

ABOUT US

NLMK

EFFICIENCY LEADERSHIP

Report 2014



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1.

UNDERSTANDING NLMK

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

Mining and steelmaking are concentrated in cost-efficient regions; finished products are manufactured close to our main consumers in Russia, North America, and the EU.



Thanks to our self-sufficiency in key raw materials and energy, coupled with the technological superiority of our production capacity, NLMK is one of the most efficient and profitable steelmakers in the world. NLMK has a diversified product mix, ensuring our leading position in local markets and our sales effectiveness. By leveraging our advantages – our flexible production chain, balanced product mix, efficient sales system, and widespread customer base – we are able to react quickly to changing market conditions.

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

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

OPERATIONAL AND FINANCIAL PERFORMANCE

15.9_{mt}

steel production
(+3% y-o-y)

96%

steelmaking capacity utilization
(+1 p.p. y-o-y)

15.1_{mt}

sales volumes
(+2% y-o-y)

\$10.4_{bn}

sales revenue
(-5% y-o-y)

\$288_{m*}

effect of operational efficiency programme over the 2013 level

\$2.4_{bn}

EBITDA
(+58% y-o-y)

23%

EBITDA margin
(+9 p.p.)

* Including NLMK Belgium Holdings assets

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

\$1.7_{bn}

operating cash flow
(+46% y-o-y)

\$0.6_{bn}

investment
(-26% y-o-y)

\$1.2_{bn}

free cash flow
(+174% y-o-y)

\$1.6_{bn}

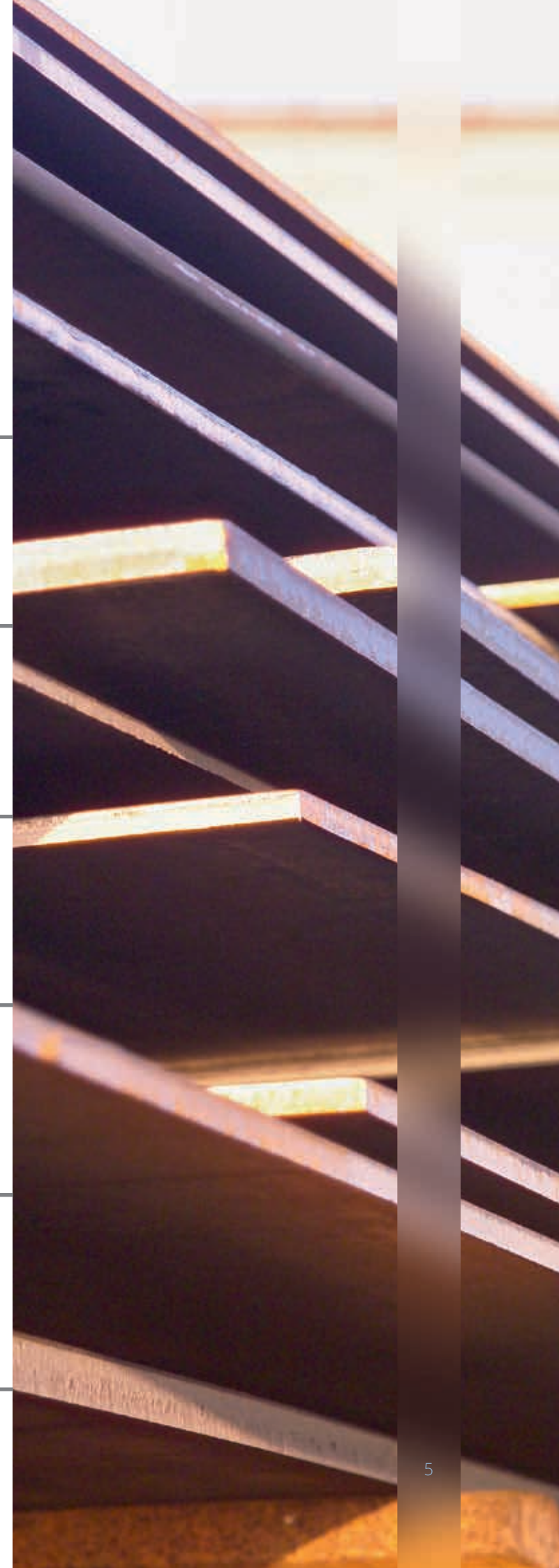
net debt
(-41% y-o-y)

0.67

net debt/EBITDA
(1.80 in 2013)

\$226_m

dividend payments during 2014
(+99% y-o-y)



EFFICIENT VERTICAL INTEGRATION OF RAW MATERIAL AND ENERGY RESOURCES

100%

self-sufficiency in iron ore concentrate

100%

self-sufficiency in coke

80%

self-sufficiency in scrap

54%

self-sufficiency in energy*

\$283

slab cash cost *

* Data for NLMK's main production site in Lipetsk

WIDELY DIVERSIFIED PRODUCTION MODEL, PRODUCT MIX, AND SALES MARKETS

80% / 20%

BOF/EAF production routes

25%

of rolling capacity in Europe*

Sales to over

70

countries worldwide

43%

sales to the domestic market (in tonnes)

18%

of rolling capacity in the US

PRODUCT MIX EXPANSION AND SECURE MARKET POSITIONS

21%

share of Russian steel production

20%

share of the Russian rebar market

24%

share of the Russian CRC market

17%

share of the Russian HDG market

21%

share of the Russian pre-painted steel market

c. 18%

share of the global slab market

>100

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

* Including NLMK Belgium Holdings assets

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

60,100

employees; 71% attended professional training sessions in 2014

\$141_m

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

20.3_{kg/t}

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

LTIFR 0.55

on Russian assets of NLMK Group
(-0,28 p.)

NLMK TICKER CODES

REUTERS

NLMKq.L

(LSE)

NLMK.RTS

(RTS)

NLMK.MM

(MICEX)

INDICES

INDICES THAT INCLUDE NLMK SHARES

RTS-MICEX

Moscow Exchange

CREDIT RATINGS*

BB+

Standard and Poor's

Ba1

Moody's

BBB-

Fitch

* Credit ratings as of April, 2015

BLOOMBERG

NLMK LI

(LSE)

NLMK RU

(RTS)

NLMK RM

(MICEX)

RTS-MICEX
Metals and Mining Sector

Moscow Exchange

2.

KEY PERFORMANCE TRENDS

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

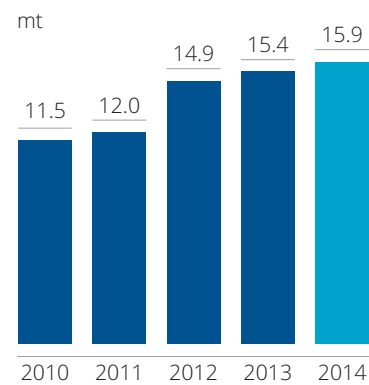
NLMK successfully achieved the sustainable development goals it set to ensure long-term leadership in the sector by relying on and further developing competitive advantages, focusing on improving efficiency across the board, and by recognizing the responsibility it has both to its own personnel and to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



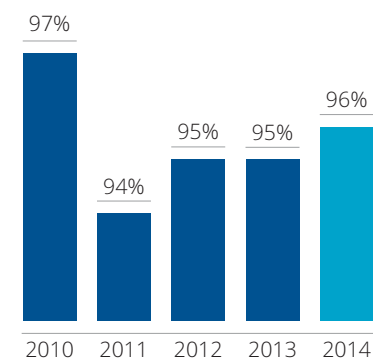
GROWTH OF OPERATIONAL PERFORMANCE INDICATORS

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

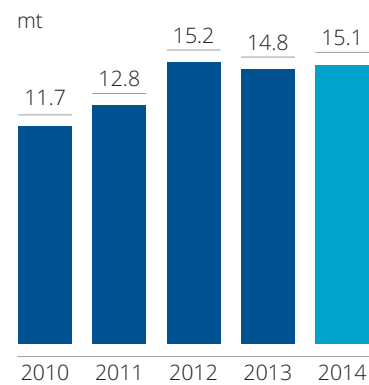
STEEL PRODUCTION



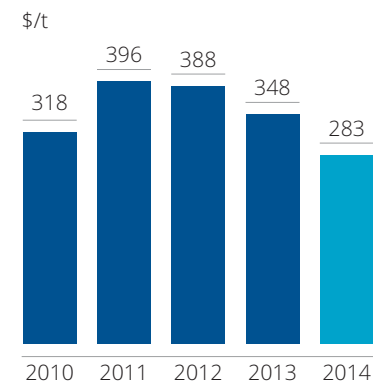
STEELMAKING CAPACITY UTILIZATION RATE



SALES VOLUMES



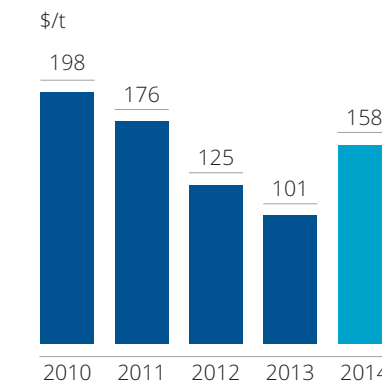
SLAB CASH COST



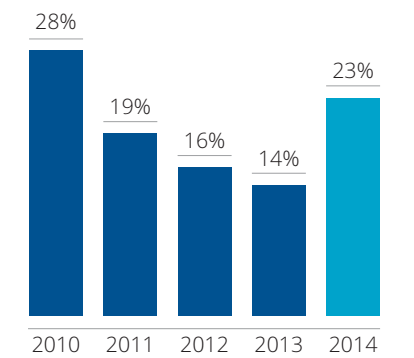
GROWTH OF FINANCIAL PERFORMANCE INDICATORS AND DELEVERAGING

- Structural increase of business profitability
- Growth of free cash flow
- Sufficient deleveraging

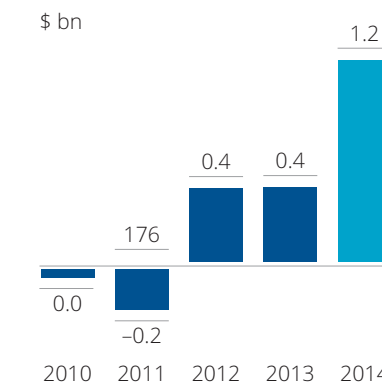
EBITDA PER TONNE OF SALES



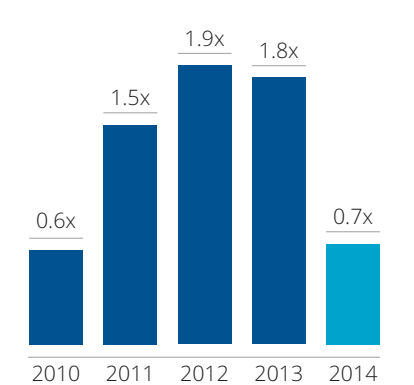
EBITDA MARGIN



FREE CASH FLOW TO FIRM



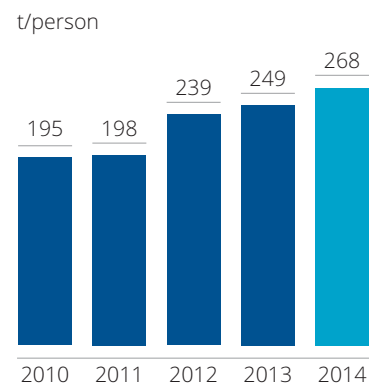
NET DEBT / EBITDA



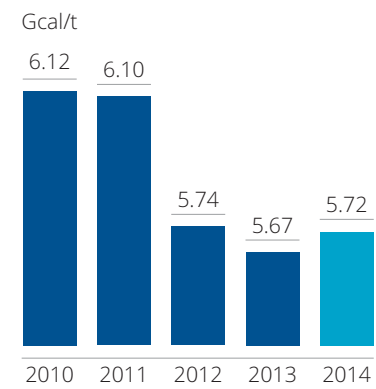
EFFICIENCY ENHANCEMENT AND STABLE BUSINESS DEVELOPMENT

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

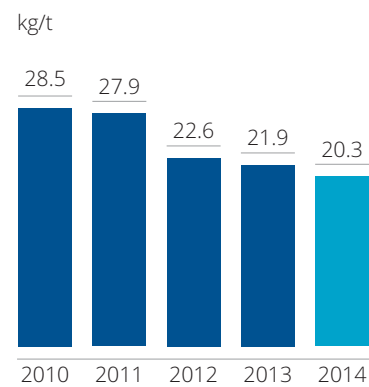
LABOUR PRODUCTIVITY



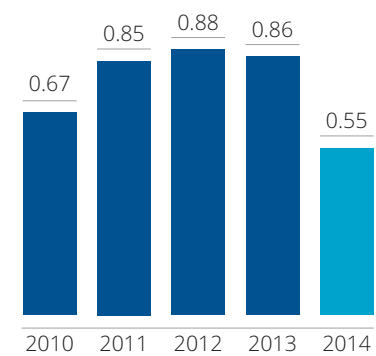
SPECIFIC ENERGY INTENSITY



SPECIFIC AIR EMISSIONS



LTIFR AT RUSSIAN ASSETS OF NLMK



3. OUR MILESTONES

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

Since its inception, NLMK has made innovation and development its key strategy. In order to achieve maximum levels of production efficiency for its high-quality steels, NLMK has controlled and optimized the use of its major resources, focused on innovation, and stressed the need for high levels of safety and corporate social responsibility with regard to both its employees and the areas in which it operates.



1934

COMPANY FOUNDED
The first blast furnace produces the first tonne of pig iron

2014

80 YEAR anniversary

NLMK GROUP STEEL OUTPUT (MT)



1941–1950

Second World War and post-war restoration

Evacuation of equipment during the war
Restoration of production in the post-war period

1950–1991

Development of steel production prompted by innovations

Intensive development of crude steel and rolled steel production at the Lipetsk site is aided by the best domestic and international technologies

1992–1999

Emergence of a vertically integrated group

Privatization of NLMK

Acquiring Stagdok and Dolomit

- The Company starts to build its raw materials base, covering its flux needs

2000–2003

Active equipment upgrades at the Lipetsk site

Energy, coke and chemical, and steelmaking capacities are actively upgraded at the Lipetsk site

- Production increases to 8.9 mt; energy self-sufficiency rises to 40%

2004–2006

Shaping of NLMK Group's raw materials and rolling segments

NLMK acquires Stoilensky

NLMK acquires Altai-Koks

- Significant hedging of raw material risks

NLMK acquires VIZ-Steel

NLMK acquires DanSteel A/S later renamed NLMK Dansteel

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 mt Blast Furnace No. 7 and a new basic oxygen furnace

- NLMK's low-cost production base in Russia expands by a third
- Stable supply of slabs to NLMK's international rolling assets secured

NLMK acquires Steel Invest and Finance rolling assets, formerly part of the NLMK 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

Launch of NLMK Kaluga mini-mill

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

NLMK launches a next-generation EAF mill, NLMK Kaluga

- Increased long product production in an undersupplied region
- Strengthening of the Company's position in the promising Russian market

2014

Beginning of a new phase of NLMK Strategy

In February 2014, NLMK announced new phase of the Company's development

- Increasing efficiency is a key principle of the new strategy
- Completion of investment phase, structural reduction of investment

Celebration of NLMK 80 year anniversary

All-time record of operating results

Sufficient improvement of NLMK's position on strategic markets (Russia, USA and Europe)

4. STRATEGY

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

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



OLEG BAGRIN, NLMK GROUP CEO, SAID:

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

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

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

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

OLEG BAGRIN, NLMK GROUP CEO

A handwritten signature in blue ink that reads "O. Bagrin". The signature is written in a cursive, flowing style.



Strategy 2017 is centred on gaining leadership in operational efficiency, developing a world-class resource base, and achieving leading positions in strategic markets. Special emphasis is placed on industrial safety, sustainability and human capital development.

Based on the results of 2014, Strategy 2017 envisions overall development capex of \$1 billion which will enable the Company to generate net gains of \$1 billion per year.

KEY ASPECTS OF STRATEGY 2017:

1. LEADERSHIP IN OPERATIONAL EFFICIENCY

HOW WE DO IT:

Maximum use of potential to enhance operational efficiency through investment programmes and NLMK Production System. Target net gains from these measures: US\$ 330 million/year over the 2013 level.

\$330 million/year over the 2013 level

target net gains from these measures

2. WORLD-CLASS RESOURCE BASE

HOW WE DO IT:

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

\$480 million/year over the 2013 level

target net gains from these measures

3. LEADING POSITIONS IN STRATEGIC MARKETS

HOW WE DO IT:

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

\$190 million/year over the 2013 level

target net gains from these measures

4. LEADERSHIP IN SUSTAINABILITY AND SAFETY

HOW WE DO IT:

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

Creation of the conditions for high labour productivity through provision of opportunities for professional training and through fostering of a strong corporate culture.

5.

STRATEGY IN ACTION

In 2014, NLMK Group achieved about \$400 m net gains (40% of the 2018 target), ahead of the plan.

These gains include structural savings of \$288 m coming from operational efficiency programmes.



LEADERSHIP IN OPERATIONAL EFFICIENCY

\$204_m of which \$198_m

total net gains in 2014

resulting from operational efficiency initiatives

WORLD-CLASS RESOURCE BASE

\$97_m of which \$90_m

total net gains in 2014

structural savings through operational efficiency improvements in the mining division

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

LEADING POSITIONS IN STRATEGIC MARKETS

\$100_m 15.1_{mt}

total net gains in 2014

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

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

LEADERSHIP IN SUSTAINABILITY AND SAFETY

LTIFR at NLMK Russian assets declined

by 36%_{year-on-year} to 0.55

which is an industry best practice level.

- Specific air emissions reduced by 7% y-o-y to 20.3 kg/t.
- Labour productivity grew 8% y-o-y across the Group.

CHANGING DIVIDEND POLICY ON IMPROVED FREE CASH FLOW AVAILABILITY TO SHAREHOLDERS

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

23%

EBITDA margin in 2014

0.67x

net debt/EBITDA at the end of 2014
(below Strategy 2017 target of 1.0x)

26%

capex decrease in 2014

\$550_m

mid-term average investment and maintenance capex

\$1,155_m

free cash flow in 2014

6.

OUR BUSINESS MODEL

NLMK has created a unique business model. A key factor is our ability to make the most of our strategic advantages based on the geographical location of our assets.



Mining and steel production (the most material- and resource-intensive aspects of the metallurgical process) are concentrated in low-cost regions, while finished products are manufactured much closer to the Group's client base.

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

THE KEY STAGES OF OUR PRODUCTION CHAIN ARE:

- Upstream
- Midstream
- Downstream

UPSTREAM

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

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

IRON ORE

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

Advantages

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

COKE AND COKING COAL

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

Advantages

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

SCRAP

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

Advantages

Scrap processing businesses within NLMK Group provide about 80% of the ferrous

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

FLUXES

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

Advantages

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

ELECTRICITY

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

Advantages

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

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

MIDSTREAM

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

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

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

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

Advantages

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

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

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

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

DOWNSTREAM

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

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

NLMK's steel processing plants are diversified both geographically and in terms of the products they manufacture. Our rolling facilities are located in Russia, Europe, and the USA. NLMK Group's rolling assets are divided by product group, namely steel sheets, plates, and long products.

\$283/t

slab production cost at the main production site

17 mtpa

steel production capacity, 93% of steelmaking facilities are situated in Russia

100%

of steel undergoes secondary metallurgy treatment



Production process efficiency and a flexible sales strategy allow NLMK to adjust its production programme depending on the market. If there is a weakening in demand for high value added products then production of standard grades of steel can be increased almost without loss for sale on more profitable markets; and when demand is restored the Group can increase output of high value added products, thus balancing out production.

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

ROLLED SHEET PRODUCTION

Rolled sheets accounted for approximately 70% of NLMK's finished products in 2014.

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

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

Advantages

A significant advantage NLMK enjoys is the proximity of the Group's sites that manufacture finished products to key customers. NLMK's key sales markets have traditionally been Russia, the EU and the USA.

The hot-strip mill at Novolipetsk was upgraded in 2014, increasing its production capacity to 5.7

* Including NBH capacities

million tonnes. Operational efficiency programmes at NLMK Group sites in 2014 enabled reduced waste from rolling operations, increased product quality and a boost in equipment productivity.

PLATE PRODUCTION

NLMK consolidated its position in the plate market in 2014, with sales growing by 15%. Plate manufacturing facilities are located in Denmark (NLMK Dansteel), Belgium (NLMK Clabecq) and Italy (NLMK Verona); together forming the NLMK Europe Plate division.

NLMK manufactures a wide variety of plates, ranging from commercial grades to unique high-strength and abrasion-resistant Quend and Qurd plates.

Advantages

NLMK benefits from an extensive product mix as well as the proximity of its production facilities to key customers as finished products are manufactured in Europe; NLMK's key sales market for plates.

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

LONG STEEL AND METALWARE PRODUCTION

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

NLMK assets manufacture rebar, wire rod, sections, various types of wire and wire

products, nails, fixing hardware, and other long products.

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

Advantages

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

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

7.

INTEGRATED PRODUCTION SYSTEM

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

NLMK Group employs a total of 60,100 people.



DIVISIONAL STRUCTURE OF NLMK GROUP

IRON ORE, SINTER ORE,
DOLOMITE, LIMESTONE, SCRAP

NLMK RUSSIA RAW MATERIAL PRODUCTION

Division structure:

Stoilensky,
Altai-Koks,
Dolomit,
Vtorchermet NLMK,
Stagdok,
Novolipetsk

Production:

- Coke (dry weight) – 6.4 mt
- Iron ore concentrate – 14.9 mt
- Sinter ore – 1.6 mt
- Dolomite – 2.5 mt
- Limestone – 4.1 mt
- Scrap processing – 2.3 mt

Top management:

Vladimir Dmitriev,
Sergey Napolskikh

SCRAP

NLMK RUSSIA FLAT PRODUCTS

Division structure:

Novolipetsk,
VIZ-Steel

Production:

- Pig iron – 0.32 mt
- Slab – 6.44 mt
- HR steel – 2.55 mt
- CR steel – 1.52 mt
- Galvanized steel – 0.62 mt
- Pre-painted steel – 0.50 mt
- NGO steel – 0.24 mt
- GO steel – 0.27 mt

Top management:

Sergey Filatov

SLABS

NLMK EUROPE STRIP

Division structure:

NLMK La Louviere (Belgium),
NLMK Coating (France),
NLMK Strasbourg (France)

Production:

- HR steel – 0.63 mt
- CR steel – 0.06 mt
- Galvanized steel – 0.26 mt
- Pre-painted steel – 0.05 mt

Top management:

Ben De Vos

NLMK EUROPE PLATE

Division structure:

NLMK DanSteel (Denmark),
NLMK Clabecq (Belgium),
NLMK Verona (Italy)

Production:

- Semi-finished steel (ingots) – 0.09 mt
- Thick plate – 1.07 mt

Top management:

Igor Sarkits

NLMK RUSSIA LONG PRODUCTS

Division structure:

NSMMZ, NLMK Kaluga,
NLMK Metalware

Production:

- Billets – 0.29 mt
- Rebar and wire rod – 1.99 mt
- Metalware – 0.33 mt

Top management:

Alexander Buraev

NLMK USA

Division structure:

NLMK Indiana (USA),
NLMK Pennsylvania (USA),
Sharon Coating (USA)

Production:

- HR steel – 1.14 mt
- CR steel – 0.53 mt
- Galvanized steel – 0.32 mt

Top management:

Robert Miller

8.

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.



