of the Russian market*

Pre-painted steel* is used in construction for the production of roofing and finishing materials, and casings for consumer and commercial technology (household appliances).

- *21% share of the Russian market*

Transformer (grain oriented) steel* is used in the electrical industry for the manufacture of transformer cores and fixed components for electrical equipment.

- *99% share of the Russian market*
- *9% share of the international market*

Dynamo (non grain oriented) steel* is used for the production of electrical equipment, such as components for electric motors and generators.

- *77% share of the Russian market*

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.

Products

Rebar is used in the construction of reinforced concrete structures for road and building construction.

- *18% share of the Russian market*

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.

- *22% share of the Russian market (in the low carbon segment)*

**High value added products*

***Excluding hot-rolled thick plates*

STRATEGY

NLMK Group's Strategy 2017 is focused on unlocking the 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.

Strategy 2017 targets net gains of US\$ 1.0 billion per annum, and envisages total new investment of US\$ 1.6 billion.

"With the launch of Strategy 2017, NLMK is entering the next phase of its growth. We have a proven track record of successfully delivering on our strategic objectives in the past, and we believe our new strategy will enable us to strengthen our leading positions in the industry.

Over the last 10 years, we have invested US\$ 11 billion, doubling the size of our business. We now intend to exploit the potential of this platform to ensure further growth and value creation.

Strategy 2017 has a modular structure, combining multiple projects across all business units. We intend to significantly improve the Group's operating efficiency and the quality of our business processes, and to increase self-sufficiency in strategic resources. At the same time, we are working on enhancing our positions in the key markets through better utilization of our newly built and upgraded facilities.

We seek to ensure the robustness of the strategy both through efficiency programmes launched in each division (NLMK Production System), and through implementing more than 100 investment projects with high return hurdles. The mix of operational and investment levers will ensure the Group's sustainable development under various market conditions. NLMK Production System has already delivered savings of US\$ 244 million in 2013 compared with 2012 levels.

The Group's new strategy places a special emphasis on industrial safety, sustainability, and human capital development. These aspects play a decisive role in maintaining the Company's leading position in the long-term perspective."

Oleg Bagrin, NLMK Group President and CEO



STRATEGY IN ACTION

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 income from these measures: US\$ 300 million/year over the 2013 level.

What we did in 2013:

- Development of the NLMK Production System, which includes initiatives to improve the efficiency of technological and supporting processes and increase labour productivity.
- Development of the management support system through financial control and employee incentive systems.
- Achievement of savings of US\$ 244 million.

2. World-class resource base

How we do it:

100% self-sufficiency in iron ore with a flexible charge structure, and reduced consumption of expensive resources. Target net income from these measures: US\$ 480 million/year over the 2013 level.

What we did in 2013:

- Continued construction of the pelletizing plant at Stoilensky.
- Identification of bottle-necks at Stoilensky. Once eliminated, iron ore concentrate production at existing capacities will increase by up to 1 million tonnes per year.
- Optimization of the coal charge and elimination of imported coals in 2014, reducing NLMK's expenses on coking coal and setting up the conditions for the implementation of new technologies for blast furnace operations.
- Implementation of a pulverized coal injection (PCI) system at Blast Furnace No. 5 at Novolipetsk, reducing natural gas and coking coal consumption.

3. Leading positions in strategic markets

How we do it:

Entering new or expanding presence in existing attractive product niches, industries, and regions: higher utilization rates at existing capacities; growth in domestic sales; an increased share of HVA products. Target net income from these measures: US\$ 190 million per year over the 2013 level.

What we did in 2013:

- Launch of NLMK Kaluga, resulting in an 18% year-on-year increase in sales of long products in 2013.

- Continued implementation of projects to develop the production of transformer steel at the Lipetsk site and VIZ-Steel.

- Development of thick plate sales at NLMK international assets due to the gradual increase of utilization rates at the upgraded facilities of NLMK Europe Plate at NLMK DanSteel and NLMK Clabecq, as well as entry into new product markets.

4. Leadership in sustainability and safety

How we do it:

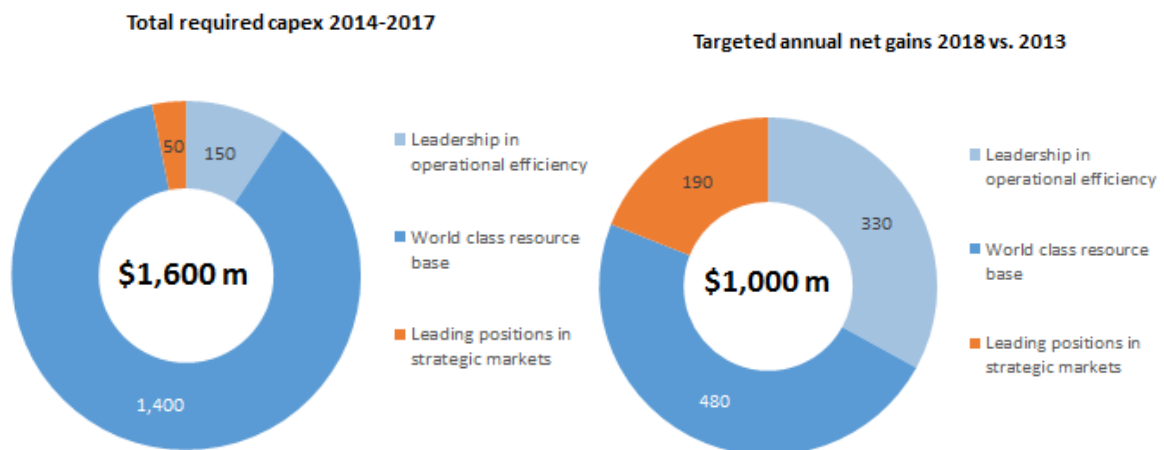
Systematic minimization of our environmental footprint; compliance of production processes with the strictest environmental and OHS standards; leadership in labour productivity in the sector, supported by motivated and involved staff.

What we did in 2013:

- Reduction in specific atmospheric emissions of 3% year-on-year due to the introduction of new environmentally friendly equipment, technological innovations, and consistent environmental investment.

- Approval of a new OHS policy focused on achieving the best global OHS standards and ensuring leadership in terms of the culture of production.

- Creation of the conditions for high labour productivity through provision of opportunities for professional training, as well as through the fostering of a strong corporate culture.





2013 performance



CHAIRMAN'S STATEMENT

Dear Shareholders,

The global economy is entering a new phase of uncertainty. Developed economies are still experiencing unstable growth, while developing economies are slowing down. The global steel market is quickly approaching the moment of truth, when the strategies of many production companies will be thoroughly challenged.

The model that we have implemented at NLMK combines the production of steel and key raw materials in low-cost regions with the manufacture of high value added products close to the end consumer. This type of model gives steel manufacturers the strategic flexibility to achieve success under conditions of slow growth and tight competition.

Strategy

In 2013, we created a Company strategy which will run until the end of 2017. The strategy heralds a new stage in NLMK's development, while also being a logical continuation of the previous stages. The preceding stage, our Sustainable Growth Strategy, which essentially concluded with the commissioning of the NLMK Kaluga plant in mid-2013, saw the end of the capital-intensive phase of the Company's scaling-up activities.

The new stage of our strategy takes account of current challenges in the steel industry and the opportunities opening up for the most efficient and stable companies.

The core of our strategy lies in improving operational efficiency at all stages of the production chain by optimizing both technological and supporting processes. We will continue to strengthen efficient vertical integration through expanding existing low-cost raw materials assets and implementing new resource-saving technologies to reduce consumption of expensive raw materials.

In the context of increased competition and the localization of demand for steel, our goal is to strengthen our leadership on strategic markets. We are planning to extend our share of the market in regions where consumption is growing rapidly, primarily in Russia, where NLMK has every opportunity to expand the market more quickly, raising our share of sales in high-capacity and burgeoning segments such as construction and infrastructure. In Europe and the USA, we are planning to take advantage of the recovery of economic growth and boost capacity utilization.

Finally, we are setting ourselves the goal of achieving industry-wide leadership in terms of our level of environmental impact and occupational safety, developing our human capital as much as possible. We believe that achieving these goals is a necessary condition for long-term, sustainable growth in any industry, and especially in one such as the steel sector.

The new strategy is founded on the principles of a conservative financial policy and strict investment discipline, which stipulates that only those projects that guarantee high returns will be approved. The strategy's investment programme will be less capital intensive than the previous one. In total, we plan to spend approximately US\$ 1.6 billion on the new investment programme projects, which will permit us to increase our EBITDA by about US\$ 1 billion per year from the 2013 level, beginning with the year 2018.

Dividends

We took a decision to pay 2013 dividends in the amount of RUB 0.67 per share, or 35% of NLMK Group's net profit. We came to the conclusion that NLMK has retained sufficient internal reserves to maintain the business's financial stability and continue to consistently reduce our debt load while preserving our investment plans for this year unchanged.

Corporate governance

The Company is persevering in its commitment to high standards of corporate governance, which is also one of the foundations of leadership in the industry. I chair the Board of Directors, whose members possess wide-ranging experience in the industry, and are capable of effectively supervising the work of the management team. The high level of transparency and openness that has been the norm at the Company for many years is much valued by the investment community.

Employees

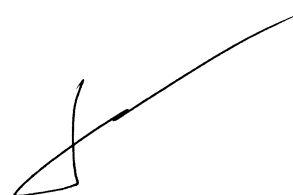
In the modern world, the success of any company depends to a significant extent on its employees. It is impossible to attain a leading position on a market without the support of professional, engaged staff who have the opportunity to fully realize their potential. That is why it is so important to attend to the development of an effective HR policy within a company. We continue to work consistently on expanding professional development opportunities for our employees; we are improving our incentive programmes and making every effort to attract talented people.

Social responsibility and the environment

As I have mentioned, reducing damaging environmental impact and high employment standards are necessary if we wish to maintain a sustainable leadership position in the industry. Over the past decade, we have had substantial success in executing our environmental programme. Notwithstanding our expanded steel production, the Company has significantly reduced atmospheric emissions and wastewater discharge, and has increased its waste recycling levels. We continue to work in this area, and plan to attain compliance with the most exacting environmental standards.

In the field of industrial safety, we are implementing best occupational health and safety practices. Our main task is to change people's behaviour, to re-orient them towards the identification of risks and prevention of incidents and accidents.

In conclusion, I would like to express my thanks to the Company's employees for their valuable contributions to the Company's achievement of excellent results, and to wish them future success in their work.



Sincerely,
Vladimir Lisin

PRESIDENT'S REVIEW

Dear Shareholders,

The past year was a rather difficult one for the global steel industry. Globally, there was significant production overcapacity, while demand for steel in most regions remained weak. Instead of the expected normalization of the spreads between key raw materials and end products, we saw a further narrowing of steel producers' margins. As a result, the profitability of the steelmaking industry remained low.

Performance highlights

Under challenging market conditions, NLMK Group demonstrated strong operational and financial results. In the middle of the year, a new plant for the production of long products, NLMK Kaluga, was commissioned, and is now showing a good growth trajectory. As a result, NLMK Group's steel production increased by 3% to 15.4 million tonnes in 2013, and we retained our status as the leading steel producer in Russia in terms of volume, with a production share of over 21%.

In 2013, the Company consolidated its leadership position on the domestic market: NLMK's sales in Russia rose by 19% to 5.8 million tonnes. This growth was the result of an increase in our presence on the long products markets and the development of slab supply for the pipe industry.

Notwithstanding the 10% fall in revenues to US\$ 10.9 billion, the Company ensured an EBITDA margin of 14%, which is above the industry average.

In 2013, NLMK Group maintained a high level of financial stability, significantly reducing its debt load. At the end of the year, the Company's net debt had decreased by 24%, and its net debt/EBITDA ratio was 1.8, one of the lowest in the industry.

Development priorities

In February 2014, NLMK Group announced the launch of Strategy 2017, which will allow the Company to strengthen its leading positions in the global steel industry by implementing investment projects and management initiatives aimed at improving operational efficiency.

In 2013, the Company continued its development of the NLMK Production System, which includes improving production technologies and implementing lean manufacturing tools. The Company has succeeded in reorganizing its internal processes, an endeavour that has included reorienting the management structure towards goals built around a rise in efficiency, and making the switch to management by objectives. The implementation of measures aimed at increasing efficiency allowed production costs to be cut by US\$ 244 million year-on-year.

We actively continued the restructuring of the Group's European assets that was begun back in 2008. In March of last year, we reached an agreement with our partners on the reorganization of NLMK La Louvière's production site. We were able to retain two thirds of the jobs. In September 2013, we sold 20.5% of the shares in NLMK Belgium Holdings S.A. (which comprises all of NLMK's European companies except NLMK Dansteel) to a strategic investor: the Belgian state-owned company SOGEPa.

At Stoilensky, preparatory and design work was under way to construct a pelletizing plant and expand the iron ore mining and beneficiation capacities.

In 2013, we consolidated our leadership in the domestic market, with NLMK's sales growing by 19% to 5.8 million tonnes. We are also continuing to implement investment projects aimed at developing our product mix.

Last year, the Company began systematic implementation of international occupational health and safety practices. Notably, a new occupational health and safety policy was approved that involves staff being proactively engaged in identifying sources of risks and hazards. The policy is aimed at reducing the number of accidents to zero.

We continued to work on reducing our damaging environmental impact, as well as on improving the quality of life in regions where the Company operates. For instance, in 2013, we reduced atmospheric emissions by 3% and increased funding for social programmes by 6%.

Management

Achieving our strategic development goals would be impossible without the efficient and well-coordinated work of our management team. At the beginning of 2013, Sergey Filatov was appointed Managing Director at NLMK's main production site in Lipetsk. Mr. Filatov has extensive practical experience in the field of optimizing technological processes. Former Director of Strategy and Business Development Grigory Fedorishin was appointed as the new Vice President of Finance. Mr. Fedorishin makes use of his professional experience to address tasks related to further improving the business's efficiency. Alexander Starchenko, who had been the Group's Director for Energy, became Vice President for Energy, a move which emphasizes the strategic importance of energy in securing the Group's competitive advantages. At the end of the year, a new Vice President for Sales, Ilya Gushchin, joined the NLMK team; he will be tasked with improving the effectiveness of our sales departments. In 2013, the new position of Vice President for Investment Projects was created, and Konstantin Lagutin was appointed to fill it. We are certain that his experience in implementing large investment projects will facilitate the creation within the Company of a project management system based on best Russian and international practices.

Outlook

In 2014, NLMK plans to boost steel production due to an increase in the utilization of NLMK Kaluga and stable high utilization of the steelmaking capacities at its other sites. The Company will continue to develop the NLMK Production System, which is aimed at maintaining the outcomes we have already achieved and further raising operational efficiency, which will be one of the main sources of profitability growth for the business in 2014. The Company will also continue to implement investment projects, working towards achieving the goals announced in Strategy 2017.

In conclusion, I would like to thank the Company's employees for their dedication, their talent, their extreme professionalism, and their zest for their work, all of which is the bedrock on which the success of our business is built.



Sincerely,
Oleg Bagrin

MARKET REVIEW

Global steel market

Conditions on the 2013 global steel market continued to be determined by production overcapacity, intensified competition in the international steel product trade, and a slower growth rate in the demand for steel compared to pre-crisis levels.

In 2013, world steel production increased by 3.5% to 1.61 billion tonnes, while average global utilization rates rose from 76.2% in 2012 to 78.1%. Steel production in China grew by 7.5% to 779 million tonnes, meaning that China accounted for 48% of total global steel production. At the same time, developed countries decreased their production volumes, weighed down by the persisting instability in macroeconomic conditions.

In H1 2013, prices for steel products decreased, impacted by increased steel production and destocking after a period of restocking at the end of 2012 and during the first months of 2013. By the end of Q3, steel product inventories were largely in line with demand, while prices rose slightly on the back of the seasonal increase in demand. In Q4, prices declined slightly again due to a weakening in consumer activity. Overall, average steel prices in 2013 were lower year-on-year as a result of intensified competition on the global market.

In 2013, South-East Asian countries increased their net exports of steel products by 19% to 67 million tonnes, including by 15% in China, to 46.8 million tonnes. At the same time, developed countries decreased their net exports: for instance, in the EU-27 countries, exports were down by 30% to 12.5 million tonnes.

Russian market

Russian GDP growth slowed to 1.3% in 2013, from 3.4% year-on-year, owing mostly to a rapid deceleration in fixed asset investment which decreased by 0.3% compared to a 6.7% increase in 2012. This reduction in investment created a drag on the machine-building sector, where production fell by 7.6% year-on-year. In turn, this led to a slowing of steel consumption growth rates. According to the World Steel Association, steel consumption in 2013 grew by 1.7% to 43 million tonnes, compared with 3.6% growth in 2012. The construction and infrastructure sector continues to be the main driver: the consumption of finished steel products here grew by 8% despite the overall economic slowdown.

In 2013, exports of finished and semi-finished steel products decreased by 8% to 23.3 million tonnes, weighed down by intensified competition in the global markets. As a result, Russian manufacturers grew their steel product supplies to the domestic market, although they faced pressure from imports. For instance, in the long products segment, steel imports in 2013 increased by 14% to 3.3 million tonnes. Intensified competition in the domestic market, and lower prices in the global steel market, created a drag on steel product prices in the Russian market in 2013. Prices for flat products went down by 8–13% on average, and rebar prices fell by 13%.

EU market

In mid-2013, the EU-27 countries began showing signs of economic recovery. Q2 saw the first quarter-on-quarter GDP growth (+0.4%) since the end of 2011. In July, the PMI exceeded 50, indicating positive trends in the processing industries. Business confidence is gradually building up in manufacturing and construction. However, economic recovery rates in 2013 remained slow, and, according to EUROFER, at year-end, apparent steel use in the EU had decreased by 0.5% to 141 million tonnes.

Weak demand for steel products on the domestic market and intensified competition in export markets have led to a decrease in steel production by European steelmakers. In 2013, steel production in the EU countries decreased by 1.8% to 165.6 million tonnes.

Prices on the European market in 2013 were, on average, lower than in 2012, affected by lower demand on the market and intensified competition between local manufacturers in the context of reduced export deliveries. Annual average prices for hot-rolled sheets decreased by 9%; prices for commercial grades of thick plates fell by 10–12%.

US market

In 2013, GDP growth in the US decelerated to 1.9% compared with 2.8% in 2012, against a background of lower government spending. However, in Q3 and Q4 2013, growth increased to 2.0% and 2.5% year-on-year, supported by steady gains in private consumption and investment, including investment in construction. Lower economic growth rates have led to lower steel use: according to the World Steel Association, consumption in 2013 fell by 0.6% to 96 million tonnes.

Despite the lower growth rates in demand for steel products, steelmakers were able to be flexible in adjusting production volumes to market conditions throughout the year (in 2013 overall, steel production in the US fell by 2% to 87 million tonnes) and maintain average 2013 prices for steel products at 2012 levels.

Outlook

We expect an insignificant increase in steel consumption year-on-year on the back of the gradually recovering developed countries, and the continued growth in the developing economies, despite a mild slowdown. However, the maintained growth in steel consumption and the increase in prices in the steel product market could be limited by persistent steelmaking overcapacity, and prices for raw materials that are lower year-on-year.

NLMK GROUP CONSOLIDATED OPERATING AND FINANCIAL PERFORMANCE

Key highlights

'000 t/\$ million	Q4 2013 ²	Q3 2013	Changes, qoq in %	12M 2013	12M 2012	Changes, yoy in %
Sales volumes	3,571	3,724	-4%	14,831	15,184	-2%
Revenue	2,505	2,720	-8%	10,909	12,157	-10%
Operating profit	204	149	+37%	644	1,133	-43%
EBITDA ³	409	379	+8%	1,505	1,900	-21%
EBITDA margin (%)	16.3%	13.9%		13.8%	15.6%	
Net income ⁴	-21	138	-	189	596	-68%
Net debt ⁵	2,702	2,772	-3%	2,702	3,574	-24%
Net debt/EBITDA ⁵	1.80	1.87		1.80	1.88	

2013

- Group's steelmaking capacities were running at 95%.
- Steel production grew by 3% year-on-year to 15,429 million tonnes, including a 24% year-on-year increase for the Long Products Segment (to 2,232 million tonnes).
- Revenue totaled \$10,909 million (-10% year-on-year).
- EBITDA was US\$ 1,505 million (-21% year-on-year). EBITDA margin was 13.8%.
- Net debt/EBITDA was 1.80 (1.88 in 2012).

Q4 2013

- Group's steelmaking capacities were running at 96%.
- Steel production grew by 5% quarter-on-quarter to 4,064 million tonnes.
- Group's revenue totaled US\$ 2,505 million (-8% quarter-on-quarter).
- EBITDA grew by 8% quarter-on-quarter to US\$ 409 million. EBITDA margin was 16.3%.

Notes:

¹ Consolidated financial results are prepared based on US GAAP. Reporting periods of the Company are 3M, 6M, 9M and 12M 2013. Q3 and Q4 figures are derived by computational method. The same assumption applies to the calculation of segmental financial results.

² Up till and inclusive of Q3 2013, NLMK Belgium Holdings (NBH) sales were included into the Group's consolidated sales. Starting from Q4 2013, NBH sales are shown separately.

³ EBITDA calculations are presented in the Appendix. EBITDA is calculated as operating profit adjusted to loss from impairment of fixed assets and intangible assets (including goodwill) and depreciation and amortization.

⁴ Net profit attributable to NLMK shareholders.

⁵ Net debt and Net debt/EBITDA ratio as of 31 December 2013 do not include NLMK guarantees for NBH financial debt.

Net debt is calculated as the sum of LT and ST credits and loans less cash and cash equivalents, as well as ST financial investments at period end. Net debt / EBITDA is represented by net debt as at the end of the period and EBITDA is presented as Last 12 months EBITDA.

CEO COMMENTS:

Oleg Bagrin, NLMK President and CEO, commented on the 12M and Q4 2013 operating results:

“2013 was a challenging year for the global steelmaking industry: the supply/demand imbalance intensified on the back of the weak recovery in developed economies and the slow-down in economic growth in developing countries. As a result, steelmaking capacities were running at below the cycle average. This caused the raw materials/steel products price spreads to narrow, creating a drag on the profitability of the industry.

“In these conditions, NLMK Group managed to keep its main steelmaking capacities running at almost 100%. A new plant to produce long products, NLMK Kaluga, was launched, bringing NLMK’s total steel production to 15.4 million tonnes (+3%).

“NLMK continued to implement its efficiency enhancement programmes as part of NLMK Production System. Measures aimed at boosting process efficiency and optimizing costs led to a US\$ 244 million cut in costs year-on-year, allowing NLMK to retain its margins at above the industry average with a 14% EBITDA margin in 2013.

“In 2013, NLMK completed the capital-intensive stage of its investment cycle, cutting investments by 48% year-on-year to US\$ 756 million. Free cash flow grew by 63% year-on-year to US\$ 544 million. Net debt reduced by 24%, with the Net debt/EBITDA standing at 1.8 at the end of 2013.

“In 2014, NLMK plans to grow steel output on the back of higher utilization rates at NLMK Kaluga and consistently high steelmaking capacity utilization rates at the Group’s other sites. The Company will continue to develop NLMK Production System aimed at retaining the gains already made and at further operational efficiency enhancements. This will be one of the key drivers for profitability growth in 2014.

“In Q1 2014, we expect seasonal improvements in demand for steel products. Together with continued implementation of projects under NLMK Production System and the positive impact from the weakening of the rouble on our costs, this should result in improved financial performance quarter-on-quarter.”

MANAGEMENT COMMENTS

- **Market review**

2013 overview

In 2013, despite the global growth in steel consumption (+4% to 1,481 billion tonnes), steel product/raw materials price spreads continued to narrow as a result of an oversupply in the steel market. Average prices for steel products decreased by 6% year-on-year to US\$ 540/tonne, prices for iron ore concentrate increased by 3% year-on-year (import, China).

Prices for steel products in the Russian market also slumped (HRC prices were down by 15% year-on-year to US\$ 500/tonne) on the back of negative global price trends and import growth.

In the USA, prices remained stable on average throughout the year, with an upward trend recorded in H2. In Europe, the supply/demand imbalance persisted, with rolled steel prices decreasing by 6% year-on-year to US\$ 625/tonne.

Q4 2013 overview

Q4 saw the seasonal decrease in demand from key consumers in Russia (construction and infrastructure sectors). This led to a price decrease in the long product market. European prices remained stable overall, or decreased insignificantly. In the USA, improved demand supported an increase in prices.

- **Production and sales structure**

2013 overview

In 2013, NLMK Group grew its steel production by 3% year-on-year to 15,429 million tonnes. This was supported by high utilization rates at NLMK's steelmaking capacities and the launch of a new EAF mill, NLMK Kaluga.

In 2013, steel product sales totaled 14.8 million tonnes (-2% year-on-year). The year-on-year decrease was caused by lower commercial pig iron sales (-73% year-on-year to 169,000 tonnes) and lower finished product sales by NLMK Europe (see the *Segments* section for one-off and other factors). These factors were partially offset by higher sales by the Long Products Segment (+23% year-on-year to 2,104 million tonnes) and higher sales by NLMK USA (+4% year-on-year to 1,811 million tonnes). High value added product sales accounted for 35% (-1 p.p. year-on-year). This is explained by the deconsolidation of NBH results in Q4 2013.

Q4 2013 overview

Increased utilization rates at NLMK Kaluga allowed increasing Q4 steel production to 4.1 million tonnes (+5% quarter-on-quarter). Group's steelmaking capacities were running at 96%, including 100% at NLMK's main production site in Lipetsk; 87% at Long Product Division sites; and 85% at NLMK USA.

Q4 sales totaled 3,571 million tonnes (-4% quarter-on-quarter). This decrease was caused by the seasonality factor and the accumulation of finished product reserves to be sold in Q1-2 2014 on the back of expected improvements in the market conditions.

Following the deconsolidation of NBH sales, the share of high value added products decreased by 7 p.p. to 31%.

- **Sales markets**

2013 overview

In 2013, NLMK's wide sales geography allowed the company to respond flexibly to the local changes in demand and to promptly redirect its deliveries to the most stable markets. NLMK sales in the Russian market grew to 19% year-on-year (to 5.8 million tonnes). NLMK was able to expand its presence on the Russian market through increased deliveries of semi-finished products to pipe and tube manufacturers, and through higher sales to construction and infrastructure companies (up to 75% of total Russian sales).

В структуре международных продаж ключевыми рынками сбыта остаются Европа (17% от Традиционно, the key international markets were Europe (17% of total sales), North America (14%), Asia and Oceania (10%), and the Middle East, including Turkey (10%).

Q4 2013 overview

NLMK sales to the Russian market decreased by 9% quarter-on-quarter to 1.5 million tonnes due to the seasonally weakened demand. The seasonality factor was partially offset by an increase in NLMK Kaluga sales.

Due to improved demand in the North American market, NLMK was able to grow sales to the region by 30% quarter-on-quarter to 0.7 million tonnes. Sales were also partially redirected from the Middle East (-41% quarter-on-quarter) to Europe and Asia (+10% and +13%, respectively).

- **Prices**

2013 overview

In 12M 2013, average sales prices for NLMK products dropped by 4-6% year-on-year.

The decrease in Steel Segment prices for semi-finished products and flat steel was largely in line with the global trends (by 4-6% year-on-year). Prices for long products in the Russian market were down by 10-11% year-on-year.

Sales price trends for our international assets were largely in line with the local market trends: average prices in Europe were down by 6-8%, and by 2-4% in the US.

Q4 2013 overview

Average NLMK prices for flat and long products decreased by 2-5% quarter-on-quarter on the back of the seasonal weakening in demand from the construction sector. Q4 saw a positive trend in the USA market, where prices for flat steel increased by 2-5% on average quarter-on-quarter. In Europe, prices stabilized, with an upward trend for some of the products.

- **Operational efficiency programmes in 2013**

In 2013, NLMK continued to develop and implement a whole range of initiatives aimed at improving the efficiency across NLMK Group divisions ("NLMK Production System"). Over the course of the year, these initiatives led to structural savings of US\$ 244 million year-on-year, largely offsetting the softening in market conditions.

- **Debt management**

NLMK Group's net debt at the end of 2013 stood at US\$ 2,702 billion, decreasing by 3% quarter-on-quarter and by 24% year-on-year on the back of a positive free cash flow. The decrease in net debt to the beginning of the year was also caused by the deconsolidation of NBH financial obligations (see [press release](#)).

