ANNUAL REPORT **2008**

STRENGTH

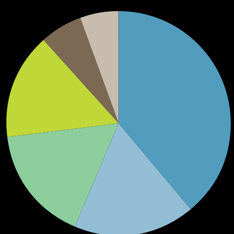
IN STEEL

Novolipetsk Steel is one of the world's leading steel companies, with its key production assets located in Russia, the EU and USA. NLMK, one of the most efficient steel producers, has a diversified portfolio of products that includes pig iron, slabs, hot-rolled, cold-rolled, galvanised, pre-painted, transformer and dynamo steel as well as long products. In 2008, we sold our products to Russia and 70 countries across Europe, the Americas, Asia, Africa and the Middle East, and produced 15% of Russia's steel. Our vertical integration and stringent cost control allow us to benefit from one of the lowest production cost structures in the global steel industry.

Key strengths

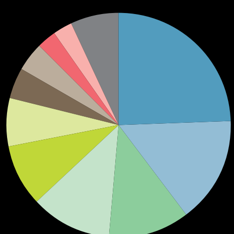
- Favorable geographic position
- Efficient vertical integration
- Balanced portfolio of assets
- Diversified sales and product mix
- Solid financial standing and operational performance

SALES REVENUE BY REGION

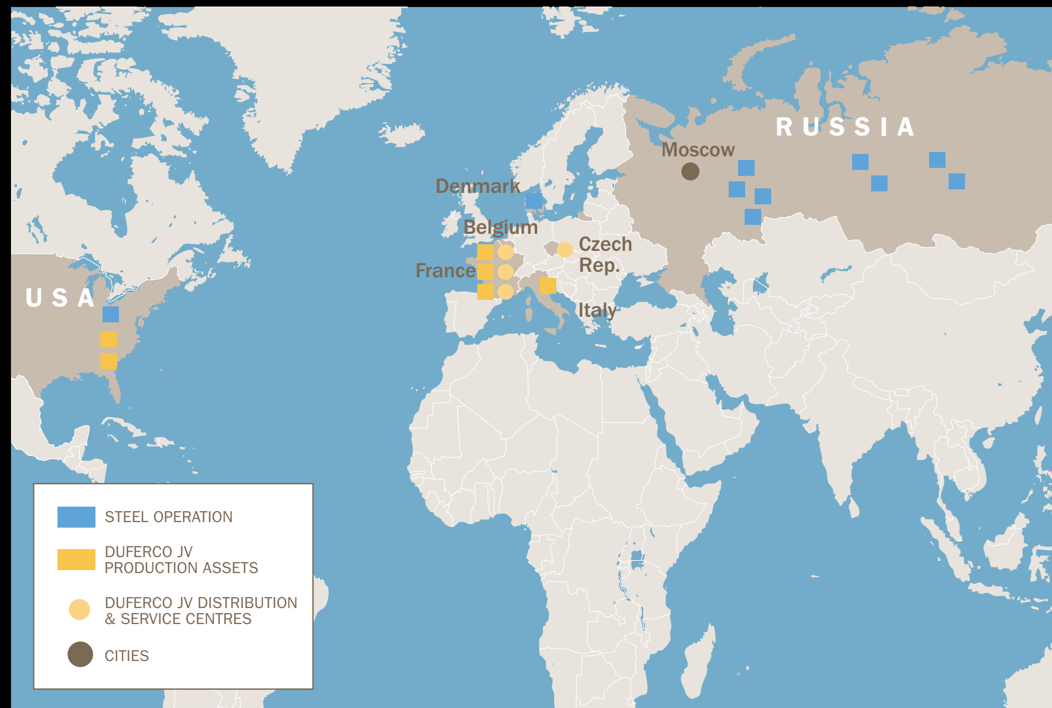


DOMESTIC MARKET	39.0%
EU	17.5%
MIDDLE EAST (INCL. TURKEY)	16.7%
ASIA AND PACIFIC	15.3%
NORTH AMERICA	6.1%
REST OF THE WORLD	5.5%

SALES REVENUE BY PRODUCT



SLABS AND BILLETS	24.5%
HOT-ROLLED	15.3%
TRANSFORMER	11.8%
COLD-ROLLED	11.7%
LONGS AND METALWARE	8.9%
COKE	6.9%
GALVANIZED	4.3%
PRE-PAINTED	4.2%
DYNAMO	2.9%
PIG IRON	2.7%
OTHER	6.8%

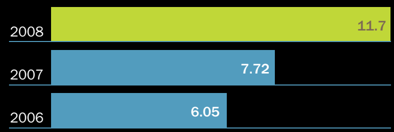


10.5mt
CRUDE STEEL

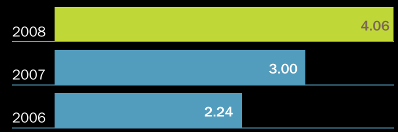
$11.7b
SALES REVENUE (USD)

39%
EBITDA MARGIN

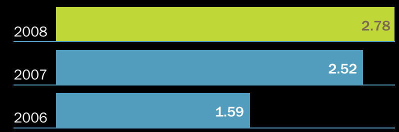
ANNUAL REPORT 2008
FINANCIAL HIGHLIGHTS



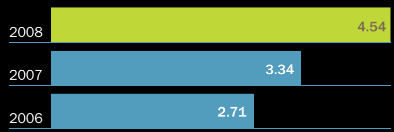
Revenue (USD bn)



Operating income (USD bn)



Operating cash flow (USD bn)



EBITDA (USD bn)

EBITDA margin (%)

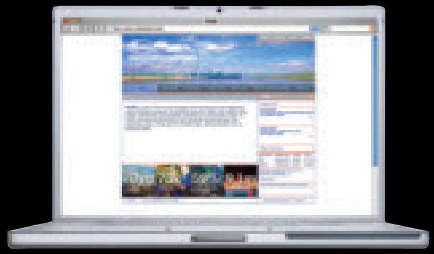
Net income (USD bn)

Net income per share (USD)

Steel production (million tonnes)

Atmospheric emissions (‘000 tonnes)

For more information visit
www.nlmksteel.com



NLMK is one of the world's leading producers of steel and one of Russia's largest steel companies, with key production capacities located in Russia, the EU and USA.

NLMK specialises in flat and long steel products. In 2008, NLMK Group exported almost 63% of its products to customers in more than 70 countries. NLMK accounts for more than 11% of the world slab market and about 16% of the transformer steel products market.

NLMK is a vertically integrated group controlling the full production and sales chain from mining to delivery of finished products to end-users. The Group's structure and efficient management system help achieve a strong financial performance.

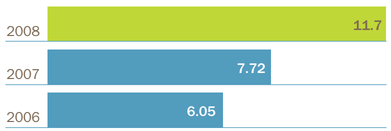
NLMK is a rapidly growing business with a balanced development strategy.

Apart from developing its production and mining assets, the Company's strategy envisages securing a stronger presence in key markets through the acquisition of high-quality rolling capacities.

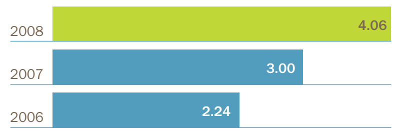
The Company produced 10.5 million tonnes of steel in 2008. The Company reported USD11,699 million in revenue and EBITDA of USD4,538 million. For a number of years, the Company has been one of the leaders in the global steel industry in terms of EBITDA margin, which remained at around 39% in 2008.

For more information visit
www.nlmksteel.com

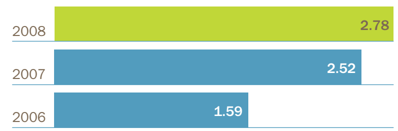
2008 performance highlights



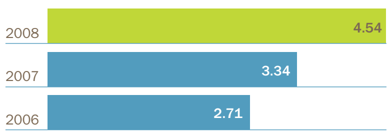
Revenue (USD bn)



Operating income (USD bn)



Operating cash flow (USD bn)



EBITDA (USD bn)

EBITDA margin (%)

Net income (USD bn)

Net income per share (USD)

Steel production (million tonnes)

Atmospheric emissions (‘000 tonnes)

Contents

About NLMK Group

NLMK is one of the world's largest producers of steel products with revenues in 2008 of USD11.7 billion and crude steel production of 10.5 million tonnes primarily in Russia. Our Company is a vertically integrated group with a high degree of self-sufficiency in key raw materials and is arguably the lowest cost large producer of steel in the world. Given this and a substantial share of high-margin products in our sales portfolio, NLMK generates superior profitability.

Steel-making and rolling

NLMK's core business is steel-making and rolling. Crude steel is produced at NLMK's main production site, Maxi-Group facilities and Beta Steel, while other businesses in the segment produce rolled products, with the bulk of semi-finished rolled stock supplied by NLMK Group companies. Having acquired Maxi-Group in December 2007, NLMK entered the long products market.

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OPERATING COMPANIES

OJSC 'NLMK'
Steel and flats production

LLC 'VIZ-STAL'
Electrical steel production

DANSTEEL A/S
Plates production

BETA STEEL
Steel and hot-rolled production

OJSC 'MAXI-GROUP'
Steel and longs production

KEY MARKETS

Key consumers are: construction, automotive, machinery, power equipment and white goods producers.

PRODUCTS

- SLABS (NLMK)
- HR STEEL (NLMK, DanSteel, Beta Steel)
- CR STEEL (NLMK)
- GALVANIZED STEEL (NLMK)
- PRE-PAINTED STEEL (NLMK)
- DYNAMO STEEL (NLMK, VIZ-Stal)
- TRANSFORMER STEEL (NLMK, VIZ-Stal)
- BILLETS (Maxi-Group)
- REBAR (Maxi-Group)
- WIRE-ROD (Maxi-Group)
- METALWARE (Maxi-Group)

PRODUCTION HIGHLIGHTS

10.5mt
STEEL

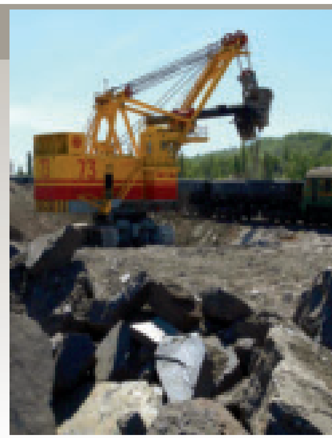
5.0mt
FLAT STEEL

1.3mt
LONGS AND METALWARE

Mining

Mining is an important line of business for NLMK. The Group is 100% self-sufficient in iron ore concentrate and fluxing materials. Pellets are currently purchased from third-party suppliers. The Technical Upgrading Programme proposes to build a pelletising facility, which will in part improve sufficiency in pellets.

p40 FOR MORE INFORMATION SEE P40



OPERATING COMPANIES

OJSC 'STOILENSKY GOK'
Iron ore production

OJSC 'STAGDOK'
Flux production

OJSC 'DOLOMIT'
Flux production

KEY MARKETS

The mining division mainly supplies raw materials to NLMK's steel-making facilities. Intersegmental sales accounted for 95% of iron ore concentrate, 78% of limestone and 45% of dolomite produced by the division.