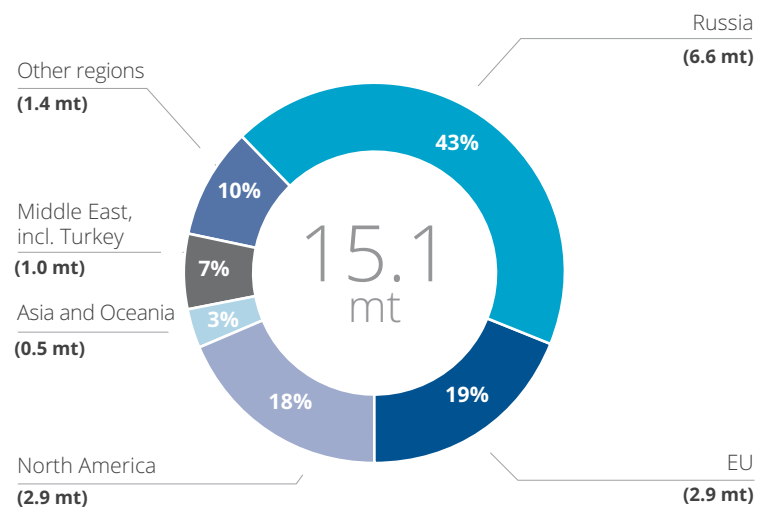
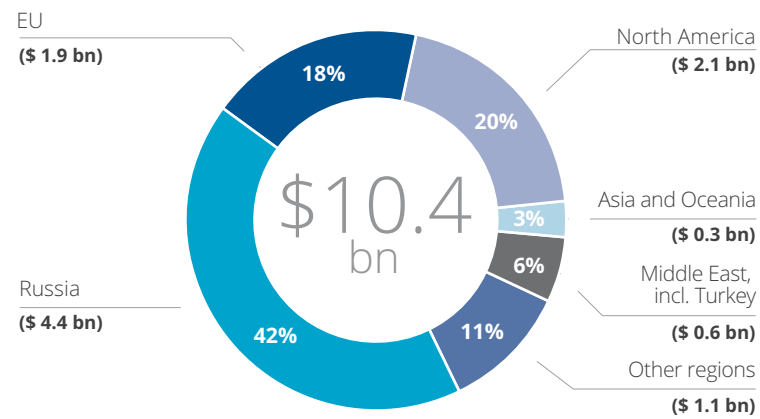
3

continents where we operate

13

countries where NLMK assets are located

STEEL PRODUCT SALES BY REGION IN 2014



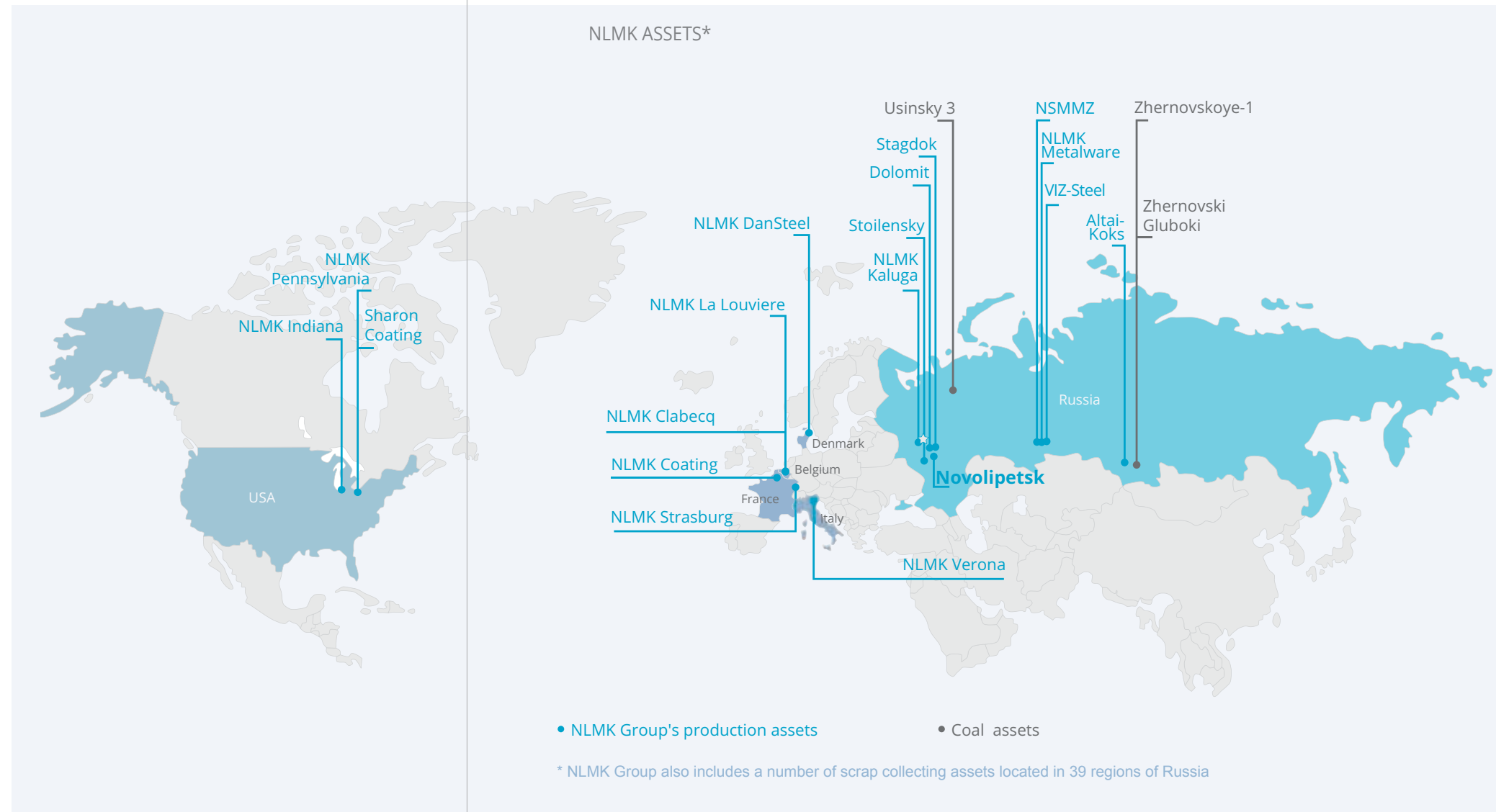
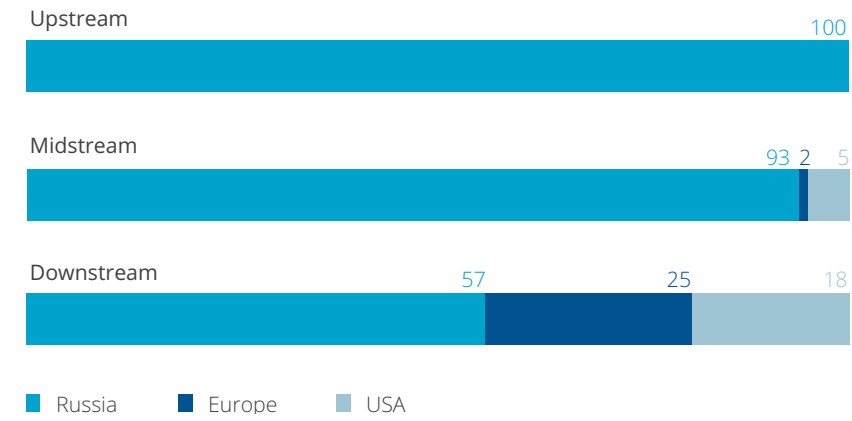
17

service centres and trading companies in key end markets

70+

sales markets

BREAKDOWN BY CAPACITY / %



9.

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.

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

FLAT PRODUCTS

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

Hot-rolled steel

is mainly used in the production of steel structures, guardrails, ship hulls, machine casings, road-building machinery components, pressure vessels, and building structures.

18%

share of the Russian 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

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.

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

Dynamo (non grain oriented) steel*

is used for the production of electrical equipment, such as components for electric motors and generators.

67%

share of the Russian market

*High value added products

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.

Wire rod

is drawn into wire and used mainly in construction, as well as in transport engineering (steel cords).

Rebar

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

20%

share of the Russian market

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



10.

RESEARCH, DEVELOPMENT AND INNOVATION

Against the backdrop of a global overcapacity crisis the key factors for success are operational efficiency and product quality that meet the customer's expectations.



Steelmaking is a highly competitive business. There are a few dozen large steelmakers that compete for global leadership.

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

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

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

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

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

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

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

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

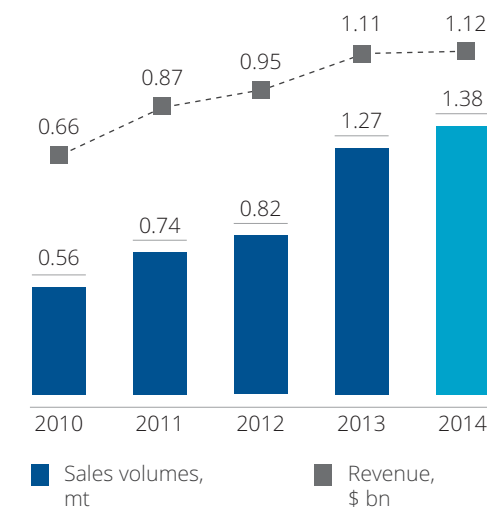
PRODUCT INNOVATION

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

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

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

INNOVATIVE PRODUCT SALES BY THE LIPETSK SITE IN 2010-2014



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

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

New products are being developed for all key market segments:

STEEL FOR CONSTRUCTION

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

NLMK Group produced a total of 282,900 tonnes of innovative products for construction in 2014, of which 75,000 tonnes was produced at Novolipetsk; and 228,300 tonnes at NLMK Russia Long.

283,000_t

of innovative products for construction in 2014

STEEL FOR ENERGY AND ELECTRONIC EQUIPMENT

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

Implementation of technology for the production of nanostructured high-permeability grain-oriented steel, an entirely new product developed by NLMK engineers, continues at the Lipetsk site. After this technology has been adapted for manufacture by Novolipetsk, the production of high-permeability grain-oriented steel will be introduced at VIZ-Steel, which has practically completed the preliminary work and modernization of production units as necessary for this new product to be brought to market.

In 2014, NLMK tested the production of grade M250-35A, M270-35A and M270-50A dynamo steel with ultra-low specific magnetic loss.

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

218,000_t

of innovative products for the energy and electronics sectors in 2014

STEEL FOR THE AUTOMOTIVE INDUSTRY

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

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

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

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

NLMK Group produced a total of 32,000 tonnes of innovative products for the automotive industry in 2014.

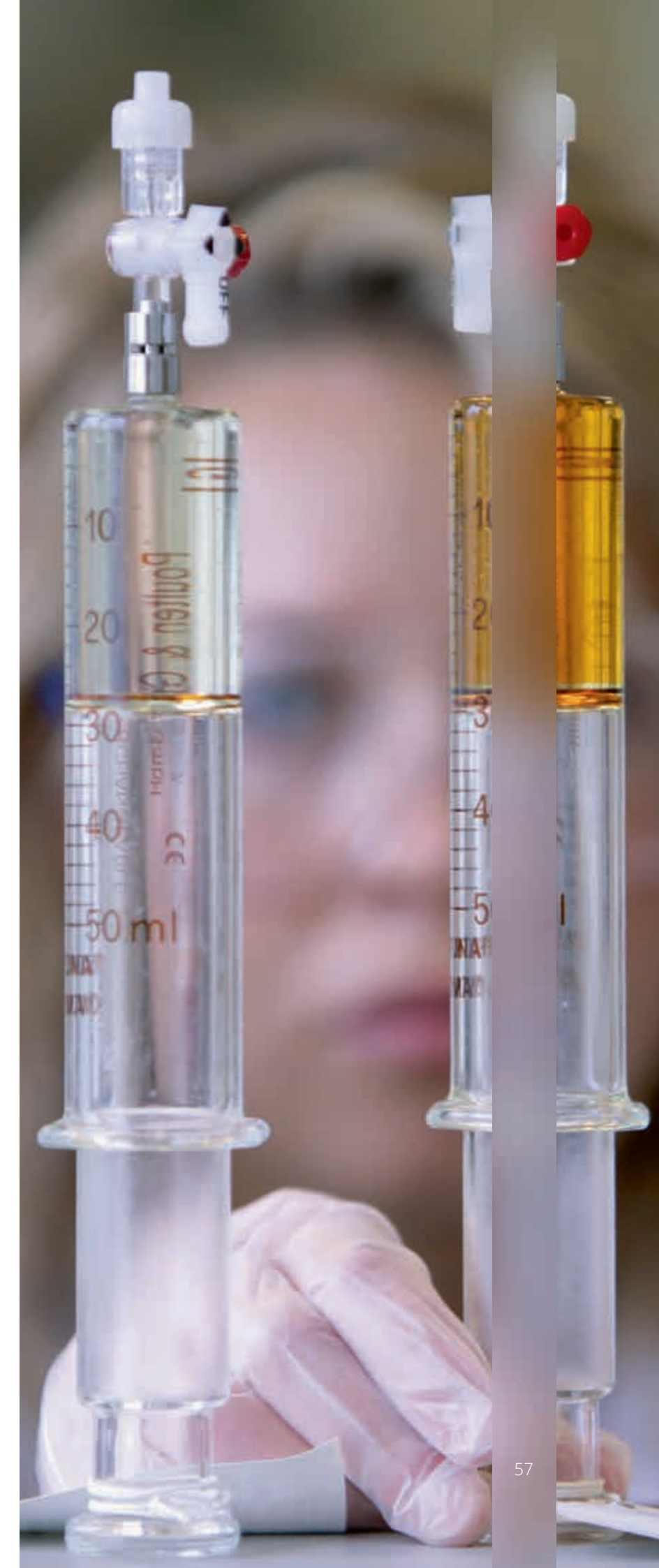
STEEL FOR MACHINE-BUILDING

Manufacturers of machinery and equipment are traditionally the key consumers of our products. Consequently, the Group has consistently developed a range of special products for this discerning customer group.

To strengthen its position in this sector, NLMK is conducting a comprehensive upgrade of plate manufacturing equipment. In 2012, NLMK DanSteel installed a new 4.2 m plate mill. This permitted significant expansion of the Company's product mix. The new mill can produce a wide range of sheet with gauges of 5 to 200 mm and a width of up to 4,000 mm; alongside new grades of steel, this provides the Group with access to promising markets where it has not previously had a presence. For example, NLMK now supplies products for the construction of offshore oil and gas platforms and offshore wind power plants.

In addition, NLMK Clabecq has continued to implement measures to further expand its product mix, including the development of quenched and tempered (Q&T) heavy plate production technology to manufacture abrasion-resistant Quard® steels and high-strength Quend® steels.

In 2014, NLMK mastered the technology for producing Quard® 500 grade plates with



a gauge of between 4 and 40 mm; and the mix of Quard® 400 and 450 grade plates with a gauge of up to 60 mm was expanded.

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

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

SEMI-FINISHED PRODUCTS

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

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

720,000_t

of slabs for the production of large diameter pipes in 2014

FIVE-YEAR HIGHLIGHTS

Item	2010	2011	2012	2013	2014
PRODUCTION					
Capacity utilization rate, %	97%	94%	95%	95%	96%
Steel output, '000 t	11,547	11,968	14,923	15,429	15,921
SALES					
Steel product sales, '000 t	11,731	12,840	15,184	14,828	15,126
including share of finished product sales, %	60%	67%	70%	71%	68%
Share of sales to Russian market, %	32%	33%	32%	39%	43%
Share of sales to export market, %	68%	67%	68%	61%	57%
FINANCIAL INDICATORS					
Revenue, US\$ m	8,351	11,729	12,157	10,909	10,396
EBITDA, US\$ m	2,322	2,254	1,900	1,505	2,383
EBITDA margin, %	27.8%	19.2%	15.6%	13.8%	22.9%
Net profit*, US\$ m	1,255	1,358	596	189	845
Dividends to net profit (US GAAP), %**	30%	28%	20%	35%	37%
Capital expenditures, US\$ m	1,463	2,048	1,453	756	560
Free cash flow, US\$ m	-32	-243	371	421	1,155
Net debt, US\$ m	1,454	3,355	3,574	2,704	1,590
Net debt / EBITDA	0.63	1.49	1.88	1.80	0.67
SOCIAL AND ENVIRONMENTAL INDICATORS					
Headcount, '000 people	59.4	60.4	62.5	62.0	60.1
Labour productivity of NLMK Group, t/person	195	198	239	249	268
Specific air emissions per tonne of steel, kg/t	28.5	27.8	22.6	21.9	20.3
Energy consumption per tonne of steel at the Lipetsk site, Gcal/tonne	6.12	6.10	5.74	5.67	5.72
LTIFR at Russian assets of NLMK Group	0.67	0.85	0.88	0.86	0.55

Notes:

* Net profit attributable to NLMK shareholders

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

CONTACTS

You can access information about NLMK from a variety of sources.

Visit our corporate website for more information: www.nlmk.com.

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nlmk.com

SOCIAL RESPONSIBILITY
AND SAFETY

NLMK

EFFICIENCY LEADERSHIP

Report 2014



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1.

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.

COMPANY 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, improvements in working conditions

TRADE UNIONS

STAKEHOLDERS' INTERESTS

Compliance with sectoral tariff agreement, compliance with 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

FEEDBACK

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 Depositary 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, 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

Conferences, clubs, meetings and other events, media, letters, Company website

FEEDBACK

Handling of all issues, participation in the implementation of joint projects

SUPPLIERS

STAKEHOLDERS' INTERESTS

Possibility of long-term development, fulfilment of contractual obligations, timely review and settlement of supplier complaints and claims of customers, 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, contact information for procurement department on the Company website

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.



2.

SOCIAL RESPONSIBILITY

NLMK sets itself social targets that include achievement of sustainable development goals that are in line with long-term economic interests; as well as contributing to community welfare, environmental conservation and the observance of human rights within territories in which it operates.



SOCIAL RESPONSIBILITY MISSION AND STRATEGIC OBJECTIVES

SOCIAL MISSION

The Company sees its social mission as achieving sustainable development goals, which meet the long-term economic interests of the business, contribute to community welfare, along with conservation of the environment and the observance of human rights within the territories of its operation.

SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT: NLMK'S STRATEGIC GOALS

The combined efforts of the Company, its employees and communities are aimed at achieving the following strategic goals:

- Create a favourable and predictable social and economic environment for its employees and local communities;
- Improve corporate governance frameworks for economic, environmental and social activities of the Company;
- Comply with international environmental protection standards. Focus on the best state-of-the-art technologies;
- Observe business ethics principles, resist corruption and terrorism;
- Develop new types of products to meet customer expectations;
- Create an environment for the stronger performance by Company employees;
- Ensure sustainable improvements in welfare and social safety for Company employees and safe workplace environments.

THE COMBINED EFFORTS OF THE COMPANY, ITS EMPLOYEES AND COMMUNITIES ARE AIMED AT ACHIEVING THE FOLLOWING STRATEGIC GOALS:

Key aspects of corporate responsibility	2014 objectives	2014 results	Achievement of set objectives: analysis	2015 objectives
Engagement with local communities Development of regions where NLMK operates	To implement initiatives that promote the sustainable development of the regions where the company operates and maintain social and economic stability in local communities	Investment in social needs and the development of the regions where the company operates totaled 2.9 billion rubles (\$76 million) in 2014; whilst approximately 390 million rubles (\$10 million) was allocated to charity	2014 objective achieved NLMK Group actively participated in the development of the regions where its assets operate	To continue implementing measures to promote the sustainable development of the regions where the Company operates

IMPROVING THE SOCIAL ENVIRONMENT

Improving the quality of life for people that live in the regions in which the Company operates is one of NLMK's key social responsibility goals. The Company works with local communities; and the authorities at different levels; to strive to create new opportunities for using cutting-edge mechanisms for development of the regions where NLMK operates and to resolve the most burning social issues.

The Company makes a significant contribution to local employment, providing jobs with competitive salaries. Almost all our employees are local residents.

Pursuing a policy of regional responsibility produces economic benefits for the Company including development of the potential of the labour force; as well as improved engagement with local communities and creation of comfortable living conditions for Company employees.

NLMK creates comfortable and safe working conditions in order to stimulate personnel development; and strives to provide workers with an adequate standard of living. The level of salaries at all Group companies exceeds average income levels in the regions in which they operate, which attracts new workers to the Company. NLMK implements several dozen social programmes.

NLMK GROUP'S INVESTMENTS IN THE REGIONS IN WHICH IT OPERATES

Financing for social programmes is a key prerequisite of their efficiency. The Company is focused on projects that ensure tangible improvement of the quality of life for people in the regions in which it operates.

NLMK consistently finances programmes aimed at promoting education, healthcare, and culture. Promotion of sport is an important area for the Company, including for children.





Key areas of social investment:

- Promotion of sport and healthcare
- Promotion of education and culture
- Work with children and young people
- Charitable activities

NLMK Group's social investment at its Russian sites totalled 2.9 billion rubles (\$76 million) in 2014.

PROMOTION OF SPORT AND HEALTHCARE

The Company sees the promotion of welfare and a healthy lifestyle for its employees and people in regions in which it operates as a priority of its social responsibility. Special focus is placed on involving children and young people in regular sports activities.

NLMK provides 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.

NLMK fully finances the 'Lipetsk Metallurgist' sports club that is successfully promoting sport in Lipetsk and creates the conditions for Novolipetsk employees and the members of their families, as well as all other Lipetsk dwellers, to practice sports.

One of the most modern shooting clubs in Russia; a shooting range; and the 'Novolipetsky' health and welfare centre for summer and winter sports are all located in Lipetsk. The shooting club is equipped with top-notch equipment which means it can host international competitions.

The Company has medical centres in Lipetsk, Belgorod and Sverdlovsk Regions; and in the Altai Republic; that provide high-quality medical care for NLMK employees and people living in the regions. NLMK spent 114 million rubles (\$3 million) in 2014 on their support.

PROMOTION OF EDUCATION AND CULTURE

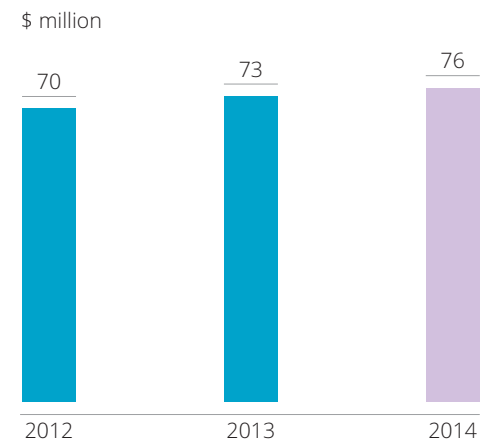
NLMK has a comprehensive programme to support the younger generation receiving a quality education by creating its own talent pool of driven and technically qualified personnel.

NLMK's career guidance programme involves students from Lipetsk and Lipetsk Region schools; and is aimed at helping students to make conscious career choices and to satisfy the Company's personnel requirements in key areas by studying in colleges and universities certified and supported by NLMK, with subsequent employment at the Company.

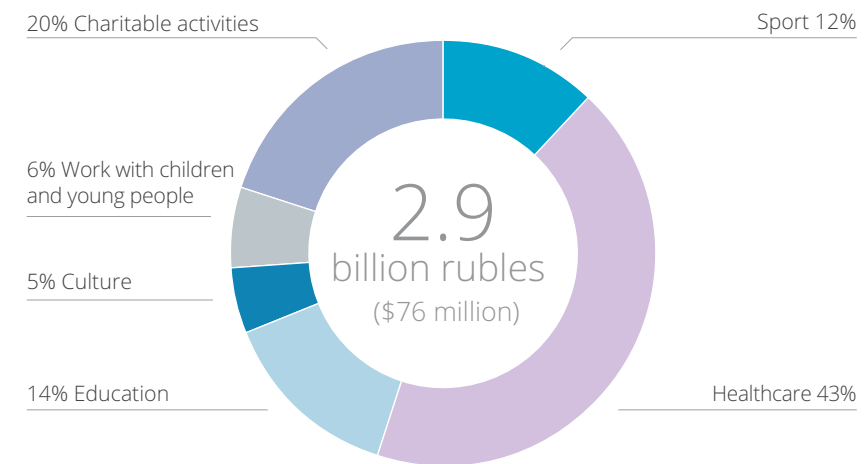
Over 11,000 students from 72 schools in Lipetsk and Lipetsk Region participated in career guidance initiatives in 2014.

Colleges and universities NLMK supports organize 'Open Doors' days for school students. The Company organizes site visits, competitions, contests, and scientific conferences.

INVESTMENT IN SOCIAL PROJECTS AND REGIONAL DEVELOPMENT OVER THE LAST 3 YEARS



INVESTMENT IN SOCIAL PROJECTS AND REGIONAL DEVELOPMENT IN 2014



NLMK cooperates with over 30 colleges and universities. Around 4,000 technical college students take internships at NLMK Group companies each year, with interns receiving a scholarship.

NLMK runs special scholarship programmes for higher professional education students in order to provide additional social support to gifted students and stimulate academic, scientific and practical achievement among talented young people. NLMK annually holds a competition to allocate monthly NLMK grants to the 30 best students of Lipetsk State Technical University. The Company also organizes site visits and sports competitions for grant holders. Students are invited to conferences and contests that the Company organizes for its employees.

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

WORK WITH CHILDREN AND YOUNG PEOPLE

NLMK invests a lot of effort into organizing healthy recreational activities for children. During the summer vacation the Company arranges trips for children of its employees to summer camps; which are also open to children from low-income families and orphans.

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

Special emphasis is placed on patriotic education. Together with organizations of war veterans and trade unions, NLMK organizes meetings with veterans and visits to war memorials; as well as lessons on bravery in schools and colleges.

Veterans and young people were united by a joint 'Voices of Victory' project. Volunteers met with NLMK employees and World War II veterans, recording their memoirs on tape. The project was aimed at preserving historical memories for generations to come; and helped young people to get a feel for the heroic past of their country by meeting and talking with those that fought for their country and helped achieve victory.

The result of the project was the www.Pobeda48.ru internet portal. The website is updated regularly, and has a database of NLMK and Lipetsk Region veterans that participated in the war. It is based on archive documents about those that participated in the war, home-front workers, survivors of the Leningrad blockade, and concentration camp prisoners.