Net debt / EBITDA at the end of 2013 was 1.80. Cash and ST financial investments at the end of 2013 stood at US\$ \$1,455 million.

На конец 2013 г финансовый долг НЛМК составил \$4 157 млн (+1% кв/кв и -10% г/г), из At the end of 2013, NLMK's financial debt was US\$ 4,157 million (+1% quarter-on-quarter and -10% year-

on-year), with 27% being accounted for by ST obligations, represented mostly by rouble bonds and revolving credit lines to finance working capital.

In October 2013, NLMK closed the order book for its BO-13 exchange bond issues, with a value of RUB 5 billion, a maturity period of 10 years, and a put option in 4 years after the date of placement. The rate of coupons 1-8 for these issues will be 8.05%. Proceeds from the placement of the bonds will be used for refinancing current liabilities and other general corporate purposes.

KEY FINANCIALS

- **Revenue**

2013 overview

2013 revenue decreased by 10% year-on-year to US\$ 10,909 million, due to a 4-6% year-on-year reduction in average sales prices, the deconsolidation of NBH results in Q4 2013, and a 2% reduction in steel product sales volumes (see the *Production and sales structure* section above).

Q4 2013 overview

Q4 revenue decreased by 8% quarter-on-quarter to US\$ 2,505 million, due to the effect from the NBH deconsolidation and the seasonal weakening in demand and prices in the Russian market. On the back of increased production volumes in Q4, the Group has accumulated finished product reserves to be sold in Q1-2 2014.

- **Operating profit**

2013 overview

12M 2013 operating profit was US\$ 644 million, a decline of 43% year-on-year due largely to narrowed spreads for finished steel and raw materials prices.

2013 slab cash costs at NLMK's Lipetsk plant (representing 80% of crude steel production in 2013) dropped by 10% year-on-year to US\$ 348. This decrease was related to the savings achieved under efficiency gains programmes for upstream operations.

Amortization expenses in 2013 increased by 12% year-on-year to US\$ 862 million, due to the commissioning of new production facilities.

2013 general and administrative expenses fell by 5% year-on-year to US\$ 424 million driven mainly by the effect of the cost optimization programmes as well as by the deconsolidation of NBH results in Q4. Selling expenses dropped by 20% year-on-year to US\$ 917 million due to the change in the selling expenses recognition policy: part of transportation costs was reclassified as operating expenses.

Q4 2013 overview

Q4 operating profit jumped by 37% quarter-on-quarter to US\$ 204 million. This significant growth was driven by improved demand in the external markets, better sales and profitability of NLMK USA, and efficiency gains programmes. These factors offset the seasonal weakening in the Russian market that was behind the somewhat lower results of the Steel Segment and Long Steel Segment.

Q4 slab cash cost at the Lipetsk plant increased by 6% quarter-on-quarter to US\$ 349/tonne driven by increased prices for scrap and pellets.

Depreciation and amortization declined by 11% quarter-on-quarter to US\$ 205 million. This decline is mainly attributable to the deconsolidation of NBH results. This effect was partially offset by the launch of new facilities.

Q4 general and administrative expenses dropped by 21% quarter-on-quarter to US\$ 85 million driven by the effect of the cost optimization programme and NBH deconsolidation. Selling expenses increased by 4% quarter-on-quarter to US\$ 221 million due to a higher share of export sales from NLMK's Russian assets.

- **Net profit**

2013 overview

12M 2013 net profit dropped by 68% year-on-year to US\$ 189 million due reduced profits from core operations as market conditions deteriorated, and an increase in amortization expenses (+US\$ 94 million in 2013). An additional factor contributing to the decline in the profit was a higher share of interest expenses recognized in the P&L while the share of capitalized interest expenses reduced accordingly. Total interest expenses (including capitalized interest expenses) declined by 9% year-on-year to US\$ 239 million.

The decline in the net profit was also attributable to the allowance for non-recoverability of previously accrued deferred tax assets of NLMK's foreign rolled assets in Q2 2013 as well as NBH losses in Q4 2013.

Q4 2013 overview

Q4 2013 net loss totaled (-)US\$ 21 million (net income in Q3 2013 totaled US\$ 138 million). One of the factors behind the net loss was the increase in other expenses represented by the additional tax charges (tax base correction after the introduction of new assets). Another factor is NBH loss represented by deferred income tax write-off that totaled US\$ 27 million. NLMK share in the net loss of NBH, that was indicated as net loss from associated companies, totaled US\$ 54 million.

- **Cash flow**

2013 overview

Operating cash flow in 2013 totaled US\$ 1,219 million (-33% year-on-year). This reduction is mostly attributable to lower operating profit and stable level of working capital (year-on-year) of the Group.

Capital expenditures in 2013 reduced by 48% to US \$756 million following the completion of major capital intensive projects.

Cash outflow from financing activities totaled (-) US\$ 128 million, represented by dividends of US\$ 114 million and net settlements of the debt portfolio.

Cash and equivalents and short term investments totaled US\$ 1.455 billion, including US\$ 0.485 billion of deposits and short term investments as of the end of 2013.

Q4 2013 overview

Operating cash flow in Q4 2013 went down by 58% to US\$ 189 million largely due to increased finished steel inventories at Novolipetsk. These inventories will be sold in Q1-Q2 2014. Inventories at NLMK Kaluga also went up (raw materials and finished steel) following the growth in the plant's run rates.

Investments totaled US\$ 98 million (-65% quarter-on-quarter). The reduction in investments allowed achieving positive free operating cash flow in Q4 that totaled US\$ 92 million.

Steel Segment*

\$ million	Q4 2013**	Q3 2013	Change, %	12M 2013	12M 2012	Change, %
Steel product sales, '000 tonnes	2,731	3,144	-13%	11,840	12,117	-2%
including third party sales, '000 tonnes	2,395	2,210	+8%	9,342	9,502	-2%
Revenue, incl.	1,802	2,002	-10%	7,865	8,676	-9%
Revenue from external customers	1,595	1,529	+4%	6,468	7,150	-10%
Revenue from intersegmental operations	207	472	-56%	1,396	1,526	-9%
EBITDA	153	187	-18%	637	968	-34%
EBITDA margin	8%	9%	-1 p.p.	8%	11%	-3 p.p.

2013 overview

In 2013, the Segment sales totaled 11,840 million tonnes (-2% year-on-year). Sales declined due mainly to lower pig iron sales (0.169 million tonnes in 2013, and 0.614 million tonnes in 2012).

The revenue of the Segment totaled US\$ 7,865 million t (-9% year-on-year). EBITDA went down to US\$ 637 million (-34% year-on-year). The financial results deteriorated due mostly to lower steel prices and narrowed spreads between steel and raw material prices and also due to higher expenses for the services of natural monopolies.

Q4 2013 overview

In Q4 2013, the Segment sales totaled 2,731 million tonnes (-13% quarter-on-quarter). This reduction was factored by the seasonal decline in demand and the high base effect of the previous period. Sales to third parties in Q4 went up by 8% quarter-on-quarter to 2.395 million tonnes as a result of NBH deconsolidation and recognition of slab sales to NBH as sales to third parties.

Steel Segment revenue went down by 10% quarter-on-quarter to US\$ 1,802 million due to lower sales and reduced prices on the domestic market. EBITDA margin was 8% (-1 p.p.).

Outlook

In Q1 2014, we expect growth in sales driven among other factors by inventory sales. The seasonal price improvement on the international markets together with lower iron ore prices will positively affect the Segment's financial results.

* The Steel Segment comprises: Novolipetsk (Lipetsk site), VIZ-Steel (a producer of electrical steel), trading companies Novexco Limited, Cyprus and Novex Trading S.A., Switzerland, Altai-Koks (Russia's largest non-integrated coke manufacturer), as well as a number of service companies.

** Slab sales to NLMK Belgium Holdings (NBH) till Q3 2013 were included in intercompany sales of the Steel segment. Starting from Q4 2013 these sales were considered as third parties sales.

Long Products Segment*

\$ million	Q4 2013	Q3 2013	Change, %	12M 2013	12M 2012	Change, %
Long products and metalware sales, '000 tonnes	635	570	+11%	2,102	1,699	+24%
Revenue incl.	473	468	+1%	1,716	1,645	+4%
Revenue from external customers	371	355	+5%	1,328	1,199	+11%
Revenue from intersegmental operations	102	114	-10%	388	446	-13%
EBITDA	12	40	-69%	95	171	-44%
EBITDA margin	3%	8%	-5 p.p.	6%	10%	- 4 p.p.

2013 overview

In 2013 overall sales of the Segment increased by 24% year-on-year to 2,102 million tonnes largely as a result of the NLMK Kaluga (new facility) launch. NLMK Kaluga sold 0.314 million tonnes of steel products (0.226 million tonnes were sold in Q4).

The revenue of the Segment went up by 4% year-on-year to US\$ 1,716 million driven by sales growth which offset the lower prices for long steel. EBITDA margin went down to 6% due to the narrowed spreads between steel and scrap prices, and to higher expenses for the services of natural monopolies.

Q4 2013 overview

In Q4 2013, overall sales of the Segment increased by 11% quarter-on-quarter to 0,635 million tonnes. The revenue of the Segment went up by 1% as higher sales were offset by the sharp reduction in steel prices (5-10% quarter-on-quarter). EBITDA margin in Q4 declined to 3% as the reduction in steel prices was accompanied by seasonally high scrap prices.

Outlook

In Q1 2014, there is still a seasonally low level of demand and a high level of supply on the market that is weighing on the prices.

*The Long Products Segment covers the financials of NSMMZ, NLMK Metalware, NLMK Kaluga, and scrap treatment facilities. The core activities of these companies are steelmaking (EAF-based), long products and metalware manufacturing, and ferrous scrap collection and processing.

Mining Segment*

\$ million	Q4 2013	Q3 2013	Change, %	12M 2013	12M 2012	Change, %
Sales of iron ore concentrate and sinter ore, '000 tonnes	3,964	3,860	+3%	15 434	15 835	-3%
Incl. to Lipetsk plant	3,051	2,925	+4%	11,641	11,891	-2%
Revenue incl.	353	312	+13%	1,351	1,338	+1%
Revenue from external customers	94	86	+9%	372	341	+9%
Revenue from intersegmental operations	259	226	+14%	979	997	-2%
EBITDA	228	190	+20%	860	861	0%
EBITDA margin	65%	61%	+4 p.p.	64%	64%	-

2013 overview

In 2013, sales of iron ore concentrate and sinter ore totaled 13,981 million tonnes (-1% year-on-year) and 1,453 million tonnes (-16% year-on-year), respectively. 79% of iron ore concentrate and 41% of sinter ore were delivered to the Lipetsk plant.

Overall revenue of the Segment increased 1% year-on-year to US\$ 1,351 million driven by an increase in average iron ore prices offsetting lower sales volumes. EBITDA totaled US\$ 860 million, EBITDA margin was 64% (previous year level). Higher expenses for the services of natural monopolies were offset by tight control over other costs.

Q4 2013 overview

Sales of iron ore concentrate and sinter ore totaled 3,604 million tonnes (+3% quarter-on-quarter) and 0,360 million tonnes (-1% quarter-on-quarter), respectively. 80% of iron ore concentrate and 42% of sinter ore were delivered to the Lipetsk plant.

The Segment revenue increased by 13% quarter-on-quarter to \$353 million supported mainly by an increase in iron ore prices. EBITDA margin went up by 4 p.p. to 65%.

Outlook

In Q1 we expect revenue and profit to decline due to lower world prices for iron ore.

* NLMK's Mining Segment comprises Stoilensky (the Group's key mining asset), Dolomit and Stagdok. These companies mainly supply raw materials to NLMK's production facilities in Lipetsk and also sell limited volumes outside the Group.

Foreign Rolled Products Segment*

\$ million	Q4 2013*	Q3 2013	Change, %	12M 2013	12M 2012	Change, %
Steel products sales, '000 tonnes	541	945	-43%	3,386	3,983	-15%
Revenue incl.	445	750	-41%	2,742	3,468	-21%
Revenue from external customers	445	750	-41%	2,740	3,467	-21%
Revenue from intersegmental operations	-	1	-	2	1	+27%
EBITDA	30	-35	-	-94	-148	-

2013 overview

In 2013, Segment sales totaled 3,386 million tonnes (-15% year-on-year). The reduction was caused by the deconsolidation of NBH starting from Q4 2013. EBITDA loss was reduced to US\$ 94 million.

Q4 2013 overview

In Q4 2013, Segment sales totaled 0,541 million tonnes (-43% quarter-on-quarter), revenue amounted to US\$ 445 million (-41% quarter-on-quarter). The sharp dip in sales and revenues was attributable to the deconsolidation of NBH results.

EBITDA of the Segment totaled US\$ 30 million versus a loss of US\$ 35 million in Q3 2013. The key contributor to the profit was NLMK USA which posted improved results on the back of strong market conditions. EBITDA of NLMK USA in Q4 totaled US\$ 33 million. NLMK Dansteel's EBITDA loss was US\$ 3 million.

Outlook

In Q1 2014, we expect relatively stable sales and prices in Europe. In the USA, positive trends will persist.

* The Foreign Rolled Products Segment before the 1st October 2013 comprised steelmaking companies located outside Russia. These are rolling assets in Europe (NLMK Europe) and the USA (NLMK USA). NLMK Europe is represented by thick plate producers NLMK Dansteel (Denmark), NLMK Clabecq (Belgium), NLMK Verona (Italy) and strip product producers NLMK La Louvière (Belgium), NLMK Coating (France), NLMK Strasbourg (France). NLMK USA includes NLMK Pennsylvania, Sharon Coating, NLMK Indiana.

Following the deconsolidation of NBH starting from Q4 2013 the segment includes NLMK USA division companies and NLMK Dansteel.



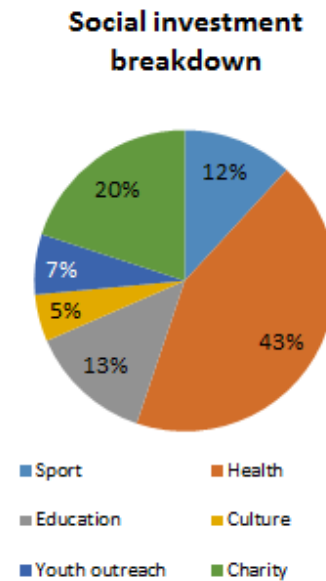
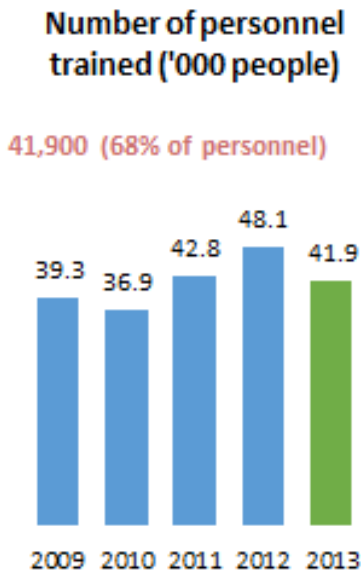
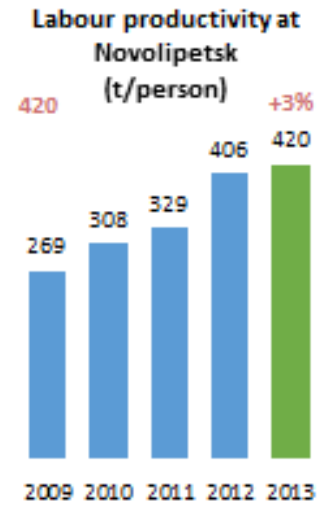
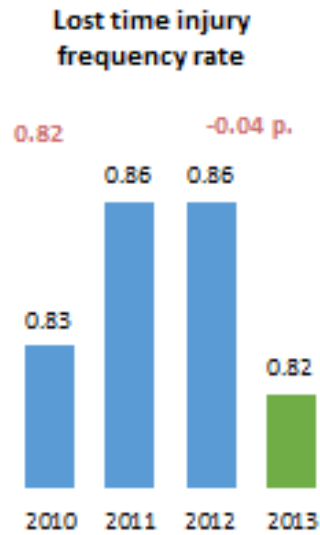
Social responsibility



SOCIAL RESPONSIBILITY HIGHLIGHTS

Consistent social responsibility improvements are a key priority for NLMK.

- Improvements in OHS standards
- Higher labour productivity and remuneration
- Providing professional development opportunities for employees
- All-round development of the regions where we operate



STAKEHOLDER ENGAGEMENT

NLMK perceives corporate responsibility as integral, involving the selection and application of the most effective methods of engaging key stakeholders, resulting in decisions which are beneficial for all parties.

In identifying key stakeholders, the Company considered the extent of their influence over NLMK Group's operations.

This approach generated the following list of stakeholders: Company employees, shareholders and investors, customers and suppliers, government regulators and supervisors, trade unions, public organizations and local communities in the regions where the Company operates, including potential employees.



The Company conducts regular research into the opinions of key stakeholders through polls and consultations, engages them in discussions, working group meetings to review specific issues, and standing committees, etc.

By developing a framework for stakeholder engagement, the Company seeks to improve its current approaches to dialogue with a view to identifying problems and developing optimal solutions more quickly.

Employees

Stakeholders' interests: Salary, social package and social guarantees, career growth, safety and working conditions

Tools for bilateral dialogue: Opinion polls, dial 06 counselling service, union meetings, appointments to discuss personal issues, change-of-shift meetings, corporate media, incl. corporate magazines, newspapers

Feedback: Salary indexation, swift response to applications, possibilities for further career development, ensuring safety, improvements in working conditions

Trade unions

Stakeholders' interests: Compliance with sectoral tariff agreement, compliance with the terms of collective agreements, observance of employment legislation, awareness of the Company's operations, employee salary level and social protection, working conditions and occupational safety

Tools for bilateral dialogue: Meetings and negotiations, discussion and conclusion of collective agreements, labour dispute commissions, Joint Commission involving administration and union, social insurance commission, occupational safety commission, qualification and staff review commissions

Обратная связь: Strict application of all social benefits and guarantees specified in collective agreements, joint implementation of measures, response to applications, following unions' recommendations

Shareholders and investors

Stakeholders' interests: Operational and financial performance, Company strategy, dividend payments, corporate governance issues, number of ordinary NLMK shares floating freely on Russian stock exchanges, number of shares issued by NLMK and traded at the London Stock Exchange of Global Depository Shares

Tools for bilateral dialogue: Meetings with the Company's senior management, annual reports and financial statements, quarterly performance presentations, teleconferences to discuss quarterly, six-month and annual results, media publications, Company website

Feedback: Dedicated services for shareholder and investor relations, dedicated section for shareholders and investors on the Company website

Consumers

Stakeholders' interests: Fulfilment of contractual obligations, product quality and price, timely review and settlement of customer complaints and claims, technical upgrades and development, operational and financial performance, financial and non-financial risks

Tools for bilateral dialogue: Annual reports and financial statements, conferences, forums, business meetings, Russian and international professional associations and organizations, media publications, Company website

Feedback: Use of customer satisfaction monitoring results for future contracts

Local communities

Stakeholders' interests: Regional social and economic development, the environment, public health, funding of charity programmes, awareness of Company operations, reliability and transparency of information, job opportunities offered by the Company

Tools for bilateral dialogue: Media, interaction with representatives of public organizations, members of representative and legislative bodies at different levels, career guidance events, conferences, meetings

Feedback: Funding to support sports, healthcare, education and culture, financing child healthcare programmes and projects to promote a healthy lifestyle, charitable aid to disadvantaged social groups

Government authorities

Stakeholders' interests: Participation in the work of state authorities including legislative bodies, participation in international and Russian professional and public organizations, meetings, dialogues, media

Tools for bilateral dialogue: Participation in the work of state authorities including legislative bodies, participation in international and Russian professional and public organizations, meetings, dialogues, media

Feedback: A dedicated service for communication with representatives of state and local authorities, Company participation in different federal and regional programmes

Public organizations

Stakeholders' interests: Compliance with applicable laws, the environment, regional social and economic development, charitable activities

Tools for bilateral dialogue: Conducting joint conferences, clubs, meetings and other events, media, letters, Company website

Feedback: Participation in the implementation of joint projects, handling public appeals, timely resolution of issues raised by the public within our competence and responsibility

Suppliers

Stakeholders' interests: Possibility of long-term development, fulfilment of contractual obligations, timely review and settlement of supplier complaints and claims of customers, accessibility and transparency of operational and financial statements of the Company

Tools for bilateral dialogue: Annual reports and financial statements, conferences, forums, business meetings, Russian and international professional associations and organizations, media publications covering Company activities, Company website

Feedback: Open tenders, providing necessary information on the Company of corporate website, including contact information for procurement department.

SOCIAL AND ECONOMIC CONTRIBUTION

The Company recognizes that the long-term stability of its business depends on a stable social and economic environment in the regions where it operates.

A direct economic contribution along with indirect support also has a positive effect on the regions where the Company has a presence.

Sustainable regional development is an important component of the Company's development strategy, and we are pursuing a number of long-term programmes focusing on several priority objectives:

- Promote sustainable development of the territories where the Company operates;
- Support macroeconomic stability of local communities;
- Develop partnerships with regional and local authorities;
- Create comfortable living conditions for Company employees and local residents;
- Establish and maintain the reputation of a conscientious and attractive employer.

Economic contribution

NLMK, in partnership with the state and the community, plays an active part in improving quality of life and promotes stable social and regional development through the corporate responsibility policy it employs in the regions where it operates.

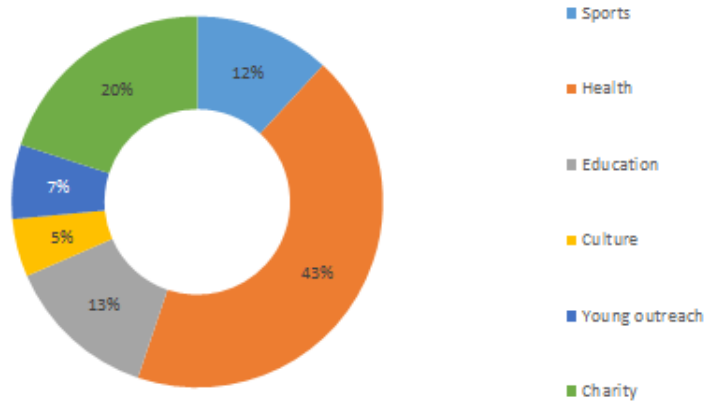
Social investments

When planning any social investment, the Company focuses primarily on projects which, if implemented, will actually improve the quality of life of the local population. Social programmes are developed with the active participation of regional administrations and the community. In order to ensure that its social investments are as effective as possible, the Company regularly monitors its impact on the social and economic situation in the regions where it operates.

Priority areas for social investment



Social and community investment breakdown in 2013

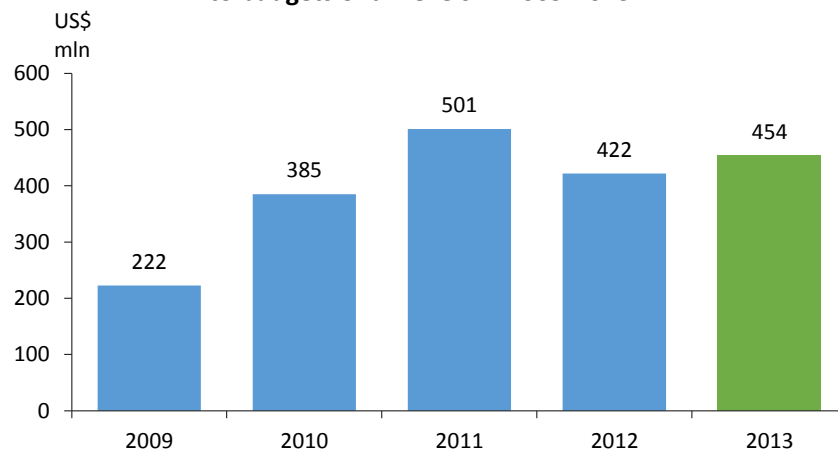


Tax and employment

NLMK Group companies are major taxpayers in almost all regions where the Company operates. Therefore, we consider that full compliance with the applicable laws and timely payment of taxes to be a priority element of corporate responsibility. The Company's tax payments contribute to the development of other sectors of industry, agriculture, construction, and social development.

We make a significant contribution to local employment, providing jobs with competitive salaries. Almost all our employees are local residents.

Taxes paid by NLMK to budgets of all levels in 2009-2013



Improving the social environment

In cooperation with local authorities, we are involved in improving the management of housing provision, and increasing the efficiency and transparency of welfare spending in cities where our businesses are located.

Our experts play an active part in the legislative activities of municipalities and regions where the Company operates. As members of municipal and regional assemblies, they have a good understanding of the most pressing problems of the local community. Therefore, in the development of social programmes, they can take into account the needs of various social groups and the strategic priorities of the local area.

Our employees also participate in the Civic Chamber, the regional offices of the Russian Union of Industrialists and Entrepreneurs, and other public organizations.

Over the last 10 years, we built 52 apartment houses with a total living area of approximately 400,000 sq m, providing housing for over 4,500 families of our employees.

Promotion of sport, healthcare, education and culture

We provide assistance to sports groups and schools for children and young people, as well as to sports clubs and athletes. Funds are allocated for the maintenance of sports facilities and buildings (stadiums, sports complexes, sports halls), and the purchase of sports equipment.

We provide support to children's creative clubs, studios, libraries, museums, and art galleries, and also allocate funds for the protection and proper maintenance of cultural and architectural monuments and other objects of cultural, and historical value.

We focus particularly on improving professional education. We give ongoing support to core educational institutions, creating the conditions necessary for to motivate the students and give them the opportunity to receive a quality education (special scholarships).

In September 2013, a joint project from NLMK Group's Novolipetsk and its affiliated university, the Lipetsk State Technical University, won an open contest organized by the Russian Ministry of Education and Science for a state grant to implement projects aimed at training highly-qualified personnel for companies of the Lipetsk region. The winning project, 'Staff Training for Production Companies of the Lipetsk Region', will now be implemented by Lipetsk University together with Novolipetsk with the financial support from the federal budget.

The Lipetsk site founded the Novolipetsk Medical Centre, a non-profit organization which provides medical care and health services for Company employees and local residents.

Work with children and young people

Winning a reputation as the most attractive employer in the region is essential if the Company wishes to attract creative and technically competent staff. By helping the younger generation to receive a modern education, we are creating our own pool of promising talent.

Through sponsorship and charitable assistance, we invest in improving the material and technical infrastructure of preschools, schools, colleges, professional schools, children's creative centres, children's homes, and boarding schools.

NLMK funds the maintenance and renovation of educational facilities, the procurement of equipment and modern learning aides, computers and sporting goods.

Special importance is placed on providing pupils and students with vocational guidance, which is conducted on an ongoing basis with the direct participation of our experts.

With a view to the long-term development of its talent pool, we maintain a targeted 'NLMK Student' Programme, paying for the tuition of children of Company employees at the best technical and economic higher educational institutions in Russia.

We offer students on-the-job training opportunities at our production facilities. In the course of their training, the students are supervised by experienced professionals.

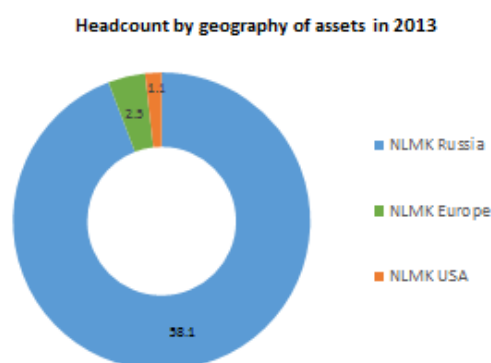
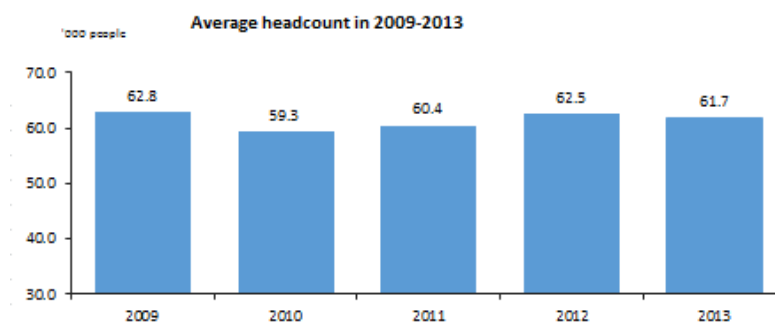
During the school summer break, we welcome the children of our employees as well as children from low-income families and children's homes to health resorts and recreation facilities.