PRODUCTS

- IRON ORE CONCENTRATE (Stoilensky GOK)
- SINTER ORE (Stoilensky GOK)
- LIMESTONE (Stagdok)
- DOLOMITE (Dolomit)

PRODUCTION HIGHLIGHTS

13.1mt
IRON ORE PRODUCTS

Coke and coal

Coke-chemical operations are an important business for NLMK. The Group is more than 100% self-sufficient in coke.

NLMK coal deposit Zhernovskoe-1 has reserves of about 240 million tonnes.

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OPERATING COMPANIES

OJSC 'ALTAI-KOKS'
Coke production

KEY MARKETS

Altai-koks supplied 22% of coke to NLMK. In future, after closing four obsolete coke batteries at the Lipetsk production site, supply from Altai-koks is expected to increase significantly.

Zhernovskoe-1 will increase NLMK's self-sufficiency in coal.

PRODUCTS

COKE

CHEMICAL PRODUCTS

PRODUCTION HIGHLIGHTS

3.5mt

COKE (6% MOISTURE)

Other businesses

Other business operations include logistics assets and trading operations, as well as insurance services. Logistics operations help to streamline the movement of commercial cargo and reduce Group costs associated with freight of raw materials and products.

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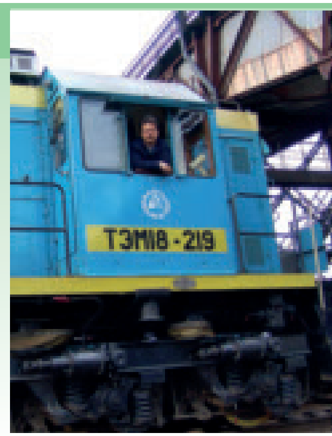


OPERATING COMPANIES

NOVEX
NOVEXCO
Trading operations

LLC 'NTK'
Transportation service

LLC «LSO CHANCE»
Insurance services

KEY MARKETS

In 2008 TMTP handled 460,000 tonnes of NLMK slabs exported. In 2008 over 85% of all shipping operations of NTK were associated with NLMK.

PRODUCTS

EXPORT SALES

TRANSPORTATION SERVICES

INSURANCE SERVICES

PRODUCTION HIGHLIGHTS

3.4mt

EXPORT SALES VOLUME BY TRADERS

45mt

TRANSPORTATION VOLUME

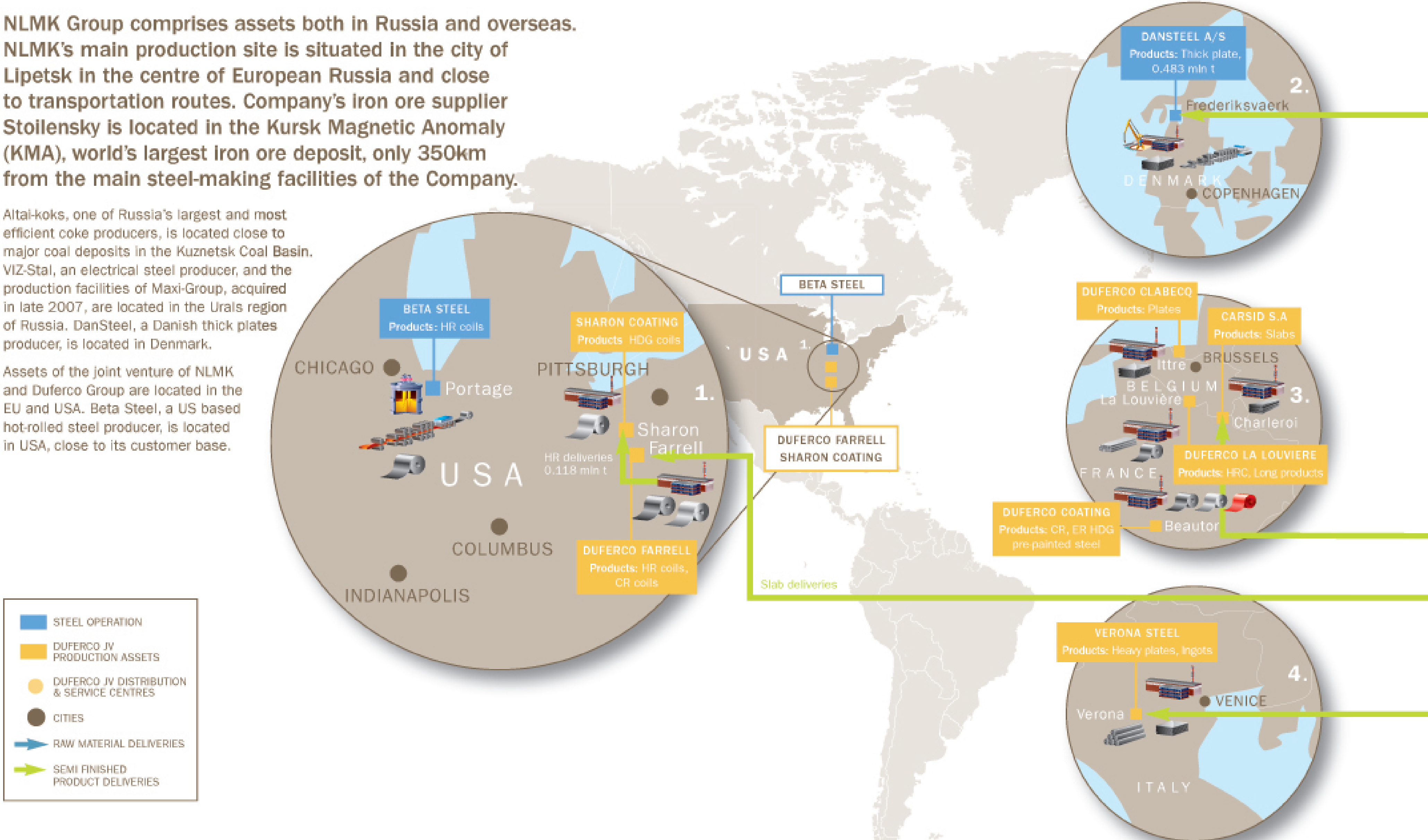
Global presence

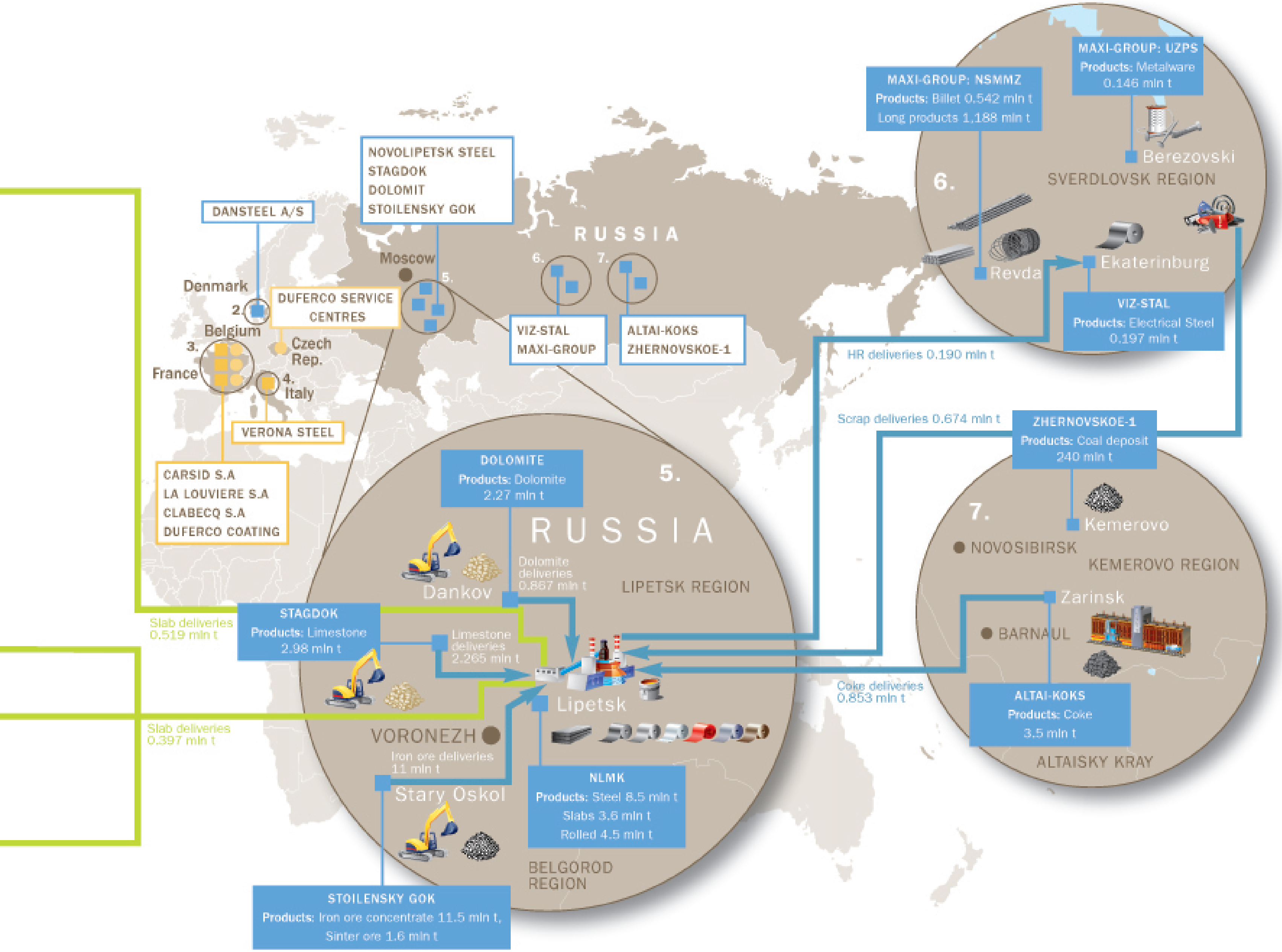
Our global presence

NLMK Group comprises assets both in Russia and overseas. NLMK's main production site is situated in the city of Lipetsk in the centre of European Russia and close to transportation routes. Company's iron ore supplier Stoilensky is located in the Kursk Magnetic Anomaly (KMA), world's largest iron ore deposit, only 350km from the main steel-making facilities of the Company.

Altai-koks, one of Russia's largest and most efficient coke producers, is located close to major coal deposits in the Kuznetsk Coal Basin. VIZ-Stal, an electrical steel producer, and the production facilities of Maxi-Group, acquired in late 2007, are located in the Urals region of Russia. DanSteel, a Danish thick plates producer, is located in Denmark.

Assets of the joint venture of NLMK and Duferco Group are located in the EU and USA. Beta Steel, a US based hot-rolled steel producer, is located in USA, close to its customer base.