CHARITABLE ACTIVITIES

NLMK contributes to charities through its own charitable organizations as well as through direct contributions to other charities.

The 'Miloserdiye' ('Mercy') social protection fund, founded by NLMK in 1999, runs 11 programmes that cover all aspects of social support. Priority areas include support for orphans, low-income households, pensioners and differently-able persons; as well as people that have found themselves in challenging life situations.

390 million rubles (\$10 million)

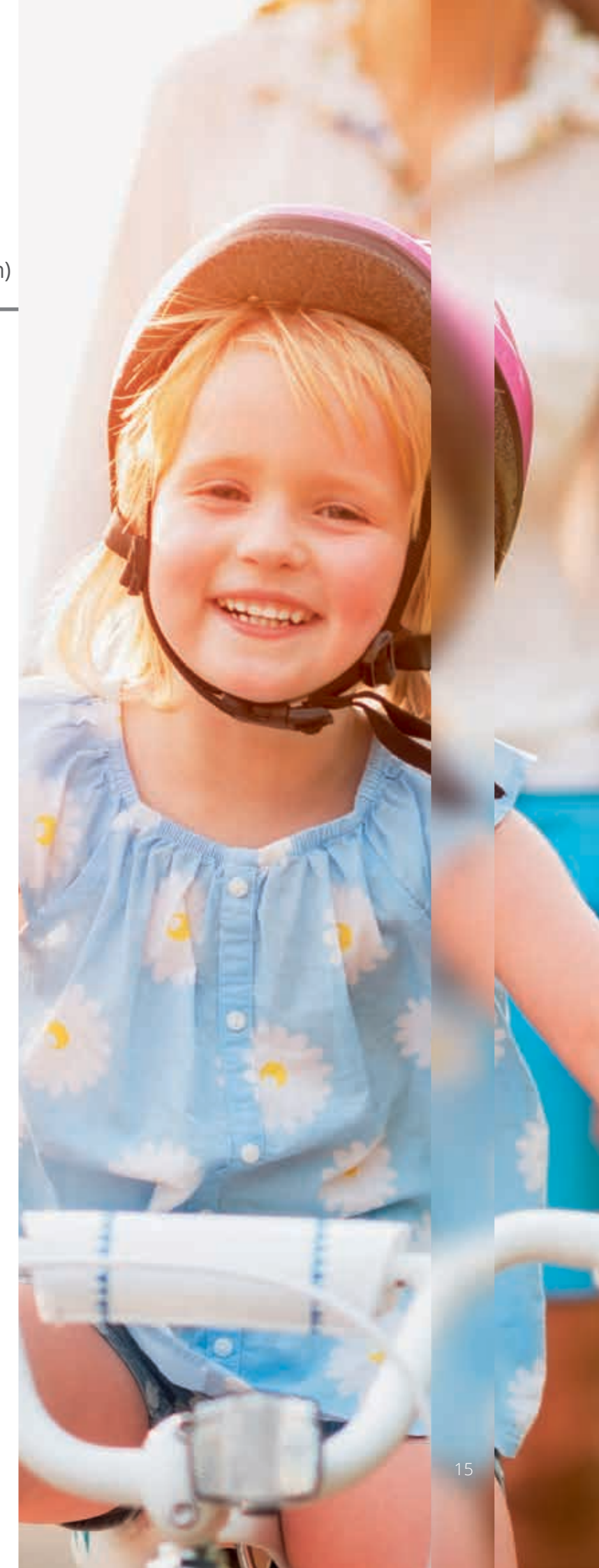
allocated to charity programmes in 2014

Over 30,000 people from Lipetsk Region that require additional social support receive help annually. Funds are allocated to pay for long-term medical treatment, medicine, technical rehab means, trips to resorts and children's camps and preparation for the beginning of the academic year; as well as other social projects.

The 'Zabota, pomoshch, miloserdiye' ('Care, help, mercy') charity fund in Sverdlovsk Region helps promote sports and protect cultural heritage; also supporting veterans and pensioners.

NLMK allocated around 390 million rubles (\$10 million) to charity programmes in 2014.

NLMK offers monthly benefits, medication and medical equipment, and treatment at health resorts for pensioners and veterans of World War II, most of whom are former NLMK Group employees. The collective agreement between NLMK and its employees provides for salary increases in line with inflation. Increased labour productivity is another key criteria for changes in the level of employee remuneration.



3.

NLMK GROUP PERSONNEL

Development of employee potential and labour productivity are a strategic focus for the Group.

A key competitive advantage NLMK enjoys is the Company's highly qualified and motivated personnel, with extensive professional experience. NLMK recognizes the importance of HR management as a key factor for the successful and sustainable development of the Company; the creation of favourable conditions for high labour efficiency; and for maintaining a leadership position in the Russian and global ferrous steel industry.





NLMK HR POLICY

The Company pursues an active HR policy aimed at attracting and retaining the most talented young employees, providing equitable salary increases, utilizing a range of different incentives, conducting large-scale professional training and staff development programmes, ensuring a safe working environment and improving social safeguards for employees.

The strategic goal of NLMK's active HR policy is to form a pool of employees capable of tackling the Company's strategic business objectives.

NLMK's HR policy is based on the principles of social partnership between the employees and the employer; on their shared responsibility for the results of their labour; on ensuring a safe working environment; on performance-driven remuneration for labour; on ensuring equal opportunities for all workers; on delivering on all social guarantees and benefits; and on implementing additional corporate social programmes.

By strictly adhering to these principles, NLMK consistently implements programmes aimed at motivating personnel to perform efficiently; at creating the conditions for professional growth; at providing career progress for the best workers; and at attracting talented young and experienced qualified experts to the Company.

HR POLICY KPI

THE COMPANY HAS ACHIEVED PRACTICALLY ALL HR POLICY GOALS SET FOR 2014

KPI set for 2014	CUM	2014		Implementation status
		Goal	Actual	
Number of work days missed due to illness or without leave (not related to injury) per 1 million hours worked	ratio.	5,029	4,897	Achieved
Turnover rate	%	10.0	10.3	Not achieved
Payroll growth	%	8.2	8.2	Achieved

GOALS WERE SET FOR ALL KEY ASPECTS OF NLMK'S HR POLICY

Key aspects of corporate responsibility	Goals achieved in 2014 and comments
Company employees and respect for human rights	Compliance with NLMK collective agreements in 2014
Increase in organizational efficiency	An 8% increase in labour productivity (steel production per employee) across the Group
Recruitment and succession	A process for monitoring and preventing recruitment issues has been set up across NLMK Group divisions. Company management is controlling the turnover rate. Succession pool assessment and development plans have been prepared at all Company sites
Personnel efficiency and motivation management	A Management by Objectives system has been rolled out to the 3rd level of managers, including experts
Personnel development	New assessment methodologies for top-management were introduced
	"NLMK Group Leaders 2025" strategic talent pool development programme was launched
	Professional standards for key professions were developed
Improvement of HR service quality	Professional assessment system implemented at NLMK Group subsidiaries
	New HR function management model developed and launched: centres of expertise and business partners identified for HR
	A system for monitoring the social state of work teams implemented at all key NLMK companies
Regulatory risk management	Electronic HR services launched for employees
	Project launched for assessment of specialized working conditions. Assessment of 40% of work places at the Lipetsk site completed by end of the 2014

OUR EMPLOYEES

Average NLMK Group headcount during 2014 was 60,100 people (-3% year-on-year), of which 56,400 people were employed at Russian sites; 2,500 people were employed at NLMK's European divisions; around 1,000 people were employed at NLMK USA; and around 200 people were employed in other countries where NLMK Group assets are located, including India, China, etc.

Around 48% of NLMK Group personnel are directly involved in the mining and steel production process; whilst around 25% are involved in repair and maintenances; and approximately 3% are involved in research and innovative development. The remaining 24% are administrative and management personnel, including services.

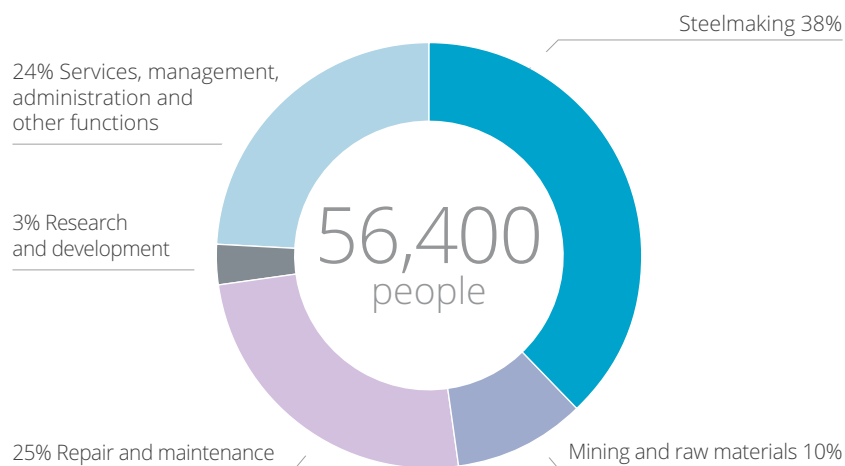
NLMK has an active HR policy aimed at attracting prospective young workers from both colleges and universities and among those that have completed their service in the armed forces of Russia. As a result, the Company hires over 1000 young qualified workers each year that later form the Company's pool of professional talent, future managers and experts.

NLMK Group has no gender limitations.

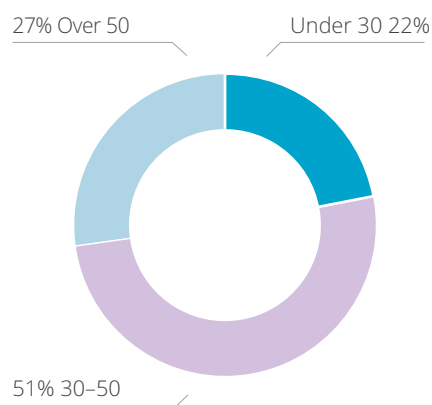
PERSONNEL STRUCTURE BY ASSET GEOGRAPHY

Total, '000 people	Russia	Europe	USA	Other countries
60.1	56.4	2.5	1.0	0.2

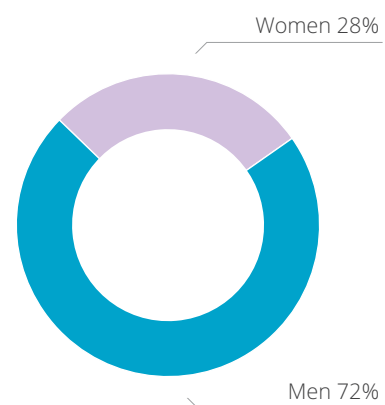
PERSONNEL STRUCTURE BY FUNCTION (RUSSIAN ASSETS)



PERSONNEL STRUCTURE BY AGE (RUSSIAN ASSETS)



PERSONNEL STRUCTURE BY GENDER (RUSSIAN ASSETS)



LABOUR PRODUCTIVITY

NLMK consistently enhances the efficiency of its business by increasing the level of motivation and professionalism of its employees; through equipment upgrades; by implementing new technologies; and rationalizing production processes.

The Company is currently on par with leading global steel companies in terms of operational efficiency; and NLMK continues to develop. The strategic target for the next few years is further increases in labour productivity through both process optimization initiatives and equipment productivity increases; with active involvement of personnel in the process. Continuous development has become the cornerstone of NLMK's corporate culture.

LABOUR PRODUCTIVITY, TONNES OF STEEL PER PERSON

Labour productivity, tonnes of steel per person	NLMK Group	Lipetsk site
2010	195	308
2011	198	329
2012	239	406
2013	249	420
2014	268	437
Change 2014/2013, %	+8%	+4%





PERSONNEL MOTIVATION

NLMK's personnel motivation policy is focused on ensuring a competitive level of labour compensation that is in line with increased production output; increased labour productivity; and management structure improvements.

Labour compensation system improvements at NLMK are based on developing and applying fair and accurate criteria for the payment of material incentives that take into account the maximum input of all structural divisions and of every individual employee into the common cause.

The collective agreements between NLMK and Company employees provides for compensation of inflationary changes to the economy. Another key driver behind changes in employee labour remuneration is the increase in labour productivity.

Average salaries in the Company increased by about 11% year-on-year in 2014, reaching 44,000 rubles (\$1,150) per month at NLMK Group's Russian assets.

11%

increase in average salaries
in the Company in 2014

NON-MATERIAL INCENTIVES

Alongside material incentives NLMK utilizes a system of non-material incentivizing of employees, which has produced tangible results.

Elements of this system include extensive career growth opportunities for our employees, professional contests and competitions and individual and collective rewards and bonuses.

Alongside professional competitions, NLMK Group companies hold annual "Young Leader" contests for young specialists to stimulate personal and professional growth among young workers.

Over 3,000 Novolipetsk employees received awards in 2014, including:

- 3,002 corporate awards
- 107 regional and city awards
- 58 industry awards
- 5 government awards
- 27 state awards

SOCIAL PACKAGE

Alongside labour remuneration, non-material incentives and motivation, NLMK provides continuous social support for employees with a social package available to every employee. Key principles and approaches in the area of social support are regulated by collective agreements in place at NLMK Group companies. Social package

includes provisions for employee health and welfare, catering and recreation, occupational health and safety, motherhood and childhood support, support for pensioners and veterans and further social incentives for the best workers as well as a variety of social payments.

Key areas of social support for employees in addition to those required by Russian law:

All categories of personnel have access to the following types of corporate social support:

- Voluntary medical insurance
- Availability of compensation following production-related injuries
- Parental benefits (upon birth of a child; provision of child care up to 3 years, etc.)
- Sports opportunities
- Organization of cultural events
- Health care and recreation for employees and members of their families
- Quality catering for workers
- Employment opportunities and social protection in case of loss of work

Female employees at NLMK Group receive additional benefits:

- Flexible work schedule, where production allows, for women with children under the age of 16
- Additional vacation time (without salary) for women with two or more children at their convenience
- Professional training and skills upgrades following maternity leave

Young NLMK employees benefit from the following opportunities:

- Participation in NLMK's comprehensive youth programme
- Guaranteed average salary for graduates of partner colleges/universities
- Guaranteed re-employment in case of job loss due to military conscription
- Kickoff bonuses upon employment for graduates of partner colleges/universities and students that took internships with the Company during their studies

Children of Company employees receive New Year gifts; as well as discounts on trips to children's camps and resorts.

HEALTH AND WELFARE OF NLMK EMPLOYEES AND FAMILY MEMBERS

The health and welfare of NLMK employees is a priority focus of the Company's social activities. A key emphasis is placed on forming a welfare culture, the need to lead a healthy lifestyle and improve one's psychological and physical health.

NLMK Group runs 3 medical units and 25 first aid facilities to provide medical support and conduct regular check-ups. Over 70% of employees at

NLMK Group's Russian assets use the services provided by the Company's medical facilities.

NLMK employees have the opportunity to make annual visits to health resorts and spas, both locally and in other regions of the country.

The Company provides the opportunity to receive high-quality medical treatment and relaxation at 10 health resorts and spas. NLMK allocated 107 million rubles (\$2.8 million) in 2014 towards health resort treatment for employees.

Healthy lifestyle programmes are aimed at involving as many employees as possible in sports activities; and at popularizing healthy life choices. NLMK Group companies have created an atmosphere that fosters a healthy lifestyle. Employees have the opportunity to use gyms located at NLMK facilities, to get discounts on memberships to swimming pool and fitness centres and to participate in sports events organized by the Company.

One of the most popular sports events is the 'NLMK Olympics' in which more than 3,500 employees participate. 'Olympics' are held throughout the year in 16 sports including volleyball, skiing, trap and rifle shooting, football, mini-football, table tennis and chess.

Summer camps are organized each year for the children of NLMK employees. Employees benefit from discounted trips to three different children's camps owned by the Company located on the coast of the Black Sea. NLMK allocated more than 57 million rubles (\$1.5 million) for this purpose in 2014.

More than 1,600 children visited the 'Prometheus' health resort in 2014, including 900 children of NLMK employees, with around 800 children participating in various technical creativity clubs.

PROFESSIONAL GROWTH

NLMK sees investment into the professional growth of its employees as a prerequisite for the Company's long-term competitiveness, dynamic development, an increased potential of its human capital; and, ultimately, the increased fundamental value of the Company as a whole.

High-quality professional training provides the level of employee qualification necessary for solving professional challenges. It also increases employee loyalty, forms a favourable social and psychological climate in the workplace and has a direct impact on the development of NLMK's corporate culture.

Key elements of NLMK's professional development system include:

- Employee training as part of the adaptation and induction programme for newcomers.
- Training to acquire additional related skills.

Skill improvement programmes are available for all types of professional activity.

- Talent pool training.
- Professional development for top managers.
- Training for instructors that visit for in-plant training.
- Training of mentors.



Around 42,600 NLMK Group employees underwent professional training in 2014.

About 90% of employees are trained in-house, enabling them to benefit from the wealth of knowledge accumulated by NLMK 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 employees.

42,600 people

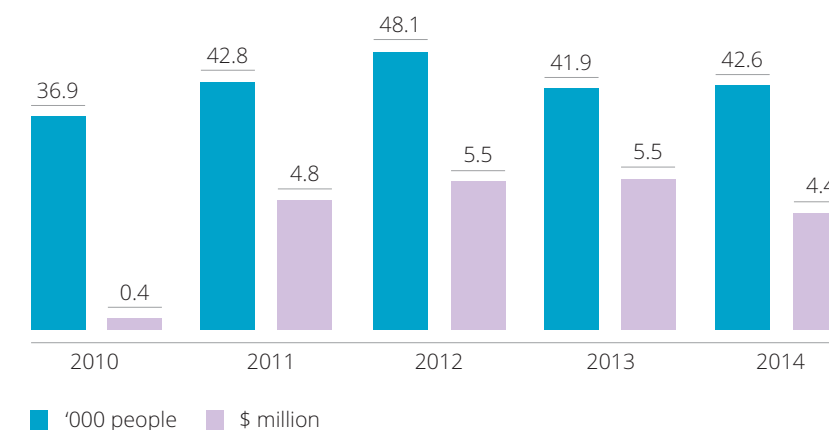
NLMK Group employees underwent professional training in 2014

90%

of employees are trained in-house



INVESTMENT INTO PROFESSIONAL DEVELOPMENT AND TRAINING



STRUCTURE OF INVESTMENT INTO PROFESSIONAL DEVELOPMENT BY AREA IN 2014

Name	Total	
	'000 people	\$ million
Targeted financing of education in colleges/universities	0.1	0.1
Professional training and skill enhancement	9.1	0.7
Mandatory occupational health and safety certification; special-purpose courses	16.7	1.2
Talent pool training	5.9	0.1
Trainings, seminars, and qualification improvement courses	8.2	2.0
New placement trainings	0.7	0.03
Participation in field-related conferences	0.3	0.2
Other trainings	1.6	0.1
Total investments into professional development and training in 2014	42.6	4.4

4.

OCCUPATIONAL HEALTH AND SAFETY

The Company aims to be a world leader in occupational health and safety (OHS) among steel companies through applying best available OHS practices, efficient risk management, through provision of incentives and by actively involving employees in the occupational safety programme.



NLMK'S OCCUPATIONAL HEALTH AND SAFETY POLICY

VISION	NLMK Group is one of the most efficient steel companies in the world. The Group's high-quality products are in demand in strategically important sectors of the economy, such as construction, machine building, energy, shipbuilding, chemical, oil and gas industries and many others
MISSION	To manufacture products that satisfy client needs; to continuously improve technologies; to ensure safe working conditions; to reduce the Company's environmental footprint; to make rational usage of resources; and to adhere to widely accepted social responsibility practices
GOALS	<ul style="list-style-type: none"> ▪ Efficient accident- and incident-free operations; ▪ Achieving global leadership in occupational health and safety
PRINCIPLES	<ul style="list-style-type: none"> ▪ Employees are NLMK's key value; their health and wellbeing are key to the success of our operations; ▪ Occupational health and safety is an integral part of our business and the basis for decisions on developing and improving our business processes; ▪ All accidents, incidents and professional illnesses can and must be prevented; ▪ Safe operations are the responsibility of each and every employee.
ACTIONS	<ul style="list-style-type: none"> ▪ Efficient management of potential risks to the health and safety of our employees, contractors and third parties; ▪ Strictly adherence to Russian and international occupational health and safety requirements; ▪ Continuous improvement of employee skills in the area of occupational health and safety; ▪ Ensuring the transparency of OHS indicators
RESPONSIBILITIES OF MANAGEMENT	<ul style="list-style-type: none"> ▪ To ensure safe working conditions in line with OHS norms and standards; ▪ To allocate resources to ensure OHS compliance; ▪ To take measures to prevent accidents, incidents and professional illnesses; ▪ To introduce advanced OHS methods and technologies; ▪ To consult employees and their representatives on OHS issues; to motivate employees to work in a safe and incident-free environment; ▪ To regularly assess the quality of the Company's risk management system and ensure its constant improvement.
RESPONSIBILITIES OF EMPLOYEES	<ul style="list-style-type: none"> ▪ To take care of both one's own safety; and the safety of others; ▪ To strictly adhere to established OHS requirements and use of safe working methods; ▪ To actively participate in OHS programmes

TARGET OHS KPI

2014 objectives	2014 results	Objective status	2015 objectives
Fatality-free operations	No fatalities among employees and contractors	Achieved	<p>To maintain Lost Time Injury Frequency Rate (LTIFR) at NLMK's Russian assets at the 2014 level;</p> <p>To achieve a 10% reduction of the Lost Time Injury Frequency Rate (LTIFR) at NLMK's international assets at the 2014 level.</p>
Implementation of hazard identification and risk management programme at all Group sites	<p>'Risk Management' programme implemented at all Group sites, including international sites</p> <p>169,776 of the 213,937 hazards identified were eliminated;</p> <p>1,718 of the 2,074 identified potentially fatal risks were eliminated.</p>	Achieved	<p>To ensure identification of at least 4 hazards per employee as part of the 'Risk management' programme;</p> <p>To ensure that at least 50% of unacceptable risks identified are eliminated; or reduced.</p>
Implementation of 'In Search of Safety' programme involving personnel in OHS matters and developing safety culture	<p>'In Search of Safety' programme implemented at all Group sites;</p> <p>19,758 instances of personnel involvement achieved; 84% above the target KPI thanks to all-round support of the programme by Company management.</p>	Overachieved	To ensure that at least 20% of headcount are involved in the 'In Search of Safety' programme.
Implementation of OHS training programme based on safe behaviour	<p>'Training course promoting a culture of safety for Company managers' developed and implemented; course included 14 training sessions held for 480 managers of NLMK's Russian and international companies; a total of 3,480 man-hours.</p>	Achieved	<p>Implementation of advanced OHS management practices:</p> <ul style="list-style-type: none"> ▪ Programmes to enhance the efficiency of equipment safety barriers; ▪ Regulations on blocking energy sources (Lock-Out / Tag-Out); ▪ Road safety programme

KEY OHS INITIATIVES

NLMK has implemented an OHS accident and incident alerting procedure (mandatory quick response) and Investigation regulations in order to improve the quality of production incident classification and tracking. Investigation materials and the lessons learnt from NLMK's own incidents as well as incidents at other metals and mining companies are used to prevent any similar future incidents at NLMK Group companies.

A Risk Management programme was successfully implemented across all Group divisions in 2014, designed to identify and eliminate hazards (hazardous production factors) and efficiently manage residual risks.

The 'In Search of Safety' programme was launched in order to involve employees in the process of risk management. It is designed to develop practical

skills among employees in order to help them to independently identify any dangerous conditions or behaviour, which was a driver for the further development of NLMK's safety culture aimed at preventing occupational incidents.

The 'PPE Quality Management' programme was launched in 2014 to provide the workers of NLMK Group's Russian sites that work in dangerous or hazardous working environment with modern high-quality personal protection equipment (PPE).

The 'Safe Operations' communication programme was implemented to improve workers' safety culture. It included the development of a corporate OHS portal; information boards and OHS corners; videos on incidents that had occurred; as well as banners and other materials.



"Our goal is to achieve incident-free operations. If you see a dangerous situation, don't just walk past it."

Sergey MAZUR, Director, Rolling Operations



"When working in a hazardous environment one can't afford to be careless. Think about yourself, use your head!"

Stanislav UVALEEV, Steel Caster, BOF-2

INFORMATION SUPPORT OF OHS INITIATIVES IN THE GROUP IN 2014

	Corporate newspapers	NLMK Group Corporate Magazine	NLMK-TV	Corporate portal
'Safe Operations' communication programme	146 articles	5 articles (in each issue)	11 stories	43 publications

OHS COSTS

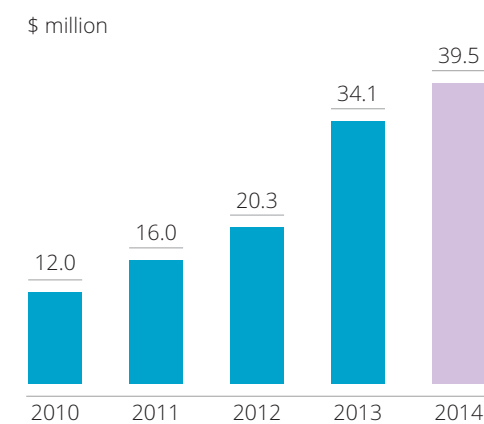
NLMK annually finances events aimed at the continuous improvement of OHS and working conditions. OHS costs increased by 329% over the period between 2010 and 2014.