Charitable activities

Through our charities, we provide financial aid to vulnerable households. We offer monthly benefits, medication and medical equipment, and treatment at health resorts for pensioners and veterans of World War II, most of whom are our former employees. Assistance is provided to children who live or have lived in children's homes and at boarding schools, and to those living in rural communities.

OUR EMPLOYEES

Qualified employees are one of the key factors behind NLMK Group's success. In 2013, NLMK Group employed 61,700 people.



The Company is pursuing an active HR policy aimed at attracting and retaining the most talented young employees, regularly increasing salaries, employing various types of incentives, conducting professional training and staff development programmes, ensuring a safe working environment, and improving social safeguards for employees.

We have developed a corporate culture that fosters the creation of a favourable environment for strong labour productivity and the manufacture of high value-added products by relying on the following:

- Adequate wage levels and social safety nets for our employees;
- Improved procedures for employee recruitment, adaptation and skill development;
- Safe and comfortable operating environments;
- Health improvement programmes for employees and their families;
- Enhanced team-spirit at various businesses.

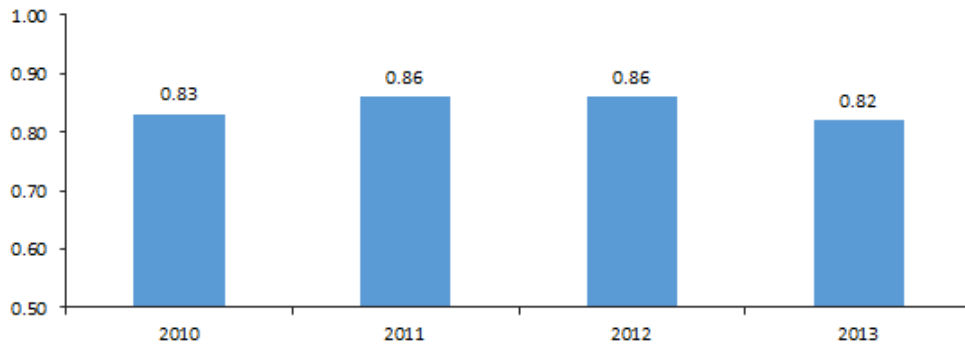
We have a Board Committee on Personnel, Remunerations and Social Policy that is responsible for such issues as forming ethical rules (standards) of behaviour in the Company, social responsibility and ecological safety among others.

Occupational health and safety

We are responsible for the lives and health of its employees and recognize our safety responsibilities in operating facilities that have the potential to be hazardous.

The Company continues to improve its Occupational Health and Safety (OHS) performance by enhancing the safety of its production processes, motivating personnel and encouraging employees to comply with OHS regulations.

LTIFR* dynamics in 2010-2013



*Lost time injury frequency rates

In 2013, the Company implemented a new OHS policy:

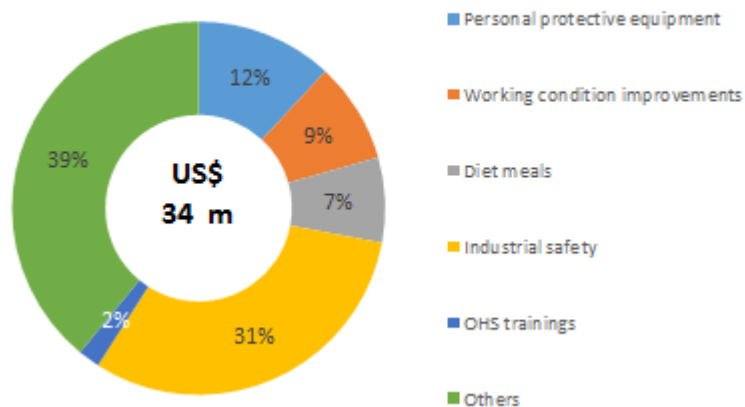
OUR VISION	NLMK is one of the world’s leading producers of steel. We produce high-quality, environmentally friendly, safe products, which have applications in a wide range of fields and improve people’s quality of life.
OUR MISSION	We take a responsible approach to manufacturing, and provide safe working conditions for our employees.
OUR CORE OBJECTIVES	<ul style="list-style-type: none"> • accident-free manufacturing; • achieving a world-class standard of safety in the workplace, and becoming a leader in production practices.
OUR PRINCIPLES	<ul style="list-style-type: none"> • our staff are our most highly prized asset, and the guiding principle behind our manufacturing process is that their life and health be safeguarded at all times; • occupational health and safety (OHS) is an integral part of our business and lies at the heart of the decisions we take with regard to the development and constant perfection of our business processes; • all accidents, malfunctions, incidents, and work-related illnesses can and must be prevented; • safety in production processes and OHS compliance are the responsibility of each and every employee.
OUR PRACTICES	<ul style="list-style-type: none"> • effective risk management with regard to the life and health of employees, contractors, and third parties; • constantly improving our employees’ skills in the field of occupational health and safety; • motivating staff to work in a safe manner and avoid accidents; • ensuring that performance indicators in the field of occupational safety are open and transparent.
MANAGEMENT RESPONSIBILITIES	<ul style="list-style-type: none"> • to ensure that manufacturing processes are organized in accordance with state and internal OHS requirements; • to ensure that resources are allocated to support OHS requirements; • to take measures to prevent accidents, work-related illnesses, equipment malfunctions, and similar incidents; • to bring in advanced methods and technologies designed to ensure occupational safety;

- to conduct regular quality assessments of the OHS management system, and constantly seek to improve it.

RESPONSIBILITIES OF EMPLOYEES

- to abide by the established OHS requirements;
- to have due regard for their own safety and the safety of those around them;
- to get actively involved in the OHS programme, so that we can achieve our common objective – AN ACCIDENT-FREE WORKPLACE.

2012 OHS expense breakdown*



*data for NLMK Russia

For reference: Novolipetsk is certified for compliance with international standard OHSAS 18001:2007 for occupational health and safety management systems. The audit was performed in 2007 by BureauVeritasCertification.

Talent development

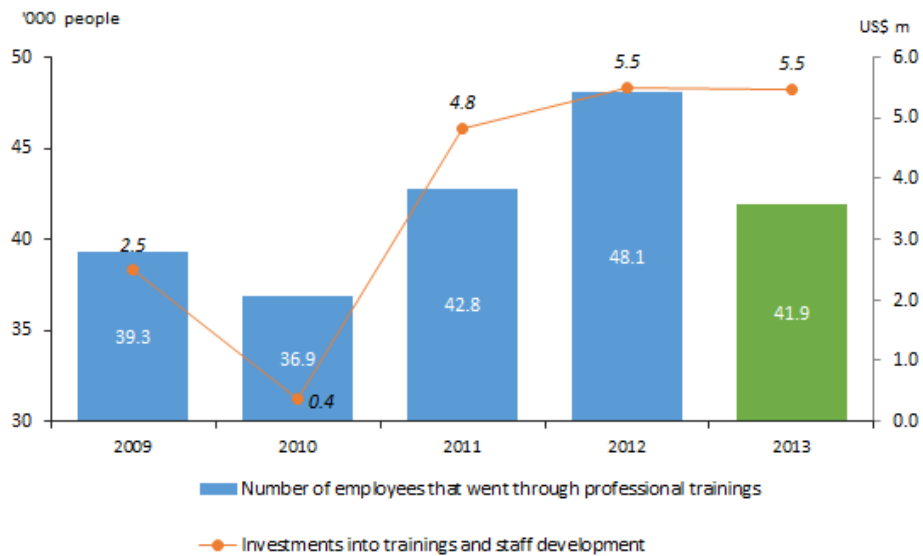
We treat professional skill and expertise development for our employees as a strategic investment.

Major areas for personnel development include:

- Professional training programmes;
- Training to acquire additional (related) skills;
- Skill improvement across all areas of professional expertise;
- Training for management reserve;
- Training for top managers.

About 90% of employees are trained in-house, allowing them to benefit from the wealth of knowledge accumulated by the Company and providing for a more effective training process. Highly qualified managers and specialists as well as professors from leading Russian educational institutions are invited to teach the employees.

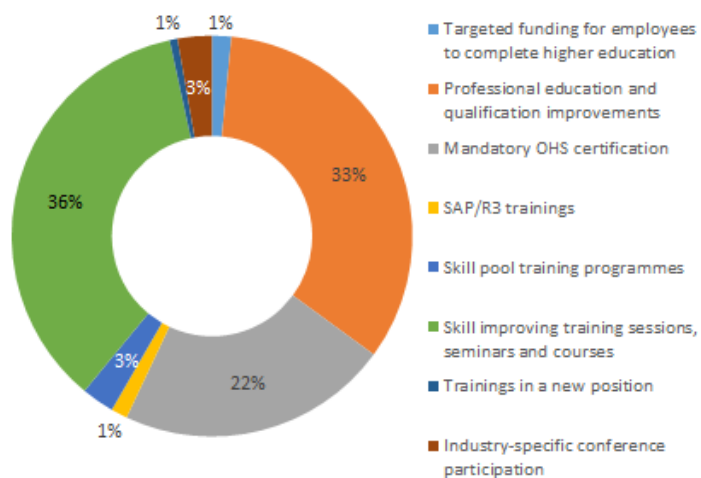
Professional training and staff development



Adaptation and mentoring programmes are in place for “new comers”. Coachers train younger employees and share their professional experience, introduce them to corporate regulations and culture of the job, and help build a positive attitude to the nature, scope and mode of their work.

In 2013, NLMK allocated a total of US\$ 5.5 million on professional trainings for its employees.

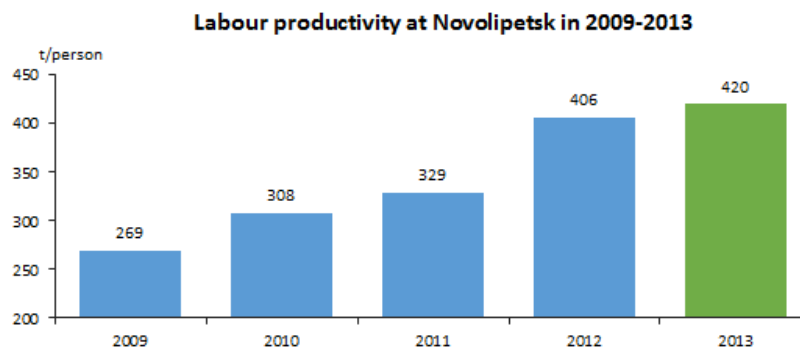
2013 staff training and development funds



Productivity and remuneration

Continuous operational improvements, upgrades and the streamlining of our business processes are the drivers of our efficiency growth over the last 10 years.

Production efficiency at its current level allows us to be in line with the leading global steelmakings. We intend to continue our development, not only through business process and equipment upgrades, but also via active personnel engagement. Continuous improvement must become the cornerstone of our corporate culture.



NLMK continues to improve its remuneration system, aimed at motivating highly qualified specialists; attracting young talent; increasing productivity and the quality of end products. In 2013, on the back of improved productivity, average salaries at NLMK Group’s Russian companies grew by 10% to RUB 39,200, or US\$ 1,230. Creating the conditions for high labour productivity and the production of high-quality products is a key focus for NLMK.

Social package

The Company safeguards the welfare of its employees by offering benefits packages, which include the following:

- Compensation payments;
- Severance payments;
- Financial aid;
- Additional payments provided for by collective bargaining agreements.

In addition to salaries and various bonuses, Company employees receive benefits, including mandatory and voluntary medical insurance for employees and a private pension plan.

Mandatory medical insurance for employees provides coverage for in-patient and out-patient treatment to the extent envisaged under the regional Mandatory Medical Insurance Programmes, except complicated surgeries, expensive diagnostics and therapy.

Core NLMK Group businesses maintain voluntary medical insurance programmes for their employees, allowing them access to:

- In-patient and out-patient medical services (including medical consultations),
- Preliminary medical treatment at on-site medical stations,
- Preventive medical examinations,
- Dental prosthetic services,
- Treatment at health resort facilities,
- Advanced medical assistance at specialized clinics for complicated medical conditions.

We are actively introducing a private pension programme. NLMK is a founding shareholder of the “Sotsialnoe Razvitie” (“Social Development”) Private Pension Fund with representative offices in 11 regions of Russia.

Social partnership

Together with trade unions, the Company is building a social partnership framework to serve as a basis for mutual benefit and cooperation.

Employment law provisions and additional benefits and guarantees for employees are stipulated in the collective bargaining agreements in place at all of the Group’s businesses.

Compliance with commitments under collective bargaining agreements is monitored by joint commissions representing both the administration and trade unions. Continuous direct dialogue helps to secure agreements on salaries and streamlining of the management structure, safe and healthy working conditions, and the introduction of benefits which improve the welfare of employees.

In 2013, commitments under the collective bargaining agreements in effect at NLMK Group businesses were for the most part fulfilled.

Improving employee health

All our businesses operate programmes to provide employees and their families with healthcare services and treatment at sanatoria and health resorts. Employees working in harmful and hazardous environments are eligible for medical and preventive care on a priority basis.

Every year, our employees enjoy the services of Company-owned sanatoria and preventive treatment facilities, as well as health resorts located throughout the Russian Federation.

We help to prevent illness by encouraging physical fitness and sports activities. All of our production divisions maintain gyms and relaxation centres, where employees can recuperate at the end of their shift.

We promote health, wellness, and sports through annual Corporate Games, and intra-company football, volleyball, basketball, swimming, chess, table tennis and shooting championships and tournaments, as well as cross-country skiing and track and field meets.



Environmental activities

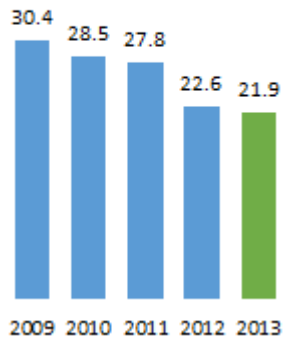


KEY HIGHLIGHTS

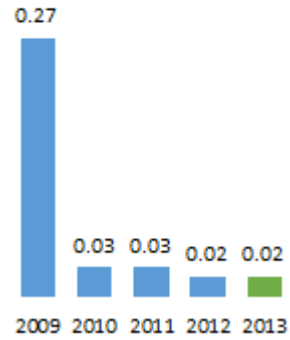
Continual improvement of environmental performance and energy efficiency is a key focus for NLMK.

- Minimization of the negative impact of the production process on the environment
- No more accumulation of waste, and recycling of previously accumulated waste
- Optimization of energy consumption

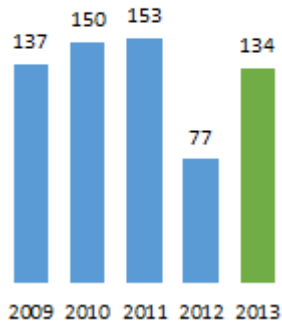
Specific atmospheric emissions (kg/t of steel)



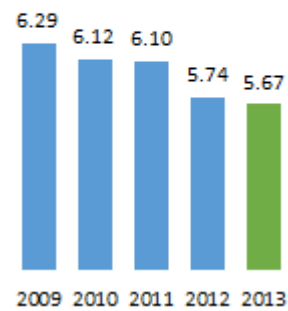
Specific water discharge (kg/t of steel)



Environmental investment (US\$ m)



Specific energy intensity (Gcal/t)



ENVIRONMENTAL PROTECTION

We are constantly working to reduce our environmental impact by implementing proven global solutions, thus reducing our environmental footprint in the regions where we operate.

Our strategy makes provision for the Group's environmentally oriented development, guaranteeing a reduction in negative impacts on the environment alongside a significant increase in the production of commercial products, including no less than 12.4 million tonnes of steel at our main production site.

In the face of current challenges, NLMK Group is directing all its efforts towards increasing the efficiency of operations. This includes protecting the environment and ensuring the sustainable environmental and social development of the regions where the Group operates.

Our key goal in the area of environmental protection is to reduce our environmental footprint and its impact on the communities in which we operate, and to lead the way globally in environmentally friendly operations.

To establish a coherent strategy and consistent approach to environmental management, NLMK has developed the following corporate principles:

- Compliance with environmental laws and regulations;
- Transparency and accessibility of information for all stakeholders;
- Prevention of negative environmental impact;
- Prioritization of environmental criteria when building new facilities, carrying out upgrades, and improving technological processes (environmentally oriented development of the Group);
- Continuous improvement of our environmental performance, applying the best available technologies and practices.

Consistent implementation of these corporate principles enables us to eliminate possible risks related to environmental protection that might hinder the development of the Group.

Environmental protection continues to be a priority for NLMK Group. For the next stage in its development, NLMK has set out its long-term environmental safety goals covering the period until 2020:

- Reduction in atmospheric emissions to 19.4 kg/t (in line with global best practices);
- Zero water pollution at all NLMK Group production facilities;
- Reduction of accumulated waste by reusing it in operations.

NLMK has developed a comprehensive set of measures to reach the levels of best available practices in environmental protection. This will help NLMK to further consolidate its competitive advantages, which is fundamental for the sustainable development of the Group.

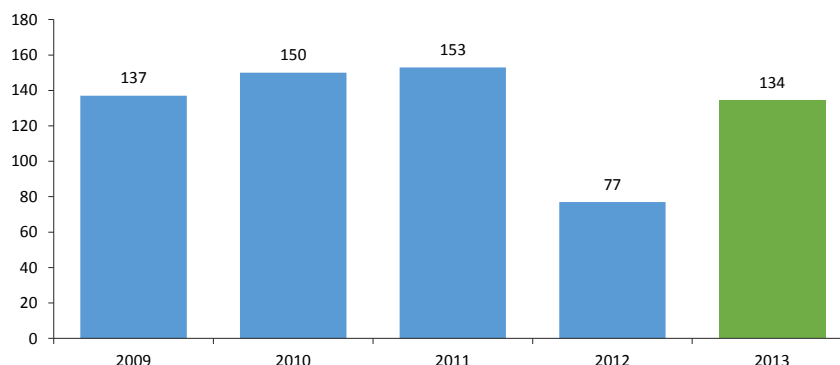
Environmental investment

Our reduced environmental impact is the result of focused capital investment by Group businesses.

In 2013, NLMK implemented a range of large-scale environmental protection projects. These included completing the revamp of central aspiration system No. 2 in the sintering plant at the Lipetsk site, resulting in an annual reduction of 2,000 tonnes of emissions. Another project, also at the Lipetsk site, was the launch of the new-generation aspiration systems and new high-capacity filters at BOF Shop No. 2, the largest contributor to graphite emissions. The new equipment will reduce the dust load of waste gases by 7.5 times, bringing the dedusting rate up to 99%.

Last year, the Group invested US\$ 134 million in environmental projects. Cumulative environmental investment in 2009–2013 reached US\$ 651 million.

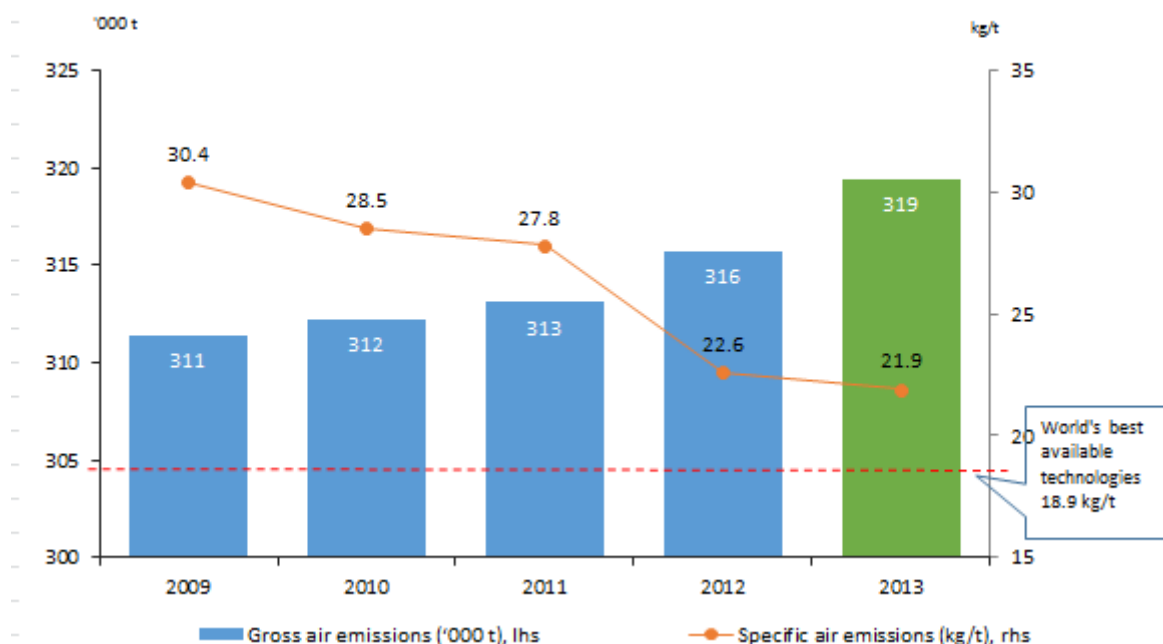
Environmental investment, 2009-2013, in US\$ mln



Atmospheric emissions

In 2013, NLMK Group’s atmospheric emissions per tonne of crude steel produced decreased by 3% year-on-year to 21.9 kilograms, demonstrating a consistent reduction in negative environmental impact.

Atmospheric emissions in 2009-2013



The minor rise in gross emissions was due to the launch of the new plant, NLMK Kaluga, in mid-2013, as well as to specific operational modes at selected production facilities.

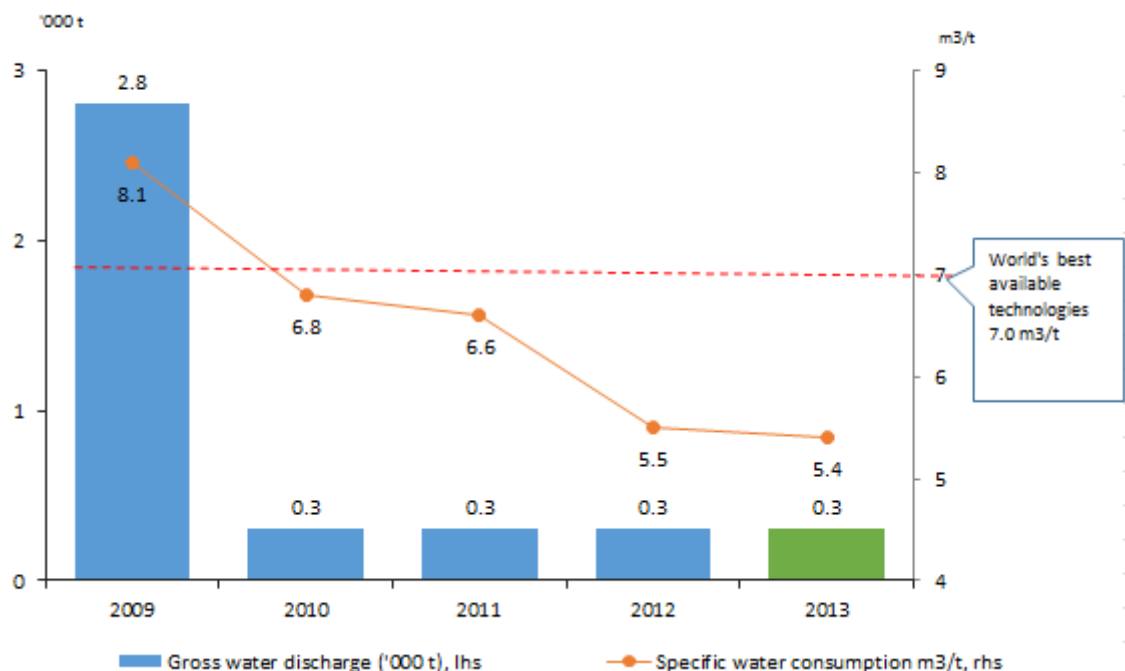
Our Steel Segment, which contributes 82% of our total steel output, accounts for the bulk of the Group’s environmental impact.

Impact on water

Our key goal in terms of water use management is to optimize water consumption efficiency in order to reduce our negative environmental impact.

Total water consumption by NLMK facilities in Russia in 2013 was 79.5 million cubic metres, which is only 3% higher than in 2012, despite the corresponding growth in steel production. Water intake per one tonne of crude steel produced decreased by 1.5% year-on-year.

Specific water consumption and gross water discharge in 2009-2013



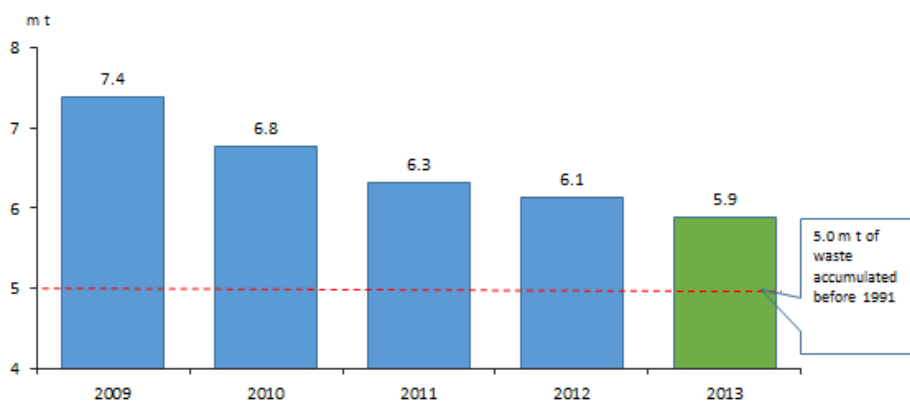
In 2009, the Lipetsk production site completed the implementation of a closed water supply system, which meant that we were able to stop discharging waste water into the Voronezh River altogether, thus substantially reducing the amount of pollutants released.

Waste management

The Group's facilities, representing various segments of the metals and mining industry, are characterized by different levels of waste, from the low level at steel rolling mills to the significant level inherent in mining companies.

Advanced technologies allow us to neutralize and recycle up to 95% of waste (at the Lipetsk production site). For instance, in 2004, we stopped waste accumulation at the Lipetsk production site by reusing the waste in operations. We also began recycling previously stockpiled waste. From 2004 to 2013, we were able to reduce stockpiled waste volumes by 2 million tonnes.

Waste accumulation at Novolipetsk



Waste recycling increased by 5% in 2013, reaching 5.3 million tonnes (excluding Stoilensky). This was driven by the implementation of environmental protection projects and the scaling up of the recycling technologies across our operations.



In 2013, the best recycling rates were achieved at Altai-Koks with 121%, Dolomit with 100%, Novolipetsk with 95.7%, and NLMK Long Products with a 95.4% recycling rate.

Environmental management system

An environmental management system which complies with the ISO 14001 Environmental Management System international standard has been implemented at five of NLMK Group's enterprises.

An environmental management system compliant with the ISO 14001:2004 international standard has been in operation at Novolipetsk since 2002. In 2005, 2008, and 2011, Novolipetsk passed TÜV CERT (Germany) recertification audits for compliance with the requirements of the abovementioned standard. The year 2012 marked the tenth anniversary of the introduction of the environmental management system, which passed a successful supervisory audit performed by the British Standards Institution (BSI, United Kingdom) in 2013.

At the end of 2007, Stoilensky's environmental management system was certified as compliant with ISO 14001:2004, and the company passed recertification audits conducted by Det Norske Veritas in 2010 and 2013.

In 2011, the environmental management system at Dolomit was certified as compliant with ISO 14001:2007 by SOYUZZCERT (Moscow), an integrated management systems certification authority; and in 2013, the company passed a regular supervisory audit.

In 2011, the environmental management system at Stagdok was certified as compliant with ISO 14001:2007 by Lipetsk State Technical University (Lipetsk), an integrated management systems certification authority. In March 2014, the company's environmental management system passed a recertification audit conducted by Tekhtsentr-Registr (Moscow), which is also an integrated management systems certification authority.

At the end of 2012, the SGS certification authority (Switzerland) certified the environmental management system at VIZ-Steel as compliant with the ISO 14001:2007 standard. In 2013, BSI (United Kingdom) conducted a certification audit and issued an EMS certificate confirming that the environmental management system complied with the ISO 14001:2004 standard.

Altai-Koks and NLMK Long Products are continuing their preparation for certification of their environmental management systems according to ISO 14001:2004.

Public appraisal of environmental protection activities

Altai-Koks was declared Best Environmentally Responsible Regional Enterprise at RosPromEco-2013, the Russian Industrial and Environmental Forum held in Moscow on 14–15 November. The company was nominated by the Administration of Altai Territory.