DANSTEEL A/S
NOVOLIPETSK STEEL
STAGDOK
DOLOMIT
STOILENSKY GOK
RUSSIA
Moscow
Denmark
2.
5.
6.
7.
DUFERCO SERVICE CENTRES
Belgium
3.
France
Czech Rep.
4.
Italy
VIZ-STAL
MAXI-GROUP
ALTAI-KOKS
ZHERNOVSKOE-1
VERONA STEEL
CARSID S.A
LA LOUVIERE S.A
CLABECQ S.A
DUFERCO COATING
MAXI-GROUP: NSMMZ
Products: Billet 0.542 mln t
Long products 1,188 mln t
MAXI-GROUP: UZPS
Products: Metalware
0.146 mln t
Berezovski
SVERDLOVSK REGION
Revda
Ekaterinburg
VIZ-STAL
Products: Electrical Steel
0.197 mln t
HR deliveries 0.190 mln t
Scrap deliveries 0.674 mln t
ZHERNOVSKOE-1
Products: Coal deposit
240 mln t
Kemerovo
NOVOSIBIRSK
KEMEROVO REGION
Zarinsk
BARNAUL
Coke deliveries
0.853 mln t
ALTAI-KOKS
Products: Coke
3.5 mln t
ALTAISKY KRAY
DOLOMITE
Products: Dolomite
2.27 mln t
RUSSIA
Dolomite deliveries
0.867 mln t
LIPETSK REGION
Dankov
STAGDOK
Products: Limestone
2.98 mln t
Slab deliveries
0.519 mln t
Limestone deliveries
2.265 mln t
Lipetsk
Slab deliveries
0.397 mln t
VORONEZH
Iron ore deliveries
11 mln t
Stary Oskol
NLMK
Products: Steel 8.5 mln t
Slabs 3.6 mln t
Rolled 4.5 mln t
BELGOROD REGION
STOILENSKY GOK
Products: Iron ore concentrate 11.5 mln t,
Sinter ore 1.6 mln t

History of achievement

Throughout its history NLMK has been at the forefront of innovative steel-making and processing. Our upgrade programme, which is being continuously implemented, is designed to ensure we continue this heritage, with industry leading production processes.


1966: Casting yard


1973: Blast furnace #5

1934

NLMK produces the first volume of pig iron. Lipetsk blast furnace with 0.25mt pa is one of the biggest and most technologically advanced in the USSR.

1959

NLMK is first in the world to adopt 100% continuous casting technology.

1960

Transformer steel is manufactured for the **first time in the USSR** by NLMK.

1966

NLMK is first in the world to unite the processes of BOF steel-making and continuous casting into slabs.

1969

Rolling workshop #3 with rolling mill 2000 (5.8mt pa) is installed. **NLMK is first in the world** to adopt the technology of continuous steel-rolling and coiling.

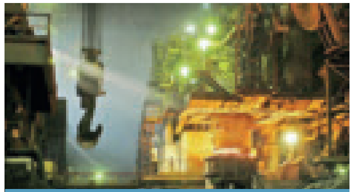
1973

Blast furnace #5 with 3,200 m3 volume, the **largest in the USSR,** is commissioned.

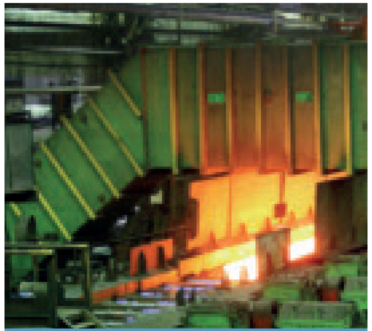
1980

NLMK launched the USSR's first continuous cold-rolling mill under computer control, with total capacity of 2.5mt.

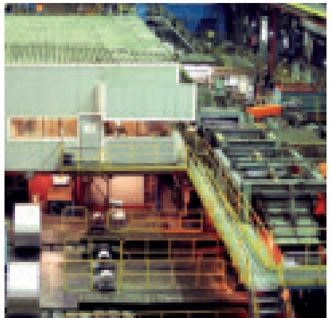

1934: Blast furnace #1


1959: Continuous casting machine

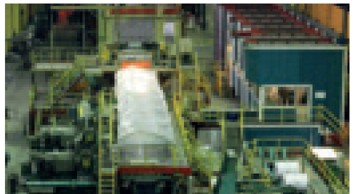

1960: Transformer steel production


1969: Rolling mill 2000


1980: Cold-rolling workshop


1981: Annealing line in CRC mill


1991: Advanced steel production


1991: Polymer coating line


2003: Advanced transformer steel production


2004: Automotive system of quality control

1981

For the first time in the USSR steel industry, NLMK begins continuous annealing in CRC production.

1986

Europe's largest dynamo steel workshop is started.

A full range of dynamo steel products (alloying: 0-4) are produced at NLMK.

1991

For the first time in Russia, advanced CRC products with low carbon content alloyed with titanium and niobium for the purpose of the automotive industry (advanced, complex sheet production) are made.

1991

Russia's first polymer coating line is produced by NLMK.

2001

NLMK launches a new coke battery with **no analogues in Russia and CIS.** In the last 10 years only two such coke batteries have been installed (both at NLMK).

2003

New technology is applied in transformer production facilities allowing an increase in the production of coils with a 0.27 – 0.3mm thickness and the production of 0.23mm steel.

2004

For the first time in Russia, NLMK implements an automotive system to control the quality of HRC steel surfaces.

2007

NLMK launches Russia's first hot-dip galvanizing mill, producing HDG coils up to 4mm thick, that are widely used in construction industry.

2008

Russian specialists develop **the first** laser technological complex to process transformer steel with an appropriate deviation of P1.7/50<1 wt/kg.


1986: Dynamo steel workshop


2001: New coke battery


2007: Hot dip galvanizing mill


2008: Laser technological complex

Chairman's statement

Vladimir Lisin

$11.7bn
REVENUE (USD)

39%
EBITDA MARGIN

$4.54bn
EBITDA (USD)

25,000
AVERAGE MONTHLY WAGE (RUBLES)

Dear shareholders,
2008 was a year of record achievements both for the global steel industry and your Company. We also saw how fragile the global financial system had become and how this created a damaging international crisis.

In 2008, despite the crisis in the second half of the year, NLMK achieved remarkable financial results. Revenue grew by 52%, EBITDA reached USD4.5 billion, and the EBITDA margin amounted to 39%. Net profit also reached a new high amounting to USD2.3 billion, despite write offs and provisions made in Q4 2008. It is no exaggeration to say that 2008 challenged the resilience of our strategy and efficiency of our management team and its ability to take the right decisions in a timely manner. Today I am pleased to announce that we have successfully overcome the difficulties we have been faced with. We have retained our robust financial position, allowing us to continue to develop despite the current downturn.

Overview
2008 was a year of record-high prices followed by an unparalleled market downturn which started in the third quarter. Steel is a major constituent of the global economy, its consumption being directly linked to the investment cycle. It is for this reason that the crisis influenced the industry both locally and globally and drove the prices down by 30-60% and demand by 20-40%. The decline in demand urged many companies to revisit their development strategies and management approach.

In such an environment our key competitive advantages – efficient vertical integration and the quality of our production assets – will successfully carry us through this crisis and leave the Company well placed to benefit from the eventual upturn.

Q4 2008 results and the Company's progress in Q1 2009 leave no doubt about the suitability of our long-term strategy.

Strategy, Creating Value
Our Company strives to increase shareholder value for the benefit of its owners and employees. This underpins our strategy to enhance efficiency through vertical integration, invest in the production of high quality products, expand our product mix, and enter new markets and product niches. We are confident that such a strategy will strengthen our profitability leadership among steel-making companies. A sound financial position and a conservative borrowing policy are the cornerstone of the Company's potential success.

Strategy Implementation in 2008
2008 proved to be the peak of the investment cycle. We allocated circa USD2 billion worth of investments into strengthening and developing our competitive advantages. This amount exceeds total investment for 2001-2005 and is double the amount of investment for 2007. We focused primarily on the construction of new facilities allowing us to produce steel of a higher quality with lower costs. Equally important is the development of raw materials assets aimed at increasing output and enhancing efficiency. We are convinced these investments will provide the basis for the Company's sustainable financial performance. However, the potential further decline of the industry in 2009 has caused us to cut our planned investments by at least 50% to USD1 billion to maintain NLMK's financial stability. This year we are set to finish projects which are already underway and to invest in projects offering the highest yields, such as the upgrade of our transformer steel capacities. At the same time we intend to unfailingly implement our organic growth strategy once the industry has stabilised. In 2008 we continued with the integration of Maxi-Group, allowing NLMK to gain a substantial share of the Russian long products market and to satisfy its requirements in scrap. Substantial improvements in Maxi-Group's operational performance were achieved through an increase in sales volumes, cuts in operational expenses and growth in scrap collection. We continue to seek the closure of the transaction with Mr. Maximov, the founder and minority shareholder of the business.

As part of the Company's strategy to increase the output of high value-added products and diversify sales markets, in August 2008, we took the decision to acquire John Maneely Company, a US-based pipes producer. This transaction was meant to help create the largest vertically-integrated structural pipes producer in North America. However, following the start of the financial downturn, regrettably we had no choice but to rescind the transaction. This was the only prudent way to keep the Company financially stable and avoid the risks of an excessive debt burden in the changed circumstances.

In 2008 we successfully completed the optimisation of the Company's structure to enhance management efficiency. As a result of the disposal of non-core assets, the Company allocated an additional USD250 million for its further development. By buying out minority stakes in a number of subsidiaries, NLMK secured 100% ownership in these companies. In the course of the disposal of NLMK's stake in the Tuapse commercial seaport, we ensured that the buyer should offer to NLMK minority shareholders an option to acquire Tuapse seaport shares on a pro rata basis according to their shareholdings in NLMK. This proposal allowed the minority shareholders to maintain their interest in the port thereby protecting their interests in this transaction. In the first three quarters of 2008, the Company continued to develop its asset portfolio. This year, in order to enhance controls and efficiently manage export sales, the Company acquired trading companies through which it has recently been selling over 80% of its exports. This measure has improved the effectiveness and operating management of the sales function.

In late 2008, NLMK acquired the US hot-rolled steel producer Beta Steel. We consider the acquisition to be strategically beneficial as it enables us to broaden exposure to our key sales markets and provides a basis for further development.

Dividends

Due to the strong results in the first half of the year, the Company paid a high interim dividend of RUR2 (USD0.079) per ordinary share, allocating about USD470 million or about 20% of 2008 net profit to the payment of dividends. Due to the deterioration of the economic climate, the Board of Directors has recommended that no dividend is paid for the second half of 2008.

Board of Directors and Corporate Governance

Compliance with best practice in corporate governance has always been a priority for the Company and its Board. The close co-operation of the Company's directors and its management facilitates the development and implementation of our value-creating strategy whilst observing the rights of all its shareholders. As a result, last year Standard & Poor's rating agency included NLMK in its list of the top 10 most transparent companies in Russia.