Breakdown of Occupational Health and Safety Costs in 2014*

Cost item	Share, %
Personal protection equipment	32%
Improvement of working conditions	4%
Healthy meals	21%
Occupational safety	23%
OHS trainings	1%
Other	18%

* For NLMK's Russian assets

OHS COSTS IN 2010-2014



RESULTS ACHIEVED

2014 was the safest period in NLMK Group's history.

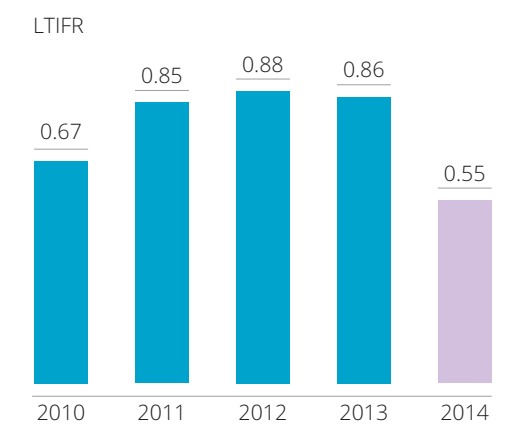
There was not a single fatality at any of NLMK Group's divisions, both among NLMK personnel and among subcontractors.

The Company was able to prevent 48 more lost-time injuries than last year; and the lost-time injury frequency rate (LTIFR per 1,000,000 hours worked) among employees was down:

- by 22% for NLMK Group;
- by 13% for NLMK's international assets;
- by 36% for NLMK's Russian assets.

This result was possible due to the successfully implementation of NLMK's OHS Development Strategy, approved by the Management Board in 2013.

LOST TIME INJURY FREQUENCY RATE (LTIFR) – RUSSIAN ASSETS



5.

COMMUNICATIONS

Information is a key resource in the modern world. Efficient channels for interaction with internal and external stakeholders and accessible, comprehensive information are prerequisite for a successful and competitive business.

We are convinced that our employees, shareholders, partners, clients and other stakeholders should have equal opportunities to make decisions based on accurate and comprehensive information about the Company.

For this reason, information transparency is the core of NLMK's communication policy. We issue reports in a timely fashion and call on facts, not assumptions.



EXTERNAL COMMUNICATIONS

NLMK Group's external communications aim to providing timely and comprehensive information to investors and experts; partners and clients; authorities and the general public, including school and college/university students; veterans and families of NLMK employees.

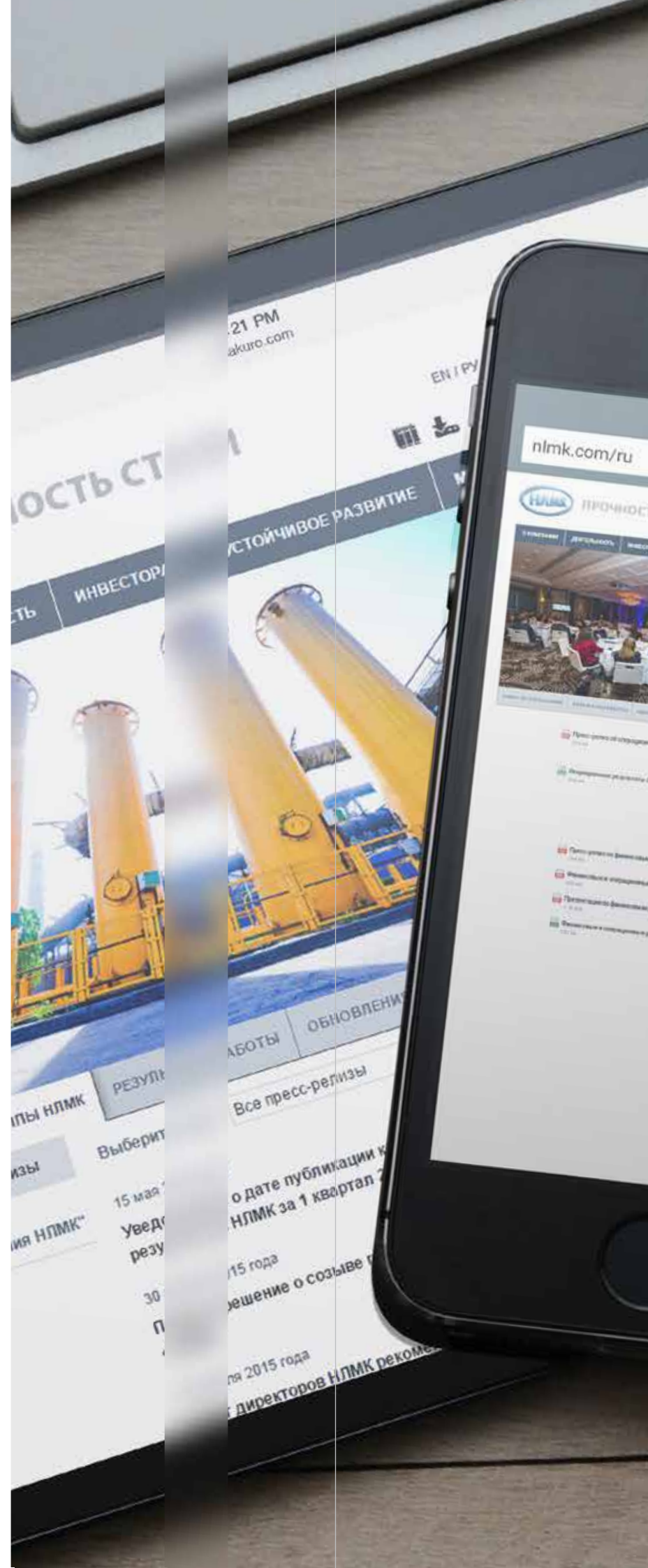
NLMK Group published around 500 press releases in 2014 on operational and financial performance as well as social and other aspects of business. NLMK top-managers gave dozens of interviews and made presentations at leading sector and economic conferences and round tables. The Group presented its products at Metal-Expo 2014 and other sector exhibitions. NLMK also organized a number of large-scale public and social events, including those dedicated to Novolipetsk's 80th anniversary in Lipetsk and NSMMZ's 280th anniversary in Revda.

Throughout the year, NLMK Group has focused on informing external stakeholders about the Company's environmental performance, such as ongoing projects aimed at reducing the Group's environmental footprint and their results. Other communication priorities included: operational improvement programmes and occupational health and safety projects.

NLMK Group consistently improves the quality of interaction with target audiences, including through the use of modern communication channels such as social media and blogs. In 2014, NLMK Group implemented daily monitoring of mentions of the Company in the blogosphere and formulated a corporate social media presence in the following popular social networks:

- facebook (<https://www.facebook.com/nlmc.press>)
- twitter (<https://twitter.com/nlmc>)
- VKontakte (http://vk.com/nlmc_ru)

The use of these instruments increases the awareness of the Group's management of any possible issues at production sites across the Group, as well as enabling better employee involvement.



INTERNAL COMMUNICATIONS

The motivation of personnel to work efficiently is dependent on how well employees understand the processes and goals set by the Company. Only by taking into account employee feedback can management decisions be made with maximum efficiency; and the intellectual potential of employees used rationally. Internal communications is one of the key elements of NLMK's leadership and efficiency and serves the purpose of promoting these synergies.

The Group has an effective system of internal communication covering all production sites. It comprises several communication channels: an intranet information portal; corporate newspapers at NLMK's Russian production sites; NLMK Group Corporate Magazine (nlmk.com/mag), which is published both in Russian and in English; newsletters at NLMK Europe and NLMK USA; NLMK-TV with news stories streamed on the intranet portal; and a system of feedback through corporate publications. NLMK Group's corporate television station, set up in April 2014, reaches an audience of about 15,000 people.

A well-developed system of internal communication enables NLMK Group to not only deliver information to each and every employee in a timely fashion; but to deliver information that is important and interesting in a convenient format. Company employees have the opportunity to not only read interviews by the President or functional and site heads; but to contribute to the communication agenda themselves by posing questions to the management.

Internal communication plays an important role in providing motivational support for NLMK Group's strategic programmes, such as information support for changes in the approach to occupational health and safety; in which maximum employee involvement is crucial; that became one of the Group's communication focuses during 2014. Last year, NLMK's corporate media published around 200 articles and released 11 news stories on the topic. This yielded tangible results, with NLMK Group becoming a global leaders in operational safety among steel companies in just one year.

FEEDBACK SYSTEM

The key principles of NLMK Group's feedback system are voluntary employee involvement; confidentiality; transparency and expediency; a guaranteed response; and equal access to feedback for all employees without exception.

NLMK Group uses feedback tools that have proved to be effective, including team meetings; meetings with employees; hot lines: 'Trust line' and an OHS line on the corporate portal; a survey aimed at identifying the level of social satisfaction among employees; a service enabling questions to be directed to HR and Company management on the corporate portal; and special Q&A sections across the Group's communication channels.



RECOGNITION

NLMK Group's intra-corporate publications received high acclaim from both the public and from experts in various ratings and media competitions.

NLMK Group's corporate media came first in the 'Silver Threads' national competition for media resources in 2013 and 2014; the 'Best Corporate Media in the Steel Sector in Russia and the CIS - 2014' competition, in the 'Best Corporate Magazine' and 'Best Electronic Corporate Media' categories; as well as the 'Best Corporate Media in the Steel Sector in Russia and the CIS - 2013' in the 'Best Corporate Newspaper' category.

NLMK Group's Corporate Magazine topped the 'Rating of Corporate Publications of Industrial Companies' in the steel sector. The rating is a research project of the 'Production Management' portal. It also came first in the 'Silver Threads' national competition of media resources in the 'B2P/industrial' category that brought together corporate magazines for personnel in the industrial sector.

NLMK Group's NLMK-TV corporate television media project received recognition by winning the 'Best Corporate Media in the Steel Sector in Russia and the CIS - 2014' competition, in the 'Best Electronic Corporate Media' category. The competition was held as part of the 'Metal-Expo'2014' international industrial exhibition held in Moscow.

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You can access information about NLMK from a variety of sources.

Visit our corporate website for more information www.nlmk.com.

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NLMK IN SOCIAL NETWORKS

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www.facebook.com/nlmk.press
www.linkedin.com/company/nlmk-group
www.slideshare.net/nlmk
www.instagram.com/nlmk_group
www.youtube.com/user/nlmkonair/



nlmk.com



THE ENVIRONMENT

NLMK

EFFICIENCY LEADERSHIP

Report 2014



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* A unique environmental project – a biochemical waste water treatment facility at coke and chemical operations at the Lipetsk production site

1.

THE ENVIRONMENT



NLMK GROUP'S ENVIRONMENTAL POLICY

In 2014, NLMK Group developed an updated Environmental policy which is seen as a long-term declaration guiding the Company's efforts to ensure the environmental safety of its operations in the regions where the Company has a presence.

VISION	NLMK Group is one of the most efficient steel companies in the world. The Group's high-quality products are in demand in strategically important sectors of the economy, such as construction, machine building, energy, shipbuilding, chemical, oil and gas industries, and many others
MISSION	To manufacture products that satisfy client needs; to continuously improve technologies; to ensure safe working conditions; to reduce the Company's environmental footprint; to make rational usage of resources; and to adhere to widely accepted social responsibility practices
GOALS	<ul style="list-style-type: none"> To ensure environmental efficiency of production processes; To comply with best global environmental and resource usage practices; To be a leader in the sector in terms of specific environmental indicators
PRINCIPLES	<ul style="list-style-type: none"> Taking an environmentally responsible approach to operations; modernization; reconstruction; and capital construction; Compliance with Russian and international legal and normative environmental requirements; Prevention of environmental risks; Transparency and accessibility of information on the Group's environmental activities and footprint
ACTIONS	<ul style="list-style-type: none"> To improve technological processes in order to minimize environmental footprint; To implement advanced environmental technologies; To efficiently manage potential operational risks to prevent negative environmental impact; To improve management methods in line with current international standards; To consistently improve the environmental knowledge and skills of personnel
RESPONSIBILITIES OF MANAGEMENT	<ul style="list-style-type: none"> To develop the principles and goals of NLMK Group's Environmental policy and to monitor its implementation; To provide resources; and ensure conditions necessary; for implementing the environmental policy; To implement efficient incentive mechanisms for personnel to ensure improved environmental performance
RESPONSIBILITIES OF EMPLOYEES	<ul style="list-style-type: none"> To know and understand NLMK's Environmental policy

In order to successfully achieve Strategy 2017 goals, in the short-term NLMK Group maintains a focus on completing its large-scale projects, including environmental ones; and on pursuing

process initiatives that ensure a reduced environmental impact with an increased output of steel and raw materials.

ENVIRONMENTAL INVESTMENT

A minimized negative impact on the environment is the result of NLMK Group's capex programme alongside planned environmental and technological initiatives outside of the investment process.

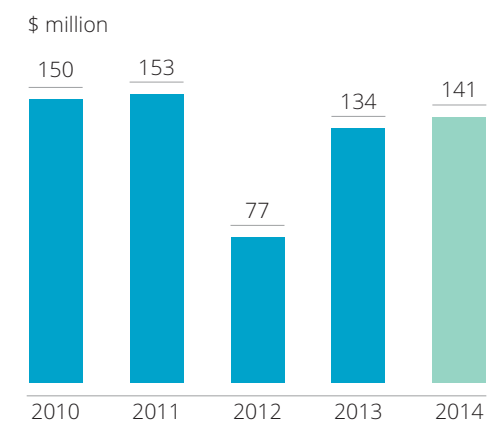
5.4 billion rubles (\$141 million)

NLMK Group's investment into projects to ensure a reduced environmental impact and the cost of environmental initiatives in 2014

21.3 billion rubles (\$655 million)

spent in total on environmental activities between 2010 and 2014

NLMK'S ENVIRONMENTAL INVESTMENTS





ENVIRONMENTAL PROJECTS IMPLEMENTED IN 2014

NLMK Group's production sites implemented a number of large-scale environmental projects in 2014.

The following projects were implemented at the Lipetsk site:

- Launch of a biochemical waste water treatment facility at coke and chemical operations
- Reconstruction of infrastructure facilities of the refractory shop production unit
- Gunned repair of combustion chambers of air separation units in blast furnaces No. 4, No. 5 and No. 6
- Installation of 400 filter sleeves for de-dusting facilities in the hot metal desulfurization unit in BOF shops
- Implementation of a sintered layer spraying technology at sintering machines No. 3 and No. 4

NLMK subsidiaries also implemented a number of large-scale environmental projects, including:

- Repairs and upgrades of Altai-Koks coke battery equipment
- 1st phase of reconstruction of off-gas cleaning systems at NSMMZ EAF shop
- Upgrade of storm water treatment facilities at VIZ-Steel
- Upgrade of the tailings beach dust suppression system of the Stoilensky landfill protection dam

NLMK ATTRACTS ADVANCED TECHNOLOGIES TO REDUCE EMISSIONS

In 2014, NLMK Group together with Siemens VAI began a large-scale project of upgrading both gas exhaust equipment and emission collection and cleaning systems at the Novolipetsk BOF operations.

Siemens VAI will be responsible for engineering work and for the supply of the technological hardware required for the construction of a secondary emissions collection and cleaning system, as well as for the replacement of the gas exhaust ducts of two BOFs that have a joint capacity of 5.23 million tonnes per year.

Siemens VAI will also supervise equipment assembly and start-up.

The new solutions will provide a 12% increase in the productivity of the Novolipetsk BOF Shop and reduce its air emissions by more than 50%. They also provide the possibility of generating energy from BOF gases.

Construction and assembly activities related to the project are planned to begin in June 2016. The project is scheduled for completion in 2019.



REDUCTION OF ENVIRONMENTAL FOOTPRINT

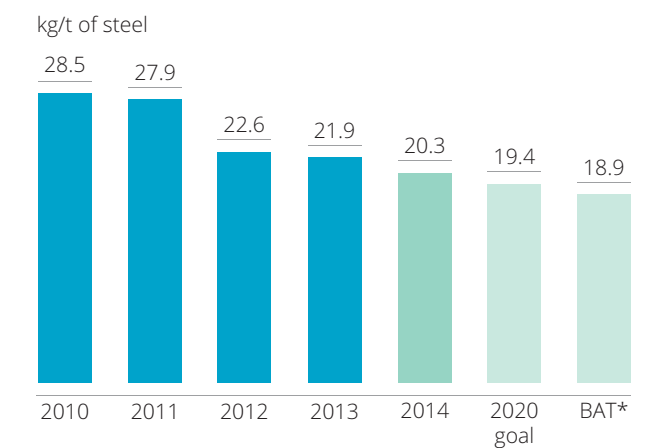
AIR

The Company's atmospheric impact was reduced in 2014 through systematic efforts to implement environmental technologies and large-scale capex projects. While steel production volumes increased by 2% year-on-year, air emissions were down by 7% year-on-year to 20.3 kg per tonne of steel. Over the last 5 years, specific emissions decreased by a total of 29%.

29%

total decrease in specific emissions over the last 5 years

SPECIFIC AIR EMISSIONS



* BAT = best available technologies for vertically integrated steel companies.

HIGHLY EFFICIENT GAS TREATMENT EQUIPMENT PROVIDES THIRTY-FOLD REDUCTION IN DUST CONTENT

In 2014, NLMK Group announced its commitment to construct a modern modular dust collection system at its Lipetsk production site to treat off-gases from Blast Furnace No. 4.

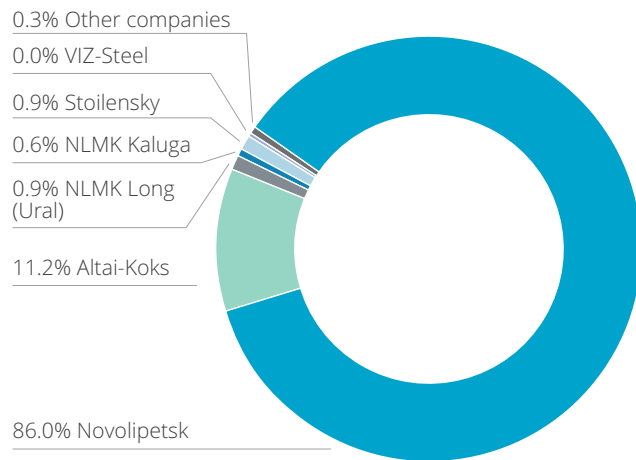
With a capacity of 600,000 m³/h, the new system will provide a thirty-fold reduction in residual dust content, to 5 mg/m³. This will reduce the annual dust emissions by 504 tonnes to achieve the level of best available technologies.

Currently, gases from BF-4 are de-dusted by a previous generation dust collection system that uses the water sprinkling method.

Investment into the construction of the new dust collection system will total approximately RUB 250 million, with launch planned for the end of 2015.



EMISSIONS BY COMPANY



Novolipetsk accounts for approximately 86% of NLMK's air emissions, whilst the Company produces about 80% of the Group's steel, which explains the substantial investment into environmental projects at all stages of the production process that are being implemented at the Novolipetsk site.

NLMK Kaluga, launched in mid-2013, has the minimal level of air emissions. Steel production at the site in 2014 totaled 6% of the Group's overall volumes, whilst NLMK Kaluga accounted for just 0.6% of emissions, a figure which is very low for both Russia and for other global leaders. Mining assets Stoilensky, Stagdok and Dolomit accounted for approximately 1% of total emissions in 2014.

NOVOLIPETSK CONTINUES TO REDUCE AIR EMISSIONS

A decrease in emissions at Novolipetsk in 2014 from 22.3 to 22.09 kg per tonne of steel was achieved in parallel to a steel output of 12.56 million tonnes (+1.3% year-on-year); a record over the 80 years of NLMK's history. New performance records were set for every production stage at Novolipetsk.

The Company has invested over 25 billion rubles into environmental initiatives since 2000, almost halving its key atmospheric impact figures and swiftly approaching best available technologies.

Novolipetsk implemented or launched several Environmental Programme 2020 projects in 2014. For example, testing of an innovative waste water treatment facility began at coke and chemical operations, among the benefits of which is a reduction in air emissions. De-dusting facilities in three shops were equipped with 790 new high-performance filter sleeves. An upgrade of the dust collection system was completed at the refractory shop in December 2014, reducing residual dust content in off-gases ten-fold.



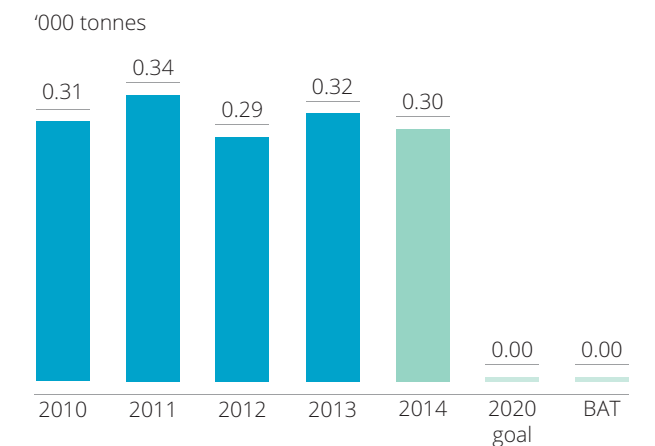
WATER

NLMK Group has an insignificant adverse impact on water bodies in the regions where it operates.

Novolipetsk, Stoilensky, Altai-Koks, VIZ-Steel, NLMK Kaluga, and Stagdok all have zero-discharge water systems, which results in zero water pollution.

NLMK Group companies that do not have a closed-loop water system are working on reducing their adverse impact on water bodies. For example, NLMK Group Ural sites have reduced the discharge of water pollutants by 16% year-on-year while maintaining stable production volumes.

NLMK GROUP'S GROSS WATER EMISSIONS



NLMK EMPLOYS UNIQUE WATER TREATMENT TECHNOLOGY

In 2014, NLMK Group began hot testing of a unique environmental complex; a biochemical waste water treatment facility at coke and chemical operations at the Lipetsk production site.

Total investment into the project which was implemented as part of NLMK's Environmental Programme 2020 exceeded RUB 2 billion.

From 2009, all industrial storm and waste water at the Lipetsk production site is contained in a closed-loop water cycle with multistage treatment to enable it to be reused in technological production processes. The new 160 m³/hour facility was designed using the best available technologies, and will provide a twenty-fold improvement in the quality of treatment of coke and chemical operations waste water for reuse in the closed-loop water cycle.

The facility employs a custom technology developed by Russian scientists for deep biochemical water purification from phenols, rhodanides, ammoniacal nitrogen and its oxides (nitrites and nitrates) in a single stage, whilst the previous technology required several stages. Elimination of these obsolete stages enables up to 95% waste water purification from nitrites and nitrates.

All infrastructure and utilities were installed above ground on an isolated concrete area equipped with a rain, melt and drain water collector, preventing any chance of groundwater pollution in the event of a containment failure.



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. Stoilensky accounts for the bulk of NLMK Group waste; with a share of 91% in 2014. Novolipetsk also generated a substantial volume of waste of 8% in 2014; whilst the Group's remaining assets accounted for around 1%.

Recycling levels at all NLMK Group's Russian steelmaking assets exceeded 90%:

- 94% at Novolipetsk;
- 92% at NLMK Long Ural sites;
- 95% at NLMK Kaluga.

Recycling level at NLMK Group's raw materials assets:

- 8% at Stoilensky;
- 75% at Stagdok;
- 97% at Dolomit;
- 95% at Altai-Koks.

Active recycling at NLMK Group companies has enabled the Company to significantly reduce the amount of waste generated over the last decade. Starting from 2004, Novolipetsk stopped accumulating waste and began systematically processing it. The amount of waste that had previously accumulated at the Novolipetsk landfill was reduced by 0.93 million tonnes in 2014.

PUBLIC APPRAISAL OF NLMK GROUP'S ENVIRONMENTAL ACTIVITIES

NLMK Group management's efforts to reduce the Company's environmental footprint have been noted by public and state organizations.

In 2014, NLMK won the '100 Best Companies in Russia. Ecology and Environmental Management' competition held as part of the VIII Nationwide conference 'Ecology and production. Prospects of environment protection economic mechanisms development' for the Company's systematic approach to tackling environmental challenges; and the implementation of advanced environmental technologies. NLMK's 'Best

Environmental Service' received a special nomination.

NLMK came first in the 'Breakthrough of the Year' nomination, receiving the Lipetsk Region's 'SLON' award for the Company's unique biochemical waste water treatment project at the coke and chemical operations. This project also received the golden medal at the 'Metal-Expo'2014' international industrial exhibition.