The success of the environmental protection activities at NLMK Group companies (Novolipetsk and VIZ-Steel) was recognized by awards in the Russia's Top 100 2013 – Ecology and Environmental Management federal competition, founded by the State Duma and the Federation Council and held in St. Petersburg at the end of March 2013.

ENERGY EFFICIENCY

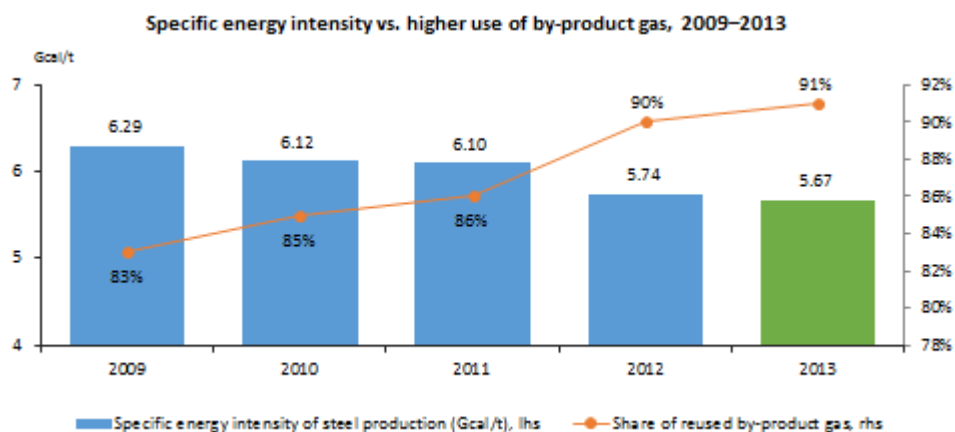
NLMK strives to manufacture products of the required quality at the lowest possible cost. To achieve this, we are implementing programmes aimed at improving the efficiency of production, including the integration of energy-saving technologies into production processes.

Optimization of energy consumption is one of NLMK Group's key priorities. We take a responsible approach to the rational use of natural resources and energy. Our strategy, guiding principles, and key objectives in this area are reflected in NLMK's Energy Efficiency Improvement Policy.

Key elements of our strategy aimed at enhancing energy efficiency include:

- Continuous improvement of production processes to reduce consumption of energy;
- Technological modernization, equipment upgrades, use of new technologies;
- Improvement of energy consumption management systems;
- Compliance with laws regulating resource consumption.

NLMK Group companies are implementing measures aimed at achieving these targets by optimizing existing business processes and using advanced technologies. For instance, by using the by-products of steelmaking operations – blast furnace and coke gases – we have been able to achieve 53% self-sufficiency in electricity at our main production site in Lipetsk.



Efforts to improve efficiency allow us to consistently reduce our energy consumption and carbon dioxide emissions. Today, all of the Group's key production companies are involved in energy efficiency improvement projects. In 2013, specific energy consumption per tonne of steel at the Lipetsk site decreased by 1.2% to 5.67 Gcal/tonne. Best global practices reach a figure of 5.4 Gcal/tonne.

The certification of Novolipetsk's energy management system for compliance with the ISO 50001:2011 Energy Management Systems standard in September 2012 confirmed the success of NLMK's efforts to implement the best available technologies in the areas of energy consumption optimization and the rational use of energy resources. NLMK became the first steelmaking company in Russia to receive a certificate of compliance with the Energy Management Systems international standard.

In 2013, BSI Management Systems CIS conducted an external audit of the company's energy management system for compliance with ISO 50001. As a result of the audit, Novolipetsk was reissued an ISO 50001 compliance certificate.



Corporate Governance

COMPOSITION OF NLMK'S GOVERNING BODIES

Composition of the Board of Directors of NLMK as at 31 December 2013

Name	Vladimir Lisin	Vladimir Skorokhodov	Oleg Bagrin	Nikolai Gagarin	Karen Sarkisov	Karl Doering	Helmut Wieser	Franz Struzl	Benedict Sciortino
Year of birth	1956	1951	1974	1950	1963	1937	1953	1942	1950
	Chairman of the Board of Directors	Deputy Chairman of the Board of Directors	Member of the Board, President (Chairman of the Management Board)	Member of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board
Membership in Board's Committees	Strategic Planning Committee (Chairman) Human Resources, Remuneration and Social Policies Committee (Chairman)	Strategic Planning Committee Human Resources, Remuneration and Social Policies Committee	Strategic Planning Committee Human Resources, Remuneration and Social Policies Committee	Audit Committee	Strategic Planning Committee Audit Committee	Strategic Planning Committee Audit Committee	Strategic Planning Committee	Strategic Planning Committee Audit Committee	Strategic Planning Committee Audit Committee (Chairman)
Appointment	Chairman of the Board since 1998, Board member since 1996	Board member since 1996	Board member since 2004, President (Chairman of the Management Board) since 2012	Board member since 2001	Board member since 2010	Board member since 2006	Board member since 2011	Board member since 2011	Board member since 2012
Background	Started his career in 1975 as an electrical fitter. He worked at Tulachermet, rising through the ranks from assistant steelmaker to deputy shop manager. From 1986, he worked in Kazakhstan, first as Deputy Chief Engineer, and later as Deputy CEO of the Karaganda Steel Plant. Member of Boards of Directors of several leading Russian steel companies since 1993.	Between 1977 and 1991 worked as junior researcher, head of laboratory, Deputy Director of the Bardin Central Institute of Ferrous Metallurgy. Between 1992 and 1994 worked as Chief Expert in the Ministry of Industry and the Ministry of Economy of the Russian Federation. Graduated from the Moscow Institute of Steel and Alloys in 1973, majored in	Board member of a number of NLMK subsidiary companies, including NLMK International B.V. (Netherlands), NLMK Pennsylvania Corp., NLMK Indiana LLC, Sharon Coating LLC. (USA). Managing director of Libra Capital, a Moscow-based investment management company. Board member of Freight One, a railroad transportation company, and Libra capital, an	In 2003 – being Managing Partner – he was appointed Chairman of the Board at Reznik, Gagarin, Abushakhmin and Partners Law Offices. Chairman of the Board, Managing Partner at Reznik, Gagarin and Partners Law Offices, Moscow, since 2009. Graduate of Moscow State	He serves as an Aide to the Chairman of the Board of Directors on External Economic Relations. He is also a member of the Board of Directors at NLMK International BV. From 2006 to 2007 Mr. Sarkisov served as the Chairman of the Board of Directors of VIZ-Stal. From the early 1990's to 2008 he worked at steel trading companies	Currently heads Project Consulting, a consulting company. Represented the French USINOR in Central and Eastern Europe. Between 1967 and 2000 held senior positions in metallurgical companies in Eastern Germany. From 1979 to 1985 was Deputy Minister, Mining, Metals and Potassium	Helmut Wieser was an Executive Vice President of Alcoa and Group President responsible for Alcoa's global mill products and rigid packaging businesses till November 2011. He also oversaw Alcoa's businesses in the Asia Pacific region, with a focus on China, the Australian rolled products businesses and Alcoa's operations in Russia. In addition, Helmut	In 1967 Franz Struzl joined Alpine Steelgroup, later renamed Voestalpine AG, based in Linz, Austria, serving the Company for over four decades. During his career at Voestalpine Franz Struzl held various positions in a number of fields including strategic planning, commercial and technical areas. In 1981 he was	From 1977 to 1995 Benedict Sciortino worked as an attorney-at-law and a partner with Baker & McKenzie, New York. He joined Duferco in 1995 as a director and partner. Now he serves as a Managing Director of Duferco S.A. responsible for Duferco Group North American and South African business as well as trading operations, finance and legal matters, mergers and

	<p>Graduate of Siberian Metallurgic Institute, majored in Ferrous and Non-Ferrous Foundries. In 1990 graduated from the Higher School of Commerce with the Foreign Trade Academy. In 1992 graduated from the Academy of National Economy, majored in Economics and Management. Ph.D., Tech.; Ph.D., Ec.; Professor, Department of Market and Economy Issues, Academy of National Economy under the Government of the Russian Federation. Winner, USSR Council of Ministers prize for Science and Technology. Honorary Metallurgist of the RF. Knight of the Order of Honor.</p>	<p>Pressure Treatment of Metals. In 1976 completed post-graduate studies and obtained a Ph.D. in the same area. Ph.D., Tech. (1991 from the Board of Academics at the Moscow Institute of Steel and Alloys). Professor. Holder of the 1982 National Prize for Science and Technology. 281 academic research papers: 117 academic publications, six books, 158 patent descriptions.</p>	<p>investment management company. Holds a graduate degree in Operations Research and a post-graduate degree in Economics from State Management University, Moscow and a degree in Business Administration from the University of Cambridge, UK.</p>	<p>University, majored in Law.</p>	<p>holding various executive positions at a number of international trading entities.</p> <p>Graduated from the Tashkent State University majoring in Oriental Studies.</p>	<p>Industry Ministry, German Democratic Republic, supervised technology development and capital expenditures.</p> <p>Graduated from the Moscow Institute of Steel and Alloys. Ph. D., Tech.; Ph.D., Ec.</p>	<p>Wieser was a member of the Alcoa Executive Council, the senior leadership group that provides strategic direction for the company. He also serves on the board of governors of the International Graduate University in Washington, D.C. on Capitol Hill. Before joining Alcoa, Helmut Wieser worked for Austria Metal Group (AMAG) for 10 years, holding a series of management positions in its rolled products unit, culminating in 1997 as an executive member of the board and chief operating officer. Earlier, he held several senior management positions with Voest Alpine in Austria and Venezuela, including President of Voest Alpine Venezuela. Helmut Wieser received a Master's degree in Mechanical Engineering and Economics in 1981 from the University of Graz.</p>	<p>appointed Chief Financial Officer before becoming Chief Executive Officer of Voestalpine Long Products Group and a member of the Executive Board in 1991. From 1995 until 2001 he served as Vice Chief Executive Officer of Group. In 2001 Franz Struzl was appointed as Voestalpine Group Chief Executive Officer and Chairman. He held the position until 2004, when he moved to become Chief Executive Officer of Voestalpine, Brazil - Villares Metals, remaining there until 2010. From 2011 he is General Director of RHI AG.</p> <p>Franz Struzl graduated from the University of Economics, Vienna.</p>	<p>acquisitions. Mr Sciortino serves as a director of several operating companies, being a Member of the Board of Directors of NLMK Pennsylvania Corp., Sharon Coating LLC, NLMK Indiana LLC.</p> <p>Mr. Sciortino was born in New-York, USA in 1950. He graduated from Queens College, New York with a BA degree and received JD and LLM degrees from New England School of Law (Boston, MA) and New York University Law School, New York.</p>
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Composition of the Management Board of NLMK as at 31 December 2013

Name	Oleg Bagrin	Sergey Filatov	Alexander Gorshkov	Yuri Larin	Alexander Saprykin	Stanislav Tsyrlin	Alexander Burayev	Brijesh Garg	Alexander Sapronov	Grigory Fedorishin
Year of birth	1974	1959	1961	1952	1967	1968	1963	1964	1953	1979
	President (Chairman of the Management Board), Member of the Board of Directors	Managing Director	Vice President, Iron Ore Division	Vice President, Technology Development & Operational Efficiency	Vice President, Strategic Raw Materials Division	Vice President, HR & Management System	Director for Long Products and Metalware	Vice President, Procurement	Vice President, Logistics	Vice President, Finance
Appointment	Board member since 2004, President (Chairman of the Management Board) since 2012	Board member since January 2013	Board member since 2007	Board member since 2006	Board member since 2006	Board member since 2005	Board member since 2012	Board member since 20012	Board member since 2012	Board member since 2012
Background	<p>Mr. Bagrin has been serving as Member of the Board of Directors since 2004. He is a Member of the Strategic Planning Committee and the Human Resources, Remuneration and Social Policies Committee of the Board of Directors. Mr. Bagrin is also a Board member of a number of NLMK subsidiary companies.</p> <p>He is a Board member of Freight One, a railroad transportation company, and a Chairman of the Board of Libra Capital, an investment management company.</p> <p>Mr. Bagrin holds a graduate degree in Operations Research and a postgraduate</p>	<p>On January 25, 2013 Sergey Filatov was appointed to the position of NLMK's Managing Director. Mr. Filatov has been with NLMK since October 2012, serving as Deputy Senior Vice President - General Director for Production and Technology. From 2009 to 2012 he served as Chief Engineer at NTMK. From 2007 to 2009 he was Project Manager at NTMK Project Management Department. Mr. Filatov graduated from the Moscow Institute of Steel and Alloys. He holds a Ph.D. (Tech.), and is an Honorary</p>	<p>Alexander Gorshkov has been General Director of Stoilensky since 2004. From 2003 to 2004 he was Deputy Director of the Lipetsk branch of Rumelco Ltd. From 1999 to December of 2003 he served as General Director of Dolomit.</p> <p>Graduated from the Novosibirsk Electro-Technical Institute.</p>	<p>From 2007 to 2013 Mr Larin was NLMK Vice President for Prospective Development and Environment. Vice President for Technical Development and Environment, NLMK, from 2006 to 2007. Prior to that he was Director of the NLMK Engineering Centre from 1999 to 2006, and from 1996 to 1999 he worked as Deputy Director of NLMK's Central Laboratory in charge of technology.</p> <p>Graduate of the Voronezh Polytechnic Institute. Ph.D., Tech.</p>	<p>From 2007 to 2013 Mr Saprykin was NLMK Vice President, Head of Coal Division. From 2006 to 2007 served as Vice President, Head of Iron Ore Division. From 2002 until 2006 he headed the Raw Materials Market Department at Rumelco and served as General Director of RUDPROM between 1998 and 2001. In 1997 and 1998 Mr. Saprykin was General Director of VIZEL. Prior to that, he worked as chief specialist for Metallurg from 1996 to 1997.</p> <p>Graduated from the Moscow State Mining University.</p>	<p>From 2004 to 2006 served as Director for Strategy and Management Systems at NLMK, having previously worked for Rumelco (from 2003 to 2004). Prior to that he worked for the Boston Consulting Group from 1996 to 2003, serving initially as a consultant, then as a project manager before being appointed Deputy Director.</p> <p>Graduated from the Moscow Institute of Physics and Technology and from Stanford University.</p>	<p>Director for Long Products and Metalware since 2011. General Director at NLMK Long Products.</p> <p>From 2007 to 2011 he was Head of Production, Operations Department at NLMK. From 2002 to 2007 he worked as Head of Cold Rolled and Coated Flats Shop at Novolipetsk.</p> <p>He has held various offices at NLMK since 1988, starting as a heat-treatment engineer.</p> <p>Holds a master degree with a major in Steelmaking and Welding Technologies from the Lipetsk Technical Institute (1986).</p>	<p>He started his career in 1985 with Tata Steel, India as Industrial Engineer and moved through various positions within the company and worked with other steel plants in New-Zealand Steel (BlueScope Steel, Australia) and ArcelorMittal, Kazakhstan & Ukraine.</p> <p>He has about 14 years of experience in supply chain management and business processes re-engineering in large steel plants. 13 years of experience in industrial engineering.</p> <p>Holds a Bachelor of Engineering degree with a major in</p>	<p>From 1995 to 2001, he was President at JSC Russkiy Mir. Then, from 2001 to 2005, he served as Vice President and Senior Vice President for UKOS RM. From 2005 to 2007 he served as Vice President at Rosneft and from 2008 to 2009 he worked as Deputy Director General for Strategy and Corporate Development at Freight One (PGK). From 2009 to 2012 he was Director General for Independent Transportation Company (NTK). Vice President for Logistics at NLMK since 2012.</p> <p>In 1980, he graduated from the All-Union</p>	<p>From 2011 to 2013 he served as NLMK Director of Strategy and Business Development. From 2009 to 2012 served as an investment manager at Libra Capital, a Moscow-based investment management company. From 2001 to 2009 worked for Pricewaterhouse eCoopers consulting company where he held positions up to a director of business restructuring practice.</p> <p>Graduated from Academy of Finance,</p>

	degree in Economics from the State University of Management (Moscow), as well as an MBA from the University of Cambridge (UK).	Metallurgist of Russia.						Industrial Engineering, has CPIM Certification from American Production and Inventory Control Society (APICS) and is a certified SAP Solution Consultant.	Correspondence Law Institute and in 1992 from the Russian Management Academy. In 2007, he received an MBA in Logistics and Supply Chain Management from the State University Higher School of Economics. Member of FAS Russia (Federal Antimonopoly Service) Expert Council for Railway Transport. Member of the International Management Academy since 2012.	Moscow. Holds a master degree in Business Administration from INSEAD business school, France & Singapore. A member of an association of Certified Financial Analysts (CFA).
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CORPORATE GOVERNANCE

We adhere to high standards of corporate governance and maintain a policy of maximum transparency. This policy allows our shareholders and investors to have all the necessary information on the activities of NLMK provided in a timely manner so that they can make an investment decision regarding the Company's securities.

The main objective of the Group's corporate governance system is to protect shareholders' rights to participate in the management of the Group by attending meetings of the management and audit bodies, to vote on agenda items and to receive timely information on NLMK's activities. In addition, our corporate governance system provides guaranteed protection of shareholder investments, as it follows the principle of equal treatment of all shareholders.

Governance system

NLMK recognises the importance of corporate governance for building an attractive investment case for the Company, and continues to improve its corporate governance policy and practice. Policies determining business strategies, guiding principles and objectives regulate the Company's activities in all socially significant and operationally critical areas.

NLMK Corporate Governance structure follows key principles set by the Organization for Economic Cooperation and Development (OECD Principles of Corporate Governance, 1999), and the provisions of the Code of Corporate Conduct approved by the Russian regulatory authorities. NLMK governance system is fully compliant with the current legislation of the Russian Federation and countries where Group assets are located.

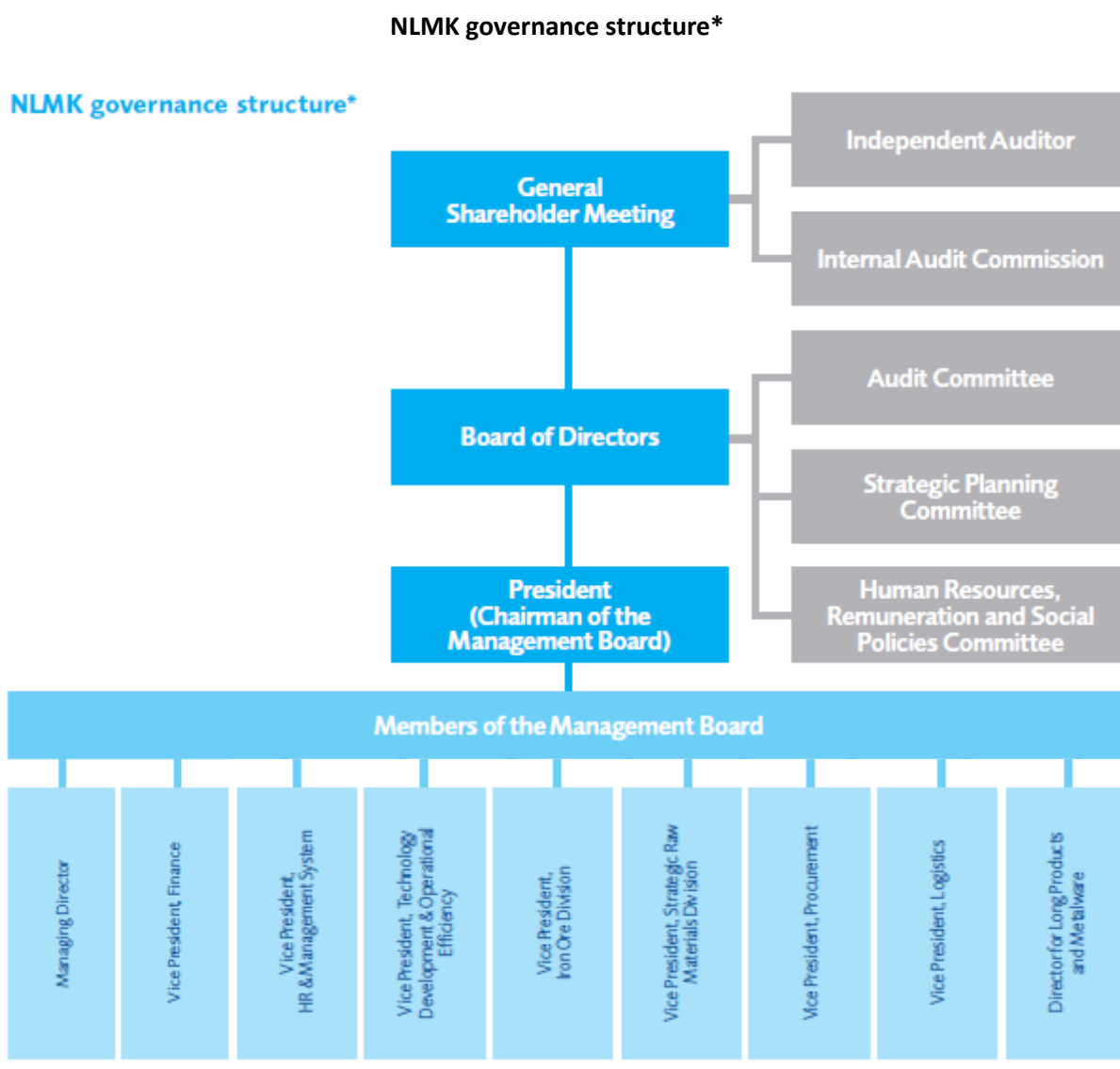
Key principles lying at the core of our Corporate Governance are:

- Seek to ensure effective and transparent arrangements to guarantee the rights and interests of shareholders
- Provide equal treatment of all shareholders
- Seek to provide shareholders with the opportunity to exercise their right to participate in the management of the Company
- Observe the rights of third parties
- Pursue a common corporate policy in respect of subsidiary companies, affiliates and other legal entities in which the Company is the founder, a participant or a member
- Maintain a policy of open and transparent communications
- Promote a policy of complying with business ethics in conducting its operations
- Seek to comply with the applicable legislation and international corporate governance standards

According to the Corporate Governance Code and the Charter of the Company, the governance structure includes:

- General Meeting of Shareholders – supreme governing body of NLMK
- Board of Directors that is responsible for the overall operations of the Company and its long-term development strategy
- The executive bodies including the President (Chairman of the Management Board) and the Management Board that manage day-to-day activities of the Company
- Corporate Secretary that secures NLMK shareholders' rights and interests.

An independent auditor, the Internal Audit Commission, Audit Committee and Internal Audit department oversee financial and economic activities. Financial statements are audited in compliance with Russian legislation and the US Generally Accepted Accounting Principles.



*as at 31 December 2013.

General Shareholder Meeting

Shareholders of NLMK, being the owners of the shares, participate in managing the Company by taking decisions at the General Shareholders' Meeting. At the General Shareholders' Meetings, shareholders elect the main governance and supervisory authorities of the Company (the Board of Directors, the President (Chairman of the Management Board), Internal Audit Commission, the Auditor), approve annual reports, distribute profits, approve the Charter of the Company and internal corporate documents, etc.

The Annual General Shareholder Meeting for FY 2012 was held on 7 June 2013. The following agenda items were addressed during the meeting:

- Approval of the Group's 2012 Annual Report;
- Announcement of dividends for 2012;

- Election of the Group's Board of Directors, President (Chairman of the Management Board), Internal Audit Commission;
- Approval of changes to NLMK's internal documents;
- Payment of remuneration to the members of NLMK's Board of Directors.

Board of Directors

The Board of Directors of NLMK is the central element in the corporate governance system of the Company. The Board represents the interests of the shareholders and is responsible for increasing the value of the business through efficient management.

The main purpose of the Board of Directors is to carry out Group management duties in a conscientious and competent fashion in order to increase the value of shares and shareholder wealth, as well as to protect shareholder rights. The Board of Directors treats all shareholders fairly in its decisions and it is not be guided by the interests of any single group of shareholders.

According to the corporate policies, the Board of Directors:

- exercises overall control of Company operations, defines its long-term development strategy and uses this to make decisions;
- assesses the performance of the Company and its Bodies;
- determines the structure and composition of the Management Board;
- approves large transactions and related party transactions;
- assesses political, financial and other risks impacting Company operations;
- develops remuneration incentive methods and systems for company employees.

According to NLMK's corporate procedures, NLMK's Board of Directors meets on a regular basis, at least six times a year. Meetings of the Board of Directors are convened by the Chairman of the Board of Directors in accordance with the approved plan for holding meetings.

Extraordinary meetings of the Board of Directors of NLMK can be called by the Chairman of the Board of Directors at the request of a member of the Board of Directors, the Internal Audit Commission, the Auditor, an executive body of the Company, or shareholders who own more than 5% of the shares.

Information (materials) relating to agenda items from meetings of the Board of Directors are submitted to the members of the Board of Directors. Decisions by the Board of Directors are adopted by a simple majority of members present at the meeting of the Board of Directors, except as stipulated by the Group Charter and the law. Each member of the Board of Directors is entitled to one vote. Members of the Board of Directors may be individuals who are elected at the General Shareholder Meeting and nominated by the shareholders or by the Board of Directors. The composition of the Board of Directors is determined by corporate documents. The Board of Directors may include executive directors, the number of whom shall not exceed one quarter of the total number of members of the Board of Directors of the Group. Since 2005, independent directors have been elected to the Board of Directors of NLMK in accordance with international best practice in corporate governance and the provisions of the Group's corporate documents. The Group is interested in having at least three independent directors on the Board.

Members of the Board of Directors are elected by cumulative voting at the General Shareholder Meeting for a period lasting until the next Annual Meeting. Candidates with the highest number of votes are elected to the Board of Directors.

Chairman of the Board of Directors

The Chairman of the Board of Directors organizes the work of the Board of Directors, convenes its meetings, presides over them and arranges for minutes to be recorded. He also presides over the General Shareholder Meeting or delegates this responsibility to one of the members of the Board of Directors. The Chairman of the Board of Directors presides over discussions of such issues as strategic development plans, Group priority areas of activity, and approval of transactions for the acquisition of assets that are strategically significant for NLMK.

The Chairman of the Board of Directors is elected by the members of the Board of Directors by a majority vote. Vladimir Lisin has been Chairman of the Board of Directors since 1998, and a member of the Board of Directors since 1996.

Independent Board members

The Group is interested in having at least three independent directors on the Board.

Currently there are three independent directors: Benedict Sciortino, Helmut Wieser, and Franz Struzl.

For reference: According to the Regulations on the Board of Directors the independent director

- have not been an officer (manager) or employee of the Company or an officer (manager) or employee of the Company's managing company within the last 3 years;
- is not an officer of other company in which any of the Company's officers is a member of the Committee of the Board of Directors on Personnel and Remunerations;
- is not an affiliated person of a manager or officer of the Company's managing organization;
- is not an affiliated person of the Company;
- is not a party to an agreement with the Company under which it may acquire property (receive money) with the value of 10 or more per cent of the total annual income of that person, except the remuneration for participation in the Board of Directors;
- is not a large counterpart of the Company (a counterpart is considered to be large in case the total amount of transactions between such counterpart and the Company is 10 or more per cent of the book value of the Company's assets);
- has declared in public way its status as an independent director;
- shall immediately inform the Company in case of circumstances impeding an independent director to correspond to the status of an independent director;
- has the required qualification;
- enjoys good reputation;
- participates in the Board of Directors of the Company in good faith;
- is not a state representative.