Corporate Social Responsibility

Social responsibility is at the core of the Company's corporate culture. We understand that the coming years will not be easy for the industry, but we are certain that the retention of professionals, support to local communities and social initiatives will be key drivers of our business. NLMK's Board of Directors and management will adhere to this social partnership strategy. In 2008 we continued to invest in occupational health and safety. The frequency of industrial accidents fell by 14% and emissions volume was cut by 8%. We intend to continue to meet the Company's social obligations.

Outlook

We enter 2009 with a sustainable growth strategy which will enable the Company to show stable results even in the context of the economic downturn. We are confident that, despite lower results, NLMK will retain its profitability leadership in the sector. This, in turn, will allow us to maintain the Company's financial strength, continue our technical upgrade, consider new acquisitions, achieve long-term goals for the Company's sustainable growth and leave us well placed to benefit from the recovery. Finally, I would like to highlight the invaluable contribution of NLMK'S employees, which has helped us to achieve record results and will ensure that we successfully overcome this crisis.

Vladimir Lisin,
Chairman

President's review

Alexey Lapshin

10.5m
TONNES OF STEEL PRODUCED

$1.9bn
OF CAPITAL EXPENDITURES (USD)

The stable market growth experienced in the first three quarters of 2008 was followed by an unprecedented slump in steel markets. Nevertheless, the successful implementation of our balanced growth strategy allowed the Company to produce record operating and financial results in 2008. We recognise that the coming year will test the strength of the Company, and we are confident that we shall meet the challenges we face.

Overall Group Performance

Despite strong negative developments in the markets the Company has demonstrated a record operating and financial performance achieved through focus on its key competitive strengths and their further development. The implementation of a sustainable growth strategy and prompt response to the market challenges in terms of falling demand and prices helped us achieve successful performance in 2008.

In 2008, the Group's businesses produced 10.5 million tonnes of steel, while total sales of steel and products grew by 11%, reaching 10.3 million tonnes. This growth was delivered by expanding the scale of Group operations through both organic growth and the acquisition of new assets.

Strong sales and high prices for steel during the first nine months of 2008 led to over 50 per cent growth in consolidated revenues, which reached USD11.7 billion. In 2008 EBITDA reached USD4.5 billion, with the EBITDA margin remaining strong at 39%.

Financial stability is a key priority given the uncertainties in the global economy and the Company maintains an adequate liquidity position with USD2.2 billion in cash on our balance sheet. Our net debt at the end of 2008 was USD0.8 billion, and short-term debt stood at about USD1.1 billion. The Company currently holds the highest credit rating among its Russian peer companies.

Managing the Crisis

In this difficult environment the Company's managers have taken a number of measures to reduce operating and investment expenses, encourage sales and streamline working capital. These measures have helped mitigate the negative impact on the NLMK Group stemming from negative steel market trends in late 2008.

In Q4 2008, against the backdrop of the crisis, the NLMK capital expenditure programme was adjusted by delaying some projects. On account of this, capital expenditure in 2008 amounted to US$ 1.9 billion, or 30% less than originally planned.

The Company responded to the contraction in demand in the last quarter of 2008 with a sharp reduction in output of primarily low value-added products. During Q4, three of the five blast furnaces at the main site in Lipetsk were shut down for repairs, resulting in a 40% reduction in output in Q4 compared to Q3 2008.

At the year-end, while steel prices continued to slump, we negotiated lower prices for raw materials, inputs and equipment with our suppliers. This allowed for the achievement of a significant reduction in operating and investment expenses.

In addition, NLMK managers have taken a number of measures to streamline Company working capital. We have tightened controls over receivables, introduced stronger monitoring of our clients' financial standing, and restricted advances against purchases of goods, thereby limiting the exposure vis-à-vis receivables arrears.

Reduced output and purchases of inputs, and reliance on in-house resources helped prevent the uncontrolled accumulation of inventory and additional use of cash in times of crisis.

These actions allowed the Company to adapt its operations to the changed market environment.

Capacity Expansion and Facilities Reconstruction

Throughout 2008 the Group continued its technical upgrade programme. As the steel producer with the lowest cost base in Russia, we have strengthened this competitive advantage by

$129 mln
ENVIRONMENTAL INVESTMENTS

8%
DECREASE IN ATMOSPHERIC EMISSIONS

investing in upgrades and new technologies in order to increase production efficiency and reduce raw material consumption.

We invested across all stages of production including mining, casting and rolling as well as through expanding our product mix, increasing product quality and purchasing solutions dedicated to improving labour conditions and protecting the environment.

Last year we continued with the preparation work on the pellets production facility at Stoilensky which will cover our Lipetsk site requirements in iron ore. In 2008 we also invested in the construction of additional concentrate production facilities, expanding capacity and infrastructure.

At Lipetsk, we proceeded with the construction of a new blast furnace No.7, the first of its kind since the end of the USSR. In addition, we increased efficiency of our sintering facilities; also our two continuous steel casting machines were reintroduced after technology upgrades. Also a new slab flame scarfing machine was commissioned. We upgraded a hot-rolling mill increasing its capacity and improving the quality of our rolled products. A new air separating unit and turbogenerator were installed.

Substantial investments were allocated to Maxi-Group. Berezovsky electrometallurgical plant located in the Urals region which allows the Company to shift from sales of billets to the production of higher value added long products.

In response to the global economic downturn we have revised our investment programme. Nevertheless, our focus on maintaining low cost production and enhancing production quality remains unchanged.

Operating Strategy
The consistent improvement of the Company's operating and financial performance is to a large extent due to the continuing implementation of a balanced growth strategy.

Sales
The Company's key competitive advantage is its balanced marketing and sales system. The flexibility of the system and the ability to re-direct sales on a timely basis helped mitigate the impact of the severe market downturn in the fourth quarter.

As a result of this, total sales of steel and products increased by 11% in 2008. Growth was attributed to higher long product sales by Maxi-Group. Notwithstanding the contraction in output in fourth quarter, we maintained high value-added product sales at around 2007 levels, and saw an increase in sales for some product groups.

Throughout last year we have been consistently increasing our share of products sold domestically, and in 2008 our share of the Russian market increased from 31% to 37%. Our key export destinations included the EU and the Middle East.

Product Portfolio
Another area for Company development involves the expansion of our product mix and increased sales of high value-added

Our priorities

We will continue to pursue our balanced growth strategy, increasing efficiency and expanding our product mix. However in the current turbulent market conditions, our focus will be on the following priorities:

1. Cost reduction and efficiencies
- raising effectiveness of all business units
- utilising NLMK sources of raw materials
- introducing savings-orientated modes of operations in all business units
- reducing administrative expenses

2. Streamline our working capital
- tightening controls of over receivables
- restricted advances against purchases of goods
- monitoring customer financial security

3. Focused investment
- investing in sustainable and effective technologies
- developing a wider product mix to meet customer needs
- improving the quality of our products

products. In 2008 we significantly increased long product sales which account for 12% of total sales. We have maintained high value-added product sales at the same level as the previous year, while being forced to reduce output of low value-added products. This year we shall continue to invest in the expansion of our product mix, and shall also allocate significant investments to improvements in product quality, primarily in grain-oriented steel, which should help us to significantly strengthen our position in this segment of the market.

Vertical Integration

We continue to develop vertical integration into raw material assets. In 2008 we significantly strengthened our positions in terms of being self-sufficient in scrap, which is crucial for electric furnace steel-making. At the end of 2008 we almost fully stopped relying on third-party iron-ore supplies, thereby significantly reducing cash outflows in times of crisis.

Integrating Good Corporate Citizenship into the Overall Business Strategy

Improved corporate responsibility standards are a key part of our development strategy.

We create an environment conducive to high productivity and provide for sustained improvements in the welfare and social protection of employees. Notwithstanding the forced output reductions in 2008 we were able to avoid significant layoffs by re-allocating personnel to maintenance activities and other operations.

We help employees improve their skills in order to boost labour productivity and, when required, provide our employees with opportunities for training in other skills required by the Company.

Responsible Operations

We continue to consistently improve our industrial safety standards and invest heavily in occupational health and safety. Last year this resulted in a fall in industrial accidents at our Lipetsk site of 14% compared to the year before.

Annually, significant amounts are spent on various health improvement programmes for our employees and their families, their leave arrangements and the provision of high quality medical assistance.

Environmental Protection

We aim to prevent any negative impact that our production and economic operations may have on the environment. In 2008 we upgraded the water supply facilities at our Lipetsk site, de-commissioned the environmentally unsound coke batteries and implemented several other environmental projects. We have undertaken extensive efforts to protect the environment and reduced our air emissions by 8% and effluent emissions by 16%.

Priority

In order to mitigate the impact of the global economic crisis we shall focus on improving the efficiency and effectiveness of our production and reducing costs, streamlining our working capital, and improving customer satisfaction through the improved quality of our products and a wider product mix. In addition, we shall strive to reduce costs by relying on our own sources of raw materials, introducing savings-oriented modes of operations at our businesses, raising the effectiveness of each business unit and imposing reasonable reductions in general administrative expenses. We shall also continue to invest in the maintenance of sustainable and effective technology, protecting the environment and the industrial safety of our employees.

Outlook

In recent years the Company has demonstrated continuous improvements in its operating and financial performance. We recognise that the Company is not immune from the trends that affect the sector and the economy in general, and we are conscious of the need to adjust, as and when required. Nevertheless, our strategy, based on our vertical integration, stable position in the markets and effectively balanced product mix will allow us to successfully emerge from this challenging period for the steel sector.

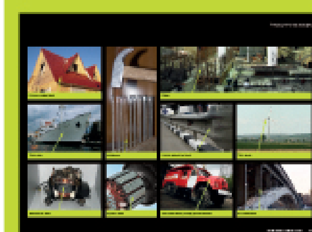
Alexey Lapshin
President

Strength in steel

NLMK's strong leadership position has been achieved through a robust and consistent strategy, focused on enhancing efficiency through vertical integration and a diverse mix of high quality products:

Balanced growth strategy, **page 18**

Vertical integration, **page 20**



Diversified product mix, **page 22**

Market review

Global Steel Market Developments

In 2008 the markets were very mixed. Positive economic growth early in the year failed to continue beyond Q1. In Q2 industrial growth in most developed countries reversed into progressive decline. In Q3 GDP growth rates contracted significantly in all developed economies, with a more than three-fold contraction in the US, a 3.5-fold contraction in the EU and a 50% decline in Japan, compared to growth rates at start of year.

In Q4 industrial output declined even more severely: in the major EU countries output dropped by between 0.8% and 2.9%, and by 1.6% in the US and 4.5% in Japan compared to Q3.

World GDP growth rates declined significantly and were estimated by various sources to be between 2.5% and 3.4% at end-2008, compared to 5.2% a year earlier.

Restricted access to credit accompanied by lower demand and collapsing investment had a severely negative impact on the global ferrous metals market. The downside effect stemmed from lower consumption by key sectors: the global construction industry declined by 0.9% and output of durable consumer goods contracted by 0.7%. The decline in worldwide apparent steel consumption in 2008 is estimated to be 0.4%, compared to 7.5% growth in 2007.