NLMK Kaluga was also recognized at the '100 Best Companies in Russia. Ecology and Environmental Management' competition as a next-generation steel company with a minimal environmental impact.

NLMK'S ENVIRONMENTAL PROJECT RECOGNIZED AS BEST IN INDUSTRY

NLMK Group was among the winners at the 20th international Metal-Expo'2014 industrial exhibition. NLMK received a gold medal for a unique environmental project –

a biochemical waste water treatment facility at coke and chemical operations at the Lipetsk production site.



2.

ENERGY EFFICIENCY



In 2014, NLMK Group implemented a number of projects to enhance energy resource procurement efficiency. The total effect of these measures was 2.1 billion rubles (\$55 million).

NLMK Group also implemented a set of measures to increase the efficiency of energy resource usage and the Company's energy facilities. The total effect of these measures was around 800 million rubles (\$20 million).

These projects included an upgrade of NLMK Group lighting systems, optimization of generation equipment repairs to increase in-house energy generation, use of by-product fuel gases, reduction of losses through modernization of heat insulation of vapour and hot-water supply networks, among other projects.

Specific energy intensity of steel produced at the Lipetsk site increased by 1% year-on-year in 2014 driven by one-off factors related to the mastering of pulverized fuel injection technology at blast furnaces No. 4 and No. 5.

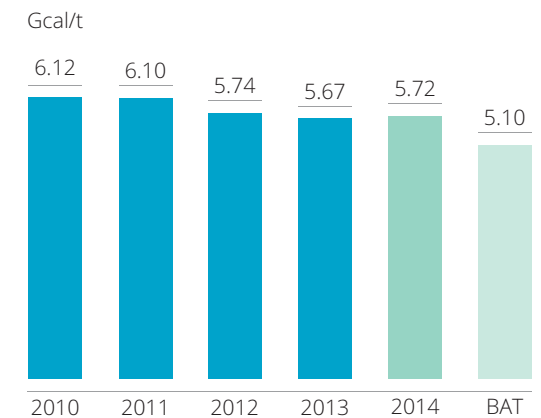
0.8 billion rubles (\$20 million)

effect of measures to increase the efficiency of energy resource usage and the Company's energy facilities

2.1 billion rubles (\$55 million)

effect of projects to enhance energy resource procurement efficiency

SPECIFIC ENERGY INTENSITY OF STEEL PRODUCTION AT THE LIPETSK SITE



NLMK Group's target energy efficiency level is equal to the level of best available technologies (BAT).

In 2014, Altai-Koks, Stoilensky, VIZ-Steel, NSMMZ, and NLMK Metalware passed a certification audit of their energy management systems. BSI (British Standards Institute, England) certification authority confirmed the compliance of these energy management systems with the requirements of ISO 50001 international standard, which means that all NLMK Group's main Russian companies have passed certification for compliance with ISO 50001.

GREEN ENERGY PROJECT BOOSTS ENERGY SELF-SUFFICIENCY

In 2014, NLMK Group began hot testing of a new 'green energy' top-pressure recovery turbine facility at its Lipetsk production site. Another turbine is under construction in parallel, with launch scheduled for 2016.

The new facility is used to generate energy through the channeling of excess blast furnace gas pressure. To date, blast furnace gas was directed to the heat power plant and the recovery cogeneration plant for energy generation; but the potential of excess blast furnace gas pressure had not been harnessed.

The total design capacity of the two turbines that form the top-pressure recovery turbine

complex is 28 MW. The facility will receive gas from blast furnaces No. 6 and 7, with the project increasing the plant's energy self-sufficiency from 54% to 56%; and reducing the amount of energy that must be purchased for the plant by 200 million kWh per year, which accounts for approximately 6% of total purchased energy.

Investment in the top-pressure recovery turbine project totals around 1.9 billion rubles; resulting in a payback period of about 18 months.



CONTACTS

You can access information about NLMK from a variety of sources.

Visit our corporate website for more information www.nlmk.com.

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NLMK IN SOCIAL NETWORKS

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CORPORATE GOVERNANCE

NLMK

EFFICIENCY LEADERSHIP

Annual Report 2014



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MANAGEMENT COMPOSITION

Board of Directors as at the end of 2014

NLMK Board of Directors was elected on 6 June 2014. There are 3 independent directors on the Board.

Functions of the Board of Directors:

- To develop and implement the corporate strategy
- To approve priority business areas for the company
- To assess risks
- To approve budgets and business plans
- To set target indicators

- To assess the performance of the company and its bodies
- To control large-scale capital expenses; asset acquisition and sale transactions, etc.

Related corporate documents:

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

Composition of the Board of Directors of NLMK as at 31 December 2014

Full name	Position	Status of Director	Participation in Strategic Planning Committee	Participation in Audit Committee	Participation in Human Resources, Remuneration and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors		Chairman		Chairman
Oleg Bagrin	Member of the Board of Directors	Executive Director	✓		✓
Benedict Sciortino	Member of the Board of Directors	Independent Director	✓	Chairman	
Helmut Wieser	Member of the Board of Directors	Independent Director	✓		
Nikolai Gagarin	Member of the Board of Directors			✓	
Karl Doering	Member of the Board of Directors		✓	✓	
Karen Sarkisov	Member of the Board of Directors		✓	✓	
Franz Struzl	Member of the Board of Directors	Independent Director	✓	✓	

Vladimir Lisin

Year of birth: 1956

Board member since 1996, Chairman of the Board since 1998

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

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

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.

Oleg Bagrin

Year of birth: 1974

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

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

Board member of a number of NLMK subsidiary and affiliate companies: NLMK International B. V. (Netherlands), NLMK Pennsylvania LLC, NLMK Indiana LLC, Sharon Coating LLC (USA).

Chairman of the Board of Directors of investment company Libra Capital, management company Libra Capital, Moscow; Board member of Freight One, a railroad transportation company.

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.

Benedict Sciortino

Year of birth: 1950

Board member since 2012 (independent director)

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

From 1977 to 1995 Benedict Sciortino worked as an attorney-at-law and a partner with Baker & McKenzie, New York. He joined Duferco in 1995. Now he serves as a 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 acquisitions. Mr. Sciortino serves as a director of several operating companies.

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

Helmut Wieser

Year of birth: 1953

Board member since 2011 (independent director)

Member of the Strategic Planning Committee

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

Member of the Management Board at AMAG Austria Metall AG since March 2014; and Chief Executive Officer since April 2014.

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

Nikolai Gagarin

Year of birth: 1950

Board member since 2001

Member of the Audit Committee

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 University, majored in Law.

Karl Doering

Year of birth: 1937

Board member since 2006

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

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

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

Franz Struzl

Year of birth: 1942

Board member since 2011 (independent director)

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

In 1967 Franz Struzl joined Alpine Steelgroup, later renamed Voestalpine AG, based in Linz, Austria, serving the Company for over four decades. During his career at Voestalpine Franz Struzl held various positions in a number of fields including strategic planning, commercial and technical areas. In 1981 he was appointed Chief Financial Officer before becoming Chief Executive Officer of Voestalpine Long Products Group and a member of the Executive Board in 1991. From 1995 until 2001 he served as Vice Chief Executive Officer of Group. In 2001 Franz Struzl was appointed as Voestalpine Group Chief Executive Officer and Chairman. He held the position until 2004, when he moved to become Chief Executive Officer of Voestalpine, Brazil — Villares Metals, remaining there until 2010. From 2011 he is General Director of RHI AG.

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

Karen Sarkisov

Year of birth: 1963

Board member since 2010

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

He serves as an Aide to the Chairman of the Board of Directors on External Economic Relations. He is also a member of the Board of Directors at NLMK International B. V.

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

Graduated from the Tashkent State University majoring in Oriental Studies.

Management Board as at the end of 2014

The NLMK Group Management Board consists of 10 members and holds regular meetings. Members of the Management Board are in charge of the Group's every-day operations. They also monitor subsidiaries and affiliates, and other legal entities.

Related corporate documents:

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

Composition of the the Management Board as at 31 December 2014

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

Oleg Bagrin

Year of birth: 1974

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

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

Board member of a number of NLMK subsidiary and affiliate companies: NLMK International B. V. (Netherlands), NLMK Pennsylvania LLC, NLMK Indiana LLC, Sharon Coating LLC (USA).

Chairman of the Board of Directors of investment company Libra Capital, management company Libra Capital, Moscow; Board member of Freight One, a railroad transportation company.

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.

Alexander Burayev

Year of birth: 1963

Director for Long Products and Metalware

Member of the Management Board since 2012

Director for Long Products and Metalware since 2011. General Director at NLMK Long Products since 2010.

From 2007 to 2011 he was Head of Production, Operations Department at Novolipetsk.

From 2002 to 2007 he worked as Head of Cold Rolled and Coated Flats Shop at Novolipetsk. He has held various offices at NLMK since 1988 when he began in the position of Heat Treatment Operator.

Holds a master degree with a major in Steelmaking and Welding Technologies from the Lipetsk Technical Institute (1986).

Brijesh Garg

Year of birth: 1964

Vice President, Procurement

Member of the Management Board since 2012

He started his career in 1985 with Tata Steel, India as Industrial Engineer and moved through various positions within the company and worked with other steel plants in New Zealand Steel (BlueScope Steel, Australia) and ArcelorMittal, Kazakhstan & Ukraine.

He has about 14 years of experience in supply chain management and business processes re-engineering in steel industry and 13 year of experience in industrial engineering.

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

Ilya Gushchin

Year of birth: 1976

Vice President, Sales

Member of the Management Board since 2014

From 2009 to 2013 he worked for SIBUR Group, including as head of SIBUR International; the group's export division.

From 2008 to 2009, he served as Financial Director at Skolkovo School of Management, Moscow.

From 2002 to 2007 he held various positions at Microsoft.

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

Yuri Larin

Year of birth: 1952

Vice President, Technology Development & Operational Efficiency

Member of the Management Board since 2006

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

Graduate of the Voronezh Polytechnic Institute. Ph.D., Tech.

Sergey Likharev

Year of birth: 1964

Vice President, Logistics

Member of the Management Board since 2014

Sergey Likharev joined NLMK in October 2013.

From 2012 to 2013 he was Aviation Business Director at Russian Machines Group; and Chairman of the Board of Directors of the Aviacor aviation plant.

After serving as CEO of Aviacor Aviation Plant in Samara from 2004 to 2007, he became CEO of the Basel Aero airport group from 2008 to 2012.

From 1993 to 2004, he held senior positions at Interros, Ostankino Meat Processing Plant, Golden Telecom, Cannon Associates and Coopers & Lybrand.

From 1990 to 1993 he worked as a researcher at Moscow State University. Sergey Likharev holds a Ph.D. in Physics and Mathematics; and a Masters of Business Administration from Cornell University.

Alexander Saprykin

Year of birth: 1967

Vice President, Strategic Raw Materials Division

Member of the Management Board since 2006

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

Graduated from the Moscow State Mining University.

Grigory Fedorishin

Year of birth: 1979

Vice President, Finance

Member of the Management Board since 2012

From 2011 to 2013 he served as NLMK Director of Strategy and Business Development.

From 2009 to 2012 served as an investment manager at Libra Capital, a Moscow-based investment management company.

From 2001 to 2009 worked for PricewaterhouseCoopers consulting company where he held positions up to a director of business restructuring practice.

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

Sergey Filatov

Year of birth: 1959

Managing Director

Member of the Management Board since 2013

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 Metallurgist of Russia.

Stanislav Tsyrlin

Year of birth: 1968

Vice President, HR & Management System

Member of the Management Board since 2005

Secretary of the Human Resources, Remuneration and Social Policies Committee.

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.

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

NLMK CORPORATE GOVERNANCE

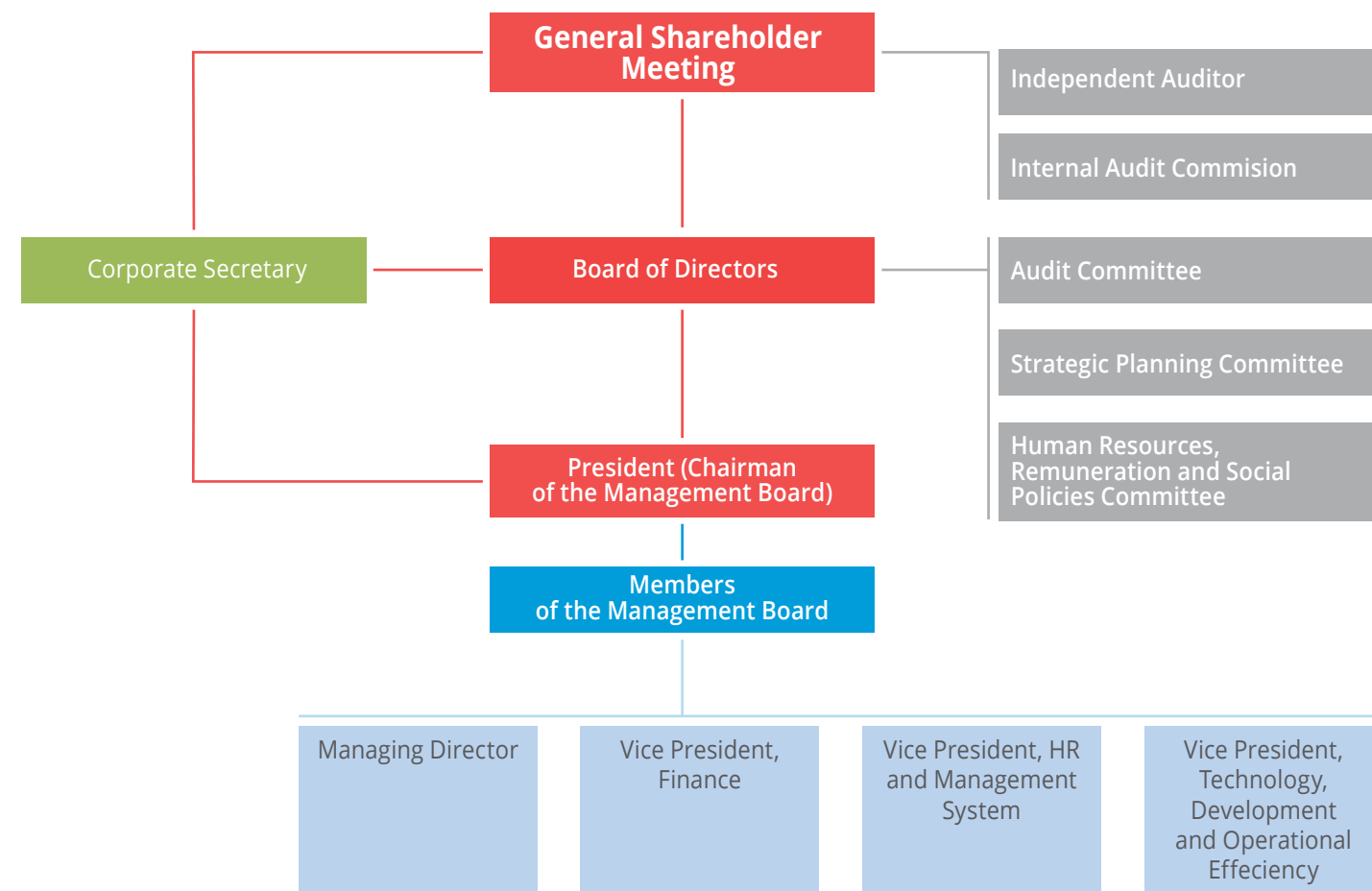
General information about NLMK Corporate Governance

In its activity NLMK adheres to best international practices and high standards of corporate governance. The company maintains a policy of maximum transparency that allows our shareholders and investors to have all the necessary information on the activities of NLMK provided in a timely manner so that they can make an investment decision regarding the Company's securities.

NLMK is committed to continuously improving its corporate governance. Policies determining business strategies, guiding principles and objectives regulate the Company's activities in all socially significant and operationally critical areas.

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

NLMK Corporate Governance Structure



NLMK Corporate Governance system

NLMK governance system is compliant with the main recommendations of the Corporate Governance Code and with the current legislation of the Russian Federation and countries where NLMK 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 acting corporate documents, the governance structure includes:

- General Meeting of Shareholders — supreme governing body
- Board of Directors that is responsible for the overall operations of the Company and its long-term development strategy
- The executive bodies of the Company including the President (Chairman of the Management Board) and the Management Board that manage day-to-day activities of the Company
- 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.



GENERAL SHAREHOLDER MEETING

NLMK corporate governance in action

Shareholders, being the owners of NLMK shares, participate in managing the Company by taking decisions at the General Shareholders' Meeting. General Shareholders' Meeting is NLMK's highest governance body. At the General Shareholders' Meetings, shareholders elect the main governance and supervisory authorities of the Company, approve annual reports, distribute profits, approve the Charter of the Company and internal corporate documents, etc.

Activity in 2014

NLMK's Annual General Shareholder Meeting for FY2013 was held on 6 June 2014. Shareholders and shareholder representatives holding more than 91 % of NLMK's shareholder capital were present, meeting the quorum requirements. During the meeting, decisions on the following matters were taken:

- Approval of the Group's 2013 Annual Report; annual financial statements; and profit and loss statement
- Announcement of dividends on ordinary shares for 2013
- Election of the Group's Board of Directors, President (Chairman of the Management Board), Internal Audit Commission
- Approval of independent auditor
- Approval of changes to NLMK's internal corporate documents
- Approval of related party transactions
- Payment of remuneration to the members of NLMK's Board of Directors.

NLMK's Extraordinary General Meeting of Shareholders was held on 30 September 2014 in the form of absentee voting. Shareholders and shareholder representatives holding more than 91 % of NLMK's shareholder capital took part, meeting the quorum requirements. The Extraordinary General Meeting of Shareholders resolved to pay out dividends for the first six months of 2014.

BOARD OF DIRECTORS

NLMK corporate governance in action

The Board of Directors of NLMK is the central element in the corporate governance system of the Company. The main purpose of the Board of Directors is to carry out strategic 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 can not be guided by the interests of any single group of shareholders.

According to active corporate documents, 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 (within the scope of its authorities)
- 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.

Members of the Board of Directors may be individuals 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.

Independent directors are elected to the Board of Directors of NLMK in accordance with international best practice in corporate governance to ensure balanced decision-making and to increase the efficiency of the Board. The Group intends to have 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.

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 Russian law. Each member of the Board of Directors is entitled to one vote.

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.

Independent board members

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

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

- Has 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 another 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 percent

- 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 percent of the book value of the company's assets)
- Has declared in public way their 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 and activity of the Board of Directors

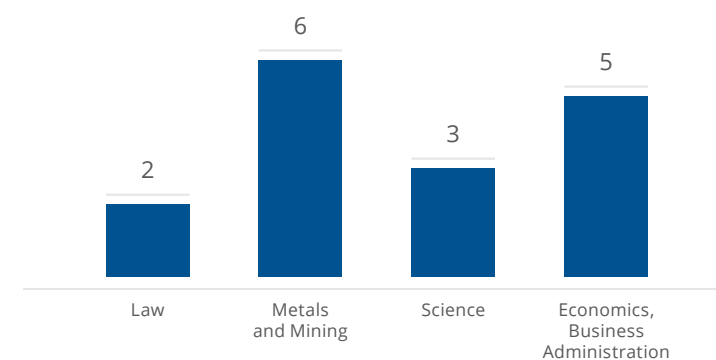
As at 31 December 2014, the Board of Directors consists of 8* people, including 3 members of the Board of Directors who are independent.

Composition of the Board of Directors of NLMK as at 31 December 2014

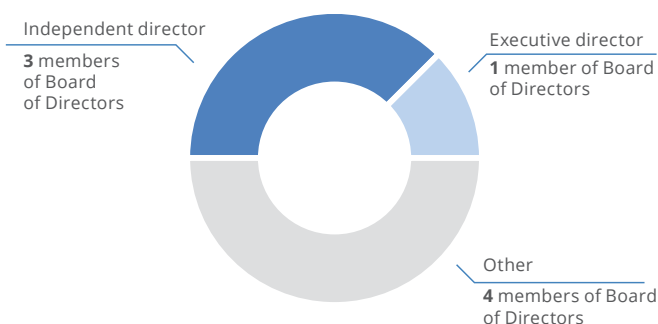
Full name	Position	Years on the Board	Independent	Participation in Strategic Planning Committee	Participation in Audit Committee	Participation in Human Resources, Remuneration and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	18		Chairman		Chairman
Oleg Bagrin	Member of the Board of Directors	10		✓		✓
Benedict Sciortino	Member of the Board of Directors	3	Yes	✓	Chairman	
Helmut Wieser	Member of the Board of Directors	4	Yes	✓		
Nikolai Gagarin	Member of the Board of Directors	13				✓
Karl Doering	Member of the Board of Directors	8		✓	✓	
Karen Sarkisov	Member of the Board of Directors	5		✓	✓	
Franz Struzl	Member of the Board of Directors	4	Yes	✓	✓	

* Note: Deputy Chairman of the Board of Directors elected at an Annual Shareholders' meeting Vladimir Skorokhodov passed away on 31.10.2014.

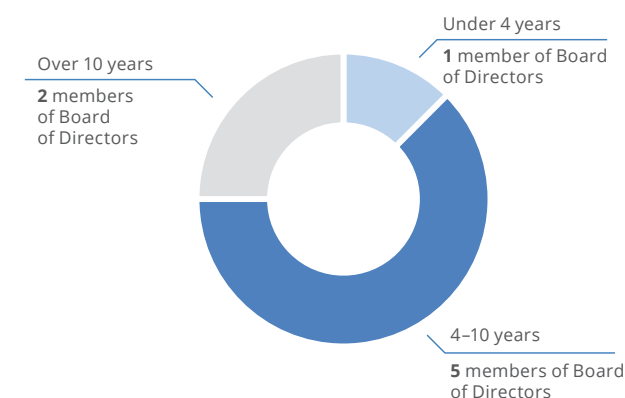
Directors' expertise and professional background



Composition of the Board of Directors by director status

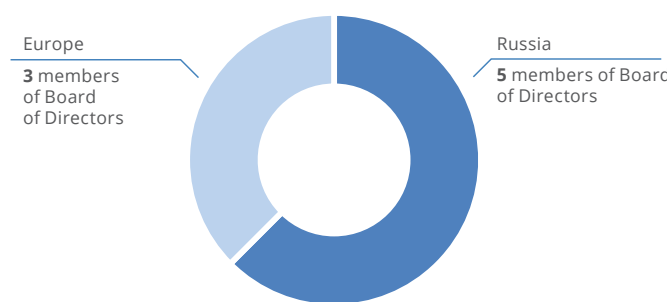


Directors' length of tenure *

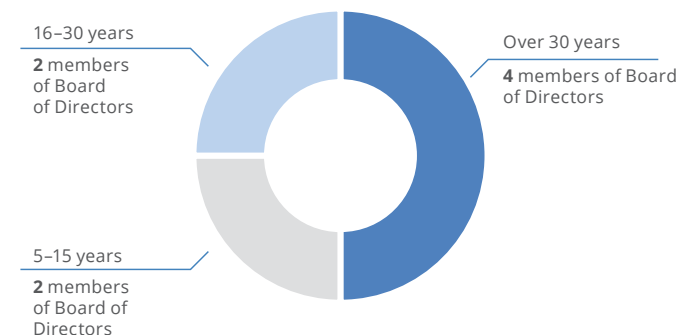


* As at 31 December 2014

Directors' location



Directors' expertise in the steel sector



The Board of Directors' activity in 2014

In 2014 there were 7 meetings of the Board of Directors of NLMK, 4 of which were held by absentee ballot.

The following are the main issues that were examined by the Group's Board of Directors in 2014:

- 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 2013, 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
- 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 (including new participants))
- Approving the composition of the NLMK Management Board
- Convening an Extraordinary General Meeting of Shareholders (EGM); approving the agenda, draft documents and events required to prepare for and organize the EGM.

Participation of Members of the Board of Directors in the Meetings of this Body in 2014

Board of Directors' Member	Participation in meetings
Vladimir Lisin	7
Oleg Bagrin	7
Benedict Sciortino	7
Helmut Wieser	7
Nikolai Gagarin	7
Karl Doering	7
Karen Sarkisov	7
Franz Struzl	7
Vladimir Skorokhodov	5*

* Note: Vladimir Skorokhodov passed away on 31.10.2014.

Remuneration 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 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 paid to Board members in 2013–2014, million rubles

Item name	2013	2014	2014, \$ m
Remuneration for participating in management body	69.5	73.9	2.1
Salary	-	-	-
Bonuses	-	-	-
Commission	-	-	-
Benefits	-	-	-
Refunded expenses	1.5	2.0	0.1
Other types of remuneration	1.6	-	-
TOTAL	72.6	75.9	2.2

COMMITTEES OF THE BOARD OF DIRECTORS

For the purposes of handling certain aspects of NLMK Group business, the following standing committees of the Board of Directors were established:

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

Strategic Planning Committee

Corporate governance in action

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'.