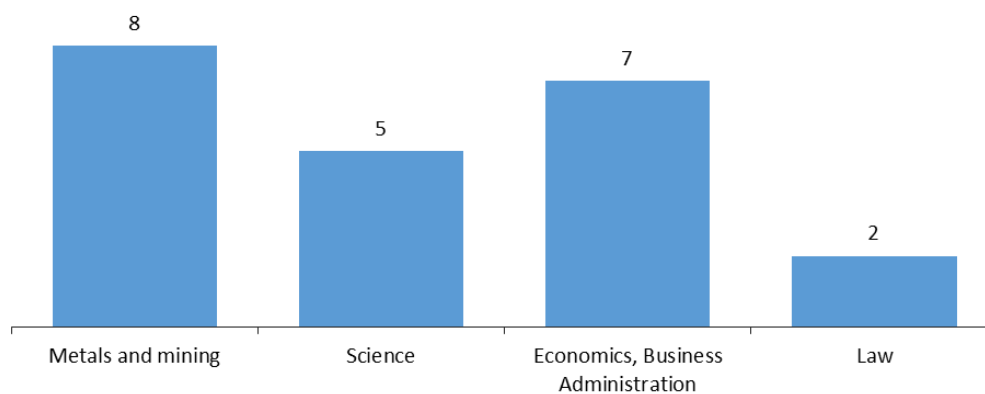
Composition of the Board of Directors

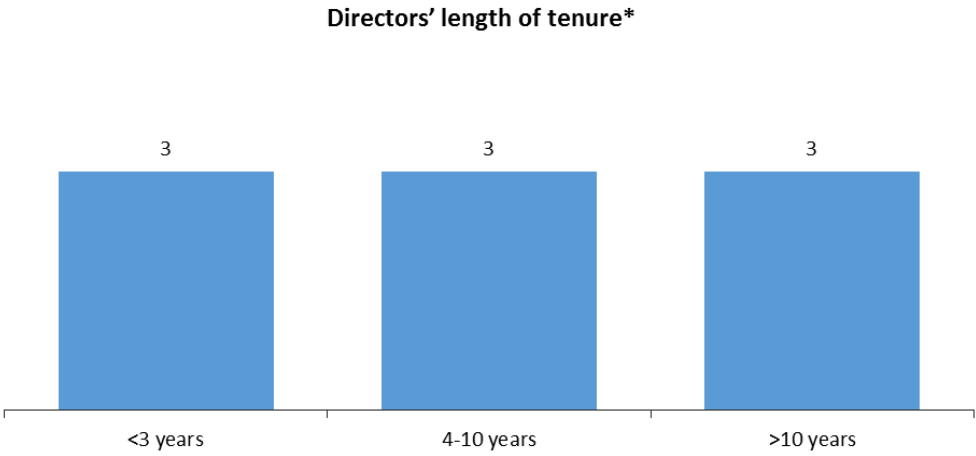
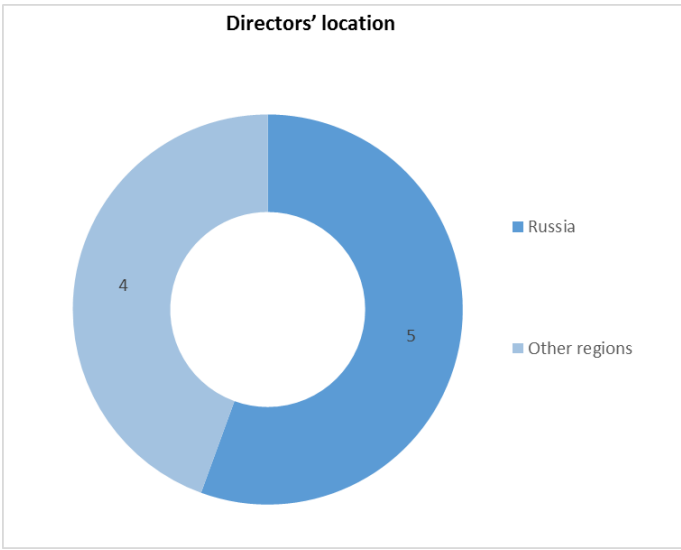
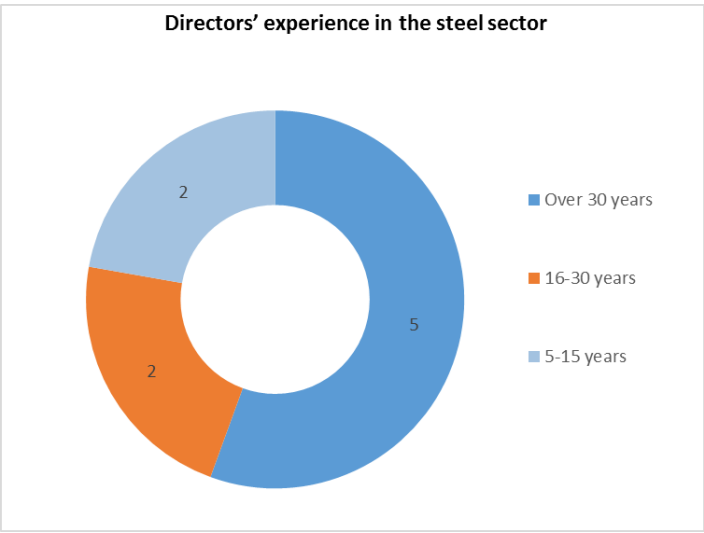
As at 31 December 2013, the Board of Directors consists of nine people, including three members of the Board of Directors who are independent.

Composition of the Board of Directors of NLMK as at 31 December 2013

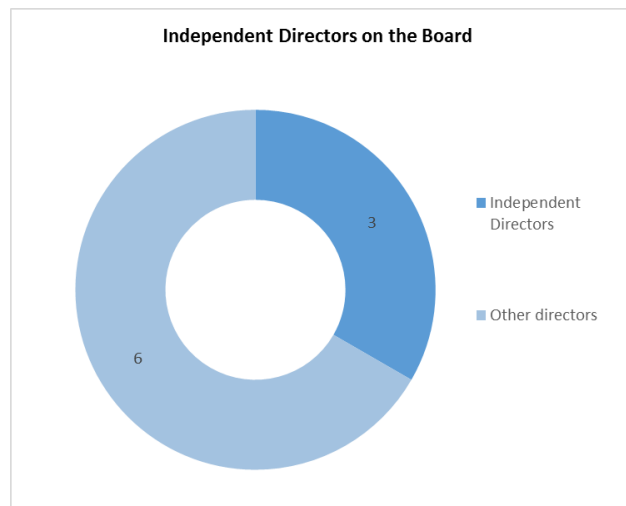
Full name	Position	Years on the Board	Independent	Strategic Planning Committee	Audit Committee	Human Resources, Remuneration, and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	17		Chairman		Chairman
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	17		✓		✓
Oleg Bagrin	Member of the Board of Directors	9		✓		✓
Benedict Sciortino	Member of the Board of Directors	2	Yes	✓	Chairman	
Helmut Wieser	Member of the Board of Directors	3	Yes	✓		
Nikolai Gagarin	Member of the Board of Directors	12			✓	
Karl Doering	Member of the Board of Directors	7		✓	✓	
Karen Sarkisov	Member of the Board of Directors	4		✓	✓	
Franz Struzl	Member of the Board of Directors	3	Yes	✓	✓	

Directors' expertise and professional background





* As at 31 December 2013.



The Board of Directors' activity in 2013

In 2013 there were 9 meetings of the Board of Directors of NLMK, six of which were held by absentee ballot.

The following are the main issues that were examined by the Group's Board of Directors in 2013:

- Reviewing proposals on the agenda of the General Shareholder Meeting and proposals on nomination of candidates to NLMK's governing bodies.
- Convening the Annual General Shareholders' Meeting on the results of 2012, approving the agenda, draft documents and measures necessary for preparing for and holding the Annual General Shareholders' meeting;
- Electing the Chairman of the Board of Directors and the Deputy Chairman of the Board of Directors and the formation of Committees under the Board of Directors of NLMK;
- Approving the plan for holding the meetings of NLMK's Board of Directors;
- Making changes to the exchange bond programme;
- NLMK's participation in other organizations;
- Approving provisions of the contract with an NLMK's Management Board member;
- Approving the consolidated budget of the Group;
- Approving related party transactions;
- Approving the amount of payment for NLMK auditor services;
- Establishing the Company's priority areas of activity (including: signing an addendum to the agreement on creating a consolidated group of taxpayers; transferring extraction licenses; approving the adjusted consolidated budget of the Group);
- Approving the composition of the NLMK Management Board;
- Operational risk management;
- NLMK's European assets restructuring;
- Closing the Group's office in Novokuznetsk.

Table: Participation of Members of the Board of Directors in the Meetings of this Body in 2013.

Board of Directors' Member	Participation in meetings
Vladimir Lisin	9
Vladimir Skorokhodov	9
Oleg Bagrin	9
Benedict Sciortino	8
Helmut Wieser	9
Nikolai Gagarin	9
Karl Doering	9
Karen Sarkisov	9
Franz Struzl	9

Remuneration and compensation for the members of the Board of Directors

Remuneration

The Annual General Shareholder Meeting may decide to pay a bonus to the members of the Board of Directors on the basis of the Group's results for the fiscal year and in accordance with the recommendations of the Human Resources, Remuneration, and Social Policies Committee.

Remuneration is paid to the members of the Board of Directors for reasonable and faithful exercise of their rights and their duties in the interests of NLMK. Remuneration is paid to a particular member of the Board of Directors of the Group in the form of a fee, which is calculated on the basis of the extent of his or her personal involvement in the ongoing work of this governing body, in accordance with regulations. The extent to which the directors performed their duties faithfully and carefully is considered when determining the amount of remuneration. Directors who have failed to attend more than half of the Board of Directors' meetings during their tenure are not eligible to receive an annual performance bonus.

The size of the bonus is based on the Group's results. Its amount shall not exceed 0.1% of the net profit for the reporting period as determined in accordance with the US Generally Accepted Accounting Principles (US GAAP) for each member of the Board of Directors.

The Chairman of the Board of Directors and members and chairmen of the committees of the Board are paid additional bonuses. The Acting Chairman of the Board of Directors is paid 1.5 times the amount of the bonus. Members of the committees of the Board of Directors may be paid remuneration equal to 1.2 times the amount of the bonus. Chairmen of the committees of the Board of Directors may be paid compensation equal to 1.4 times the amount of the bonus.

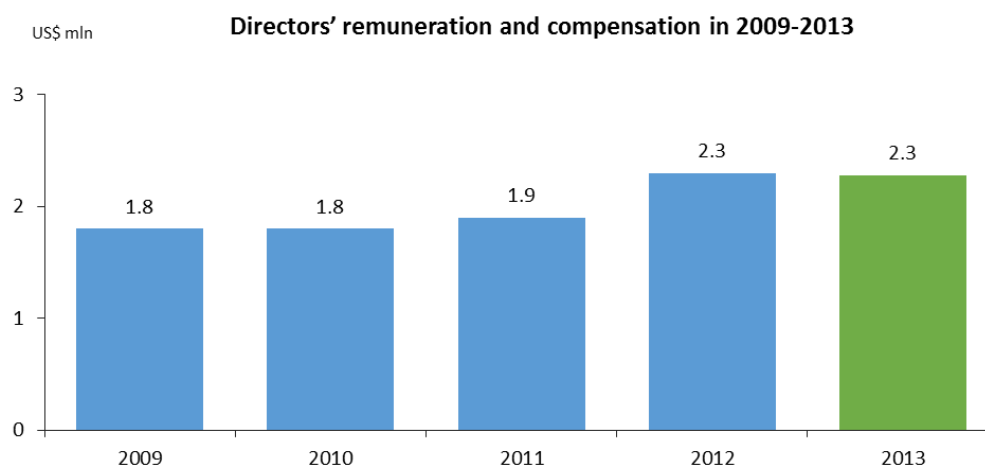
Compensation

All expenses of the members of the Board of Directors that are directly connected with the performance of their functions are subject to compensation by the Group. The following expenses are considered to be reimbursable:

- transportation costs of the members of the Board of Directors incurred while travelling to meetings;
- Costs for accommodation incurred while attending meetings;
- Representation expenses;
- Costs associated with obtaining the professional advice of experts on issues under consideration at the meetings of the Board of Directors;
- Costs associated with translating materials to be studied by members of the Board of Directors into a foreign language.

Remuneration and compensation paid to Board members in 2013 (US\$ m)

Item	2013
Payments made to members of the Board of Directors	2.3
Including remuneration	2.2



Committees of the Board of Directors

For the purposes of handling certain aspects of NLMK Group business, and in accordance with the Board of Directors Regulations, the Board of Directors has established the following standing committees:

- the Strategic Planning Committee
- the Audit Committee
- the Human Resources, Remuneration and Social Policies Committee.

Strategic Planning Committee

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

The Strategic Planning Committee is completely accountable to the Board of Directors of NLMK and acts as an advisory body. The activity of the Committee is governed by the 'Regulations on the Strategic Planning Committee'.

The Committee comprises members of the Board of Directors:

- Vladimir Lisin (Chairman)
- Oleg Bagrin
- Vladimir Skorokhodov
- Benedict Sciortino (independent director)
- Karl Doering
- Karen Sarkisov
- Helmut Wieser (independent director)
- Franz Struzl (independent director)
- Alexey Lapshin

Results of the Committee's activity for 2013

In 2013, the Strategic Planning Committee held two meetings (all meetings were held in person). In 2013, the Committee approved the Group's long-term strategy. Decisions were made on the following issues:

- Strategic development objectives for NLMK Group and its divisions;
- Development programmes for the companies and operating units to achieve the strategic objectives;
- Restructuring of NLMK's European assets.

Table: Participation of Members of the Board of Directors in Committee Meetings in 2013.

Full name	Position	Participation in meetings in 2013
Vladimir Lisin	Chairman of the Committee, Chairman of the Board of Directors	2
Oleg Bagrin	Member of the Board of Directors, President (Chairman of the Management Board)	2
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	2
Karl Doering	Member of the Board of Directors	2
Benedict Sciortino	Member of the Board of Directors	2
Karen Sarkisov	Member of the Board of Directors	2
Helmut Wieser	Member of the Board of Directors	2
Franz Struzl	Member of the Board of Directors	2
Alexey Lapshin	Advisor to the Chairman of the Board of Directors	2

Audit Committee

The Audit Committee, chaired by an Independent Director, drafts and submits to the Board recommendations regarding the efficient supervision of the financial and business activities of the Company, including annual independent audits of financial statements, the quality of services provided by the auditor and compliance with the requirements for auditor independence.

The activity of the Audit Committee is fully accountable to the Board of Directors of NLMK and is an advisory body.

The Committee members comprise:

- Benedict Sciortino (Chairman, independent director)
- Franz Struzl (independent director)
- Nikolai Gagarin
- Karl Doering
- Karen Sarkisov

Results of the Committee’s activity for 2013

In 2013 there were four meetings of the Audit Committee, in which the following decisions were made and measures adopted for their implementation:

- A proposal was prepared and submitted for the Annual General Shareholder Meeting recommending that the RAS financial (accounting) statements of the Group for 2012 be approved.
- A draft assessment of the external auditor’s audit report of the Group’s RAS financial (accounting) statements for 2012 was prepared and approved. A proposal was submitted to the Board of Directors to confirm the assessment of the audit report as material to be presented at the Annual General Shareholder Meeting.
- A proposal was prepared for the Board of Directors containing recommendations for the General Shareholder Meeting on the Group’s external auditor in 2013 and the amount of its remuneration.
- A recommendation to approve the US GAAP consolidated financial statements for the year 2012 was prepared and submitted to the Board of Directors.
- The US GAAP condensed interim consolidated financial statements for Q1, H1, and the first 9 months of 2013 were reviewed and approved.
- Development concept for risk management processes, internal supervision and internal audit of the Group in 2013-2015 was approved.
- Developed procedures for ensuring timely access to information about potential and current trials and its disclosure in the RAS and US GAAP financial statements were reviewed and approved.

Table: Participation of Members of the Audit Committee in its Meetings in 2013.

Full name	Position	Participation in meetings in 2013
Benedict Sciortino	Chairman of the Committee, Member of the Board of Directors	4
Nikolai Gagarin	Member of the Board of Directors	3
Karl Doering	Member of the Board of Directors	3
Karen Sarkisov	Member of the Board of Directors	4
Franz Struzl	Member of the Board of Directors	4

Human Resources, Remuneration and Social Policies Committee

The Human Resources, Remuneration and Social Policies Committee makes recommendations to the Board of Directors on human resources policy, remuneration of senior management and the social policy of the Group, in particular with regard to the following issues:

- Development of a strategy, policy and standards aimed at attracting qualified professionals to manage the Group.
- Development of corporate social programmes that provide staff and their families with healthcare options.
- Implementation of occupational safety and health standards.
- Remuneration of members of the management and the Internal Audit Commission of the Group.
- Implementation of social programmes.
- Ensuring the transparency and accessibility of social programmes supported by the Group.
- Making charitable contributions.
- Partnership with state and municipal government agencies.
- Environmental safety and environmental protection measures.

The Committee members comprise:

- Vladimir Lisin (Chairman)
- Oleg Bagrin
- Vladimir Skorokhodov
- Alexey Lapshin

Results of the Committee's activity for 2013

Three meetings of the Committee on Human Resources, Remuneration and Social Policies were held in 2013 (including 2 in the form of absentee voting). The following issues were discussed at the meetings:

- Compensation of members' of the Board of Directors costs associated with their participation in the Committees;
- Achievement of targeted quantity and project performance indicators by members of the Management Board in 2012;
- Approval of the results of the first stage of the 'Roadmap for human resources committee' project;
- Appointment of secretary for the Human Resources, Remuneration and Social Policies Committee;
- Compliance with the independent director status requirements of the following candidates to the Board of Directors: Benedict Sciortino, Helmut Wieser, Franz Struzl;
- Proposals on the amount of remuneration to members of NLMK Board of Directors on the basis of the 2012 annual results;
- Review of key performance indicators and targets for the Members of NLMK's Management Board in 2013.

Table. Participation of Members of the Board of Directors in Committee Meetings in 2013.

Full name	Position	Participation in meetings in 2013
Vladimir Lisin	Chairman of the Committee, Chairman of the Board of Directors	3
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	3
Oleg Bagrin	Member of the Board of Directors, President (Chairman of the Management Board)	3
Alexey Lapshin	Advisor to the Chairman of the Board of Directors	3

Management Board

The implementation of the approved strategy and specific decisions of the Board of Directors is delegated to the President and the Management Board.

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

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

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

- Elaboration and submission of a development concept, strategic plans and major activity programmes to the Board of Directors, as well as preparation of reports on the status of their implementation, and development and approval of the Company's current activity plans.
- Establishment of procedures for NLMK's cooperation with its subsidiaries and affiliates and the appointment of NLMK representatives to management positions at these companies.
- Making recommendations to the senior management bodies for the approval of major transactions and related party transactions.
- Approval of transactions involving NLMK assets if the amount of the transaction exceeds 10% of the Company's assets.
- Making decisions concerning the Group's participation in other companies if the value of the acquired property is not more than 2% of the value of NLMK's assets

President (Chairman of the Management Board)

President (Chairman of the Management Board) manages the day-to-day activities of the Company, excluding issues that fall within the exclusive competence of the General Shareholders' Meeting, the Board of Directors and the Management Board; arranges for the execution of the decisions made by the

General Shareholders' Meeting and the Board of Directors. President (Chairman of the Management Board) acts without any Power of Attorney on behalf of the Company.

President (Chairman of the Management Board) submits candidates to the Management Board for approval to the Board of Directors, as well as proposals on the structure and number of members of the Management Board.

According to the corporate documents, President (Chairman of the Management Board) cannot simultaneously be the Chairman of the Board of Directors of the Company.

The President (Chairman of the Management Board) is elected by the General Shareholders' Meeting for a period lasting until the next Annual Meeting, unless otherwise stipulated by the General Shareholders' Meeting. Oleg Bagrin has been the President (Chairman of the Management Board) since 2012 and is also a member of the Board of Directors. He was last elected on 7 June 2013.

Composition of the Management Board

The structure and the number of members of the Management Board is approved by the Board of Directors; the opinion of the President (Chairman of the Management Board) is also considered. The composition of the Management Board is approved by the Board of Directors from candidates proposed by the President (Chairman of the Management Board).

As at 31 December 2013, the Management Board is made up of 10 people:

<i>Full name</i>	<i>Position</i>
Oleg Bagrin	Member of the Board of Directors President (Chairman of the Management Board)
Alexander Burayev	Director for Long Products and Metalware
Brijesh Garg	Vice President, Procurement
Alexander Gorshkov	Vice President, Iron Ore Division
Yuri Larin	Vice President, Technology Development & Operational Efficiency
Alexander Sapronov	Vice President, Logistics
Alexander Saprykin	Vice President, Strategic Raw Materials Division
Grigory Fedorishin	Vice President, Finance
Sergey Filatov	Managing Director
Stanislav Tsyrlin	Vice President, HR & Management System

Table. Shares owned by members of the Management Board.

<i>Full name</i>	<i>Position</i>	<i>Share of the authorized capital stock of NLMK</i>
Oleg Bagrin	Member of the Board of Directors President (Chairman of the Management Board)	Not an NLMK shareholder
Alexander Burayev	Director for Long Products and Metalware	0,00005%
Brijesh Garg	Vice President, Procurement	Not an NLMK shareholder
Alexander Gorshkov	Vice President, Iron Ore Division	Not an NLMK shareholder

Yuri Larin	Vice President, Technology Development & Operational Efficiency	0,00083%
Alexander Sapronov	Vice President, Logistics	Not an NLMK shareholder
Alexander Saprykin	Vice President, Strategic Raw Materials Division	Not an NLMK shareholder
Grigory Fedorishin	Vice President, Finance	Not an NLMK shareholder
Sergey Filatov	Managing Director	Not an NLMK shareholder
Stanislav Tsyrlin	Vice President, HR & Management System	Not an NLMK shareholder

Activity and remuneration of the Management Board in 2013

In 2013, there were 36 meetings of the Management Board, including 16 meetings that were held using absentee ballots. The following issues were considered at these meetings:

- Recommendations were submitted to the Board of Directors, as well as to the management units of subsidiaries and affiliated organizations, on the approval of related party transactions and issuing and floating NLMK bonds;
- Participation/withdrawing participation of the Group in other companies;
- Approval of draft decisions on matters within the competence of the General Shareholder Meetings of companies in which the Group is the sole participant/shareholder;
- Examination of the draft annual report of NLMK for 2012;
- Examination of previously issued instructions;
- Execution of the development programmes of NLMK's divisions (functional areas);
- Approval of the plan for Management Board meetings;
- Examination of draft budgets of the Group's divisions and the draft consolidated budget of the Group;
- Meeting key performance indicators of the Group (incl. supporting companies);
- Approval of transactions;
- Group's consolidated budget execution;
- Meeting Group's key performance indicators in occupational health & safety;
- Examination of the working capital.

Table. Participation of Members of the Management Board in Meetings of this body in 2013

Management Board Member	Participation in meetings
Oleg Bagrin	36
Alexander Burayev	36
Brijesh Garg	36
Alexander Gorshkov	35
Yuri Larin	33
Alexander Sapronov	36
Alexander Saprykin	36
Grigory Fedorishin	36
Sergey Filatov	36
Stanislav Tsyrlin	36

Remuneration and compensation of members of the Management Board

Following best practice in corporate governance, NLMK strives to provide the most transparent reports of compensation awarded to the members of the Management Board.

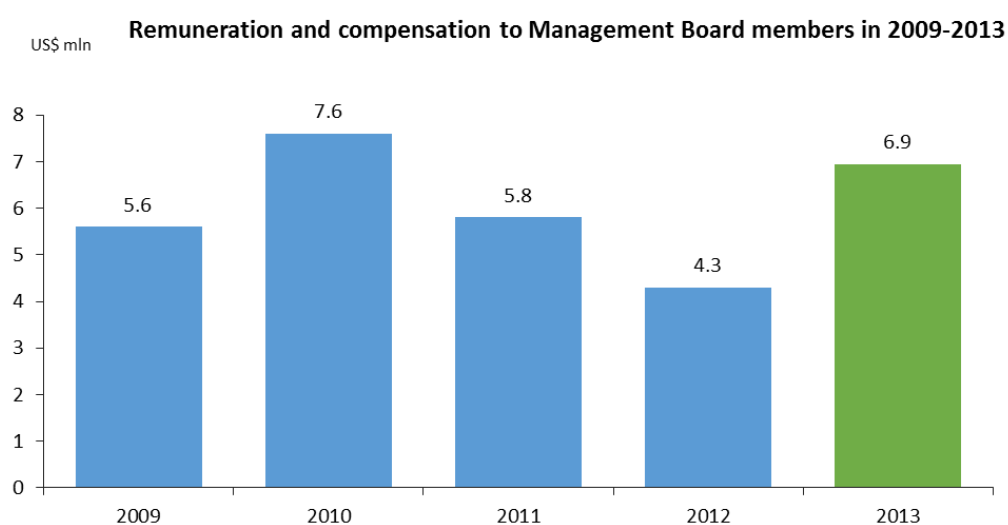
In accordance with the Regulations on the Management Board, members of the Board shall receive remuneration and compensation for expenses related to the performance of their responsibilities as members of the Board for their period of service. The conditions and procedure for remuneration of Management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

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

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

Table. Remuneration and compensation paid to Management Board members in 2013 (US\$ m)

Item	2013
Payments made to members of the Management Board	6.9
Including bonuses and salary	6.8



Corporate Secretary

Corporate Secretary role

Corporate Secretary's functions are to secure shareholders' rights and interests, including the creation of efficient and transparent mechanisms for securing such rights.

The Corporate Secretary's responsibilities include securing compliance by the Company, its management bodies and officers with the law and the Company's Charter and internal documents. The Corporate Secretary organizes the communication process between the parties to corporate relations, including the preparation and holding of General Meetings and meetings of the Company's Board of Directors; storage, disclosure and dissemination of information about the Company and reviewing communications from shareholders.

The Corporate Secretary acts as the Head of the Management Board Secretariat, as well as the AGM Secretary.

Valery Loskutov has been the Corporate Secretary since 2005.

Policy on major and related party transactions

Major transactions

According to the Russian legislation, a transaction (including loan, credit, pledge, and guarantees) or several related transactions connected with the acquisition, disposal or option to dispose, either directly or indirectly, of property with a value equal to 25 or more percent of the book value of the Company's assets, determined with respect to its records at the last reporting date, except transactions made in the normal course of business of the Company, transactions connected with the distribution of common shares of the Company by means of subscription (sale), transactions connected with the distribution of issued securities convertible to common shares of the Company, and transactions mandatory for the Company in line with federal laws and (or) other legal acts of the Russian Federation settled at prices determined as per the procedure set by the RF Government, or at the prices and tariffs set by the federal executive body authorized by the RF Government, are considered to be major transactions.

NLMK has developed procedures to approve and complete such transactions in order to eliminate their negative effects.

The Management Board submits recommendations on approval of major transactions to the Board of Directors. Resolution on approval of a major transaction made in respect of the property with a value of 25 to 50 percent of the book value of the Company's assets shall be adopted by the unanimous resolution of the Board of Directors of the Company, provided that the votes of retired members of the Board of Directors are disregarded.

In case there is no unanimous opinion in the Board of Directors of the Company, the issue on approval of a major transaction shall be transferred to the General Shareholders' Meeting by resolution of the Board of Directors of the Company. In this case a resolution on approval of a major transaction shall be passed by the General Shareholders' Meeting of the Company by a majority of votes of shareholders possessing voting shares and present at the General Shareholders' Meeting.

Resolution on approval of a major transaction in respect of property with a value of more than 50 percent of the book value of the Company's assets shall be passed by the General Shareholders' Meeting by a

majority of three fourths of votes given by shareholders possessing voting shares and present at the General Shareholders' Meeting.

Related party transactions

Company's policy on related party transactions is aimed at minimizing the risks of improper use of Company assets by senior management. NLMK has developed and implemented an efficient internal system for ensuring compliance with the requirements and a procedure for completing and approving related party transactions.

The Management Board submits recommendations on the approval of related party transactions to the Board of Directors. The decision to approve a related party transaction is made by a majority of votes cast by those members of the Board of Directors who are not related parties. If the transaction amount exceeds 2% of the total assets of the Company, then the matter is put before the General Shareholder Meeting for approval.

SUPERVISION OVER THE FINANCIAL AND BUSINESS ACTIVITIES

External auditors

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

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

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

In June 2013, ZAO PricewaterhouseCoopers Audit was selected to be the auditor for NLMK at the Annual General Shareholder Meeting in order to conduct an audit of financial statements prepared in accordance with the Russian Accounting Standards (RAS) and the US Generally Accepted Accounting Principles (US GAAP). Address: 10 Butyrsky Val, Moscow, 125047, Russia.

Remuneration

The Board of Directors has determined the amount of remuneration for audit services (review) of the US GAAP consolidated financial statements of NLMK for H1 2013, 9M 2013, 12M 2013 and Q1 2014, and the RAS Statements for 2013 to be US\$ 2,150,000 (excluding VAT).

Independence of external auditors

In 2013 ZAO PricewaterhouseCoopers Audit performed audits of consolidated financial statements prepared in accordance with US GAAP and financial statements of NLMK Group's major companies in accordance with RAS.