Rapid stockpiling in the first half of the year coupled with crisis developments in consumption forced steel producers to cut output by 1.2%. The region most affected by the reduction in output was the CIS metals sector. Steel output contracted by 8.1% by the end of the year, with a 13.4% reduction in output in the Ukraine. Steel output in the EU-27 fell by 5.3% and by 5.5% in North America. Only China and countries in the Middle East were able to avoid reductions in steel output. Strong stimulus packages pursued by the government encouraged 2.6% growth in steel output in China.

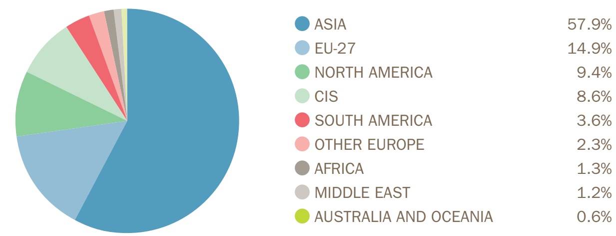
WORLD STEEL PRODUCTION, 2004–2008 (MILLION TONNES)

Source: World Steel Association

Apparent steel consumption in the EU contracted by 7.2% as a result of a 0.6% decline in industrial output, compared to 3.7% growth in 2007. The biggest reduction in output was recorded in automobile manufacturing (-5.5%), household appliances (-3.9%) and pipes (-2.7%).

The slump in demand translated into negative price developments in the steel market. The first half of 2008 showed stable upward price movements, with prices in most global markets peaking in July and August. By the middle of Q3, inventory stockpiles maintained by customers increased four-fold over Q2, encouraged by record-high monthly steel output volumes between March and July. Since the second half of August major world markets have been showing downward momentum. Average prices in Q4 fell by 30-40% and almost reached Q1 levels. Prices continued to decline until November, when some regional markets started to display signs of improved price stability.

WORLD STEEL PRODUCTION BY REGION, 2008



Source: World Steel Association

Russian Steel Market

Given its high rate of integration in the global economy, developments in the Russian ferrous metals market followed global trends with a time lag of 1 to 2 months. By the end of 2008 the majority of steel consuming sectors were showing clearly negative trends.

In Russia the demand for flat rolled products peaked in July, while for long product August was the month when the prices started to deteriorate. In September signs of lower prices were recorded across all regions. By the middle of Q4 the trend towards contraction in the manufacturing sectors took shape and in November apparent consumption of both steel sheet and long products was already at half the November 2007 levels. Seasonal factors encouraged a further drop in consumption in December.

The Russian market for flat products is estimated to have contracted by 9.2% in 2008. The hot-rolled thin plate segment contracted by 7.2% and thick plate by 17.6%, while demand for cold-rolled steel sheet fell by 15.2%.

Market review continued

Consumption of long products in Russia declined by 6%. The shaped sections segment slumped by 20%.

In addition to lower output in the major steel consuming sectors, negative developments in the market were further aggravated by declining Russian exports of rolled products, which in October and November fell to their lowest level in recent years. This led to a 14% reduction in Russian exports of flat products in 2008.

Due to the sharp drop in demand for steel, major producers in Russia reduced their output. This became most visible in Q4, when Russian capacity utilisation fell to 50-60%.

Outlook

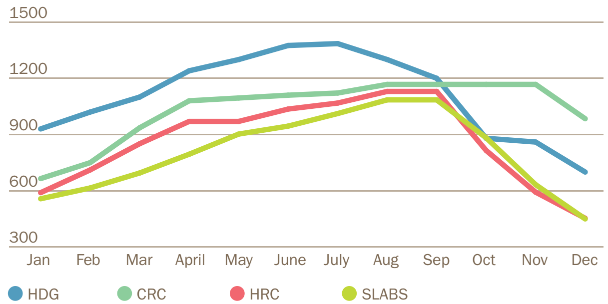
Historically, the steel sector is cyclical in nature, mirroring the global economy. Developments in the steel market are determined by demand for steel products and fixed capital investments.

The global economy has now entered a period of recession, with growth rates declining across all sectors.

Improvements in the global economic environment will depend on the effectiveness of measures adopted by the governments of leading nations to promote recovery in financial markets and the world economy in general. Anti-crisis programmes should provide effective support for fixed capital investment and encourage industrial growth.

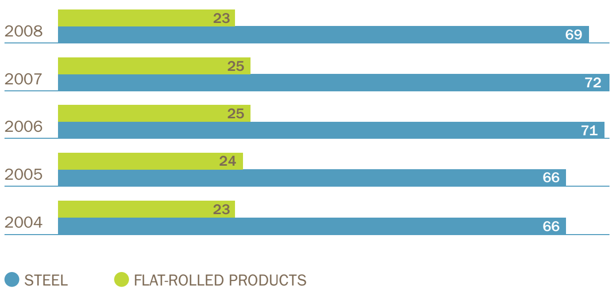
It is too early, however, to determine a timeline for the return of a favourable market environment. We recognise that actions to encourage economic recovery that are already under way cannot bring about immediate results and it will take time to overcome the crisis in the real economy.

PRICES OF CIS EXPORTERS, 2008 (FOB PRICES, USD/TONNE)



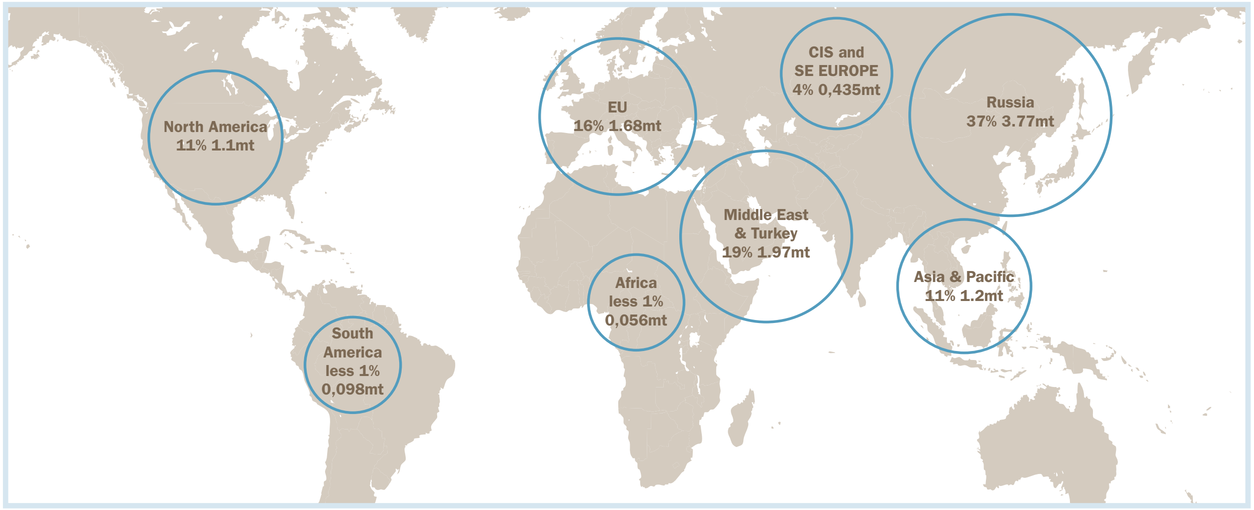
Source: Metal Bulletin, Coated Steels Monthly.

PRODUCTION OF STEEL AND FLAT-ROLLED STEEL IN RUSSIA, 2004-2008 (MILLION TONNES)



Source: Federal State Statistics Service.

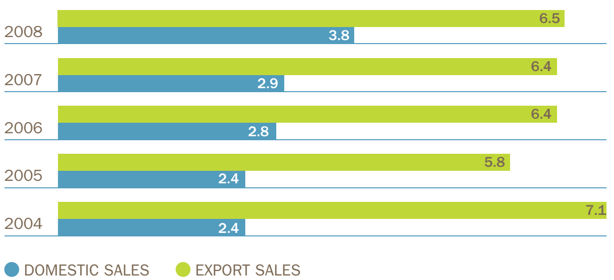
NLMK SALES IN 2008



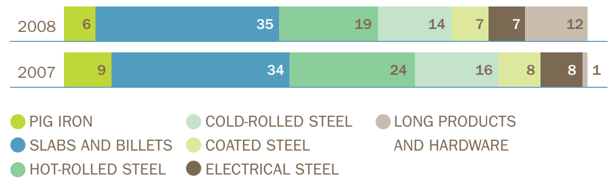
Group sales

NLMK bases its sales strategy on the development of close relationships with our customer base, providing them with consistent quality of product, competitive pricing and timely delivery. In 2008 NLMK continued its strategy aimed at better controlling the Company's export sales and further enhancing its presence in core export markets, through establishing an international trading department within the Group and by acquiring two trading companies in Europe.

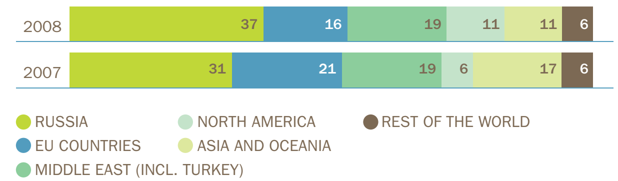
GROUP STEEL PRODUCT SALES, 2004-2008
(MILLION TONNES)



NLMK'S SALES BY PRODUCT, 2007-2008 (%)



NLMK'S SALES BY REGION, 2007-2008 (%)



Sales of Steel Products by NLMK Group
In 2008 sales of steel and products by the NLMK Group on a consolidated basis reached 10.3 million tonnes, or 11% year-on-year growth. This growth was mainly attributable to the consolidation of Maxi-Group, a Russian long steel products manufacturer, and Beta Steel, a US-based steel producer.

Sales by NLMK, the main production site in Lipetsk, fell by 8%. This decline was driven by a significant slump in sales in Q4 2008 which followed the global financial crisis and resulted in lower demand for steel and steel products. In 2008 we continued to diversify our product mix which was augmented by long steel products added to our product portfolio. Domestic sales reached c.37%, an increase of 6 p.p. y-o-y.

Export Sales of Products by NLMK Group
NLMK Group sold c.63% of its products in the export market to more than 70 countries around the world.

Priority destinations for exports by NLMK Group companies are the Middle East and European Union. Significant sales volumes were sold in South-East Asia. Growth in sales to North America is partially attributable to the acquisition of Beta Steel.

Further deterioration of the market due to the financial crisis in the second half of 2008 resulted in the lower export sales of NLMK products. Exports from NLMK to Turkey contracted from 200,000 tonnes per month earlier in the year to 12,000 tonnes a month in the end of the year. High levels of sales to Mexico in the first half of 2008 gave way to very small exports in the second half. Exports to Germany and Denmark fell significantly in Q4 2008. Exports to the US remained volatile throughout the year and the spike in sales in October was followed by a rapid slump towards the end of the year, while strong sales to Taiwan in Q3 2008 reversed with a major decline in the last quarter of the year. The slump in sales was in part offset by re-targeting exports to other destinations. For example, in both November and December exports of slabs increased to Steel Invest and Finance rolling assets (Duferco JV), and in December higher exports were recorded to India, Iran and Pakistan.