Participation of committee members in committee meetings in 2014

Full name	Position	Participation in meetings in 2014 (total number of meetings during the member's service on the committee)
Vladimir Lisin	Chairman of the Committee	2 (2)
Vladimir Skorokhodov*	Member of the Committee	1 (1)
Oleg Bagrin	Member of the Committee	2 (2)
Benedict Sciortino	Member of the Committee	1 (2)
Karl Doering	Member of the Committee	2 (2)
Karen Sarkisov	Member of the Committee	2 (2)
Helmut Wieser	Member of the Committee	2 (2)
Franz Struzl	Member of the Committee	2 (2)
Alexey Lapshin	Member of the Committee	2 (2)

* Note: Vladimir Skorokhodov passed away on 31.10.2014

The committee reviewed the following key issues:

- NLMK Group investment development programme and key capex projects implementation status
- Revision of corporate documents on the management of NLMK Group investment activities
- Implementation status for key strategic investment projects at NLMK Group sites.

Audit Committee

Corporate governance in action

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 Audit Committee constitutes a part of the risk management system; and has the following risk management functions:

- The Audit Committee assesses and reports to the Board of Directors, as may be necessary, on the efficiency of the company's internal

- control system on the basis of analysis of the work of the internal audit service; the Internal Audit Commission; and on recommendations in report form as prepared by the external auditor
- The Audit Committee assesses the efficiency of internal control procedures and develops proposals on how they can be improved
- The Audit Committee performs analysis and reports to the Board of Directors on the efficiency of internal control system functions in the company's affiliates and subsidiaries; including the review of Auditor candidates for such companies.

Composition of the committee

The Committee members comprise:

- Benedict Sciortino — Chairman of the Committee (member of the Board of Directors, independent director)
- Franz Struzl (member of the Board of Directors, independent director)
- Karl Doering (member of the Board of Directors)
- Karen Sarkisov (member of the Board of Directors)
- Nikolai Gagarin (member of the Board of Directors).

Results of the Committee's activity for 2014, member participation

In 2014 there were 4 meetings of the Audit Committee held in-person, including 3 held by conference call.

Participation of committee members in committee meetings in 2014

Full name	Position	Participation in meetings in 2014 (total number of meetings during the member's service on the committee)
Benedict Sciortino	Chairman of the Committee	4 (4)
Franz Struzl	Member of the Committee	4 (4)
Karl Doering	Member of the Committee	4 (4)
Karen Sarkisov	Member of the Committee	4 (4)
Nikolai Gagarin	Member of the Committee	4 (4)

The committee reviewed the following key issues:

- Review of the results of the audit of NLMK’s 2013 US GAAP Consolidated Financial Statements
- Review of the results of the audit of NLMK’s 2013 RAS Financial Statements
- Review of a detailed plan on NLMK Group’s transition to IFRS Financial Reporting
- Review of NLMK Group RAS and US GAAP consolidated financial statements auditor candidates for 2014
- Review of draft interim abridged US GAAP Consolidated Financial Statements for Q1, H1 and 9M 2014
- Development of recommendations for the Board of Directors on the maximum amount of auditor remuneration
- Review of the report on risk management, internal control and internal auditing.

Human Resources, Remuneration and Social Policies Committee

Corporate governance in action

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.

Composition of the committee

The Committee members comprise:

- Vladimir Lisin — Committee Chairman (Chairman of the Board of Directors)
- Vladimir Skorokhodov* (Deputy Chairman of the Board of Directors)
- Oleg Bagrin (member of the Board of Directors, President / Chairman of the Management Board)
- Alexey Lapshin (advisor to the Chairman of the Board of Directors).

Results of the Committee's activity for 2014, member participation

In 2014 there were 2 meetings of the Human Resources, Remuneration and Social Policies Committee, held in-person.

Participation of committee members in committee meetings in 2014

Full name	Position	Participation in meetings in 2014 (total number of meetings during the member's service on the committee)
Vladimir Lisin	Chairman of the Committee	2 (2)
Vladimir Skorokhodov*	Member of the Committee	2 (2)
Oleg Bagrin	Member of the Committee	2 (2)
Alexey Lapshin	Member of the Committee	2 (2)

* Note: Vladimir Skorokhodov passed away on 31.10.2014

The following key issues were discussed at the meetings:

- Approval of the remuneration system for company management
- Compliance of candidates for the NLMK Board of Directors with independent director status
- Proposals were made to the Board of Directors on the amount of remuneration for members of the Board of Directors in 2013
- Review of candidates for the company’s elective bodies.

MANAGEMENT BOARD

NLMK corporate governance in action

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

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

- Efficient and objective decision-making that favors the interests of the Company and its shareholders
- Fair, timely and efficient execution of the decisions of the General 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.

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

President (Chairman of the Management Board)

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

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 6 June 2014.

Composition of the Management Board

As at 31 December 2014, the Management Board consisted of 10 people.

Full name	Position
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
Ilya Gushchin	Vice President, Sales
Yuri Larin	Vice President, Technology Development & Operational Efficiency
Sergey Likharev	Vice President, Logistics
Alexander Saprykin	Vice President, Strategic Raw Materials Division
Grigory Fedorishin	Vice President, Finance
Sergey Filatov	Managing Director
Stanislav Tsyrlin	Vice President, HR & Management System

The following changes were made to the composition of the Management Board in 2014:

- In April 2014, the Board of Directors voted to reduce the number of Management Board members from 10 members to 8 members. Alexander Gorshkov and Alexander Sapronov left the Management Board following personnel changes
- In December 2014, the Board of Directors voted to increase the number of Management Board members from 8 members to 10 members. Ilya Gushchin, Vice President for Sales; and Sergey Likharev, Vice President for Logistics joined the Management Board.

Shares owned by members of the Management Board

Full name	Share of the authorized capital stock of NLMK
Oleg Bagrin	Not an NLMK shareholder
Alexander Burayev	0.00005%
Brijesh Garg	Not an NLMK shareholder
Ilya Gushchin	Not an NLMK shareholder
Yuri Larin	0.00083%
Sergey Likharev	Not an NLMK shareholder
Alexander Saprykin	Not an NLMK shareholder
Grigory Fedorishin	Not an NLMK shareholder
Sergey Filatov	Not an NLMK shareholder
Stanislav Tsyrlin	Not an NLMK shareholder

Activity of the Management Board in 2014

In 2014, there were 36 meetings of the Management Board, including 14 meetings that were held using absentee ballots.

The following issues were considered at these meetings:

- Meeting Group's key performance indicators in occupational health & safety
- 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 2013
- Examination of previously issued instructions
- Execution of the development programmes of NLMK's divisions (functional areas)
- 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 changes to the decisions to issue bonds and their approval
- Meeting key performance indicators of the Group
- Approval of transactions
- Group's consolidated budget execution
- Examination of the working capital
- Examination of slow moving inventory trends at NLMK Group companies
- Implementation of NLMK Group operational efficiency programmes
- Comprehensive risk management system.

Participation of Members of the Management Board in Meetings of this body in 2014

Management Board Member	Participation in meetings
Oleg Bagrin	36
Alexander Burayev	36
Brijesh Garg	36
Alexander Gorshkov	8 ¹
Ilya Gushchin	4 ²
Yuri Larin	36
Sergey Likharev	4 ²
Alexander Saprionov	8 ¹
Alexander Saprykin	36
Sergey Filatov	36
Grigory Fedorishin	36
Stanislav Tsyrlin	36

Notes:

¹ Alexander Gorshkov and Alexander Saprionov were members of the Management Board until 16 April 2014.

² Ilya Gushchin and Sergey Likharev were approved as members of the Management Board at the meeting of the Board of Directors on 4 December 2014.

Remuneration and compensation of 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.

Remuneration paid to Management Board members in 2013–2014, million rubles

Item name	2013	2014	2014, \$ m
Salary	109.2	120.6	3.1
Bonuses	107.0	331.4	8.6
Commission	-	-	-
Benefits	-	-	-
Refunded expenses	4.8	3.1	0.1
Other types of remuneration	0.04	0.1	0.0
TOTAL	221.0	455.1	11.9

Corporate secretary

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.

SUPERVISION OVER THE FINANCIAL AND BUSINESS ACTIVITIES

External Auditor

Corporate governance in action

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.

ZAO PricewaterhouseCoopers Audit was selected at the Annual General Shareholder Meeting held in June 2014, to conduct an audit of financial statements prepared in accordance with 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 2014, 9M 2014, 12M 2014 and Q1 2015, and the RAS Statements for 2014 to be US\$ 2,150,000 (excluding VAT).

Independence of external auditors

In 2014 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 2014 did not exceed 10% of the total amount of services performed.

Internal Audit Commission

Corporate governance in action

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

The Internal Audit Commission acts for the protection of the shareholders' investments

and the Group's assets and is elected by the General Meeting of Shareholders for a term of one year. The Internal Audit Commission report is an essential part of NLMK's RAS Financial Statements.

The following members of the Internal Audit Commission were elected on 6 June 2014:

- Vladislav Ershov
- Natalia Krasnykh
- Valery Kulikov
- Sergey Nesmeyanov
- Galina Shipilova.

Activity in 2014

The Internal Audit Commission held 4 meetings in 2014 to examine the 2013 NLMK Financial and Operating Performance Audit Report. The Commission's report for 2013 was approved and the Commission's planned activities for 2014 were also discussed. The Commission reviewed the Group's financial and business activities for 2014 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 amount of compensation.

Remuneration paid to the members of the Internal Audit Commission in 2014 totaled RUB 220,000 (US\$ 6,000); in 2013 it totaled RUB 145,000 (US\$ 5,000).

Audit Committee

Corporate governance in action

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 Audit Committee constitutes a part of the risk management system; and has the following risk management functions:

- The Audit Committee assesses and reports to the Board of Directors, as may be necessary, on the efficiency of the company's internal control system on the basis of analysis of the work of the internal audit service; the Internal Audit Commission; and on recommendations in report form as prepared by the external auditor
- The Audit Committee assesses the efficiency of internal control procedures and develops proposals on how they can be improved
- The Audit Committee performs analysis and reports to the Board of Directors on the efficiency of internal control system functions in the company's affiliates and subsidiaries; including the review of Auditor candidates for such companies.

Composition of the committee

The Committee members comprise:

- Benedict Sciortino — Chairman of the Committee (member of the Board of Directors, independent director)
- Franz Struzl (member of the Board of Directors, independent director)
- Karl Doering (member of the Board of Directors)
- Karen Sarkisov (member of the Board of Directors)
- Nikolai Gagarin (member of the Board of Directors).

Results of the Committee's activity for 2014, member participation

In 2014 there were 4 meetings of the Audit Committee held in-person, including 3 held by conference call.

The committee reviewed the following key issues:

- Review of the results of the audit of NLMK's 2013 US GAAP Consolidated Financial Statements
- Review of the results of the audit of NLMK's 2013 RAS Financial Statements
- Review of a detailed plan on NLMK Group's transition to IFRS Financial Reporting

- Review of NLMK Group RAS and US GAAP consolidated financial statements auditor candidates for 2014
- Presentation of a report on the results of the Internal Audit Directorate activities; and an action plan for 2014
- Review of draft interim abridged US GAAP Consolidated Financial Statements for Q1, H1 and 9M 2014
- Development of recommendations for the Board of Directors on the maximum amount of auditor remuneration
- Review of the report on risk management, internal control and internal auditing.

Participation of committee members in committee meetings in 2014

Full name	Position	Participation in meetings in 2014 (total number of meetings during the member's service on the committee)
Benedict Sciortino	Chairman of the Committee	4 (4)
Franz Struzl	Member of the Committee	4 (4)
Karl Doering	Member of the Committee	4 (4)
Karen Sarkisov	Member of the Committee	4 (4)
Nikolai Gagarin	Member of the Committee	4 (4)

Internal Audit Service

Corporate governance in action

The Internal Audit Service is an integral part of NLMK's internal control system, exercising continuous supervision over the financial and business activities of the Company. Internal auditing exists to provide independent and objective guarantees and consultation aimed at improving business operations. The main functions of the Internal Audit Service are as follows:

- Evaluation of the efficiency of internal controls
- Evaluation of the reliability and efficiency of the risk management system
- Evaluation of corporate governance
- Assessment of the accuracy, comprehensiveness and objectivity of accounting systems; and the reliability of financial reporting
- Verification that all tax risks are identified and adequately assessed
- Verification that resource use and property safekeeping methods used by the company are rational and efficient.

The Internal Audit Service is made up of the Internal Audit Directorate and the Internal Audit Department. The Internal Audit Director interacts with the Internal Audit Department by undertaking:

- General functional management of Department activities
- Organization of methodological support for Internal Audit Service activities
- Quality control
- Organization of consulting activities.

Functionally, the Internal Audit Director reports to the Board of Directors (the Audit Committee); whilst administratively the Director reports to the President (Chairman of the Management Board) and the Internal Control and Risk Management Director.

Activity in 2014

Internal Audit Service experts performed the following activities in 2014:

- Audits of the efficiency of material risk management and assessments of the efficiency of business processes. These audits confirmed that NLMK's risk management system is active yet certain organizational and/or control procedure compliance issues exist which could have an impact on achieving process objectives
- Audits of Company's financial and operational activities; compliance with financial and tax accounting regulations; and preparation of financial (tax) statements
- Participation in audits of NLMK Group companies in accordance with the prevailing laws on the statutes of joint-stock and limited liability companies'. Audits were performed in 40 subsidiaries and affiliates, with 38 granted a positive audit opinion on the accuracy of financial statements; and 2 granted a qualified audit opinion subject to reservations
- Audits of repair and construction activities.

A total of 63 auditing activities were held in 2014. Recommendations were given on how to improve NLMK Group operations, including improvement of the company's risk management and internal control system. The Internal Audit Service consistently monitors the implementation of its recommendations. 99% of audit recommendations were fulfilled in 2014.

Policy on approval of 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.

RISK MANAGEMENT

The main goal of the Group's risk management activities is to minimize possible negative effects that changes to the external environment and internal processes might have on the business.

Risk management policy

The risk management policy is designed to protect the interests of shareholders, stakeholders and society at large by means of a system of effective risk management. Risk management is an important component of the shareholder value creation process and is instrumental in achieving the Group's strategic goals.

Risk management process

Key risk management system milestones:

- 2008: corporate risk management system begins to function within the Group
- 2012: 'Corporate risk management system functioning' standard is approved to regulate NLMK's risk management process
- 2014: NLMK's Risk Management Committee is set up.

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
- Development of risk management measures
- Monitoring of critical risks at Group Management Board level.

Risk Management Committee

The committee is a collective body created to ensure the efficiency of NLMK's risk management processes.

Key goals of the committee:

- Development of risk management projects
- Development of solutions to risk management issues
- Coordination of all units and employees involved in the risk management process.

Risks NLMK Group is exposed to

Item	Impact level of risk	Description	Mitigation measures
COMMERCIAL RISKS			
Price risk	Critical risk	<p>Risk presents in the following cases:</p> <ul style="list-style-type: none"> narrowing of the spreads between prices of finished products and prices of key raw materials cost of materials increases. 	<ul style="list-style-type: none"> Monitoring spreads between steel products and key raw materials Use of formula-based pricing linked to international raw material and scrap price indexes for long-term contracts for the purchase of raw and other materials Development of a purchasing strategy by category of material Approval and implementation of regulations for tender procedures
Credit risk	Critical risk	<p>Sources of credit risks for NLMK Group include:</p> <ul style="list-style-type: none"> accounts receivable advances made cash funds on bank deposits banking products accepted as counteragents' warranty. 	<ul style="list-style-type: none"> Approval of credit policy Approval of clauses to accept banking products as warranty
FINANCIAL RISKS			
Currency risk	Critical risk	<p>Risks associated with fluctuations in currency rates. The Company receives the majority of its revenues from exports in foreign currency, while the majority of expenditure is established in Russian Rubles.</p>	Control of open foreign exchange position
TECHNICAL (TECHNOLOGICAL) RISKS			
Technical (technological) risks	Critical risk	<p>Technical (technological) risks involve the loss of property (or parts thereof) as a result of accidents at production sites and revenue-leakage caused by production stoppages</p>	<ul style="list-style-type: none"> Insurance against property damage and production stoppages Implementation of a risk-oriented programme of maintenance and capital repairs of the Group's fixed assets Development of technical policies for various types of equipment Development of current repair and maintenance strategies Quality control of input raw materials
INVESTMENT RISKS			
Investment risk	Critical risk	<p>Risk of delays in the launch of facilities</p> <p>Risk of increasing costs of implemented investment projects</p> <p>Inefficient investment stock management</p>	<ul style="list-style-type: none"> Implementation of regulations for management of investment activity Implementation of execution controls for regulation procedures

Item	Impact level of risk	Description	Mitigation measures
CONTROL AND SAFETY			
Occupational health and safety risks	Significant risk	Risks associated with the occurrence of accidents and other incidents	<ul style="list-style-type: none"> Development and implementation of a corporate OHS management system with unified standards across all sites Development of NLMK Group's preventative fire safety system Ensuring employees are supplied with the latest personal protection and hygiene equipment OHS training for managers and experts
Risks of corrupt business practices and fraud	Significant risk	<p>Risk of financial loss as a result of fraud by personnel or partners, including confederacy between responsible personnel within the Company and representatives of partner organization in order to derive unlawful, individual financial gain from the execution of agreements</p>	<ul style="list-style-type: none"> Development and implementation of NLMK's Anti-Corruption Policy and Ethical Code Assessment to identify which company activities that are most susceptible to such risks; and development of appropriate Anti-Corruption measures
IT risks	Significant risk	Violation of information confidentiality by Company personnel or third parties	<ul style="list-style-type: none"> Development of unified information confidentiality regulations for NLMK Group companies Development and implementation of regulations for information backup and data recovery, including data backup systems Control of IT system access rights and user privileges
ENVIRONMENTAL RISKS			
Environmental risk	Critical risk	Risks present during operation of production sites in cases where there is a chance of environmental damage	<ul style="list-style-type: none"> NLMK constantly monitors chemical contents of atmospheric emissions and wastewater discharge in order to reduce environmental risks The Group is systematically reducing its environmental impact through commissioning new, environmentally safe technological equipment; and modernization of existing equipment

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 Depository Shares (GDS) (1 GDS = 10 ordinary shares) on the London Stock Exchange (LSE).

LSE (London) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
Bloomberg Ticker Code	<ul style="list-style-type: none"> NLMK LI for GDS traded on the LSE NLMK RX for shares traded on the MICEX platform of the Moscow 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

Indices that include NLMK shares (shares as of 31.03.15):

- RTS Index (NLMK's share — 0.85%)
- MICEX index (NLMK's share — 0.85%)
- Moscow Stock Exchange Metals & Mining (NLMK's share — 11.4%)
- FTSE Russia IOB index.

Global Depository Shares (GDS)

The ratio of Global Depository Shares to ordinary shares is 1:10. The volume of Global Depository Shares issued by NLMK and traded on the London Stock Exchange amounted to 8.56% of share capital as of 31 December 2014.

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

Share price

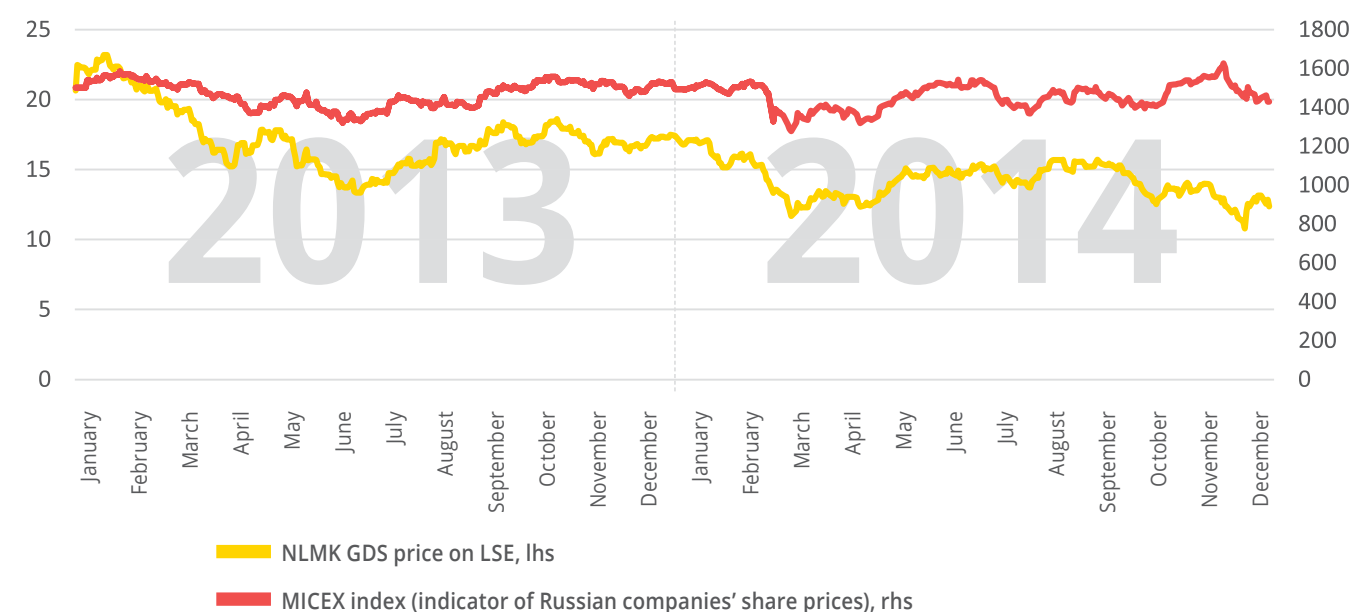
NLMK Global Depository Shares on the London Stock Exchange

Price of GDS (US\$)	2014	2013
Maximum	16.69	23.0
Minimum	9.80	12.5
Mean	13.45	16.8
End of year	11.48	16.9

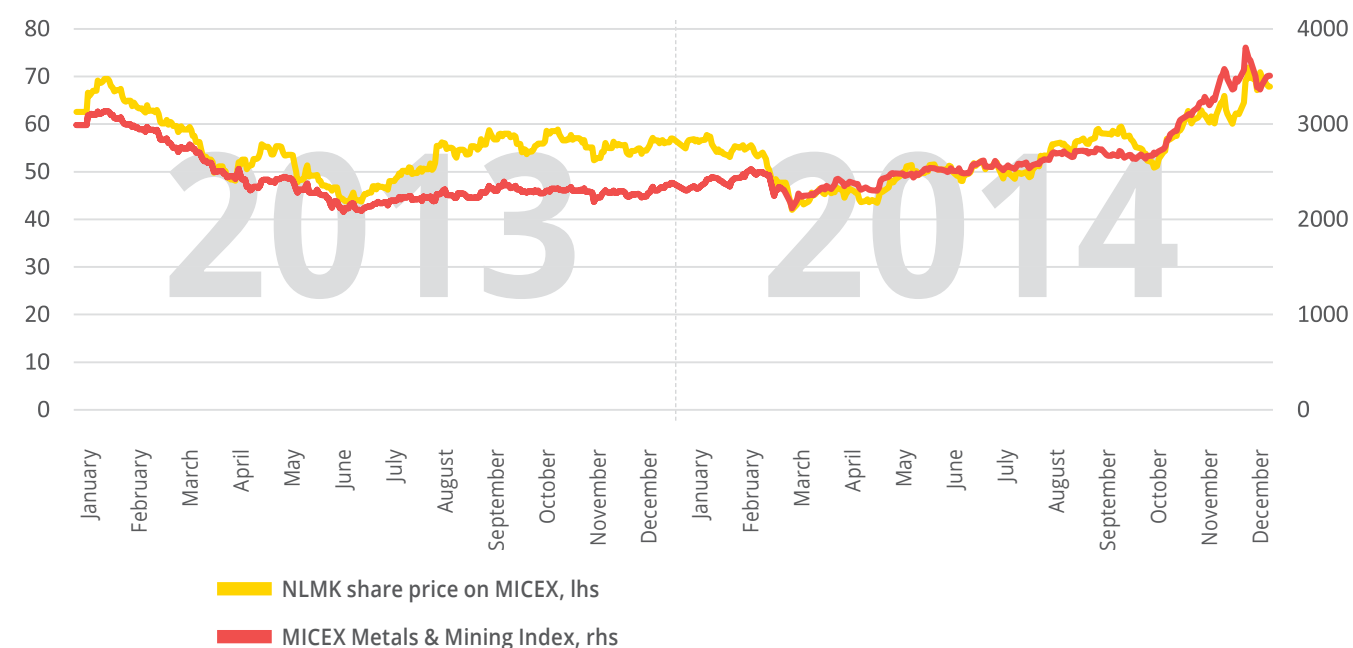
Ordinary NLMK shares on MICEX

Share price (RUB)	2014	2013
Maximum	71.02	68.45
Minimum	39.30	41.20
Mean	51.66	52.87
End of year	67.41	55.18

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



NLMK share price on MICEX (RUB/share)



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\$ 8.1 billion (-19% year-on-year). At the end of 2014, NLMK share price was US\$ 1.15, or US\$ 11.5 per GDS, consistent with capitalization of US\$ 6.88 billion.