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

The Group has hired ZAO PricewaterhouseCoopers Audit and other PricewaterhouseCoopers companies (hereafter PWC) to provide consulting (non-audit) services. The management of NLMK has

conducted the necessary procedures, and is sure that these services do not affect the independence of the auditor and are not related to financial reporting. The share of consulting (non-audit) services provided by ZAO PricewaterhouseCoopers Audit for NLMK in 2013 amounted to about 7% of the total amount of services performed.

Internal Audit Commission

The Internal Audit Commission is a full-time internal control authority exercising continuous supervision over the financial and business activities of the Company. The Internal Audit Commission operates under the Charter and the Internal Audit Commission Regulations. It audits the financial and business activities of NLMK Group in order to obtain adequate assurance that the activities of NLMK Group comply with applicable Russian Federation laws and do not infringe upon the rights of Company shareholders, and that the Company reports and accounts contain no material misstatements.

The Internal Audit Commission acts for the protection of the shareholders' investments and the Group's assets and is elected by the General Meeting of Shareholders for a term of one year.

The following members of the Internal Audit Commission were elected on 7 June 2013:

- Valery Kulikov, Chairman of the Internal Audit Commission;
- Ludmila Kladienko, Member of the Internal Audit Commission;
- Sergey Nesmeyanov, Member of the Internal Audit Commission;
- Larisa Ovsyannikova, Member of the Internal Audit Commission;
- Galina Shipilova, Member of the Internal Audit Commission.

Activity in 2013

In 2013, the Internal Audit Commission held three meetings to examine the 2012 NLMK Financial and Operating Performance Audit Report and the report of the Commission was approved for 2012; the Commission's planned activities for 2013 were also discussed. The Commission reviewed the Group's financial and business activities for 2013 in accordance with its powers and on the basis of the approved plan.

Remuneration

Remuneration is paid to the members of the Internal Audit Commission in accordance with the Regulations on Internal Audit Commission Members' Remuneration and Compensation, which describes the criteria for receiving compensation as well as the amounts of said compensation.

Remuneration paid to the members of the Internal Audit Commission in 2013 totaled RUB 145,000 (US\$ 5,000).

Internal Audit Department

The Internal Audit Department is an inherent part of internal controls system exercising continuous supervision over the financial and business activities of NLMK. The objective of the department is to ensure the efficiency of operations, and to provide independent and objective guarantees that control procedures integrated into the operations are working properly.

The main functions of the Internal Audit Department:

- review, evaluation and monitoring of the internal controls efficiency and risk management;
- control over the proper execution of the existing business operations and regulatory documents;
- control over compliance with legal and normative requirements for financial and tax accounting and preparation of financial (tax) statements;
- control over existence and safety of the assets;
- audit of repair and construction activities ;
- consulting.

Activity in 2013

In 2013, the Internal Audit Department executed the following activities:

- audits of material risk management efficiency; and assessment of business process efficiency;
- audits of Company's financial and operational activities; compliance with financial and tax accounting regulations; and preparation of financial (tax) statements;
- in accordance with the existing laws on joint-stock companies and limited liability companies' statutes, the Internal Audit Department's employees participated in internal audits at NLMK Group companies;
- audits of repair and construction and other activities

RISK MANAGEMENT

The main goal of risk management for the Group is to minimize the possible negative effects on the business of changes to the external environment and to internal processes.

Risk management policy

The risk management policy is intended to protect the interests of shareholders, interested parties and society in general by means of a system of effective risk management. Risk management is a necessary component of the shareholder value creation process and is instrumental in achieving the Group's strategic goals.

Risk management process

In 2008–2009, in conjunction with Marsh, a large risk management consulting firm, we evaluated the effectiveness of our existing risk management system, developed recommendations to improve it and drafted a set of internal documents to regulate the Company's risk management procedures. Since 2010, the Group has implemented its risk management procedures independently.

Risk management is a continuous, integral and transparent process that involves all employees at various stages:

- Identification and constant monitoring of risks;
- Evaluation of potential impact of risks on the Group's business;
- Assignment of responsibility to risk owners;
- Development of risk management measures;
- Monitoring of critical risks.

Item	Impact level of risk	Description	Mitigation measures
COMMERCIAL RISKS			
Price risk	Critical risk	Risk for the Group emerges if pricing trends for finished products and key raw materials diverge. The key risk for the Group occurs when finished products price decline and coking coal and pellet prices increase.	In order to mitigate this risk the Group has developed the following measures: 1. Minimizing the risk through formula-based pricing 2. Monitoring and immediate reaction to changing spreads between steel products and key raw material prices
Credit risk	Critical risk	The bulk of Company's goods is sold on post-payment terms, which means that there is a risk of debt non-payment, increase of accounts receivable, additional expenses on debt servicing.	For risk management purposes the Group uses various transaction security tools: bank guarantee, factoring, accounts receivable insurance. Moreover, NLMK has implemented a protocol for evaluating the risks of default on obligations by contracted clients in case of a delay in payment. The protocol allows balanced decisions to be made with the aim of minimizing the risk of non-payment for deliveries by contracted clients.
Risks of raw materials procurement safety	Significant risk	Risks are caused by: 1) shortage of delivery (untimely delivery) of raw materials in case of accidents and other emergencies 2) suppliers' failure to comply with time and volumes of raw materials deliveries	1. Strategy 2017 of NLMK Group. 2. Determination of Group's demand for strategic raw materials in the long term. 3. Priority of long-term formula-based contracts for shipments of strategic raw materials. 4. Raw materials procurement management within category strategies.

FINANCIAL RISKS			
Currency risk	Critical risk	Risks associated with fluctuations in the currency. The majority receives the majority of its revenues from exports in foreign currency, while the majority of its expenditures is denominated in roubles.	<ol style="list-style-type: none"> 1. Control of open foreign exchange position. 2. Implementing natural hedging
Risk of managing stocks (incl. investment)	Significant risk	Risks associated with ineffective product flow management, build-up of undemanded stocks, overstocking of warehouses with finished goods	<ol style="list-style-type: none"> 1. Maintaining standard levels of stocks across the value chain
TECHNICAL (TECHNOLOGICAL) RISKS			
Technical (technological) risks	Critical risk	Technological risks involving the loss of property (or parts thereof) as a result of an accident at a production site, and reduction in revenue caused by production stoppages.	<ol style="list-style-type: none"> 1. Insurance of property and production stoppages 2. Risk-oriented Programme of maintenance and capital repairs of the Group's fixed assets 3. Technical policy is developed on the basis of acceptable risk levels and is aimed at increasing the safety of production processes, management and development of the Group 4. Quality control of input raw materials
INVESTMENT RISKS			
Risk of untimely launch of facilities	Critical risk	Risks of delays in the launch of facilities.	<ol style="list-style-type: none"> 1. Management based on the principles of Project management: identification of project risk zones, development of initiatives to minimize project risks
Risk of exceeding planned project costs	Critical risk	Risk of increasing costs of implemented investment projects compared to the confirmed projected level	
REGULATORY RISKS			
Change of labour legislation	Critical risk	<ol style="list-style-type: none"> 1. Change of government policy and legislation uncertainty related to insurance tariffs 2. Change of government approach to managing occupational health and safety 3. Change of government policy in managing bankruptcy effects 	<p>Key measure to mitigate risk effects are:</p> <ul style="list-style-type: none"> - monitoring of changes in legislation - involvement in government bodies' meetings.
CONTROL AND SAFETY			
Risk of personnel death as a result of an accident	Significant risk	Risks associated with the occurrence of accidents and incidents.	<ol style="list-style-type: none"> 1. All of the Group's production facilities have developed and implemented occupational health and safety standards. 2. Employees are provided with the latest personal protection and hygiene equipment.
Risk of fraud	Significant risk	Risk of losing money as a result of fraud by personnel or partners	<p>In order to mitigate this risk the Group:</p> <ol style="list-style-type: none"> 1) develops local regulatory acts and documents aimed at preventing corruption 2) carries out preventive measures to minimize risk of fraud 3) NLMK joined the Russian Business Anti-Corruption Charter
Risk of blocking information systems and data networks	Significant risk	Blocking of information systems and data networks (violation of information security requirements by Company's personnel or third parties).	<p>The main measures to mitigate risk effects are:</p> <ul style="list-style-type: none"> - carrying out an independent audit of information system security; - design, implementation and development of information system subsystems, modernization of information systems in accordance with information security requirements

ENVIRONMENTAL RISKS

Environmental risk	Less significant risk	Risks occur during the construction and operation of production sites, when there is a likelihood of environmental damage.	<p>In order to reduce environmental risks, we constantly monitor the chemical content of atmospheric emissions and wastewater discharge. The Group is also systematically reducing its impact on the environment through commissioning new, environmentally safe technological equipment and modernizing its existing equipment.</p> <p>The Group's companies also hold third-party liability insurance in case of accidents during the operation of hazardous production sites.</p>
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INFORMATION FOR SHAREHOLDERS

Ordinary shares

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

LSE (London) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
RTS (Moscow) Ticker Code	NLMK
Bloomberg Ticker Code	<ul style="list-style-type: none">• NLMK LI for GDS traded on the LSE• NLMK RM for shares traded on the MICEX platform of the Moscow Exchange• NLMK RU for shares traded on the RTS platform of the Moscow Stock Exchange
Reuters Ticker Code	<ul style="list-style-type: none">• NLMKq.L for GDS traded on the LSE• NLMK.MM for shares traded on the MICEX platform of the Moscow Stock Exchange• NLMK.RTS for shares traded on the RTS platform of the Moscow Stock Exchange

For information:

Indices that include NLMK shares (the weights below will be used in March-June 2014):

Moscow Stock Exchange (RTS-MICEX) (NLMK's share - 0.62%)

Moscow Stock Exchange (RTS-MICEX) Metals & Mining (NLMK's share – 11.83%)

Global Depositary Shares (GDS)

The ratio of Global Depositary Shares to ordinary shares is 1:10. The volume of Global Depositary Shares issued by NLMK and traded on the London Stock Exchange amounted to 7.49% of share capital as of 31 December 2013. On 31 December 2013, GDS were trading at US\$ 16.89.

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

Share price

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

	2013	2012
Price of GDS (US\$)		
Maximum	23.0	26.7
Minimum	12.5	14.9
Mean	16.8	20.0
End of year	16.9	20.3
Average volume of daily trade (US\$ m/day)	10.13	14.55

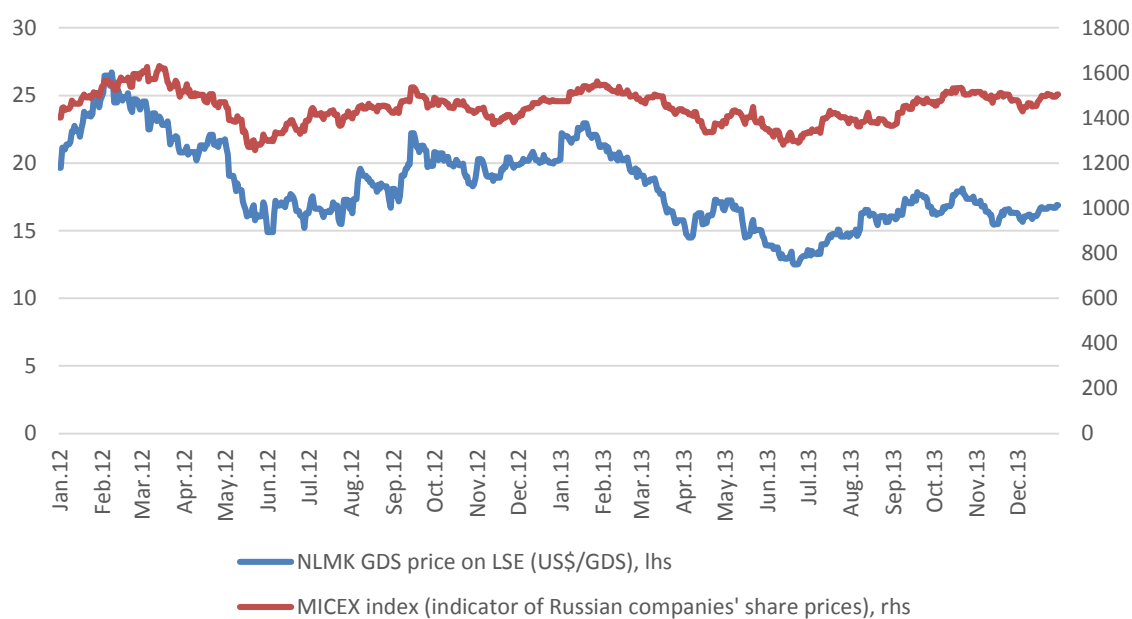
** The Company's shares were listed on the London Stock Exchange in the form of Global Depositary Shares on 15 December 2005.*

Ordinary NLMK shares on MICEX*

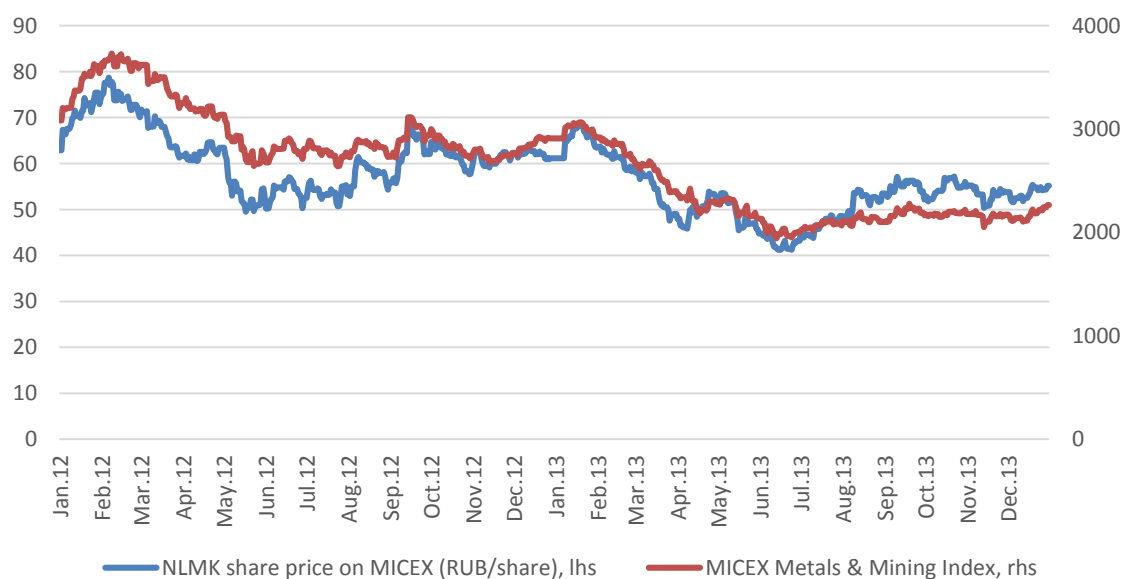
	2013	2012
Share price (RUB)		
Maximum	68.45	78.67
Minimum	41.20	49.54
Mean	52.87	61.58
End of year	55.18	61.15
Average volume of daily trade (RUB m/day)	223.35	442.39

* On 6 April 2006, NLMK ordinary shares began trading on MICEX, included in the schedule of non-listed securities.

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



NLMK share price on MICEX (RUB/share)



How we communicate with our shareholders

NLMK strives to comply with best international information disclosure practice in order to provide a clear understanding of its business, industry position, and strategy. The Group achieves this by making active use of all available channels of communication, including its corporate website, social media, and face-to-face management meetings.

The effectiveness of this all-round approach is evident from the list of Russian and international awards received by the Company in 2013:

- Placed among top three companies in the world in terms of financial disclosure by IR Global Rankings 2013.
- Shortlisted by UK IR Society in the “Most effective overall annual report by an international company” category.
- Won a number of national awards and nominations.

Market capitalization

NLMK market capitalization in 2013 was largely in line with the general trends seen in capital markets. Average market capitalization of the Company on the London Stock Exchange was US\$ 10 040 million (-16% year-on-year). At the end of 2013, NLMK share price was US\$ 1.69, or US\$ 16.9 per GDS, consistent with capitalization of US\$ 10.12 billion.

NLMK shares on MICEX were more robust compared to MICEX Metals & Mining index. Average NLMK share price on MICEX was 52.87 RUB/share (-14% year-on-year). MICEX sector index declined by (-) 23% year-on-year.

Taxation

In accordance with Russian legislation, the rate of taxation of dividend payments for corporate shareholders who are residents of the Russian Federation is 9%; for corporate shareholders who are non-residents, it is 15%; for individuals, the rates are 9% and 15% respectively (rate valid from 1 January 2008). Where an avoidance of double taxation agreement is in effect, tax payments are made in accordance with the rates specified in the agreement.

Note: Information on taxation is provided for general information purposes only. Potential and existing investors should consult with their own advisors regarding the tax consequences of investing in the Company's shares, including Global Depositary Shares (GDS).

Dividends

Our dividend policy

The Group's dividend policy, the latest version of which was approved in June 2011, is designed to provide shareholders and all interested parties with as much clarity as possible regarding the Group's strategy for the distribution and utilization of NLMK's net profit. In accordance with the dividend policy, providing that they do not impact the stability of the Group's financial situation and prospects for development, dividend payments may not be less than 20% of net income, determined in accordance with US GAAP. In addition, the Group aims to achieve an average dividend payout of at least 30% of net income, determined in accordance with US GAAP.

Net gains on the sale of investments in equity securities that do not provide a significant level of influence or control over the issuing company can be put towards the payment of dividends in full, providing there is no need to raise money for investment. The amount of dividends payable for each period is approved by

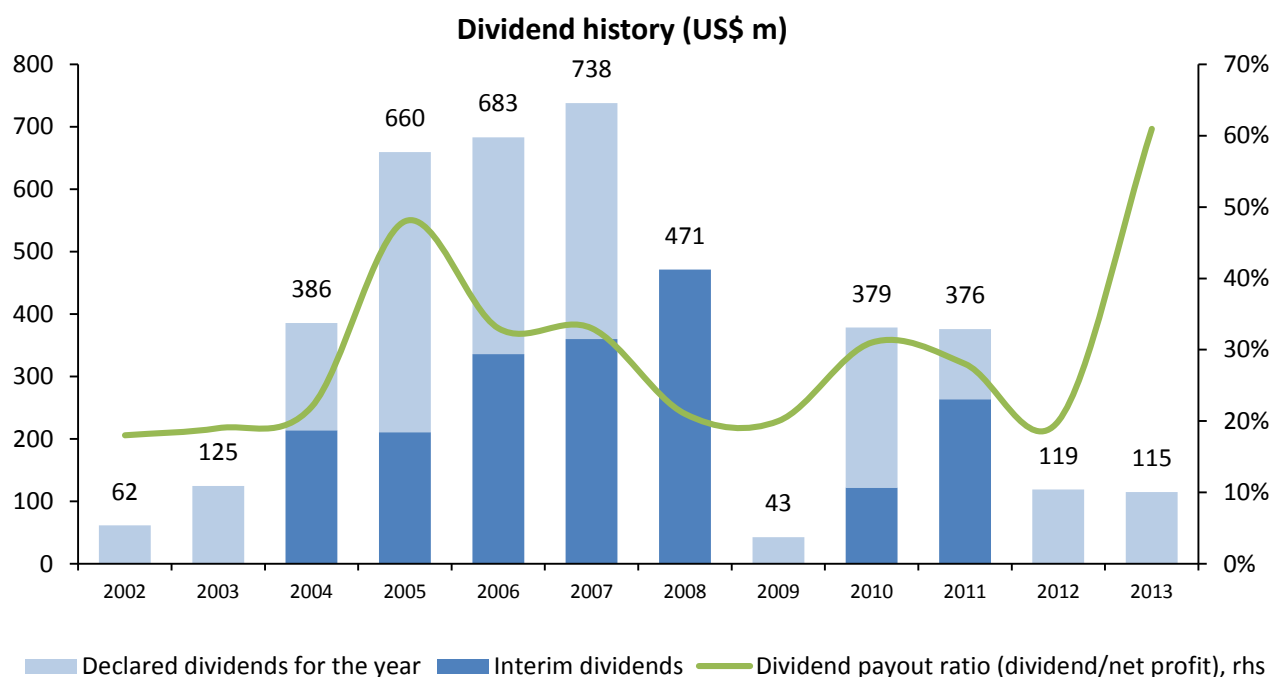
the Group's shareholders on the recommendation of the Board of Directors, and will depend on the Group's financial position, operating results, cash flow, outlook, general economic conditions, and other factors.

Declared dividends are paid to shareholders within 60 days of the date of their announcement, unless a shorter period is specified by decision of the General Meeting of Shareholders on the payment of dividends.

Dividends payable to GDS holders

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

Dividend history



The Annual General Meeting of NLMK Shareholders announced 2013 dividends for ordinary shares in the amount of RUB 0.67 in cash per share.

Corporate documents

The Group's corporate documents, including the Company Charter, are available at <http://nlmk.com>.

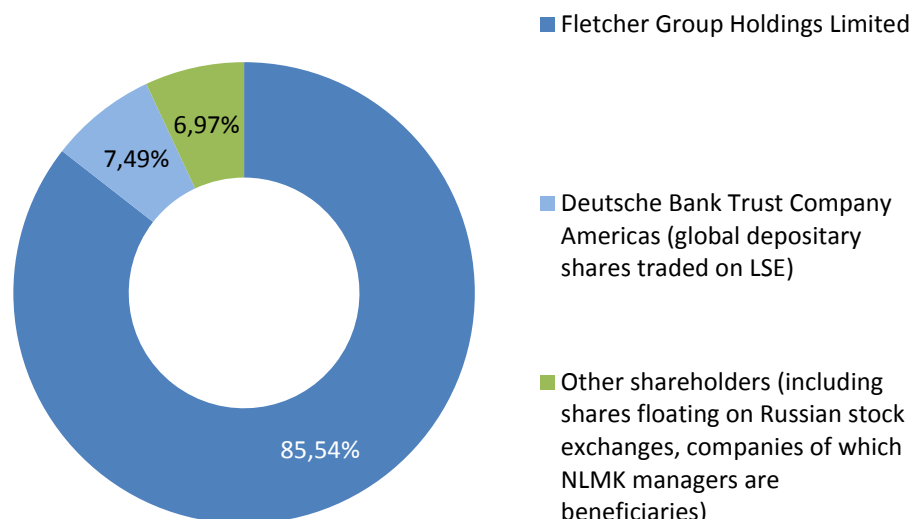
Financial reporting and disclosure

The Group posts announcements of financial results on the London Stock Exchange website via the regulatory news service (RNS) and then publishes them on the Group website in the form of press releases, and distributes them to the media.

The Company publishes its financial results on a quarterly basis.

The annual report is published in electronic form on the Group website, <http://nlmk.com>, on the day of its official publication. The Group shall give notice of this date in a specially issued press release. A hard copy of the annual report is available on request in the office of the Register of Shareholders and in the office of the Group's PR consultant in London.

Structure of share capital as at 31 December 2013



Financial calendar for 2014

Date	Event
27 January 2014	Q4 2013 trading update
10 February 2014	NLMK Capital Markets Day
27 March 2014	12M 2013 consolidated financial results (US GAAP)
28 March 2014	12M 2013 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
16 April 2014	Meeting of the Board of Directors (BoD)
22 April 2014	Q1 2014 trading update
19-23 May 2014	Q1 2014 consolidated financial results (US GAAP)
2-6 June 2014	Annual General Meeting of Shareholders
21 July 2014	Q2 2014 trading update
4-8 August 2014	H1 2014 interim financial results (US GAAP)
20 October 2014	Q3 2014 trading update
3-7 November 2014	9M 2014 interim financial results (US GAAP)

Contacts for shareholders

Registrar

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

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

Depository bank

Deutsche Bank Trust Company Americas

New York Headquarters

60 Wall St., New York, NY 10005

USA

London Office

Winchester House

1 Great Winchester St.

London EC2N 2DQ

United Kingdom

Valery Loskutov

Head of Shareholders' Equity Department

Corporate Secretary

Tel: +7 (4742) 44 49 89

Email: loskutov_va@nlmk.ru

Sergey Takhiev

Head of Investor Relations

Tel: +7 (495) 915 15 75

Email: ir@NLMK.com



Statements



RESPONSIBILITY STATEMENT

NLMK management, having considered the information available regarding the activities of the Company, confirms its responsibility for:

1. Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with US GAAP, as of December 31, 2013, 2012 and 2011, and also for the years ended on those dates, within balance sheets, profit and loss statements, cash flow statements, equity statements and the statements on the total income of shareholders and notes to the consolidated financial statements.

Management confirms the reliability of NLMK's financial status, operational results and cash flow results, as well as its subsidiaries and dependent companies in the consolidated financial statements.

2. The completeness and correctness of the information submitted in the NLMK Group Annual Report for 2013, specifically the information on the operational results of NLMK Group, the results of its strategic development, risks and events which in the near future may have impact on the operations of the Group.

The Company management confirms that the operational and financial indices fully reflect the outcome of NLMK Group's operations in 2013 and main changes regarding the previous periods as well as give a comprehensive representation on the development of NLMK and its subsidiaries and dependent companies.

President (Chairman of the Management Board)



O. Bagrin



**OJSC
NOVOLIPETSK STEEL**

CONSOLIDATED FINANCIAL STATEMENTS

**PREPARED IN ACCORDANCE WITH
ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN
THE UNITED STATES OF AMERICA**

**AS AT DECEMBER 31, 2013, 2012 AND 2011
AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

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Consolidated statements of income	5
Consolidated statements of comprehensive income	6
Consolidated statements of stockholders' equity	6
Consolidated statements of cash flows	7
Notes to the consolidated financial statements	8 – 38



Report of Independent Auditors

To the Board of Directors and Shareholders of OJSC Novolipetsk Steel:

We have audited the accompanying consolidated financial statements of OJSC Novolipetsk Steel (the "Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2013, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries at 31 December 2013, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ZAO PricewaterhouseCoopers Audit

March 27, 2014

OJSC Novolipetsk Steel
Consolidated balance sheets
as at December 31, 2013, 2012 and 2011 (thousands of US dollars)



	Note	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	4	969,992	951,247	797,169
Short-term investments	5	484,981	106,906	227,279
Accounts receivable and advances given, net	6	1,437,697	1,490,951	1,572,641
Inventories, net	7	2,123,755	2,826,933	2,828,433
Other current assets		7,578	30,394	59,355
Deferred income tax assets	17	77,864	62,959	18,887
		5,101,867	5,469,390	5,503,764
Non-current assets				
Long-term investments	5	501,074	19,293	8,420
Property, plant and equipment, net	8	10,002,996	11,753,157	10,569,828
Intangible assets, net	9(b)	115,958	141,922	158,611
Goodwill	9(a)	463,409	786,141	760,166
Deferred income tax assets	17	58,585	249,565	237,113
Other non-current assets		40,192	38,052	19,274
		11,182,214	12,988,130	11,753,412
Total assets		16,284,081	18,457,520	17,257,176
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	10	1,175,709	1,462,105	1,622,679
Short-term borrowings	11	1,119,286	1,816,169	1,306,263
Current income tax liability		21,553	23,800	10,994
		2,316,548	3,302,074	2,939,936
Non-current liabilities				
Deferred income tax liability	17	599,250	792,240	713,666
Long-term borrowings	11	3,038,041	2,815,554	3,073,535
Other long-term liabilities	12	55,433	457,362	424,878
		3,692,724	4,065,156	4,212,079
Total liabilities		6,009,272	7,367,230	7,152,015
Commitments and contingencies		-	-	-
Stockholders' equity				
NLMK stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2013, 2012 and 2011	14(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		256,922	306,391	306,391
Accumulated other comprehensive loss		(1,897,100)	(997,035)	(1,489,442)
Retained earnings		11,655,490	11,582,368	11,098,635
		10,246,752	11,123,164	10,147,024
Non-controlling interest		28,057	(32,874)	(41,863)
Total stockholders' equity		10,274,809	11,090,290	10,105,161
Total liabilities and stockholders' equity		16,284,081	18,457,520	17,257,176

The consolidated financial statements as set out on pages 4 to 38 were approved on March 27, 2014.