2008 sales of steel semi-finished products (slabs and billets) reached 56% and this growth is mainly due to consolidation of Maxi-Group. And this factor explains an increased share of long products and metalware export sales hitting 2%. In 2008 lower export sales of pig iron and hot-rolled steel were mainly due to depressed demand in Q4 2008.

DOMESTIC MARKET OVERVIEW

Domestic Sales

In 2008 NLMK Group significantly strengthened it domestic market positions through increased sales of long products sales to local customers. Group sold 3.8 million tonnes of steel products, a 32% increase y-o-y.

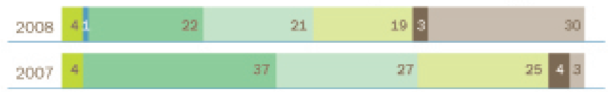
Major change in product sales structure is a growth in sales of long products to mainly domestic construction sector and metal trading companies.

There were no significant changes in the terms of the domestic regional distribution of sales in 2008. The key consumer regions account for the bulk of construction projects and concentrate on the major steel processing and machine-building industries. Central Russia was the largest region in terms of consumption, accounting for 43% of sales.

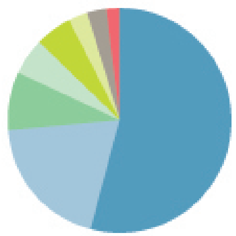
Other major consumers include the Povolzhye area (15%), Northern Caucasus (10%) and the Urals (15%). Other key regions are the Volgo-Vyatka area and the Central Black Earth regions, with 7% and 6% correspondingly.

In terms of domestic sales, the key consumer sectors are steel trade and steel processing businesses (54%) and the construction sector (20%). A major share of products manufactured in the steel processing sector is sold to the construction sector. Other key consumer sectors include automobile manufacturing (8%) and the pipe industry (5%). Smaller volumes are supplied to the machine-building (3%), electrical equipment (3%) and household appliance manufacturing sectors (2%).

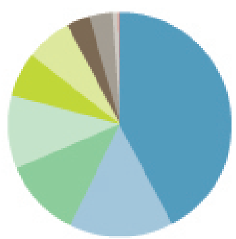
NLMK'S DOMESTIC SALES BY PRODUCT, 2007-2008 (%)



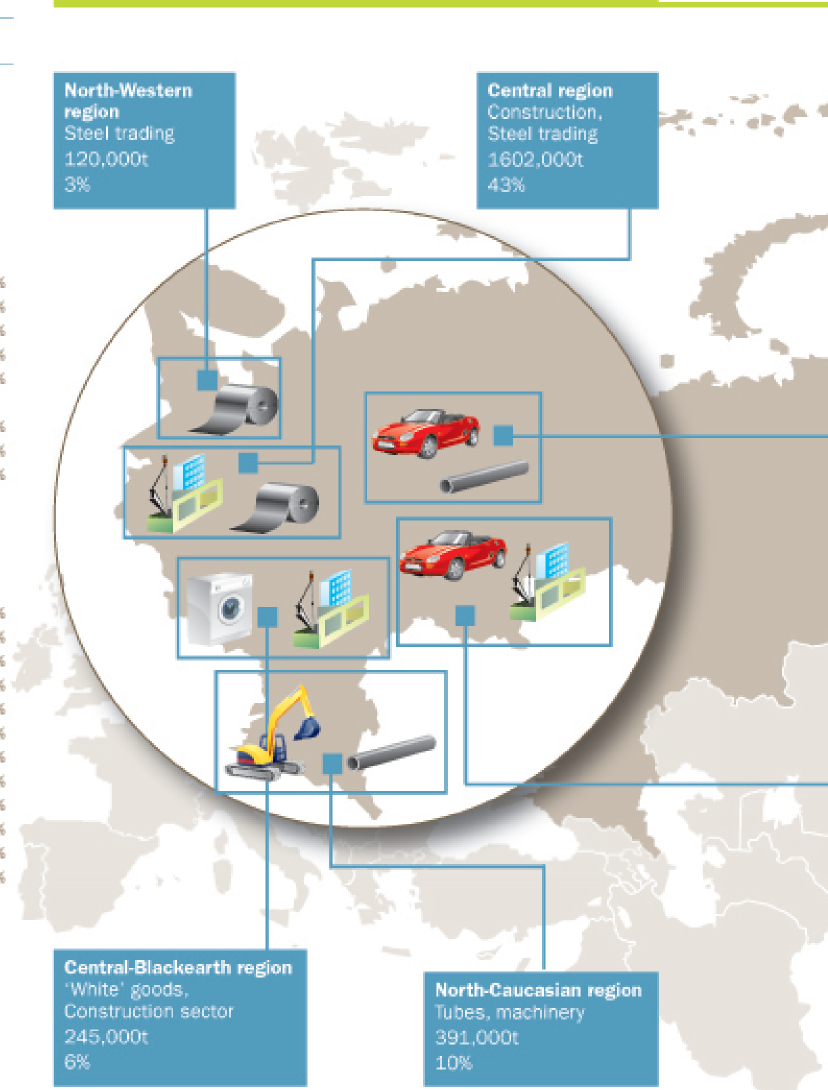
DOMESTIC SALES BY INDUSTRY, 2008

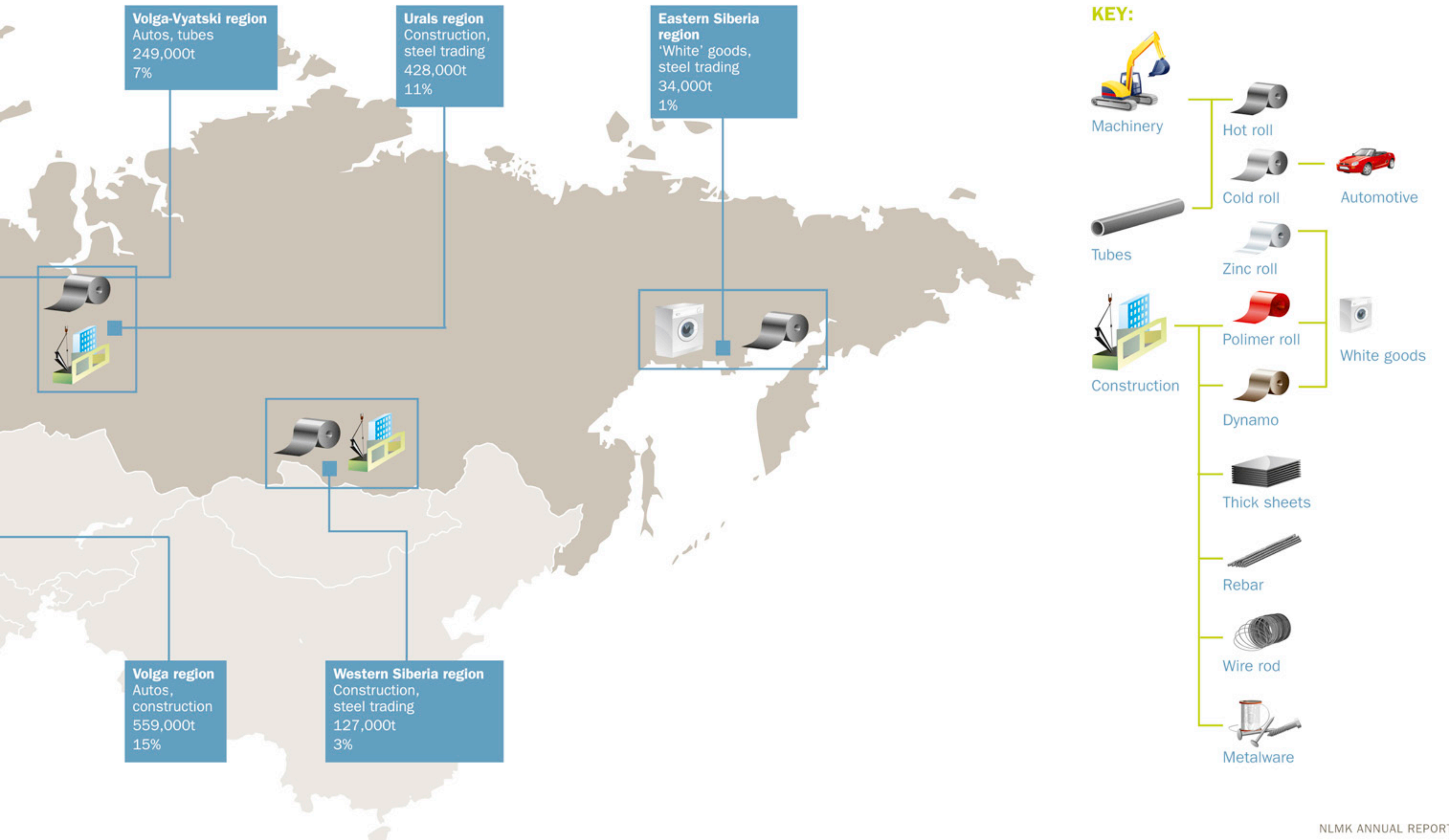


DOMESTIC SALES BY REGION, 2008



Domestic sales market




Volga-Vyatski region
Autos, tubes
249,000t
7%
Urals region
Construction, steel trading
428,000t
11%
Eastern Siberia region
'White' goods, steel trading
34,000t
1%
Volga region
Autos, construction
559,000t
15%
Western Siberia region
Construction, steel trading
127,000t
3%
KEY:
Machinery
Tubes
Construction
Hot roll
Cold roll
Zinc roll
Polimer roll
Dynamo
Thick sheets
Rebar
Wire rod
Metalware
Automotive
White goods

Strategic overview

Our core strategy in the current environment remained unchanged as it proved its resilience to the challenges posed by the recent developments in the industry and continues to bring value to the Company.

Vision

We are committed to strengthening our leadership position in terms of profitability, product quality and technological advancement in the steel industry.

Mission

Our mission is to be the preferred supplier of steel products to our core customer base and to be among the most profitable steel producers in the world, enjoying sustainable level of revenues and profits.

Strategic Goals

We plan to pursue the following strategic goals:

- To be among the world's most profitable and growing steel companies. We are committed to a 'profit before tonnes' approach
- To strengthen our market leadership and expand our product range in value-added flat steel products in our core markets
- To become a leading player in the domestic market for long steel products applicable for construction purposes through the mini-mill business model
- To utilise our key competitive advantage in low cost production of crude steel to increase output of finished products at downstream facilities worldwide
- To pursue external growth initiatives through enhanced vertical integration, balancing and strategic acquisitions
- To maintain and enhance good corporate governance, social and environmental standards.