Taxation

In accordance with Russian legislation, the rate of taxation of dividend payments for corporate shareholders who are residents of the Russian Federation is 13%; for corporate shareholders who are non-residents, it is 15%; for individuals, the rates are 13% and 15% respectively. 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

Significant changes to NLMK's Dividend Policy were proposed in 2015.

The current version of NLMK's Dividend Policy, approved in June 2011, sets out a dividend pay-out of not less than 20% of the Group's consolidated net income under US GAAP provided conditions for the financial stability and sustainable development of the company are maintained. NLMK aims for an average dividend pay-out ratio of 30% of net income.

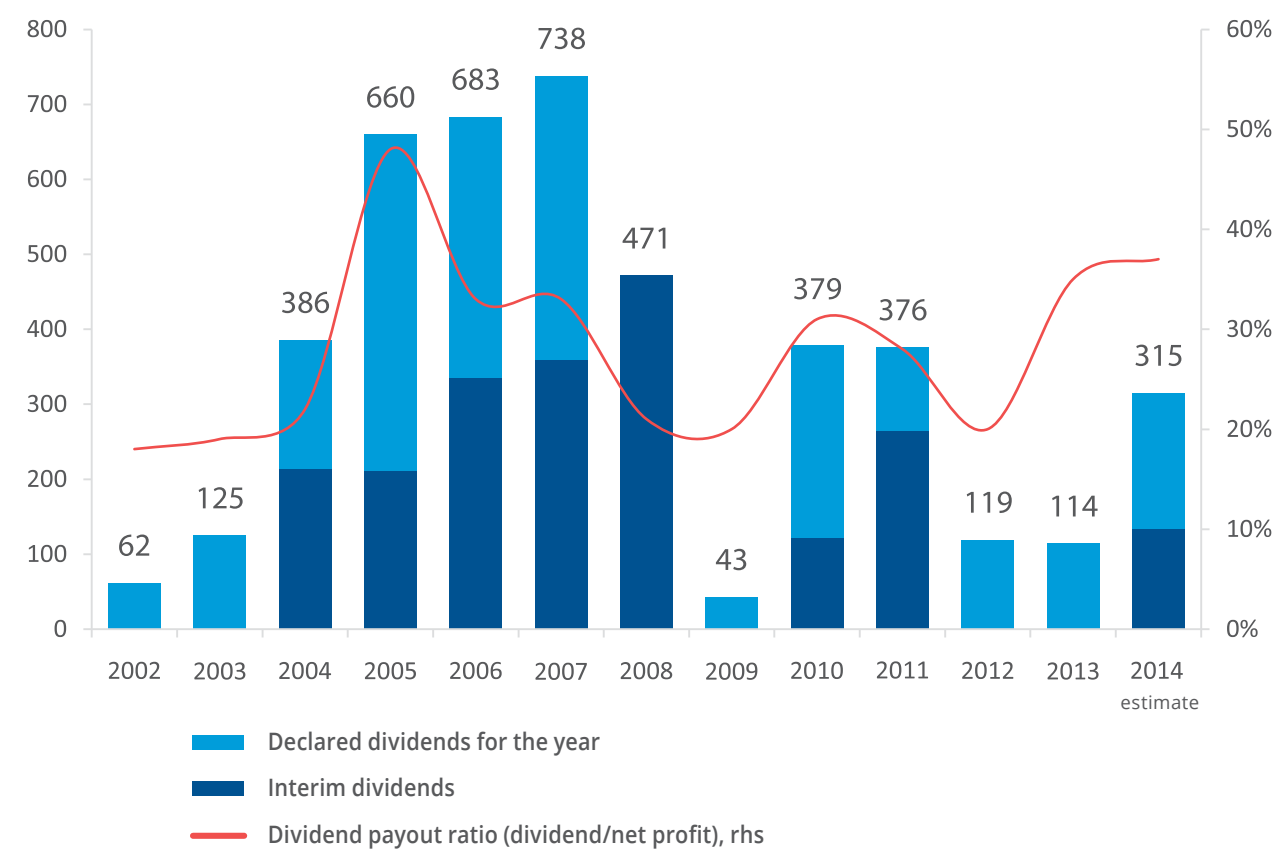
The proposed version of the Dividend Policy states that if Net Debt/EBITDA (Earnings before interest, tax, depreciation and amortization) is less than or equal to 1.0x, dividends should fall within the range of 50% of net income and 50% of free cash flow under NLMK's consolidated reporting; whereas if Net Debt/EBITDA exceeds 1.0x, dividends should fall within the range of 30% of net income and 30% of free cash flow under NLMK's consolidated reporting.

Dividends are paid annually. If conditions for financial stability are maintained, NLMK will strive to pay interim dividends on a quarterly basis.

Dividends payable to GDS holders

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

Dividend history (US\$ m)



The Board of Directors recommends that the Annual General Meeting of NLMK Shareholders announce 2014 dividends for ordinary shares in the amount of RUB 2.44 in cash per share.

On account of interim dividends in the amount of RUB0.88 per ordinary share declared by the General Meeting of Shareholders in September of 2014, an additional dividend of RUB1.56 per ordinary share shall be paid for the full year of 2014.

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

Corporate documents

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

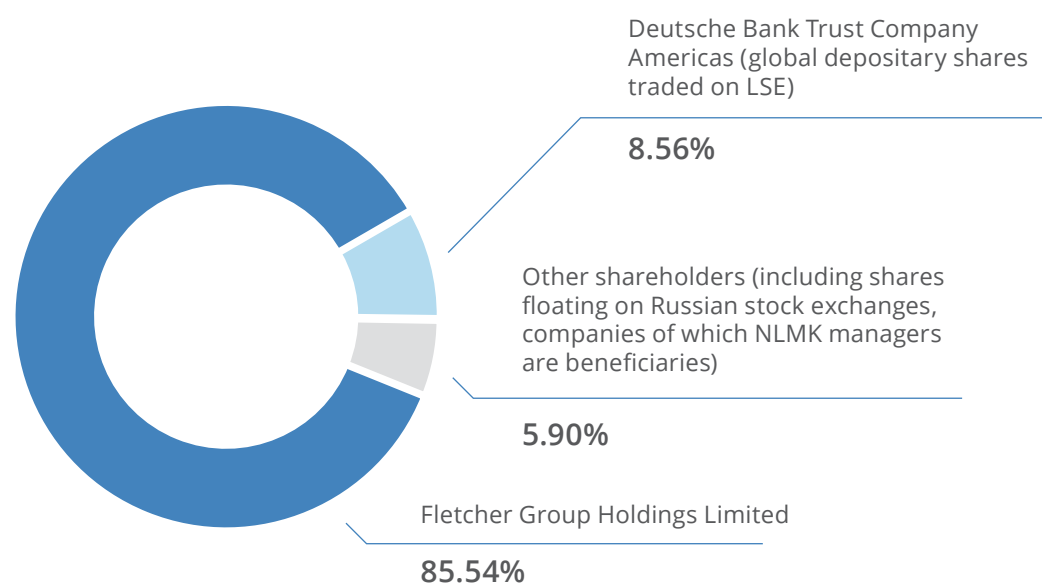
Financial reporting and disclosure

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.

Structure of share capital as at 31 December 2014



Financial calendar for 2015

Date	Event
25 January 2015	Q4 2014 trading update
27 March 2015	12M 2014 consolidated financial results (US GAAP)
27 March 2015	12M 2014 financial results for the Group's major companies (under Russian Accounting Standards, RAS)
30 March 2015	NLMK Capital Markets Day
15 April 2015	Q1 2015 trading update
24 April 2015	Meeting of the Board of Directors (BoD)
21 May 2015	Q1 2015 consolidated financial results (US GAAP)
5 June 2015	Annual General Meeting of Shareholders
15 July 2015	Q2 2015 trading update
3-6 August 2015	H1 2015 interim financial results (US GAAP)
15 October 2015	Q3 2015 trading update
November 2015	9M 2015 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

Depositary 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, UK

Valery Loskutov

Head of Shareholders' Equity Department
Corporate Secretary
Tel: +7 (4742) 44 49 89
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Head of Investor Relations
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FINANCIAL STATEMENTS
AND APPENDIX

NLMK

EFFICIENCY LEADERSHIP

Annual Report 2014

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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, 2014, 2013 and 2012, 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 2014, 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 2014 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)



Oleg Bagrin

NLMK SUBSIDIARIES AND AFFILIATES AS OF 31.12.2014

No.	Company name	Location	Activity	Share of OJSC Novolipetsk in Charter Capital (%)
1	2	3	4	5
Subsidiaries				
1.	VIZ Steel, Limited Liability Company	28, Kirova St., Yekaterinburg, 620219, Russia	Production and marketing of electrical steel	100
2.	Vtormetsnab NLMK, Limited Liability Company	3, Novinskaya St., Yekaterinburg, 620024, Russia	Collection, processing and sales of ferrous scrap	100
3.	Vtorchermet NLMK, Limited Liability Company	3, Novinskaya St., Yekaterinburg, 620024, Russia	Collection, processing and sales of ferrous and non-ferrous scrap	100
4.	Zhernovsky-1 Mining and Processing Complex, Limited Liability Company	11A, Offices 503-506, Pavlovskogo St., Novokuznetsk, Kemerovo region, 654007, Russia	Entire range of works related to coal mining and processing	100
5.	Usinsky-3 Mining and Processing Complex, Limited Liability Company	30, Kommunisticheskaya St., Syktyvkar, Komi Republic, Russia	Entire range of works related to coal mining and processing	100
6.	Hotel Metallurg, Limited Liability Company	36, Lenina St., Lipetsk, 398020, Russia	Hotel services	100
7.	SHANS Lipetsk Insurance Company, Limited Liability Company	30, Nedelina St., Lipetsk, 398059, Russia	Insurance	100
8.	NLMK Information Technologies, Limited Liability Company	2, Metallurgov Sq., Lipetsk, 398040, Russia	IT, computing and telecom services	100
9.	NLMK Kaluga, Limited Liability Company	20, Lyskina St., Vorsino Village, Borovsky District, Kaluga Region, 249020, Russia	Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel	100
10.	NLMK-Metiz (NLMK Metalware), Limited Liability Company	5, Koltsevaya St., Berezovsky, Sverdlovsk region, 623704, Russia	Production of pig iron, ferrous alloys, steel, hot and cold-rolled flat steel	100
11.	NLMK-Sort (NLMK Long Products), Limited Liability Company	3, Novinskaya St., Yekaterinburg, 620024, Russia	Managing company, trading and procurement activities	100
12.	NLMK-Uchetnyy Tsentr (Accounting Centre), Limited Liability Company	2, Metallurgov Sq., Lipetsk, 398040, Russia	Book-keeping and tax accounting services for NLMK Group businesses	100
13.	NLMK Overseas Holdings, Limited Liability Company	2, Metallurgov Sq., Lipetsk, 398040, Russia	Develops the growth strategy for NLMK Group companies, supports relations between the Group's Russian and international businesses	100
14.	Novolipetskaya Metallobaza, Limited Liability Company	8, Almaznaya St., Lipetsk, 398600, Russia	Manufacturing of plastic and steel products	100
15.	Novolipetsky Pechatny Dom (Printing House), Limited Liability Company	2, Metallurgov Sq., Lipetsk, 398040, Russia	Printing services	100
16.	Novolipetsky Metallurg Resort, Limited Liability Company	25, Chekhova St., Morskoye Village, Sudak, Crimea Republic, 298033, Russia	Rest and recreation services, health and rehabilitation facility	100
17.	NLMK Construction and Assembly Trust, Limited Liability Company	2, Fanernaya St., Lipetsk, 398017, Russia	Contracting of industrial, housing, utilities, cultural services and road construction works. Construction of health facilities, household natural gas supply lines	100

1	2	3	4	5
18.	NLMK Trade House, Limited Liability Company	52, Bldg 4, Kosmodamianskaya Emb., Moscow, 115054, Russia	Consolidated purchases of raw materials and inputs, sale of NLMK Group by-products	100
19.	Ussuriyskaya Metallobaza, Limited Liability Company	8, Kommunalnaya St., Ussuriysk, Primorskiy Kray, 692519, Russia	Acquisition, processing, storage and domestic sale of ferrous and non-ferrous metals	100
20.	Altai-Koks, Open Joint-Stock Company	2, Pritayezhnaya St., Zarinsk, Altayskiy Kray, 659107, Russia	Production and marketing of coke and by-products, generation and marketing of heat and electric power	100
21.	Dolomit, Open Joint-Stock Company	1, Sverdlova St., Dankov, Lipetsk Region, 399851, Russia	Mining and processing of dolomite	100
22.	Stoilensky Mining and Processing Plant, Open Joint-Stock Company	Fabrichnaya Site, South-Western Industrial District, Passage 4, Stary Oskol, Belgorod region, Russia	Mining and processing of iron ore and other minerals	100
23.	Studenovskaya Joint Stock Mining Company, Open Joint-Stock Company	Studenovskaya Production Site, Vvedenskiy Village Council, Lipetsk District, Lipetsk Region, 398507, Russia	Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roadwork	100
24.	Production Association Uralmetallurgstroy, Closed Joint-Stock Company	3, Office 502, Novinskaya St., Yekaterinburg, Sverdlovsk Region, 620024, Russia	Preparation of construction site	100
25.	Uralvtorchermet, Closely-held Joint-Stock Company	3, Room 501, Novinskaya St., Yekaterinburg, Sverdlovsk Region, 620024, Russia	Consulting services re commercial activities, management, investing in securities, leasing of assets.	100
26.	Nizhneserginsky Metizno Metallurgicheskiy Zavod (NSMMZ), Open Joint-Stock Company	3, Karla Libknekhta St., Yekaterinburg, Sverdlovsk Region, Revda, 623280, Russia	Production of long steel stock, hot-rolled and forged flat steel	92.59
27.	Lipetsky Giprometz, Limited Liability Company	1, Kalinina St., Lipetsk, 398059, Russia	Design and survey operations	57.57
28.	North Oil and Gas Company, Open Joint-Stock Company	8, Bldg 5A, Barrikadnaya St., Moscow, 123242, Russia	Prospecting and exploration of oil and gas fields	51.00
29.	Maxi-Group, Open Joint-Stock Company	18, Floor 7, 3rd Yamskogo Polya St., Moscow, 125040, Russia	Consulting services, corporate financial management	50.00005
Affiliated companies				
30.	Neptune, Limited Liability Company	1C, office 35, Adm. Makarova St., Lipetsk, 398005, Russia	Wellness services	25.00

FINANCIAL STATEMENTS

Consolidated financial statements (US GAAP)



**OJSC
NOVOLIPETSK STEEL**

CONSOLIDATED FINANCIAL STATEMENTS

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

**AS AT DECEMBER 31, 2014, 2013 AND 2012
AND FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

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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 December 31, 2014, 2013 and 2012, 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 December 31, 2014, 2013 and 2012, 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 26, 2015

OJSC Novolipetsk Steel
Consolidated balance sheets
as at December 31, 2014, 2013 and 2012 (thousands of US dollars)



	Note	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
ASSETS				
Current assets				
Cash and cash equivalents	4	549,210	969,992	951,247
Short-term investments	5	621,254	484,981	106,906
Accounts receivable and advances given, net	6	1,104,423	1,437,697	1,490,951
Inventories, net	7	1,560,091	2,123,755	2,826,933
Other current assets		5,252	7,578	30,394
Deferred income tax assets	16	75,169	77,864	62,959
		3,915,399	5,101,867	5,469,390
Non-current assets				
Long-term investments	5	247,448	501,074	19,293
Property, plant and equipment, net	8	5,866,669	10,002,996	11,753,157
Intangible assets, net	9(b)	51,140	115,958	141,922
Goodwill	9(a)	285,397	463,409	786,141
Deferred income tax assets	16	16,683	58,585	249,565
Other non-current assets		23,021	40,192	38,052
		6,490,358	11,182,214	12,988,130
Total assets		10,405,757	16,284,081	18,457,520
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	10	773,942	1,175,709	1,462,105
Short-term borrowings	11	798,608	1,119,286	1,816,169
Current income tax liability		47,529	21,553	23,800
		1,620,079	2,316,548	3,302,074
Non-current liabilities				
Deferred income tax liability	16	405,122	599,250	792,240
Long-term borrowings	11	1,961,600	3,038,041	2,815,554
Other long-term liabilities	12	96,044	55,433	457,362
		2,462,766	3,692,724	4,065,156
Total liabilities		4,082,845	6,009,272	7,367,230
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, 2014, 2013 and 2012	14(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		256,922	256,922	306,391
Accumulated other comprehensive loss		(6,431,492)	(1,897,100)	(997,035)
Retained earnings		12,251,369	11,655,490	11,582,368
		6,308,239	10,246,752	11,123,164
Non-controlling interest		14,673	28,057	(32,874)
Total stockholders' equity		6,322,912	10,274,809	11,090,290
Total liabilities and stockholders' equity		10,405,757	16,284,081	18,457,520

The consolidated financial statements as set out on pages 4 to 37 were approved on March 26, 2015.

OJSC Novolipetsk Steel
Consolidated statements of income
for the years ended December 31, 2014, 2013 and 2012 *(thousands of US dollars)*



	Note	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
Revenue	19	10,395,746	10,909,442	12,156,592
Cost of sales				
Production cost		(6,673,256)	(7,928,521)	(8,494,438)
Depreciation and amortization		(784,991)	(861,516)	(767,715)
		(7,458,247)	(8,790,037)	(9,262,153)
Gross profit		2,937,499	2,119,405	2,894,439
General and administrative expenses		(346,255)	(424,185)	(448,268)
Selling expenses		(856,758)	(917,270)	(1,143,610)
Taxes other than income tax		(136,738)	(134,134)	(169,786)
Impairment losses	8	(113,757)	-	-
Operating income		1,483,991	643,816	1,132,775
Loss on disposals of property, plant and equipment		(2,943)	(22,413)	(38,051)
Gains / (losses) on investments, net		37,404	21,124	(2,828)
Interest income		36,494	40,241	28,581
Interest expense		(126,820)	(113,869)	(68,462)
Foreign currency exchange gain, net		417,785	37,804	3,282
Other expenses, net		(75,426)	(123,222)	(140,428)
Income before income tax		1,770,485	483,481	914,869
Income tax expense	16	(406,303)	(221,937)	(304,712)
Income, net of income tax		1,364,182	261,544	610,157
Equity in net (losses) / earnings of associates, before impairment	18	(193,034)	(53,958)	276
Impairment of investments in associate	5	(325,167)	-	-
Net income		845,981	207,586	610,433
Add: Net income attributable to the non-controlling interest		(1,156)	(18,846)	(14,628)
Net income attributable to NLMK stockholders		844,825	188,740	595,805
Earnings per share – basic and diluted:				
Net earnings attributable to NLMK stockholders per share (US dollars)		0.1410	0.0315	0.0994
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, 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)
For the year ended December 31, 2014	845,981	(4,548,932)	(3,702,951)	(13,384)	(3,689,567)

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, 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	18	-	-	(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
Net income	-	-	-	-	844,825	1,156	845,981
Cumulative translation adjustment	2(b)	-	-	(4,534,392)	-	(14,540)	(4,548,932)
Dividends to shareholders	14(b)	-	-	-	(248,946)	-	(248,946)
Balance at December 31, 2014	221,173	10,267	256,922	(6,431,492)	12,251,369	14,673	6,322,912

OJSC Novolipetsk Steel
Consolidated statements of cash flows
for the years ended December 31, 2014, 2013 and 2012 (thousands of US dollars)



	Note	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
CASH FLOWS				
FROM OPERATING ACTIVITIES				
Net income		845,981	207,586	610,433
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		784,991	861,516	767,715
Loss on disposals of property, plant and equipment		2,943	22,413	38,051
(Gains) / losses on investments, net		(37,404)	(21,124)	2,828
Interest income		(36,494)	(40,241)	-
Interest expense		126,820	113,869	68,462
Equity in net losses / (earnings) of associates	18	193,034	53,958	(276)
Deferred income tax expense	16	40,427	80,867	20,933
Losses / (gains) on derivatives		3,110	(455)	(8,522)
Impairment losses	5, 8	438,924	-	-
Other		38,487	(48,623)	14,293
Changes in operating assets and liabilities				
(Increase) / decrease in accounts receivable		(368,873)	(337,090)	166,715
(Increase) / decrease in inventories		(352,970)	(95,777)	169,858
(Increase) / decrease in other current assets		(2,338)	7,351	31,628
Increase / (decrease) in accounts payable and other liabilities		78,993	412,147	(69,932)
Increase in current income tax payable		50,079	2,104	12,471
Cash provided by operating activities		1,805,710	1,218,501	1,824,657
Interest received		30,738	40,433	-
Interest paid		(120,594)	(81,486)	-
Net cash provided by operating activities		1,715,854	1,177,448	1,824,657
CASH FLOWS				
FROM INVESTING ACTIVITIES				
Purchases and construction of property, plant and equipment		(560,419)	(756,290)	(1,453,386)
Proceeds from sale of property, plant and equipment		15,147	6,371	28,692
(Purchases) / proceeds from sale of investments and loans given, net	22(b)	(231,573)	(87,368)	13,334
(Placement) / withdrawal of bank deposits, net		(197,091)	(264,412)	124,986
Acquisition of additional stake in existing subsidiary	13	-	(9,609)	-
Disposal of investment in subsidiary	18	-	46,169	-
Acquisitions of subsidiaries, net of cash acquired of \$112,806 in 2011	18	-	-	(156,510)
Net cash used in investing activities		(973,936)	(1,065,139)	(1,442,884)
CASH FLOWS				
FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		110,175	2,005,458	1,819,425
Repayment of borrowings and notes payable		(892,463)	(1,995,800)	(1,798,836)
Capital lease payments		(18,128)	(24,400)	(23,116)
Dividends to shareholders		(225,949)	(113,613)	(116,529)
Net cash used in financing activities		(1,026,365)	(128,355)	(119,056)
Net (decrease) / increase in cash and cash equivalents		(284,447)	(16,046)	262,717
Effect of exchange rate changes on cash and cash equivalents		(136,335)	34,791	(108,639)
Cash and cash equivalents at the beginning of the year	4	969,992	951,247	797,169
Cash and cash equivalents at the end of the year	4	549,210	969,992	951,247

OJSC Novolipetsk Steel
Consolidated statements of cash flows
for the years ended December 31, 2014, 2013 and 2012 *(thousands of US dollars)*



	<u>Note</u>	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		(339,900)	(143,317)	(271,224)
Interest (excluding capitalized interest)		(119,182)	(81,486)	(68,462)
Placements of bank deposits		(1,997,825)	(1,231,976)	(144,315)
Withdrawals of bank deposits		1,800,734	967,564	269,301
Non cash investing activities:				
Capital lease liabilities incurred		597	17,108	29,869
Fair value of assets disposed of in course of partial disposal of investment	18	-	867,320	-
Conversion of debt to equity	18	270,358	-	-



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 19).

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 steel-making, production of long products and collection and recycling of iron scrap.

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 the production of hot rolled plates.
- 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 all Group's Russian 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 (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions) 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 \$(4,548,932), \$(770,321) and \$490,059 was recorded directly in stockholders' equity in the years ended December 31, 2014, 2013 and 2012, respectively.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
For the 1 st quarter	34.9591	30.4142	30.2642
For the 2 nd quarter	34.9999	31.6130	31.0139
For the 3 rd quarter	36.1909	32.7977	32.0072
For the 4 th quarter	47.4243	32.5334	31.0767
As at December 31	<u>56.2584</u>	<u>32.7292</u>	<u>30.3727</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 consolidated 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 consolidated 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 the 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 consolidated 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 the 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. For this purpose 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.

The Group recognizes liabilities for post-employment benefits, including one-off payments made upon retirement. Also in 2012 and for the nine months ended September 30, 2013, the Group maintained defined benefit pension plans that covered the majority of its employees in Europe (Note 12, 18).

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.

(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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

No provision for deferred taxes has been recognized in respect of cumulative unremitted earnings of foreign subsidiaries at December 31, 2014 assuming those earnings will be permanently reinvested outside Russia.

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 2012-2014 was about 90%.

(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.



3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 re-measured 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

The Group's management analyzed changes to accounting standards issued by FASB and effective since January 1, 2014 and concluded that none of these changes in standards had impacted the consolidated financial statements.

The Group is transitioning to International Financial Reporting Standards, which are planned to be adopted for the financial statements for the period ends December 31, 2015. Therefore, new pronouncements to US GAAP for next years is not considered in course of preparation of these consolidated financial statements.