OJSC Novolipetsk Steel
Consolidated statements of income
for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)



	Note	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Revenue	20	10,909,442	12,156,592	11,728,556
Cost of sales				
Production cost		(7,928,521)	(8,494,438)	(7,780,243)
Depreciation and amortization		(861,516)	(767,715)	(588,707)
		(8,790,037)	(9,262,153)	(8,368,950)
Gross profit		2,119,405	2,894,439	3,359,606
General and administrative expenses		(424,185)	(448,268)	(556,169)
Selling expenses		(917,270)	(1,143,610)	(972,685)
Taxes other than income tax		(134,134)	(169,786)	(165,073)
Operating income		643,816	1,132,775	1,665,679
Loss on disposals of property, plant and equipment		(22,413)	(38,051)	(29,293)
Gains / (losses) on investments, net		21,124	(2,828)	11,922
Interest income		40,241	28,581	29,531
Interest expense		(113,869)	(68,462)	-
Foreign currency exchange gain, net		37,804	3,282	18,662
Other expenses, net		(123,222)	(140,428)	(14,337)
Income before income tax		483,481	914,869	1,682,164
Income tax expense	17	(221,937)	(304,712)	(421,034)
Income, net of income tax		261,544	610,157	1,261,130
Equity in net (losses) / earnings of associates	19	(53,958)	276	54,272
Net income		207,586	610,433	1,315,402
Add: Net (income) / loss attributable to the non-controlling interest		(18,846)	(14,628)	42,192
Net income attributable to NLMK stockholders		188,740	595,805	1,357,594
Earnings per share – basic and diluted:				
Net earnings attributable to NLMK stockholders per share (US dollars)		0.0315	0.0994	0.2265
Weighted-average shares outstanding: basic and diluted (in thousands)	15	5,993,227	5,993,227	5,993,227



Consolidated statements of comprehensive income

	Net income	Cumulative translation adjustment	Comprehensive income / (loss)	Non-controlling interest	Comprehensive income / (loss) attributable to NLMK stockholders
For the year ended December 31, 2011	1,315,402	(567,550)	747,852	(37,201)	785,053
For the year ended December 31, 2012	610,433	490,059	1,100,492	12,280	1,088,212
For the year ended December 31, 2013	207,586	(770,321)	(562,735)	18,250	(580,985)

Consolidated statements of stockholders' equity

Note	NLMK stockholders						Total stockholders' equity
	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Non-controlling interest	
Balance at December 31, 2010	221,173	10,267	98,752	(916,901)	10,261,214	(120,691)	9,553,814
Net income / (loss)	-	-	-	-	1,357,594	(42,192)	1,315,402
Cumulative translation adjustment	2(b)	-	-	(572,541)	-	4,991	(567,550)
Disposal of assets to the entity under common control	16	-	207,639	-	-	-	207,639
Change in non-controlling interest in deconsolidated subsidiaries		-	-	-	-	116,029	116,029
Dividends to shareholders	14(b)	-	-	-	(520,173)	-	(520,173)
Balance at December 31, 2011	221,173	10,267	306,391	(1,489,442)	11,098,635	(41,863)	10,105,161
Net income		-	-	-	595,805	14,628	610,433
Cumulative translation adjustment	2(b)	-	-	492,407	-	(2,348)	490,059
Change in non-controlling interest		-	-	-	-	(3,291)	(3,291)
Dividends to shareholders	14(b)	-	-	-	(112,072)	-	(112,072)
Balance at December 31, 2012	221,173	10,267	306,391	(997,035)	11,582,368	(32,874)	11,090,290
Net income		-	-	-	188,740	18,846	207,586
Cumulative translation adjustment	2(b)	-	-	(769,725)	-	(596)	(770,321)
Change of non-controlling interests in existing subsidiaries	13	-	(49,469)	-	-	42,681	(6,788)
Disposal of other comprehensive income as a result of deconsolidation	19(b)	-	-	(130,340)	-	-	(130,340)
Dividends to shareholders	14(b)	-	-	-	(115,618)	-	(115,618)
Balance at December 31, 2013	221,173	10,267	256,922	(1,897,100)	11,655,490	28,057	10,274,809

OJSC Novolipetsk Steel
Consolidated statements of cash flows
for the years ended December 31, 2013, 2012 and 2011 (thousands of US dollars)



	Note	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
CASH FLOWS				
FROM OPERATING ACTIVITIES				
Net income		207,586	610,433	1,315,402
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		861,516	767,715	588,707
Loss on disposals of property, plant and equipment		22,413	38,051	29,293
(Gains) / losses on investments, net		(21,124)	2,828	(11,922)
Interest income		(40,241)	-	-
Interest expense		113,869	68,462	-
Equity in net losses / (earnings) of associates	19	53,958	(276)	(54,272)
Deferred income tax expense	17	80,867	20,933	45,643
(Gains) / losses on derivatives		(455)	(8,522)	4,819
Other		(48,623)	14,293	24,967
Changes in operating assets and liabilities				
(Increase) / decrease in accounts receivable		(337,090)	166,715	130,417
(Increase) / decrease in inventories		(95,777)	169,858	(368,932)
Decrease in other current assets		7,351	31,628	13,495
Increase / (decrease) in accounts payable and other liabilities		412,147	(69,932)	97,616
Increase / (decrease) in current income tax payable		2,104	12,471	(10,118)
Cash provided by operating activities		1,218,501	1,824,657	1,805,115
Interest received		40,433	-	-
Interest paid		(81,486)	-	-
Net cash provided by operating activities		1,177,448	1,824,657	1,805,115
CASH FLOWS				
FROM INVESTING ACTIVITIES				
Purchases and construction of property, plant and equipment		(756,290)	(1,453,386)	(2,047,852)
Proceeds from sale of property, plant and equipment		6,371	28,692	26,980
(Purchases) / proceeds from sale of investments and loans given, net		(87,368)	13,334	1,568
(Placement) / withdrawal of bank deposits, net		(264,412)	124,986	192,310
Acquisition of additional stake in existing subsidiary	13	(9,609)	-	-
Disposal of investment in subsidiary	19(b)	46,169	-	-
Acquisitions of subsidiaries, net of cash acquired of \$112,806 in 2011	19(a)	-	(156,510)	(41,751)
Net cash used in investing activities		(1,065,139)	(1,442,884)	(1,868,745)
CASH FLOWS				
FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		2,005,458	1,819,425	1,967,362
Repayment of borrowings and notes payable		(1,995,800)	(1,798,836)	(1,683,536)
Capital lease payments		(24,400)	(23,116)	(32,525)
Dividends to shareholders		(113,613)	(116,529)	(516,335)
Proceeds from disposal of assets to an entity under common control		-	-	313,246
Net cash (used in) / provided by financing activities		(128,355)	(119,056)	48,212
Net (decrease) / increase in cash and cash equivalents		(16,046)	262,717	(15,418)
Effect of exchange rate changes on cash and cash equivalents		34,791	(108,639)	64,608
Cash and cash equivalents at the beginning of the year	4	951,247	797,169	747,979
Cash and cash equivalents at the end of the year	4	969,992	951,247	797,169

The accompanying notes constitute an integral part of these consolidated financial statements.

OJSC Novolipetsk Steel
Consolidated statements of cash flows
for the years ended December 31, 2013, 2012 and 2011 *(thousands of US dollars)*



	<u>Note</u>	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>	<u>For the year ended December 31, 2011</u>
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		(143,317)	(271,224)	(374,523)
Interest (excluding capitalized interest)		(81,486)	(68,462)	-
Placements of bank deposits		(1,231,976)	(144,315)	(528,737)
Withdrawals of bank deposits		967,564	269,301	721,047
Non cash investing activities:				
Capital lease liabilities incurred		17,108	29,869	18,430
Fair value of assets disposed in course of partial disposal of investment	19(b)	867,320	-	-
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of \$112,806 in 2011	19(a)	-	-	464,511



1 BACKGROUND

OJSC Novolipetsk Steel (the “Parent Company”) and its subsidiaries (together – the “Group”) is one of the world’s leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent Company’s name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group is one of the leading global suppliers of slabs and transformer steel and one of the leading suppliers to the Russian market of high value added products including pre-painted, galvanized and electrical steel as well as a variety of long steel products. The Group also operates in the mining segment (Note 20).

The Group’s main operations are in the Russian Federation, the European Union and the USA and are subject to the legislative requirements of the subsidiaries’ state and regional authorities.

The Group’s primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, comprise:

- Mining companies OJSC Stoilensky GOK, OJSC Stagdok and OJSC Dolomite. The principal business activities of these companies are mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-Koks. The principal business activity of this company is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl. The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- LLC NLMK Long Products, OJSC NSMMZ and scrap collecting companies. The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.

The Group’s major subsidiaries and associates, located outside the Russian Federation, comprise:

- Danish steel rolling company NLMK DanSteel A/S. The principal business activity of this company is production of hot rolled plates.
- Rolled steel producers of hot rolled, cold rolled coils and galvanized steel NLMK Pennsylvania LLC and Sharon Coating LLC, and also NLMK Indiana LLC, an EAF mini-mill producing hot-rolled steel located in USA.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. The principal business activity of these companies is sales of the Group’s products outside the Russian Federation.
- Investment in associated undertakings NLMK Belgium Holdings S.A. (NBH) – owner of European hot rolled, cold rolled coils and galvanized and pre-painted steel producers NLMK La Louvière S.A., NLMK Coating S.A. and NLMK Strasbourg S.A., and also producers of a wide range of plates NLMK Clabecq S.A., NLMK Verona S.p.A. as well as a number of steel service centers located in the European Union.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Basis of presentation

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group’s companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America (“US GAAP”).



2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION (continued)

(b) Functional and reporting currency

In accordance with the laws of the Russian Federation the accounting records of the Parent Company are maintained, and the Parent Company's statutory financial statements for its stockholders are prepared, in Russian rubles.

Functional currency of the majority of the Group entities is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of ASC No. 830, *Foreign currency matters*. As a result of these translation procedures, a cumulative translation adjustment of \$(770,321), \$490,059 and \$(567,550) was recorded directly in stockholders' equity in the years ended December 31, 2013, 2012 and 2011, respectively.

The Central Bank of the Russian Federation's Russian ruble to US dollar closing rates of exchange as of the reporting dates and the period weighted average exchange rates for corresponding reporting periods are indicated below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
For the 1 st quarter	30.4142	30.2642	29.2698
For the 2 nd quarter	31.6130	31.0139	27.9857
For the 3 rd quarter	32.7977	32.0072	29.0461
For the 4 th quarter	32.5334	31.0767	31.2304
As at December 31	<u>32.7292</u>	<u>30.3727</u>	<u>32.1961</u>

(c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant intercompany accounts and transactions have been eliminated.

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied by the Group from one reporting period to another with the exception of newly adopted accounting pronouncements.

(a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported.

Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks, bank deposits and other highly liquid short-term investments with original maturities of less than three months.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Accounts receivable and loans issued

Receivables and loans issued are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' and borrowers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(d) Value added tax (VAT)

Output value added tax related to sales of goods (work performance, services provision) is payable to the tax authorities upon delivery of the goods (work, services) or property rights to customers. Input VAT on goods and services purchased (received) is generally recoverable against output VAT. VAT related to sales / purchases and services provision / receipt which has not been settled at the balance sheet date (VAT deferred) is recognized in the balance sheet on a gross basis and disclosed separately within current assets and current liabilities. Where a doubtful debt provision has been made, a loss is recorded for the gross amount of the debt, including VAT.

(e) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written-off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

The provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

(f) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities using three categories: trading, held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

Held-to-maturity securities

Held-to-maturity securities are those securities which the Group has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

Premiums and discounts are amortized and recorded in the consolidated statement of income over the life of the related security held-to-maturity, as an adjustment to yield using the effective interest method.

Available-for-sale securities

All marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income in the stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, less tax, are determined on a specific identification basis. Dividend and interest income are recognized when earned.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments in associates and non-marketable securities

Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future, or under bankruptcy proceedings.

(h) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses (Note 3(k)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate portion of production overheads directly related to construction of assets.

Property, plant and equipment also include assets under construction and plant and equipment awaiting installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the consolidated statement of income as incurred.

Capitalized interest

Interest costs are capitalized against qualifying assets as part of property, plant and equipment.

Such interest costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction is interrupted for an extended period or when the asset is substantially complete. Further interest costs are charged to the statement of income.

Where funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of interest costs eligible for capitalization on that asset is the actual interest cost incurred on the borrowing during the period.

Where funds are made available from general borrowings and used for the purpose of acquiring or constructing qualifying assets, the amount of interest costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on these assets.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of ASC No. 805, *Business Combinations*, (“ASC No. 805”) at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by ASC No 930, *Extractive Activities – Mining*, (“ASC № 930”) subtopic 360, *Property, Plant and Equipment*.

Depreciation and amortization

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated remaining useful lives of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of and land. The range of the estimated useful lives is as follows:

Buildings and constructions	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

Mineral rights are amortized using the straight-line basis over the license term given approximately even production during the period of license.

(i) Leasing

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions where the Group is the lessee are classified into capital leases and operating leases. In a capital lease, the Group receives the major portion of economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

(j) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Under ASC No. 350, *Intangibles - Goodwill and Other*, (“ASC No. 350”) goodwill is first assessed with regard to qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. It is required to calculate the fair value of a reporting unit only if a qualitative assessment indicates that it is more likely than not that its carrying amount is more than its fair value.

The impairment test under ASC No. 350 includes a two-step approach. Under the first step, management compares fair value of a “reporting unit” to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount, if any, that the reporting unit’s goodwill carrying value exceeds its “implied” fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit (both recognized and unrecognized) from the fair value of the reporting unit (as determined in the first step).

The excess of the fair value of net assets acquired over acquisition cost represents negative goodwill (or “bargain purchase”) which is recognized as a gain in the consolidated statement of income on the date of the acquisition.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of long-lived assets

The Group performs tests for impairment of assets where an impairment trigger has been identified. In accordance with the requirements of US GAAP management first compares the carrying amount with the undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognized. If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value.

For the purposes of impairment testing, a long-lived asset or asset group represents the lowest level for which management can separately identify cash flows that are largely independent of the cash flows of other assets and liabilities. Management combines the assets of different entities which operate together performing different stages of the production of finished goods.

(l) Pension and post-retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation and other countries where the Group operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

In 2011, 2012 and for the nine months, ended September 30, 2013 (Note 19(b)) the Group maintained defined benefit pension and defined contribution plans that covered the majority of its employees in Europe. The plans covered statutory and voluntary obligations and included pensions, other post-retirement benefits, e.g. long-term severance benefits and some additional benefits (Note 12).

The Group's net obligation in respect of long-term severance indemnity funds and other post-employment pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods. The fair value of any plan assets is deducted. The obligation is calculated using the projected unit credit method and is discounted to its present value.

The Parent Company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund subsequently. As such, all these benefits are considered as made under a defined contribution plan and are expensed as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees of a number of the Group's companies on retirement depending on the employment period and the salary level of the individual employee. The scheme is considered as a defined benefit plan. The expected future obligations to the employees are assessed by the Group's management and accrued in the consolidated financial statements, however these are not material.

(m) Asset retirement obligations

The Group's land, buildings and equipment are subject to the provisions of ASC No. 410, *Asset Retirement and Environmental Obligations*. This ASC addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

The Group estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Group records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred.

The liability is subsequently accreted to its present value each period and the capitalized cost is depreciated in accordance with the Group's depreciation policies for property, plant and equipment. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted risk-free rate.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Borrowing activities

The Group's general-purpose funding is principally obtained from short-term and long-term borrowings. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

(o) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. The Group companies accrue expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

(p) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when a different tax rate is enacted.

Pursuant to the provisions of ASC No. 740, *Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the historical taxable income generation, projected future taxable income, the reversal of existing deferred tax liabilities and tax planning strategies in making this assessment.

The Group does not calculate deferred taxes in respect of temporary differences associated with investments in subsidiaries and associates.

The Group accounts for uncertain tax positions and reflects liabilities for unrecognized income tax benefits together with corresponding interest and penalties in the consolidated statement of income as income tax expense.

(q) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(r) Revenue recognition

Goods sold

Revenue from the sale of goods is recognized in the consolidated statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectability is reasonably assured.

Interest income

Interest income is recognized in the consolidated statement of income as it is earned.

(s) Shipping and handling

The Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with the delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. The share of this expense in selling expenses in 2011-2013 was about 90%.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and capitalized (Note 3(h)).

(u) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalents are defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognized as non-cash transactions.

(v) Segment reporting

According to ASC No.280, *Segment reporting*, segment reporting follows the internal organizational and reporting structure of the Group. The Group's organization comprises four reportable segments:

- steel segment, comprising production and sales of coke and steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- foreign rolled products, comprising production and sales of steel products in Europe and the US;
- long products segment, comprising a number of steel-production facilities combined in a single production system beginning from iron scrap collection and recycling to steel-making, production of long products, reinforcing rebar, and metalware;
- mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties;

and other segments, not reported separately in the consolidated financial statements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

(w) Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated statements of income and comprehensive income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

(x) Recent accounting pronouncements

In February 2013, the FASB issued an amendment to existing guidance regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment requires an entity to present information about reclassification adjustments from accumulated other comprehensive income in its annual financial statements in a single note or on the face of the financial statements. The amendment was effective prospectively for reporting periods beginning after December 15, 2012. As substantially all of the information that this amendment requires is already disclosed elsewhere in the consolidated financial statements, it did not have an impact on these consolidated financial statements.



4 CASH AND CASH EQUIVALENTS

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Cash – Russian rubles	70,834	58,922	54,448
Cash – US dollars	194,113	98,438	45,820
Cash – other currencies	160,551	183,307	66,561
Deposits – Russian rubles	204,851	441,141	173,644
Deposits – US dollars	331,778	105,940	290,854
Deposits – Euros	5,732	46,464	165,806
Deposits – other currencies	1,937	3,720	-
Other cash equivalents	196	13,315	36
	969,992	951,247	797,169

5 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Short-term investments and current portion of long-term investments			
Loans to related parties (Note 22(b))	107,565	-	-
Bank deposits and other investments	377,416	106,906	227,279
	484,981	106,906	227,279
Long-term investments			
Loans to related parties (Note 22(b))	78,030	-	-
Investments in associates	419,149	8,146	7,786
Bank deposits and other investments	3,895	11,147	634
	501,074	19,293	8,420
Total investments	986,055	126,199	235,699

Investments in associates

	As at December 31, 2013 Ownership	As at December 31, 2012 Ownership	As at December 31, 2011 Ownership	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
NLMK Belgium Holdings S.A. (Note 19)	79.50%	100.00%	100.00%	412,799	-	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	50.00%	6,350	8,146	7,786
				419,149	8,146	7,786



6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Trade accounts receivable	895,627	827,826	944,250
Advances given to suppliers	66,813	105,717	154,622
VAT and other taxes receivable	488,173	562,944	511,118
Accounts receivable from employees	3,346	4,375	2,799
Other accounts receivable	129,902	152,607	87,710
	<u>1,583,861</u>	<u>1,653,469</u>	<u>1,700,499</u>
Allowance for doubtful debts	(146,164)	(162,518)	(127,858)
	<u>1,437,697</u>	<u>1,490,951</u>	<u>1,572,641</u>

As at December 31, 2013, 2012 and 2011 accounts receivable of \$141,666, \$264,389 and \$297,902, respectively, served as collateral for certain borrowings (Note 11).

7 INVENTORIES

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Raw materials	980,701	1,201,527	1,215,944
Work in process	526,589	876,523	685,472
Finished goods and goods for resale	684,203	852,855	1,021,828
	<u>2,191,493</u>	<u>2,930,905</u>	<u>2,923,244</u>
Provision for obsolescence	(67,738)	(103,972)	(94,811)
	<u>2,123,755</u>	<u>2,826,933</u>	<u>2,828,433</u>

As at December 31, 2013, 2012 and 2011, inventories of \$310,538, \$672,504 and \$641,654, respectively, served as collateral for certain borrowings (Note 11).

8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Land	215,769	270,882	201,852
Mineral rights	532,190	557,769	522,577
Buildings	2,532,082	1,937,315	1,748,813
Land and buildings improvements	2,079,292	1,384,364	1,280,211
Machinery and equipment	8,790,467	10,399,285	7,336,243
Vehicles	366,098	383,760	324,953
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,089,919	3,268,252	4,630,558
Leased assets	76,952	145,328	125,897
Other	101,561	151,066	125,585
	<u>16,784,330</u>	<u>18,498,021</u>	<u>16,296,689</u>
Accumulated depreciation	(6,781,334)	(6,744,864)	(5,726,861)
	<u>10,002,996</u>	<u>11,753,157</u>	<u>10,569,828</u>



8 PROPERTY, PLANT AND EQUIPMENT (continued)

In March 2011, the Group acquired a license for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this license as at December 31, 2013 is \$42,021.

In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this license as at December 31, 2013 is \$31,182.

A license for iron ore and non-metallics mining at Stoilensky iron-ore deposit in Belgorod Region was acquired by the Group in 2004 through a business combination. The net book value of these mineral rights as at December 31, 2013 is \$185,346. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2013, 2012 and 2011, property, plant and equipment of nil, \$203,838 and \$541,928 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are \$121,599, \$197,569 and \$171,764 for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013 the Group's management considered that the low level of economic activity combined with a deterioration in the steel market represented a trigger for impairment testing and has performed the tests for impairment of assets.

For the purpose of impairment testing for the year ended December 31, 2013, the Group's management has estimated cash flows for 6-19 years for different groups of assets and respective cash flows in a post-forecast period. Prices for steel products in these estimates were determined on the basis of forecasts of investment banks' analysts. The long-term growth rate implemented into the models varied from 1.8% to 3.5% for different groups of assets. As a result of these calculations no impairment was determined as at December 31, 2013.

For the purpose of impairment testing for the year ended December 31, 2012, the Group's management has combined all the entities of the European Strip Division into one reporting unit. The Group's management has assumed that negotiations with employee representatives and governmental authorities in respect of the proposed restructuring of the NLMK La Louviere plant are successful. As a result of these calculations no impairment was determined. Total assets dependent on the results of these negotiations amounted to \$653,073 as at December 31, 2012.

9 GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

Balance as at December 31, 2010	494,654
Acquired in new subsidiaries	289,711
Cumulative translation adjustment	(24,199)
Balance as at December 31, 2011	760,166
Cumulative translation adjustment	25,975
Balance as at December 31, 2012	786,141
Disposal of goodwill in a partially disposed investment (Note 19(b))	(289,711)
Cumulative translation adjustment	(33,021)
Balance as at December 31, 2013	463,409



9 GOODWILL AND INTANGIBLE ASSETS (continued)

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2011 of a controlling interest in SIF S.A. (Note 19(a)) amounted to \$289,711. At the time of acquisition this goodwill was assigned to the steel segment and foreign rolled products segment in the amount of \$128,441 and \$161,270, respectively, and was disposed as a result of NBH deconsolidation (Note 19(b)).

As at December 31, 2013 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to \$307,469, \$5,661, \$114,553 and \$35,726, respectively.

Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2013 and 2012 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result as at both dates the Group determined no impairment of the tested values. Key estimates used in the impairment model are consistent with those used for assets impairment tests. The discount rates of 8-11% for different assets were used.

Pursuant to revised ASU 2011-08, the Group assessed the qualitative factors for impairment of goodwill as at December 31, 2011 that indicated no need for further impairment testing.

(b) Intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2013	Gross book value as at December 31, 2012	Gross book value as at December 31, 2011
Customer base	LLC VIZ-Stahl	125	99,154	106,846	100,794
Industrial intellectual property	LLC VIZ-Stahl	149	52,209	56,260	53,074
Customer base	Novexco, Novex	180	89,910	89,910	89,910
Beneficial lease interest	NLMK Indiana	974	8,700	8,700	8,700
Industrial intellectual property	SIF S.A.	60	-	3,226	2,503
Customers relationships	NLMK DanSteel A/S	72	-	-	4,080
			249,973	264,942	259,061
Accumulated amortization			(134,015)	(123,020)	(100,450)
			115,958	141,922	158,611

The intangible assets were acquired in business combinations and met the criteria for separate recognition outlined in ASC No. 805. They were recorded under the provisions of ASC No. 805 at fair values at the date of acquisition, based on their appraised values. Aggregated amortization expense amounted to \$15,293, \$25,919 and \$14,850 for the years ended December 31, 2013, 2012 and 2011, respectively.

Estimated amortization expense in subsequent annual periods

2014	(19,820)
2015	(19,820)
2016	(19,852)
2017	(10,198)
2018 and later	(46,268)



10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Trade accounts payable	606,617	758,044	818,729
Advances received	105,313	111,833	133,402
Taxes payable other than income tax	134,006	166,841	143,379
Accounts payable and accrued liabilities to employees	204,143	227,399	199,300
Dividends payable	1,407	1,521	2,061
Short-term capital lease liability	17,395	21,669	14,757
Other accounts payable	106,828	174,798	311,051
	1,175,709	1,462,105	1,622,679

11 SHORT-TERM AND LONG-TERM BORROWINGS

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
<i>Parent Company</i>			
Bonds, RUR denominated, with interest rates from 7.75% to 10.75% per annum, mature or with put option in 2012-2017	1,400,660	1,669,297	1,416,108
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2012-2019	559,928	677,306	757,788
Bonds, USD denominated, with interest rates from 4.45% to 4.95% per annum, mature 2018-2019	1,319,585	506,531	-
Loan, RUR denominated, with interest rate 8.5% per annum, mature 2013	-	329,702	310,958
Loans, USD denominated, with interest rates from LIBOR (3 m) +1.2% to 3.86% per annum, mature 2012-2013	-	276,259	678,077
<i>Companies of the Foreign rolled products segment</i>			
Loans, EUR denominated, with interest rates from EURIBOR +0.3% to EURIBOR +3.5% per annum, mature 2012-2020	178,822	902,833	1,014,160
Loans, USD denominated, with interest rates from LIBOR +1.2% to LIBOR +1.625% and PRIME +0.625% per annum, mature 2012-2016	140,667	108,408	51,347
<i>Other companies</i>			
Loans, USD denominated, with interest rates from LIBOR +1.2% to LIBOR +2.5% per annum, mature 2014-2015	400,331	-	-
Loans, EUR denominated, with interest rates from EURIBOR (6 m) +0.9% to EURIBOR (6 m) +5.5% per annum, mature 2012-2022	114,685	117,773	108,767
Loans, RUR denominated, with interest rates 8.25% and 10% per annum, mature 2014-2017	38,406	36,643	30,771
Other borrowings	4,243	6,971	11,822
	4,157,327	4,631,723	4,379,798
Less: short-term loans and current maturities of long-term loans	(1,119,286)	(1,816,169)	(1,306,263)
Long-term borrowings	3,038,041	2,815,554	3,073,535



11 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

Amounts due for SIF S.A. shares as at December 31, 2013 are stated in loans in amount of \$250,024 since they were reassigned to a bank.

Amounts due for SIF S.A. shares included in other current liabilities as at December 31, 2011 amounted to \$145,631; included in other long-term liabilities as at December 31, 2012 and 2011 – \$282,697 and \$282,738, respectively.

The Group's long-term borrowings as at December 31, 2013 mature between 2 to 9 years.

The payments scheduled for long-term loans are as follows:

2015	722,883
2016	430,566
2017	381,938
2018	918,676
Remainder	583,978
	<u><u>3,038,041</u></u>

New borrowings

The amount of loans and bonds, received by the Group under new loan agreements concluded in the year ended December 31, 2013, and outstanding as at December 31, 2013, is \$1,605,078.

Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with all debt covenants as at December 31, 2013.

12 OTHER LONG-TERM LIABILITIES

	<u>As at December 31, 2013</u>	<u>As at December 31, 2012</u>	<u>As at December 31, 2011</u>
Long-term capital lease liability	15,789	34,642	26,389
Employee benefit obligation	-	92,592	80,458
Other long-term liabilities	39,644	330,128	318,031
	<u><u>55,433</u></u>	<u><u>457,362</u></u>	<u><u>424,878</u></u>

Other long-term liabilities as at December 31, 2012 and 2011 include payables of \$282,697 and \$282,738, respectively, for SIF S.A. shares (Note 19(a)). In 2012 the repayment terms of these payables were amended to postpone the third installment to 2014.