Strategic initiatives

We intend to pursue the following key strategic initiatives:

To further implement our Upgrading Program for our operations in Russia. The key strategic goals of the Technical Upgrading Program are as follows:

- To further increase crude steel production capacities on the low cost Russian production platform focusing on improvement of steel quality and enhanced production efficiency
- To continue the development of value-added product portfolio and maintain our leadership in transformer electrical steel
- To ensure continuity of supply of low cost, high quality raw materials through increased self-sufficiency
- To pursue further efficiency gains through increased energy self-sufficiency and modern technologies

Maintaining a high level of vertical integration:

- To hedge against supply side constraints and raw material price fluctuations
- To focus our vertical integration strategy on securing supplies of low cost raw materials

To be one of the largest supplies of long products to the domestic market

- To develop EAF-based steel and finished products capacities to supply local demand for the construction long steel products
- To maintain low production costs by using own scrap collection, lean overheads and lower energy costs

To develop the international structure of the Company through Joint Ventures with Duferco and the Company's overseas assets – DanSteel and Beta Steel – and possible future acquisitions to increase the proportion of semi-finished products transformed into value-added products by companies under our control

Our approach to M&A opportunities is based on three major pillars:

- The acquisitions should bring substantial synergy benefits
- The focus is on the Company's core markets
- Each opportunity should be assessed individually within the context of the overall long-term development strategy

Building up an efficient management structure:

- To ensure high quality and transparency of the decision-making process
- To enhance management accountability to shareholders

To enhance standards for employees, and to continue our social and environmental improvements

- To improve health and safety at work
- To maintain responsible citizenship in all the regions of NLMK's presence
- To reduce the Company's impact on the environment

Focusing on our key strengths

Vertical integration

The global market for steel is extremely competitive. An advantage can be gained by those who best meet client demand for quality products, respond to developments in the market in a flexible manner, benefit from their past experience of operating within the industry, maintain low production costs and have access to raw materials.

By consistently pursuing its development strategy, NLMK has achieved operating and financial effectiveness, which in our industry translate into significant competitive advantages.

By creating a vertically integrated group we are able to exercise control over every stage of the production process, from mining raw materials to delivering finished products to our customers. We continue to expand our customer base, respond to market requirements by improving the quality of our products, and venture into new segments of the market. We have broadened our sales geography and streamlined logistics by acquiring top grade rolling capacity in strategic markets. Our businesses rely on advanced technology, helping us to attain the highest rate of production efficiency. We never stop at what has been achieved and continue to consistently develop our production base, introduce new technology and rationalise resource and energy consumption.

Creating Value through Vertical Integration
NLMK Group is a vertically integrated steel Company, which includes major suppliers of raw materials and is to a large extent self-sufficient in power, allowing the exercise of control over virtually all stages of steel production.

Steel production begins by mining ore at the open pit mines of Stoilensky GOK. The ore is then processed into iron ore concentrate, which is subsequently shipped to the Lipetsk production site (parent Company) where it is treated further to produce sinter. Sinter is the key input for the blast furnace process.

In addition to iron ore the blast furnace process requires metallurgical coke. Coke is produced by processing coking coal and is produced at the parent Company site and by Altai-koks.

The blast furnaces at the parent Company produce pig iron, which is later used in steel production. Melted pig iron is poured into a converter where it is mixed with processed scrap, ferroalloys and fluxing material. All fluxing materials and 80% of scrap are supplied by NLMK subsidiaries.

Maxi-Group and Beta Steel businesses use electric arc furnaces to produce steel and use scrap as the main input.

Subsequent processing stages involve rolling and heat-treatment, where the major input is electrical power.

About 40% of electric power consumed at the main production site in Lipetsk is generated in-house by the parent Company's power generation facilities which utilise exhaust gases from the coke-chemical facilities and blast furnaces.

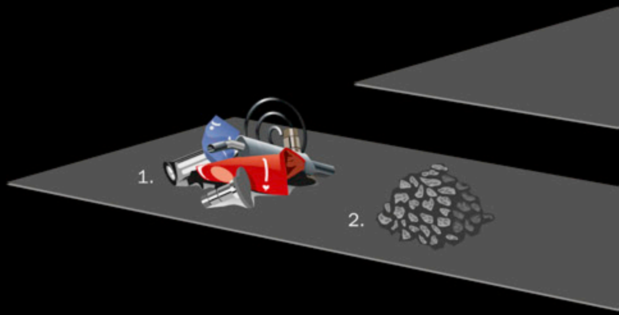
Finished commercial products are transported by the NTK LLC subsidiary to their final destinations or to ports, where they are shipped to remote export destinations.

Export sales of steel and products are handled by trading companies, which joined NLMK Group in May 2008.

The Group has therefore been able to introduce tight control over costs at all stages of the production process while retaining the added value created at all these stages. Our development strategy calls for further improvements in self-sufficiency in raw materials and the enhancement of the Company's competitive advantage as a low-cost producer of steel.

100%
SELF-SUFFICIENT IN IRON ORE CONCENTRATE

over **100%**
SELF-SUFFICIENT IN COKE



A SUPPLIERS

1. Scrap 72%*
2. Coke over 100%*
3. Flux 100%*
4. Iron Ore concentrate 100%*
5. Power 40%*

* Self sufficiency

B STEEL-MAKING

6. BOF
7. EAF

C ROLLING

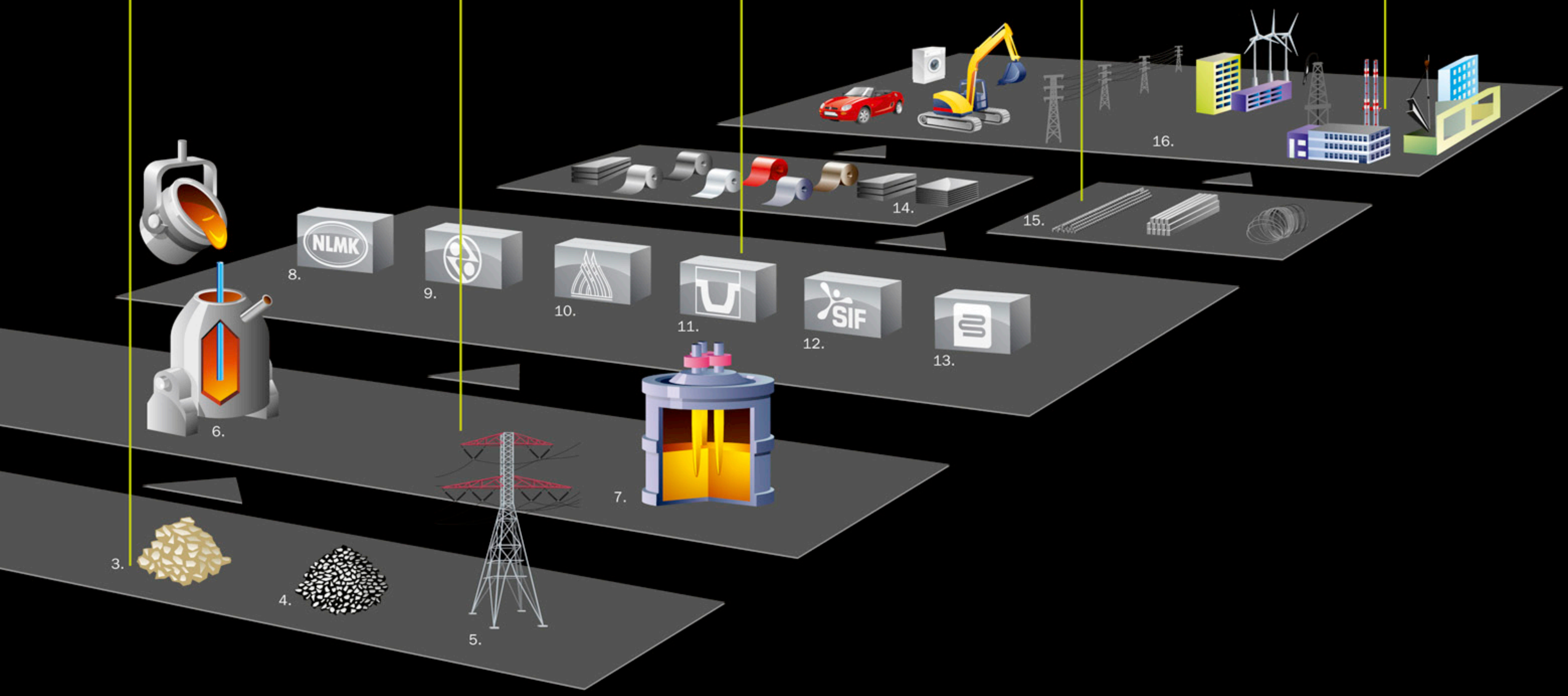
8. NLMK
9. VIZ-Stal
10. Maxi-Group
11. DanSteel A/S
12. JV with Duferco Group
13. BETA Steel

D PRODUCTS

14. Flat Products 5mt
15. Long Products 1.3mt

E END USERS

16. All end users



Focusing on our key strengths

Diversified product mix

A key competitive advantage for the Company in light of the impact that the crisis is having on the markets is its wide range of high-quality products. A diversified product mix allows for a flexible response to changes in the market environment by quickly re-focusing output on those products which are in greater demand at the time.

NLMK is one of Russia's largest producers of steel and steel products with a varied mix of about ten thousand types and sizes of products. Our products have been certified by leading Russian and foreign certification agencies. The high quality of our products and skillful marketing policies help boost customer confidence in NLMK products and expand the existing client base.

NLMK Group produces pig iron, semi-finished products (slabs and billets), hot-rolled and cold-rolled sheet and coils, galvanized steel and pre-painted steel, electrical steel, as well as long products and metalware.

Traditionally, NLMK has been one of the world's largest suppliers of steel slabs. With the acquisition of Maxi-Group we entered the billet segment. Slabs are also supplied to other steel-making businesses, where they are re-rolled into flat products. NLMK accounts for about 11% of the world slab market.

Some of the slabs from the parent Company are delivered to DanSteel A/S and SIF businesses (Joint Venture with Duferco) for further processing.

The bulk of slabs and billets (about 65%) are re-rolled into flat and long products in-house, and the rest is sold to third parties through traders.

NLMK Group's hot-rolling mills produce hot-rolled steel. At the production site in Lipetsk more than 65% of hot-rolled steel is re-rolled further and the balance is sold to external customers.

Commercial hot-rolled steel products are also marketed by DanSteel A/S and the US-based Beta Steel acquired in October 2008.

Hot-rolled steel manufactured by NLMK Group businesses is used in making pipes for oil and gas pipelines (including pipelines operated in low temperature environments and at high pressure), for construction, ship-building, and manufacturing of high-pressure vessels. It is also used in machine-building and the energy sector.

NLMK is a major supplier of hot-rolled steel and products to the Russian market and meets 10% of demand from Russian manufacturers for these products.

Hot-rolled steel is further processed in cold-rolling mills. Cold-rolled steel is marketed to customers or further galvanized and pre-painted.