4 CASH AND CASH EQUIVALENTS

	<u>As at December 31, 2014</u>	<u>As at December 31, 2013</u>	<u>As at December 31, 2012</u>
Cash			
– Russian rubles	20,341	70,834	58,922
– US dollars	150,817	194,113	98,438
– Euro	54,306	158,626	180,742
– other currencies	7,936	1,925	2,565
Deposits			
– Russian rubles	96,307	204,851	441,141
– US dollars	158,011	331,778	105,940
– Euro	53,645	5,732	46,464
– other currencies	7,763	1,937	3,720
Other cash equivalents	84	196	13,315
	<u>549,210</u>	<u>969,992</u>	<u>951,247</u>



5 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Short-term investments and current portion of long-term investments			
Loans to related parties (Note 21(b))	68,355	107,565	-
Bank deposits and other investments	552,899	377,416	106,906
	621,254	484,981	106,906
Long-term investments			
Loans to related parties (Note 21(b))	141,219	78,030	-
Investments in associates	106,161	419,149	8,146
Bank deposits and other investments	68	3,895	11,147
	247,448	501,074	19,293
Total investments	868,702	986,055	126,199

Investments in associates

	As at December 31, 2014 Ownership	As at December 31, 2013 Ownership	As at December 31, 2012 Ownership	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
NLMK Belgium Holdings S.A. (Note 18)	79.50%	79.50%	100.00%	97,264	412,799	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	50.00%	8,897	6,350	8,146
				106,161	419,149	8,146

The underperformance of NBH holding companies resulted in a necessity of reassessment of impairment testing model for the investments in NBH, which showed impairment of \$82,635 as at September 30, 2014. The revised model showed a necessity of further impairment of \$242,532 as of December 31, 2014. The total impairment loss of investments in NBH amounted to \$325,167 was included in the "Impairment of investments in associate" line in the consolidated statement of income. For the impairment testing the Group used an income approach primarily with Level 3 inputs, in accordance with ASC No. 323. The Group has estimated cash flows for 9 years for different groups of assets and respective cash flows in the post-forecast period. Prices for steel products were determined on the basis of forecasts of investment banks' analysts. A discount rate of 8% was used.

The impairment testing model is sensitive to assumptions used. For example, increase in the discount rate by 1% will result in additional impairment of \$117 million.



6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Trade accounts receivable	794,511	895,627	827,826
Advances given to suppliers	77,677	66,813	105,717
VAT and other taxes receivable	250,618	488,173	562,944
Accounts receivable from employees	1,746	3,346	4,375
Other accounts receivable	74,634	129,902	152,607
	1,199,186	1,583,861	1,653,469
Allowance for doubtful debts	(94,763)	(146,164)	(162,518)
	1,104,423	1,437,697	1,490,951

As at December 31, 2014, 2013 and 2012 accounts receivable of \$137,553, \$141,666 and \$264,389, respectively, served as collateral for certain borrowings (Note 11).

7 INVENTORIES

	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Raw materials	620,412	980,701	1,201,527
Work in process	569,972	526,589	876,523
Finished goods and goods for resale	419,844	684,203	852,855
	1,610,228	2,191,493	2,930,905
Provision for obsolescence	(50,137)	(67,738)	(103,972)
	1,560,091	2,123,755	2,826,933

As at December 31, 2014, 2013 and 2012, inventories of \$562,002, \$310,538 and \$672,504, respectively, served as collateral for certain borrowings (Note 11).

8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Land	130,822	215,769	270,882
Mineral rights	309,609	532,190	557,769
Buildings	1,548,240	2,532,082	1,937,315
Land and buildings improvements	1,287,136	2,079,292	1,384,364
Machinery and equipment	5,756,241	8,790,467	10,399,285
Vehicles	218,564	366,098	383,760
Construction in progress and advances for construction and acquisition of property, plant and equipment	872,032	2,089,919	3,268,252
Leased assets	25,724	76,952	145,328
Other	77,206	101,561	151,066
	10,225,574	16,784,330	18,498,021
Accumulated depreciation	(4,358,905)	(6,781,334)	(6,744,864)
	5,866,669	10,002,996	11,753,157

**8 PROPERTY, PLANT AND EQUIPMENT (continued)**

In May 2011, the Group acquired a license for exploration and extraction of coal in the Zhernovsky Glubokiy coal field of the Zhernovsky coal deposit expiring in 2031. The carrying value of this license as at December 31, 2014 is \$6,346. 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, 2014 is \$10,442.

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, 2014 is \$23,037.

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 carrying value of these mineral rights as at December 31, 2014 is \$102,927.

The Group's management believes that these licenses will be extended.

As at December 31, 2012, property, plant and equipment of \$203,838 (net book value) served as collateral for certain borrowings (Note 11). As at December 31, 2014 and 2013 the Group did not have pledged property, plant and equipment.

The amounts of interest capitalized are \$42,282, \$121,599 and \$197,569 for the years ended December 31, 2014, 2013 and 2012, respectively.

As at December 31, 2014 the Group's management considered that the negative trends in the Russian economy in general and in construction in particular represent triggers for impairment of OJSC NSMMZ and LLC NLMK-Kaluga.

For the purpose of impairment testing for the year ended December 31, 2014, management has estimated cash flows for 11 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 used in the models is 4.0% for different groups of assets.

In performing impairment analysis of OJSC NSMMZ and LLC NLMK-Kaluga the Group's management used discount rates of 16% for 2015 and 2016, 15% for 2017 and 2018, 14% for 2019 and 2020 and 12% for the following years.

The Group's management has compared the carrying amount of assets with undiscounted cash flows and concluded that property, plant and equipment of OJSC NSMMZ should be partially impaired. Impairment losses of \$113,757 included in "Impairment losses" line in the consolidated statement of income.

Calculations showed that undiscounted cash flows exceed the carrying amount of LLC NLMK-Kaluga assets, this excess is significant and no impairment needed.

The impairment testing model of OJSC NSMMZ is sensitive to assumptions used. For example, increase in the discount rate by 1% will result in additional impairment of \$43.8 million, decrease in long term growth rate by 1% will result in additional impairment of \$17.7 million, decrease in the revenues by 1% will result in additional impairment of \$58.2 million.



9 GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

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 18)	(289,711)
Cumulative translation adjustment	(33,021)
Balance as at December 31, 2013	463,409
Cumulative translation adjustment	(178,012)
Balance as at December 31, 2014	285,397

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 18) 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 18).

As at December 31, 2014 goodwill relating to steel, long products, mining and foreign rolled products segments amounted to \$179,118, \$3,293, \$66,643 and \$35,726, respectively.

Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2014, 2013 and 2012 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result, as at each reporting date, the Group determined no impairment of the tested values. Key estimates used in the impairment model are consistent with those used for property, plant and equipment impairment tests. The discount rates of 12-16% for different assets were used.

Of the total goodwill balance, \$145,580 relates to OJSC Altai-Koks. The impairment testing model of OJSC Altai-Koks is sensitive to a level of sales prices: a 4% decrease in prices will result in impairment of \$31,163.

(b) Intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2014	Gross book value as at December 31, 2013	Gross book value as at December 31, 2012
Customer base	LLC VIZ-Stahl	110	57,684	99,154	106,846
Industrial intellectual property	LLC VIZ-Stahl	110	30,375	52,209	56,260
Customer base	Novexco, Novex	88	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
			186,669	249,973	264,942
Accumulated amortization			(135,529)	(134,015)	(123,020)
			51,140	115,958	141,922



9 GOODWILL AND INTANGIBLE ASSETS (continued)

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 \$42,316, \$15,293 and \$25,919 for the years ended December 31, 2014, 2013 and 2012, respectively.

Estimated amortization expense in subsequent annual periods

2015	(43,204)
2016	(107)
2017	(107)
2018	(107)
2019 and later	(7,616)

10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Trade accounts payable	430,679	606,617	758,044
Advances received	97,847	105,313	111,833
Taxes payable other than income tax	77,278	134,006	166,841
Accounts payable and accrued liabilities to employees	128,695	204,143	227,399
Dividends payable	696	1,407	1,521
Short-term capital lease liability	5,656	17,395	21,669
Other accounts payable	33,091	106,828	174,798
	773,942	1,175,709	1,462,105

11 SHORT-TERM AND LONG-TERM BORROWINGS

Rates	Currency	Maturity	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Bonds					
8% to 8.95%	RUR	2013-2017	543,943	1,400,660	1,669,297
4.45% to 4.95%	USD	2018-2019	1,195,993	1,319,585	506,531
Loans					
8.25% to 10% LIBOR +1.2% to LIBOR +2.5%, PRIME+0.625%	RUR	2013-2017	23,122	38,406	366,345
EURIBOR +0.3% to EURIBOR +3.5%	USD	2013-2016	374,919	540,998	384,667
	EUR	2013-2022	620,890	853,435	1,697,912
Other borrowings			1,341	4,243	6,971
			2,760,208	4,157,327	4,631,723
Less: short-term loans and current maturities of long-term loans			(798,608)	(1,119,286)	(1,816,169)
Long-term borrowings			1,961,600	3,038,041	2,815,554



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

Amounts due for SIF S.A. shares as at December 31, 2014 and 2013 are stated in loans in amount of \$100,016 and \$250,024, respectively, since they were reassigned to a bank.

Amounts due for SIF S.A. shares included in other long-term liabilities as at December 31, 2012 amounted to \$282,697.

Long-term borrowings include fixed rate long-term bonds in the amount of \$1,444,926 (at historic cost). The fair value of these bonds, determined using level one inputs, is \$1,278,645 as at December 31, 2014.

The Group's long-term borrowings as at December 31, 2014 mature between 2 to 7 years.

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

2016	291,798
2017	285,557
2018	816,023
2019	531,388
Remainder	36,834
	<u>1,961,600</u>

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, 2014.

12 OTHER LONG-TERM LIABILITIES

	<u>As at December 31, 2014</u>	<u>As at December 31, 2013</u>	<u>As at December 31, 2012</u>
Long-term capital lease liability	2,606	15,789	34,642
Fair value of option (Note 18)	82,470	30,000	-
Employee benefit obligations	-	-	92,592
Other long-term liabilities	10,968	9,644	330,128
	<u>96,044</u>	<u>55,433</u>	<u>457,362</u>

Other long-term liabilities as at December 31, 2012 include payables of \$282,697 for SIF S.A. shares (Note 18). In 2012 the repayment terms of these payables were amended to postpone the third installment to 2014.



12 OTHER LONG-TERM LIABILITIES (continued)

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

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

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, 2014, 2013 and 2012, 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.

(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, 2014, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$5,409,333, converted into US dollars using exchange rates at December 31, 2014. As it was previously reported in the statutory financial statements the retained earnings of the Parent Company, available for distribution as at December 31, 2013 and 2012 were \$8,971,697 and \$10,361,802, using exchange rates at December 31, 2013 and 2012, 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.



14 STOCKHOLDERS' EQUITY (continued)

In September 2014 the Parent Company declared interim dividends for the six months ended June 30, 2014 of 0.88 Russian rubles per share for the total of \$133,904 (at the historical rate). Dividends payable amounted to \$696 at December 31, 2014.

In June 2014, the Parent Company declared dividends for the year ended December 31, 2013 of 0.67 Russian rubles per share for the total of \$115,042 (at the historical rate).

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.

15 EARNINGS PER SHARE

	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>	<u>Year ended December 31, 2012</u>
Net income (thousands of US dollars)	844,825	188,740	595,805
Weighted average number of shares	<u>5,993,227,240</u>	<u>5,993,227,240</u>	<u>5,993,227,240</u>
Basic and diluted net earnings per share (US dollars)	<u>0.1410</u>	<u>0.0315</u>	<u>0.0994</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, 2014, 2013 and 2012. The Parent Company does not have potentially dilutive shares outstanding.

16 INCOME TAX

	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>
Current income tax expense	(365,876)	(141,070)	(283,779)
Deferred income tax expense:			
origination and reversal of temporary differences	<u>(40,427)</u>	<u>(80,867)</u>	<u>(20,933)</u>
Total income tax expense	<u>(406,303)</u>	<u>(221,937)</u>	<u>(304,712)</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%.



16 INCOME TAX (continued)

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

	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
Income before income tax	1,770,485	483,481	914,869
Income tax at applicable tax rate	(354,097)	(96,696)	(182,974)
Change in income tax:			
- tax effect of non-deductible expenses	(30,553)	(50,039)	(40,299)
- non-taxable translation adjustments	39,389	-	-
- effect of different tax rates	15,120	19,038	58,890
- unrecognized tax loss carry forward for current year	(34,122)	(30,951)	(132,468)
- deferred tax assets from tax-losses used	22,633	-	-
- change in option	(16,345)	-	-
- write-off of previously recognized deferred tax assets	(53,021)	(62,659)	-
- other	4,693	(630)	(7,861)
Total income tax expense	(406,303)	(221,937)	(304,712)

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, 2014	As at December 31, 2013	As at December 31, 2012
<i>Gross deferred tax assets</i>			
Accounts payable and other liabilities	100,807	170,255	180,579
Non-current liabilities	-	120	643
Accounts receivable	15,814	27,501	29,068
Net operating loss and credit carry-forwards, including:	286,225	373,259	763,726
- related to subsidiaries located in Russia (expiring in 2016-2023)	-	77,341	82,147
- related to subsidiaries located in the USA (expiring in 2015-2029)	205,776	220,577	220,394
- related to subsidiaries located in Europe (expiring in 2015-2029)	-	-	1,734
- related to subsidiaries located in Europe (no expiration)	80,449	75,341	459,451
Other	21,320	6,581	-
Less: valuation allowance	(271,558)	(300,024)	(525,680)
	152,608	277,692	448,336
<i>Gross deferred tax liabilities</i>			
Property, plant and equipment	(453,699)	(704,253)	(869,586)
Intangible assets	(8,469)	(21,817)	(11,995)
Inventories	-	(32,247)	(43,004)
Other	(13,685)	-	(5,416)
	(475,853)	(758,317)	(930,001)
Total deferred tax liability, net	(323,245)	(480,625)	(481,665)



16 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 at December 31, 2013 the amounts for the majority of these European entities were eliminated from consolidated balance sheet (Note 18).

In accordance with Russian Law certain Group's Russian entities, including OJSC NLMK, were integrated in one consolidated tax group for the purpose of assessment and payment of corporate income tax in line with the comprehensive result of business operations. The Group's entities that are not included in the consolidated tax group assess their income taxes individually.

As at December 31, 2014, 2013 and 2012 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.

17 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 indicates a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments, 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 and 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 paid US dollars at fixed rates varying from 3.11% to 3.15% per annum and received Russian rubles at a fixed rate of 8.95% per annum. Maturity of the swaps was linked to the Russian ruble denominated bonds redemption, matured 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.

17 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, 2014		As at December 31, 2013		As at December 31, 2012	
	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 2014, 2013 and 2012 gains from forward exchange contracts amounted to nil, \$4,611 and \$9,109, respectively. These gains 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, 2014		As at December 31, 2013		As at December 31, 2012	
	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 2014, 2013 and 2012 gains / (losses) from cross-currency interest rate swap agreements amounted to \$(25,811), \$(6,448) and \$6,976, respectively, and were included in "Foreign currency exchange gain, net" line in the consolidated statements of income.

18 PARTIAL DISPOSAL OF INVESTMENT

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.

The Group had 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.



18 PARTIAL DISPOSAL OF INVESTMENT (continued)

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.

	USD'mln
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	(30.0)
Gain on disposal	18.9

Information about the Group's operations with SIF S.A. and NBH is disclosed in Note 21.

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

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

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

	USD'mln
Sales revenue	1,062.0
Net loss	(276.7)



18 PARTIAL DISPOSAL OF INVESTMENT (continued)

Revenue and net loss of NBH for the fourth quarter of 2013 amounted to \$420,513 and \$(70,882), respectively. Revenue and net loss of NBH before impairment losses for 2014 amounted to \$1,540,365 and \$(243,373), respectively.

Summarized financial information for NBH before impairment losses is as follows (in USD' mln):

	As at December 31, 2014	As at December 31, 2013
Current assets	921.9	993.0
Non-current assets	935.3	1,101.2
Total assets	1,857.2	2,094.2
Current liabilities	(1,054.3)	(819.4)
Non-current liabilities	(488.6)	(963.0)
Total liabilities	(1,542.9)	(1,782.4)
Equity	314.3	311.8

The Group's share in NBH's net loss for the year ended December 31, 2014 and from the date of disposal to December 31, 2013 amounted to \$(193,481) and \$(54,218), respectively, and is included in "Equity in net (losses) / earnings of associates, before impairment" 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 its 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 \$82 million and \$30 million as at December 31, 2014 and 2013, respectively. Respective liability was included in other long-term liabilities. The change in the value of the option amounting to \$52 million is included in "Gains / (losses) on investments, net" line.

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

Changes to NLMK Belgium Holdings' ownership structure and governance

In March 2015, the Group and SOGEPA signed an agreement to increase SOGEPA's share in NBH from 20.5% to 49% and on joint management of NBH's businesses. Under the agreement the Group's and SOGEPA's existing respective put and call options over the SOGEPA shares in NBH were terminated.

NBH board of directors is increased to include four representatives of NLMK Group and three representatives of SOGEPA. SOGEPA will also receive board seats at production subsidiaries of NBH.

Earlier, in December 2014, the Group made a conversion of existing loans given into NBH share capital in the amount of EUR 220 million with a corresponding reflection in the consolidated financial statements for the year ended December 31, 2014. These investments are also a part of the agreement signed in March 2015.

The Group and SOGEPA have agreed to support NBH in obtaining financing of its working capital. In March 2015 the shareholders made additional contributions into NBH share capital proportionally their shares (EUR 20.4 million and EUR 19.6 million, respectively).

In the first quarter of 2015 the Group will record a gain on the derecognition of the option liability amounting to EUR 68 million (\$82 million using the exchange rate at December 31, 2014) and will reflect a loss on the disposal of 28.5% shares in NBH amounting EUR 37 million (\$45 million using the exchange rate at December 31, 2014).



19 SEGMENT INFORMATION

The Group has four reportable business segments: steel, foreign rolled products (Note 18), long products and mining. Results of the production of coke and other coke-chemical products are 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 18) and the steel segments.

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, 2014 is as follows:

	Steel	Foreign rolled products	Long products	Mining	All other	Totals	Inter- segmental operations and balances	Consolidated
Revenue from external customers	6,587,765	2,014,985	1,446,944	345,935	117	10,395,746	-	10,395,746
Intersegment revenue	1,284,193	-	367,659	721,831	-	2,373,683	(2,373,683)	-
Depreciation and amortization	(525,281)	(87,374)	(106,601)	(63,621)	(2,114)	(784,991)	-	(784,991)
Gross profit / (loss)	2,153,221	111,874	230,066	717,164	(2,055)	3,210,270	(272,771)	2,937,499
Operating income / (loss)	1,096,103	9,332	(71,265)	576,131	(4,526)	1,605,775	(121,784)	1,483,991
Interest income	145,031	1,788	3,762	30,423	1,059	182,063	(145,569)	36,494
Interest expense	(147,938)	(39,047)	(85,307)	-	(97)	(272,389)	145,569	(126,820)
Income tax	(207,844)	12,122	(39,013)	(192,221)	(152)	(427,108)	20,805	(406,303)
Income / (loss), net of income tax	1,384,342	(111,049)	11,727	755,821	74	2,040,915	(676,733)	1,364,182
Segment assets, including goodwill	8,792,244	1,696,666	1,486,842	1,934,766	99,565	14,010,083	(3,604,326)	10,405,757
Capital expenditures	(291,891)	(17,894)	(49,886)	(181,996)	(18,752)	(560,419)	-	(560,419)



19 SEGMENT INFORMATION (continued)

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)



19 SEGMENT INFORMATION (continued)

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, 2014, 2013 and 2012, is as follows:

	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2012</u>
Russia	4,352,345	4,373,360	4,398,398
European Union	1,901,570	2,073,889	2,538,793
Middle East, including Turkey	636,540	875,412	902,346
North America	2,084,939	1,558,876	1,646,819
Asia and Oceania	319,269	794,218	1,364,965
Other regions	1,101,083	1,233,687	1,305,271
	<u>10,395,746</u>	<u>10,909,442</u>	<u>12,156,592</u>

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

20 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 22(f)).

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 the weakening of the Russian ruble. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which on Russian economy, if they were to be implemented, are difficult to determine at this stage. These events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict.

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.



20 RISKS AND UNCERTAINTIES (continued)

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 presented below calculated in respect of major currencies by items of consolidated balance sheet as the difference between assets and liabilities denominated in a currency other than the functional currency of the entity at December 31, 2014.

	US dollar	Euro	Other currencies
Cash and cash equivalents	230,441	107,074	2,556
Accounts receivable and advances given	11,418	406,664	4,324
Short-term investments	422,951	164,821	-
Long-term investments	-	141,219	-
Accounts payable and other liabilities	(51,159)	(107,651)	(130)
Short-term borrowings	(117,710)	(126,862)	-
Long-term borrowings	(1,178,299)	(494,028)	-
	(682,358)	91,237	6,750

US dollar is the Group's presentation currency of the consolidated financial statements, while the Russian ruble – is the functional currency for most of the Group's entities. Therefore the Russian ruble to US dollar exchange rate has a significant impact on the consolidated financial statements. The official Russian ruble to the US dollar exchange rates as determined by the Central Bank of the Russian Federation increased from 56.2584 to 57.3879 in the period from December 31, 2014 to March 26, 2015. The official Russian ruble to the Euro exchange rates as determined by the Central Bank of the Russian Federation decreased from 68.3427 to 62.7651 in the period from December 31, 2014 to March 26, 2015.

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.

To mitigate the corresponding risks the Group also uses formula pricing tied to price indices for steel products when contracting raw and auxiliary materials.



20 RISKS AND UNCERTAINTIES (continued)

(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 advances given to suppliers) 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 compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance for employees of the Group.

21 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850, *Related Party Disclosures*. Balances as at December 31, 2014, 2013 and 2012 and transactions for the years ended December 31, 2014, 2013 and 2012 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to NBH group were \$985,679 and \$227,697 for the years ended December 31, 2014 and 2013, respectively. Sales to other related parties were \$7,683, \$9,079 and \$11,320 for the years ended December 31, 2014, 2013 and 2012, respectively.

Accounts receivable and advances given to NBH group equaled \$300,912 and \$294,213 at December 31, 2014 and 2013, respectively. Accounts receivable and advances given to other related parties equaled \$17,488, \$36,773 and \$39,930 as at December 31, 2014, 2013 and 2012, respectively.



21 RELATED PARTY TRANSACTIONS (continued)

Purchases

Purchases from companies under common control (transportation services rendered by companies of Universal Cargo Logistics Holding group) were \$375,924, \$411,256 and \$521,331 for the years ended December 31, 2014, 2013 and 2012, respectively. Purchases from other related parties were \$60,582, \$16,334 and \$11,366 for the years ended December 31, 2014, 2013 and 2012, respectively.

Accounts payable to related parties were \$27,479, \$21,512 and \$6,837 as at December 31, 2014, 2013 and 2012, respectively.

(b) Financial transactions

Loans, issued to NBH group companies (Note 18) and accounted for under short-term and long-term investments, amounted to \$209,574 and \$185,595 as at December 31, 2014 and 2013, respectively.

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 \$36,530, \$92,449 and \$77,079 as at December 31, 2014, 2013 and 2012, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2014, 2013 and 2012 amounted to \$3,453, \$3,344 and \$1,361, respectively.

(c) Financial guarantees issued

As at December 31, 2014 and 2013 guarantees issued by the Group for borrowings of NBH group companies' amounted to \$611,644 and \$790,618, respectively, which is the maximum potential amount of future payments. Corresponding guarantees were accounted for within the Group as at December 31, 2012. As at December 31, 2012 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) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to \$9,144, \$6,517 and \$13,151 in 2014, 2013 and 2012, respectively. The Group has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

22 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 and resolutions as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The Group's management 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.



22 COMMITMENTS AND CONTINGENCIES (continued)

Initiated in January 2010 by the non-controlling shareholder of OJSC Maxi-Group 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. In April 2014 the French court decided to execute a decision of the court of Russia (which was cancelled in Russia) on the territory of France. In December 2014 the Parent Company claimed the appeal on this decision. The Group's management considers the probability of unfavorable outcome and cash outflow in connection with these court proceedings is low and accordingly, no accruals in relation to these claims were made in these consolidated financial statements.

In the third quarter of 2014 the Group received about \$104 million in course of bankruptcy proceedings which were the result of execution of the decision taken by Russian court in 2012. This amount is included in "Gains / (losses) on investments, net" line in the consolidated statements of income.

(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 \$481,487, \$498,557 and \$712,527 as at December 31, 2014, 2013 and 2012, 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.



22 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 Group'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, 2014, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

23 SUBSEQUENT EVENTS

The Group's management has performed an evaluation of subsequent events through the period from January 1, 2015 to March 26, 2015, which is the date when these consolidated financial statements were available to be issued and disclosed them in Note 18.