12 OTHER LONG-TERM LIABILITIES (continued)

	Year ended December 31, 2012	Year ended December 31, 2011
Present value of the defined benefit obligation	116,197	105,425
Less: Fair value of plan assets	(14,922)	(17,616)
Recognized liability for defined benefit obligations at the end of the period	101,275	87,809
Add: Liability for defined contribution plans	28	39
Total pension liabilities	101,303	87,848
Of which:		
Current	8,711	7,390
Non-current	92,592	80,458
Principal actuarial assumptions at the balance sheet date		
Discount rate at the end of the period	1.1% - 3%	2.5% - 4.4%
Inflation rate	2%	2%
Expense recognized in the income statement	<u>9,947</u>	<u>22,650</u>

13 CHANGE IN NON-CONTROLLING INTERESTS IN COMPANIES OF LONG PRODUCT SEGMENT

In August 2011, the Moscow Arbitrage Court ruled to recognize OJSC Maxi-Group as bankrupt and appointed a temporary management for six months. Management of the Group concluded that this bankruptcy procedure resulted in the loss of control of OJSC Maxi-Group and therefore deconsolidated this entity from the date of the court decision. Deconsolidation resulted in the derecognition of a non-controlling deficit of \$149,194 related to OJSC Maxi-Group. Deconsolidation also resulted in the disposal of nominal share of 36% in OJSC NSMMZ, representing a non-controlling deficit of \$33,165. The total result of the deconsolidation of OJSC Maxi-Group is a net loss of \$26,830, included in the "Gains / (losses) on investments, net" line in consolidated financial statements for the year ended December 31, 2011.

In February 2013, the Parent Company acquired through a public auction for \$9,609 a stake of 35.59% in OJSC NSMMZ. As a result of this transaction, there was a decrease in the additional paid-in capital by \$49,469 with a corresponding change of non-controlling interest for the year ended December 31, 2013.

14 STOCKHOLDERS' EQUITY

(a) Stock

As at December 31, 2013, 2012 and 2011, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.



14 STOCKHOLDERS' EQUITY (continued)

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at December 31, 2013, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$8,971,697, converted into US dollars using exchange rates at December 31, 2013. As it was previously reported in the statutory financial statements the retained earnings of the Parent Company, available for distribution as at December 31, 2012 and 2011 were \$10,361,802 and \$9,104,566, using exchange rates at December 31, 2012 and 2011, respectively.

The dividend policy provides for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

In June 2013, the Parent Company declared dividends for the year ended December 31, 2012 of 0.62 Russian rubles per share for the total of \$115,618 (at the historical rate). Dividends payable amounted to \$1,407 as at December 31, 2013 (Note 10).

In May 2012, the Parent Company declared dividends for the year ended December 31, 2011 of 2 Russian rubles per share for the total of \$375,776, including interim dividends for the six months ended June 30, 2011 of 1.4 Russian ruble per share for the total of \$263,704 (at the historical rate). Dividends payable amounted to \$1,521 at December 31, 2012.

In June 2011, the Parent Company declared dividends for the year ended December 31, 2010 of 1.82 Russian rubles per share for the total of \$378,687, including interim dividends for the six months ended June 30, 2010 of 0.62 Russian ruble per share for the total of \$122,218 (at the historical rate). Dividends payable amounted to \$2,061 at December 31, 2011.

15 EARNINGS PER SHARE

	<u>Year ended December 31, 2013</u>	<u>Year ended December 31, 2012</u>	<u>Year ended December 31, 2011</u>
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	<u>188,740</u>	<u>595,805</u>	<u>1,357,594</u>
Basic and diluted net earnings per share (US dollars)	<u>0.0315</u>	<u>0.0994</u>	<u>0.2265</u>

Basic net earnings per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2013, 2012 and 2011. The Parent Company does not have potentially dilutive shares outstanding.

16 DISPOSALS OF ASSETS

In June 2011, the Parent Company completed the disposal of 100% of its interest in NTK LLC and its subsidiaries (hereinafter, NTK) to an entity under common control for cash consideration of \$325 million (as at the date of payment). An after-tax gain on this transaction of \$207,639 was recognized by the Group and included within the "Disposal of assets to an entity under common control" line in the consolidated statements of stockholders' equity for the year ended December 31, 2011.



16 DISPOSALS OF ASSETS (continued)

The carrying amounts of the major classes of assets and liabilities of NTK as at the date of disposal were as follows:

Current assets	105,861
Non-current assets	<u>264,069</u>
Total assets	<u>369,930</u>
Current liabilities	(131,281)
Non-current liabilities	<u>(181,350)</u>
Total liabilities	<u>(312,631)</u>
Net assets	<u>57,299</u>

Information on NTK's transactions up to the date of disposal is as follows:

Sales revenue	243,685
Net income	<u>31,346</u>

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors Strategic Planning Committee in April 2010, the interest in NTK was classified as a non-core asset.

In 2012, the Group continued using the transportation services provided by NTK after the disposal. Accordingly, transactions with NTK in these consolidated financial statements are reflected within continuing operations of the Group within the steel segment.

17 INCOME TAX

	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>	<u>For the year ended December 31, 2011</u>
Current income tax expense	(141,070)	(283,779)	(375,391)
Deferred income tax expense:			
origination and reversal of temporary differences	<u>(80,867)</u>	<u>(20,933)</u>	<u>(45,643)</u>
Total income tax expense	<u>(221,937)</u>	<u>(304,712)</u>	<u>(421,034)</u>

The corporate income tax rate applicable to the Group is predominantly 20%. The income tax rate applicable to the majority of income of foreign subsidiaries ranges from 30% to 35%.



17 INCOME TAX (continued)

Income before income tax is reconciled to the income tax expense as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Income before income tax	483,481	914,869	1,682,164
Income tax at applicable tax rate	(96,696)	(182,974)	(336,433)
Change in income tax:			
- tax effect of non-deductible expenses	(50,039)	(40,299)	(23,235)
- effect of different tax rates	19,038	58,890	54,644
- unrecognized tax loss carry forward for current year	(30,951)	(132,468)	(112,629)
- write-off of previously recognized deferred tax assets	(62,659)	-	-
- other	(630)	(7,861)	(3,381)
Total income tax expense	(221,937)	(304,712)	(421,034)

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
<i>Gross deferred tax assets</i>			
Accounts payable and other liabilities	170,255	180,579	70,420
Non-current liabilities	120	643	2,172
Accounts receivable	27,501	29,068	6,114
Net operating loss and credit carry-forwards, including:	373,259	763,726	561,567
- related to subsidiaries located in Russia (expiring in 2016-2023)	77,341	82,147	74,878
- related to subsidiaries located in the USA (expiring in 2014-2029)	220,577	220,394	138,705
- related to subsidiaries located in Europe (expiring in 2014-2029)	-	1,734	1,308
- related to subsidiaries located in Europe (no expiration)	75,341	459,451	346,676
Other	6,581	-	-
Less: valuation allowance	(300,024)	(525,680)	(250,724)
	277,692	448,336	389,549
<i>Gross deferred tax liabilities</i>			
Property, plant and equipment	(704,253)	(869,586)	(780,223)
Intangible assets	(21,817)	(11,995)	(14,847)
Inventories	(32,247)	(43,004)	(60,807)
Other	-	(5,416)	(14,559)
	(758,317)	(930,001)	(870,436)
Total deferred tax liability, net	(480,625)	(481,665)	(480,887)



17 INCOME TAX (continued)

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group has established a valuation allowance against certain deferred tax assets. The Group regularly evaluates assumptions underlying its assessment of the realizability of its deferred tax assets and makes adjustments to the extent necessary. In assessing whether it is probable that future taxable profit will be available against which the Group can utilize the potential benefit of the tax loss carry-forwards, management considers the current situation and the future economic benefits outlined in specific business plans for each subsidiary.

Accounting for deferred tax consequences assumes best estimates of future events. A valuation analysis established or revised as a result of the assessment is recorded through deferred income tax expense in consolidated statements of income. In the second quarter of 2013 valuation models, previously supported deferred tax assets recoverability in Group's major European entities, were revised based on the results of analysis of economic condition in Europe. The revised models did not support recoverability of a part of these assets of \$62,659, which resulted in valuation allowance recognition in the second quarter of 2013. As of December 31, 2013 figures of the majority of these European entities were eliminated from consolidated balance sheet (Note 19(b)).

As at December 31, 2013, 2012 and 2011 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

18 FINANCIAL INSTRUMENTS

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables, and short-term loans approximate to a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments and notes receivable, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in an active market. Fair values for these investments are determined based on discounted cash flows and approximate their book values. The fair value of long term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates its book value.

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. Forward contracts were short-term with maturity dates in January, February and November 2013.

In 2012, the Group entered into Russian ruble / US dollar cross-currency interest rate swap agreements in conjunction with Russian ruble denominated bonds issued by the Group. As a result, the Group pays US dollars at fixed rates varying from 3.11% to 3.15% per annum and receives Russian rubles at a fixed rate of 8.95% per annum. Maturity of the swaps is linked to the Russian ruble denominated bonds redemption, maturing on November 2014.

In accordance with ASC No. 820, the fair value of foreign currency derivatives is determined using Level 2 inputs. The inputs used include quoted prices for similar assets or liabilities in an active market.

18 FINANCIAL INSTRUMENTS (continued)

Fair value of forwards is determined as the sum of the differences between the market forward rate in the settlement month prevailing at December 31, 2012 and the appropriate contract settlement rate, multiplied by discounted notional amounts of the corresponding contracts. Fair value of swaps is determined as the sum of the discounted contractual cash flows in Russian rubles and US dollars as at December 31, 2012.

The amounts recorded represent the US dollar equivalent of the commitments to sell and purchase foreign currencies. The table below summarizes the contractual amounts and positive fair values of the Group's unrealized forward exchange contracts in US dollars.

	As at December 31, 2013		As at December 31, 2012		As at December 31, 2011	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	-	-	34,551	1,196	-	-
Euro	-	-	31,912	468	-	-
	-	-	66,463	1,664	-	-

During 2013, 2012 and 2011 gains from forward exchange contracts amounted to \$4,611, \$9,109 and \$9,655, respectively. These gains and losses were included in "Foreign currency exchange gain, net" line in the consolidated statements of income.

The table below summarizes the contractual amounts and positive fair values of the Group's unrealized cross-currency interest rate swap agreements in US dollars.

	As at December 31, 2013		As at December 31, 2012		As at December 31, 2011	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	83,258	573	99,931	7,264	-	-
	83,258	573	99,931	7,264	-	-

During 2013 and 2012 gains / (losses) from cross-currency interest rate swap agreements amounted to \$(6,448) and \$6,976 and were included in "Foreign currency exchange gain, net" line in the consolidated statements of income.

19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A. AND NLMK BELGIUM HOLDINGS S.A. SHARES

(a) Acquisition of SIF S.A. shares

In December 2006, in line with a strategic partnership with the Duferco group, the Group acquired for \$805 million 50% of the issued shares of SIF S.A., which were accounted for by the Group under the equity method until July 2011. The transaction agreements provided for the Group the call option, and for Duferco group put and call options in regards to all interest in SIF S.A.

In July 2011, the Group exercised its call option to acquire the remaining 50% of SIF S.A. shares from Duferco group. The purchase price was \$600 million. The first tranche of \$150 million was paid on June 30, 2011. The remaining tranches are payable in arrears in three equal annual installments. Management assessed the fair value of the purchase consideration for 50% acquired as a result of the business combination as \$578 million.



**19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A.
AND NLMK BELGIUM HOLDINGS S.A. SHARES (continued)**

The fair value of 50% shares in SIF S.A. held before the business combination had been appraised at \$289 million. Fair value assessment was based on values of assets and liabilities of SIF S.A. determined by an independent appraiser. A gain of \$104 million as a result of remeasuring to fair value the previously held equity interest was recognized and included in the "Gains / (losses) on investments, net" line in the consolidated statement of income in 2011.

The total purchase consideration that includes the fair value of purchase consideration for 50% acquired as a result of the business combination and the fair value of the previously held interest amounted to \$867 million.

The table below summarizes the estimated fair values of SIF S.A.'s assets acquired and liabilities assumed. The fair values of property, plant and equipment and intangible assets were based on estimates determined by an independent appraiser. Management has determined that resulting SIF S.A.'s goodwill primarily reflects the control premium paid for the acquisition and future synergies from using SIF S.A. assets for marketing Group products in Europe and USA.

	<u>USD'mln</u>
Current assets	
Cash and cash equivalents	112.8
Accounts receivable and advances given, net	685.8
Inventories, net	1,169.5
Other current assets	26.9
	<u>1,995.0</u>
Non-current assets	
Intangible assets	11.6
Property, plant and equipment	1,735.3
Deferred tax assets	270.7
Other non-current assets	0.7
	<u>2,018.3</u>
Total assets	<u>4,013.3</u>
Current liabilities	
Accounts payable and other liabilities	(1,130.2)
Other current liabilities	(860.2)
	<u>(1,990.4)</u>
Non-current liabilities	
Deferred income tax liability	(380.2)
Other long-term liabilities	(1,065.4)
	<u>(1,445.6)</u>
Total liabilities	<u>(3,436.0)</u>
Net assets acquired	<u>577.3</u>
Purchase consideration	867.0
Goodwill	<u>289.7</u>

(b) Partial disposal of investment in NBH

In September 2013 the Group signed an agreement with Societe Wallonne de Gestion et de Participations S.A. (SOGEPA), a Belgian state-owned company, to sell a 20.5% stake in SIF S.A.'s subsidiary – NLMK Belgium Holdings S.A. (NBH), which comprises NLMK Europe's operating and trading companies, excluding NLMK DanSteel, for EUR 91.1 million (\$122.9 million). The agreement provides SOGEPa with certain governance rights over NBH and its subsidiaries, and key management decisions will be taken jointly by the Group and SOGEPa by their representation on the Board of Directors of NBH.

**19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A.
AND NLMK BELGIUM HOLDINGS S.A. SHARES (continued)**

The Group brought in SOGEPA as a strategic investor in the context of the continuing restructuring of its European assets aimed at further enhancing efficiency and optimizing costs.

The agreement resulted in the loss of control by the Group over NBH and therefore NBH was deconsolidated from the Group consolidated financial statements with effect from September 30, 2013.

The fair value of the Group's remaining 79.5% interest in NBH was determined based on management's best estimates of future cash flows, including assumptions regarding the increase in capacity utilization and the implementation of the operational business plan, including the restructuring plan. This stake in the amount of \$459.2 million was accounted for as an investment in associated undertakings, and will be treated as a related party balance. The Group has recorded a gain on disposal related to the transaction amounting to \$18.9 million, which is included in "Gains / (losses) on investments, net" line.

	<u>USD'mln</u>
Proceeds	122.9
Net assets of NBH at date of disposal	(373.8)
Fair value of remaining 79.5% of NBH	459.2
Release of cumulative translation adjustment	130.3
Goodwill written off	(289.7)
Fair value of put / call option	<u>(30.0)</u>
Gain on disposal	<u><u>18.9</u></u>

Information about the Group's operations with SIF S.A. and NBH is disclosed in Note 22.

The carrying amounts of assets and liabilities of NBH as at the date of disposal were as follows:

	<u>USD'mln</u>
Current assets	
Cash and cash equivalents	76.7
Accounts receivable and advances given, net	329.5
Inventories, net	609.4
Other current assets	<u>14.3</u>
	<u>1,029.9</u>
Non-current assets	
Property, plant and equipment, net	980.7
Deferred income tax assets	149.1
Other non-current assets	<u>3.7</u>
	<u>1,133.5</u>
Total assets	<u>2,163.4</u>
Current liabilities	
Accounts payable and other liabilities (including accounts payable to NLMK Group amounting to \$422.2 million)	(624.7)
Short-term borrowings (including loans from NLMK Group amounting to \$0.1 million)	<u>(302.2)</u>
	<u>(926.9)</u>
Non-current liabilities	
Deferred income tax liability	(199.2)
Long-term borrowings (including loans from NLMK Group entities amounting to \$76.6 million)	(531.9)
Other long-term liabilities	<u>(131.6)</u>
	<u>(862.7)</u>
Total liabilities	<u>(1,789.6)</u>
Net assets	<u>373.8</u>



**19 STEEL INVEST & FINANCE (LUXEMBOURG) S.A.
AND NLMK BELGIUM HOLDINGS S.A. SHARES (continued)**

Information on NBH's operations from January 1, 2013 to the date of disposal is as follows:

	<u>USD'mln</u>
Sales revenue	1,062.0
Net loss	<u>(276.7)</u>

Revenue and net loss of NBH for the fourth quarter of 2013 amounted to \$420,513 and \$(70,882), respectively.

Summarized financial information for NBH as at December 31, 2013 is as follows:

	<u>USD'mln</u>
Current assets	993.0
Non-current assets	<u>1,101.2</u>
Total assets	<u>2,094.2</u>
Current liabilities	(819.4)
Non-current liabilities	<u>(963.0)</u>
Total liabilities	<u>(1,782.4)</u>
Equity	<u>311.8</u>

The Group's share in NBH's net loss from the date of disposal to December 31, 2013 amounted to \$(54,218) and is included in "Equity in net (losses) / earnings of associates" line in the consolidated statements of income.

Fair value of options

In September 2013 SOGEPA and the Group also signed an option agreement, which provides call options for the Group and put options for SOGEPA over SOGEPA's 20.5% stake (5.1% of the common shares of NBH in each of 2016, 2017 and 2018, and any remaining stake after 2023).

Under the option agreement the exercise price will be based on the book value of NBH net assets, subject to a minimum value of 20.5% of the shares of EUR 91.1 million plus fixed interest. The Group has recognized a liability in respect of these options, based on their fair value in the amount of \$30 million as at December 31, 2013. Respective liability was included in other long-term liabilities.

The options have been valued using standard, market-based valuation techniques. The significant unobservable inputs used in the fair value measurement are the annualized volatility of the underlying shares and the fair value of the underlying shares.

20 SEGMENT INFORMATION

The Group has four reportable business segments: steel, foreign rolled products (Note 19), long products and mining. Results of the production of coke and coke-chemical products are now presented within the steel segment in these consolidated financial statements. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The investments in equity method investee and equity in net earnings / (losses) of associates are included in the foreign rolled products (Note 19) and the steel segments.



20 SEGMENT INFORMATION (continued)

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income from continuing operations, net of income tax.

Segmental information for the year ended December 31, 2013 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter- segmental operations and balances	Consolidated
Revenue from external customers	6,468,371	2,740,056	1,328,178	372,210	627	10,909,442	-	10,909,442
Intersegment revenue	1,396,165	1,698	388,149	978,765	-	2,764,777	(2,764,777)	-
Depreciation and amortization	(538,837)	(163,193)	(87,958)	(71,482)	(46)	(861,516)	-	(861,516)
Gross profit / (loss)	1,190,897	(33,739)	204,281	923,749	312	2,285,500	(166,095)	2,119,405
Operating income / (loss)	98,110	(257,182)	6,807	788,308	(2,513)	633,530	10,286	643,816
Interest income	208,412	658	5,914	24,540	1,147	240,671	(200,430)	40,241
Interest expense	(150,181)	(51,143)	(112,869)	-	(106)	(314,299)	200,430	(113,869)
Income tax	(57,655)	(45,380)	(3,445)	(116,806)	(232)	(223,518)	1,581	(221,937)
Income / (loss), net of income tax	160,479	(343,533)	187,042	762,328	(114)	766,202	(504,658)	261,544
Segment assets, including goodwill	13,046,727	1,925,216	2,781,821	2,374,010	62,838	20,190,612	(3,906,531)	16,284,081
Capital expenditures	(391,476)	(48,483)	(179,791)	(125,663)	(10,877)	(756,290)	-	(756,290)

Segmental information for the year ended December 31, 2012 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter- segmental operations and balances	Consolidated
Revenue from external customers	7,149,802	3,466,682	1,198,660	340,776	672	12,156,592	-	12,156,592
Intersegment revenue	1,526,183	1,336	446,057	996,889	-	2,970,465	(2,970,465)	-
Depreciation and amortization	(416,897)	(198,500)	(84,787)	(67,479)	(52)	(767,715)	-	(767,715)
Gross profit / (loss)	1,728,436	(71,609)	273,209	922,654	504	2,853,194	41,245	2,894,439
Operating income / (loss)	551,072	(346,901)	85,696	793,094	(2,316)	1,080,645	52,130	1,132,775
Interest income	254,444	1,442	4,170	20,182	1,242	281,480	(252,899)	28,581
Interest expense	(98,877)	(53,838)	(168,622)	-	(24)	(321,361)	252,899	(68,462)
Income tax	(161,158)	41,829	(16,085)	(160,823)	(372)	(296,609)	(8,103)	(304,712)
Income / (loss), net of income tax	817,389	(429,860)	(40,140)	618,056	580	966,025	(355,868)	610,157
Segment assets, including goodwill	14,713,625	3,861,038	2,822,417	2,269,724	55,224	23,722,028	(5,264,508)	18,457,520
Capital expenditures	(747,608)	(173,174)	(300,214)	(230,010)	(2,380)	(1,453,386)	-	(1,453,386)



20 SEGMENT INFORMATION (continued)

Segmental information for the year ended December 31, 2011 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	8,042,717	2,381,534	1,154,202	148,858	1,245	11,728,556	-	11,728,556
Intersegment revenue	985,008	3,182	640,140	1,290,944	-	2,919,274	(2,919,274)	-
Depreciation and amortization	(332,530)	(119,432)	(89,063)	(47,625)	(57)	(588,707)	-	(588,707)
Gross profit / (loss)	2,186,262	(60,531)	208,426	1,075,097	576	3,409,830	(50,224)	3,359,606
Operating income / (loss)	1,075,282	(305,210)	(54,714)	991,854	(851)	1,706,361	(40,682)	1,665,679
Interest income	280,318	2,630	2,815	8,248	1,141	295,152	(265,621)	29,531
Interest expense	(8,888)	(51,942)	(204,791)	-	-	(265,621)	265,621	-
Income tax	(245,235)	15,411	8,231	(210,795)	(292)	(432,680)	11,646	(421,034)
Income / (loss), net of income tax	1,159,764	(326,688)	(317,333)	840,543	1,902	1,358,188	(97,058)	1,261,130
Segment assets, including goodwill	13,060,968	4,225,510	2,471,958	1,870,993	45,774	21,675,203	(4,418,027)	17,257,176
Capital expenditures	(1,330,181)	(103,642)	(390,615)	(219,940)	(3,474)	(2,047,852)	-	(2,047,852)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area for the years ended December 31, 2013, 2012 and 2011, is as follows:

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Russia	4,373,360	4,398,398	4,462,871
European Union	2,073,889	2,538,793	2,771,159
Middle East, including Turkey	875,412	902,346	1,238,150
North America	1,558,876	1,646,819	1,189,609
Asia and Oceania	794,218	1,364,965	997,546
Other regions	1,233,687	1,305,271	1,069,221
	10,909,442	12,156,592	11,728,556

Geographically, all significant assets, production and administrative facilities of the Group are substantially located in Russia, USA and Europe.

21 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 23(f)).



21 RISKS AND UNCERTAINTIES (continued)

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of Russian ruble. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are difficult to determine at this stage. The financial markets are currently uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict.

In 2013, the global economic situation remained negative and this had a corresponding impact on steel markets, including European markets, which has resulted in, among other things, a lower level of customer demand for steel products, lower utilization rates and a downturn in steel prices.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

(b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: interest rate risk, foreign currency risk and commodity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. To manage this risk the Group analyzes interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risks. To minimize foreign currency risks the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency. At the same time standard hedging instruments to manage foreign currency risk might be used.

The net foreign currency position as at December 31, 2013 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	525,891	164,358	3,862
Accounts receivable and advances given	231,859	422,620	44,549
Short-term investments	350,303	107,565	-
Long-term investments	-	490,829	-
Accounts payable and other liabilities	(167,925)	(97,416)	(33,592)
Current income tax liability	(20,352)	(700)	(13)
Short-term borrowings	(460,582)	(170,673)	-
Long-term borrowings	(1,400,000)	(682,761)	-
Other long-term liabilities	(9,996)	(29,648)	-



21 RISKS AND UNCERTAINTIES (continued)

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group's future performance and the Group's operational results.

The Group minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

(c) Credit risk

Credit risk is the risk when counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group structures the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

(e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, general liability and vehicles. In respect of legislation requirements, the Group purchases insurance of civil liability of organizations operating hazardous facilities, compulsory motor third party liability insurance. The Group also buys directors and officers liability insurance, civil liability insurance of the members of self-regulatory organizations, voluntary health insurance for employees of the Group.

22 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850, *Related Party Disclosures*. Balances as at December 31, 2013, 2012 and 2011 and transactions for the years ended December 31, 2013, 2012 and 2011 with related parties of the Group consist of the following:



22 RELATED PARTY TRANSACTIONS (continued)

(a) Sales to and purchases from related parties

Sales

Sales to associates (NBH group in 2013 and SIF group in 2011) were \$227,697 and \$726,627 for the years ended December 31, 2013 and 2011, respectively. Sales to other related parties were \$9,079, \$11,320 and \$12,807 for the years ended December 31, 2013, 2012 and 2011, respectively.

Accounts receivable and advances given to related parties equaled \$330,986 (\$294,213 out of that amount relate to NBH group), \$39,930 and \$45,978 as at December 31, 2013, 2012 and 2011, respectively.

Purchases

Purchases from companies under common control (transportation services rendered by companies of Universal Cargo Logistics Holding group) were \$411,256, \$521,331 and \$342,493 for the years ended December 31, 2013, 2012 and 2011, respectively. Purchases from other related parties were \$16,334, \$11,366 and \$81,100 for the years ended December 31, 2013, 2012 and 2011, respectively.

Accounts payable to related parties were \$21,512, \$6,837 and \$3,453 as at December 31, 2013, 2012 and 2011, respectively.

(b) Financial transactions

Loans, issued to NBH group companies (Note 19(b)) and accounted for under short-term and long-term investments, amounted to \$185,595 as at December 31, 2013.

Deposits and current accounts of the Group companies in banks under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT and OJSC Lipetskcombank) amounted to \$92,449, \$77,079 and \$56,395 as at December 31, 2013, 2012 and 2011, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2013, 2012 and 2011 amounted to \$3,344, \$1,361 and \$873, respectively.

(c) Financial guarantees issued

As at December 31, 2013 guarantees issued by the Group for borrowings of NBH group companies' amounted to \$790,618, which is the maximum potential amount of future payments. Corresponding guarantees were accounted for within the Group as at December 31, 2012 and 2011. As at December 31, 2012 and 2011 the Group did not have guarantees issued for the loans of companies outside the Group. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses probability of cash outflows, related to these guarantees, as low.

(d) Common control transfers and disposal of investments

In June 2011, the Parent Company has completed disposal of 100% of its interest in NTK to an entity under common control for a cash consideration of \$325 million (as at the date of payment) (Note 16).

(e) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to \$6,517, \$13,151 and \$6,589 in 2013, 2012 and 2011, respectively. The Group has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

23 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.



23 COMMITMENTS AND CONTINGENCIES (continued)

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the accompanying consolidated financial statements.

Initiated in January 2010 by the non-controlling shareholder of OJSC Maxi-Group (Note 13) court proceeding at the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (hereinafter, ICA Court) regarding the enforcement of the additional payment by the Parent Company for the shares of OJSC Maxi-Group ended in January 2012 in favor to the Parent Company.

Initiated in December 2012 by the non-controlling shareholder of OJSC Maxi-Group court proceeding at ICA Court regarding the loss of assets in connection with a share-purchase agreement ended in January 2014. Arbitrators stated that ICA Court lacks jurisdiction to adjudicate the claim of Maxi-Group's non-controlling shareholder against the Parent Company and terminated examinations.

No further appeal is possible in these claims.

Recently there are still few court proceedings initiated by the non-controlling shareholder of OJSC Maxi-Group going on in certain European courts and related to the claim filed to ICA Court in January 2010. The Group's management considers the probability of unfavorable outcome in connection with these court proceedings is low and accordingly, no accruals in relation to these claims were made in these consolidated financial statements.

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to \$498,557, \$712,527 and \$1,396,561 as at December 31, 2013, 2012 and 2011, respectively.

(e) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

(f) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities, including certain operation of intercompany financing of Russian subsidiaries within the Group, that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed, and certain expenses used for profit tax calculation may be excluded from tax returns. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.



23 COMMITMENTS AND CONTINGENCIES (continued)

Russian transfer pricing legislation was amended starting from January 1, 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international principles. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (defined by applicable legislation), provided that the transaction price is not arm's length. Management exercises its judgment about whether or not the transfer pricing documentation that the entity has prepared, as required by the new legislation, provides sufficient evidence to support the entity's tax positions. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial position and the results of the Group's operations.

As at December 31, 2013, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

24 SUBSEQUENT EVENTS

The Group's management has performed an evaluation of subsequent events and did not find any through the period from January 1, 2014 to March 27, 2014, which is the date when these consolidated financial statements were available to be issued.