Cold-rolled steel is used to manufacture automobile, tractor and harvester bodies, metalware, stampings, household electric appliances, roofing and trimmings. Cold-rolled steel produced by NLMK is of a high quality as proven by consistent compliance with international quality standards. NLMK is a key player in the Russian market for cold-rolled steel and accounts for almost 30% of all supplies.

Another of NLMK's key products is coated steel. The Company produces hot-dip galvanized steel sheet which is used to manufacture formed sections, steel structures for construction, automobile parts and components for household electrical appliances. We also produce special low-carbon steel alloyed with titanium (IF-steel), which has extra-deep drawing qualities. Pre-painted rolled products manufactured by the parent Company are used in steel structures for construction, instruments and household electrical appliances and roof tiles, etc. This type of steel has a high rate of resistance to atmospheric corrosion, ornamental properties and combines strength and plasticity.

NLMK is Russia's largest producer of pre-painted steel. We account for 20% of the Russian supply of galvanized and pre-painted rolled steel.

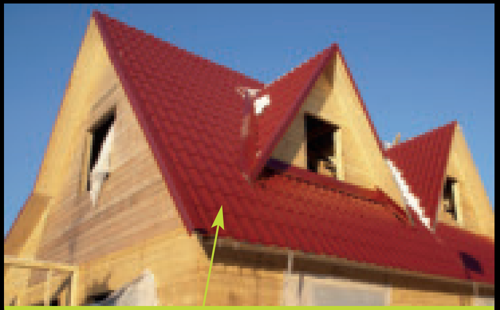
The NLMK Group also produces electrical steel. Capacities at the main production site in Lipetsk and at VIZ-Stal make the Group one of the global leaders in electrical steel. NLMK maintains an integrated operation for manufacturing both dynamo and transformer steel, while VIZ-Stal only processes semi-finished products (most of which are supplied by NLMK) into finished products. The manufacturing of transformer steel involves a sophisticated process and includes pickling, two stages of cold-rolling, heat treatment, application of special coatings, and then cutting and packing.

Dynamo steel is used to manufacture stators and rotors for electrical motors and generators of varying capacities, ballast transformers and other electrical equipment. Transformer steel is used in the production of a wide array of transformer cores. We also produce specific transformer steel used to manufacture powerful electric motors.

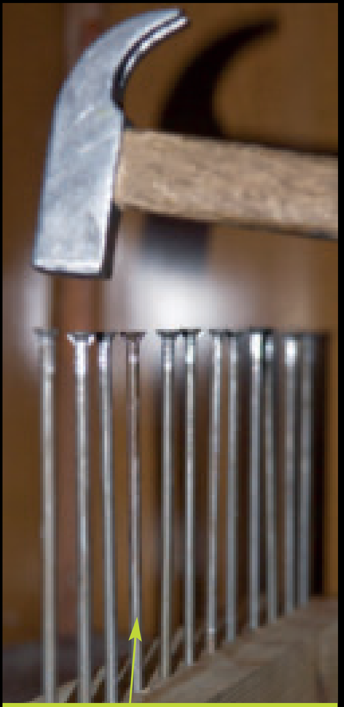
Our share of the Russian market for electrical steel exceeds 60%. We account for 16% of all transformer steel globally.

In 2007 we entered a new segment, the long products market. Maxi-Group, our subsidiary, specialises in manufacturing reinforcement bars, wire rod, metalware (wire, nails, mesh, fittings, etc.) and billets for long products. Long products are mostly used in construction and machine-building. It is noteworthy that steel products manufactured by the Group comply with international quality standards. Advanced technological capacity, production management skills and the quality of NLMK's products have all been repeatedly affirmed by acknowledged Russian and international certification agencies.

NLMK's strategy calls for a greater focus on high value-added products . We have made significant progress towards this objective. The share of HVA products in the Company's product mix increased to 30% in 2008.



Polymer coated steel



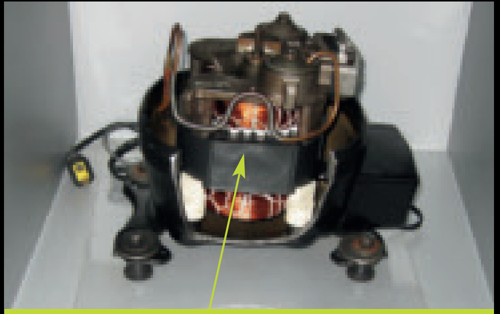
Metalware

Rebar

Thick plate

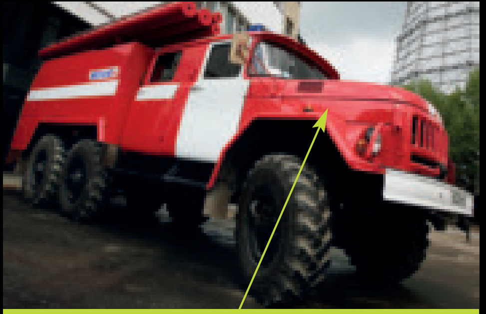
Hot-dip galvanized steel

Thick plate



Transformer steel

Dynamo steel



Cold-rolled steel, Hot-dip galvanized steel

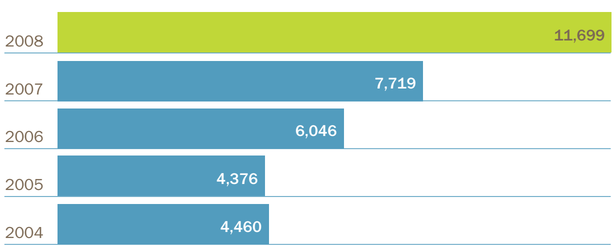
Hot-rolled steel

Financial review

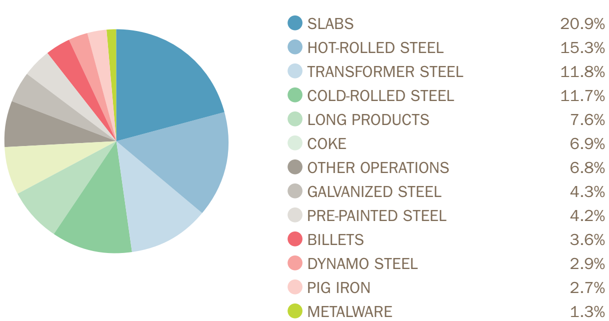
Galina Aglyamova, Chief Financial Officer

Galina Aglyamova has been NLMK's CFO since 2000. Joined NLMK as an economist in 1985. Named an honorary economist of Russia. Graduated from the Moscow State Steel and Alloys Institute. Ph.D in Economics.

SALES REVENUE, 2004–2008 (USD MILLION)



SALES REVENUE BY PRODUCT, 2008



Economic Developments

The world economy experienced a strong downturn in the second half of 2008. The financial crisis led to constrained access to credit, creating significant challenges for all sectors of the global economy. Once lending to the real economy dried up, this created significant downward pressure on demand and to crisis developments across all industries.

Annualised global GDP growth decelerated significantly against the backdrop of the crisis in the second half of 2008. Various sources estimate GDP growth to be around 2.5-3.4%, compared to 5.2% in 2007. All developed economies around the world registered declining industrial output by the end of 2008.

In recent years the Russian economy has become strongly integrated with the global economy. Domestic economic developments generally follow in line with global trends, and the Russian economy also went into recession in the last quarter of 2008. All steel consuming sectors, including construction, machine-building, automobile and household appliance manufacturing, are depressed. A slump in domestic demand and challenged exports have forced Russian steel-makers to reduce output. In addition, corporate financials deteriorated in the wake of a sharp decline in the price of steel and high commodity prices. It can be said for Russian businesses overall that, after a record financial performance in the first nine months of 2008, financials in Q4 deteriorated substantially severely constraining performance for the year as a whole.

Consolidated Financial Results

Notwithstanding the significant deterioration in performance in Q4, NLMK Group delivered record high financial results for 2008 as a whole. The Company continued to maintain its standing as a low-cost manufacturer of quality steel and a global leader in terms of financial effectiveness.

Profit and Loss

In 2008 sales revenue reached a record USD11.7 billion, up 52% year-on-year. The key drivers behind this strong financial performance were favourable market conditions during the first three quarters, with steel prices at an all-time high, increased output over the same period, and the consolidation of Maxi-Group, trading companies and Beta Steel Corp.

Notably, the first three quarters of the year accounted for 82% of annual overall revenues, while amid the crisis in Q4 2008 sales revenue reached USD2,059 million (-45% compared to Q3). The sharp decrease was attributable to lower demand, lower sales primarily for low value added products and a slump in prices across NLMK's product mix.

NLMK Group continues to pursue its strategy of consistently increasing product sales with high value added: revenues from sales of cold-rolled steel increased by 42%, and revenues from sales of pre-painted and transformer steel increased by 19%.

The breakdown of revenues by region has not changed significantly. The domestic market remains the most important market for NLMK Group,with its share increasing to 39%. The growing share of domestic sales is mostly due to the consolidation of Maxi-Group with its significant share of sales to domestic customers. Other key markets for NLMK Group also include the Middle East, the EU, and Asia, which account for 16.7%, 17.5% and 15.3% of sales revenue respectively. In addition, more than a two-fold increase in sales revenue was recorded in the North American market, which accounted for 6.1% of sales revenue in 2008, through increased sales after the consolidation of Beta Steel Corp.

In 2008 production costs amounted to USD5.8 billion, increasing by 63% year-on-year. The major drivers escalating costs in 2008 were increased production volumes and higher prices for raw materials, primarily coking coal and scrap.

Overall in 2008 the NLMK Group consumed 9.8 million tonnes of coking coal (with 5.1 million tonnes consumed by the parent Company and 4.7 million tonnes consumed by Altai-koks), while the price of coal almost doubled compared to 2007. As a result, the share of coking coal in production costs increased to 30% (24% in 2007). In addition to price developments the higher share of scrap in costs was caused by the consolidation of Maxi-Group, which relies on electric furnace steel-making, where scrap is the key input. This drove the share of scrap costs up to 16% (7% in 2007).

Cost saving measures coupled with production cuts in Q4 helped reduce production costs in the same period by 14% compared to the previous quarter. The devaluation of the Russian ruble also had an impact on production costs.

The NLMK Group remains one of the lowest-cost steel producers in the world. Vertical integration into raw materials assures 100% self-sufficiency in iron-ore concentrate, coke and fluxing materials, and the Company is also partially self-sufficient in scrap and electric power. The consolidated cost of slabs in 2008 was USD347 per tonne.

SG&A in 2008 totalled USD1,330 million (an increase of 79% year-on-year). Expenses grew due to the consolidation of Maxi-Group from December 2007, trading companies from May 2008 and NLMK's switching to FOB terms in export contracts in Q1 2008.

Operating profit for 2008 amounted to USD4,061 million, an increase of 35% year-on-year. This strong growth is attributable to high production efficiency, strict cost control and the significant share of high value added products in the sales structure. A somewhat lower operating profit margin compared to 2007 is due to a weak Q4 2008 when operating profit dropped to USD281 million, 84% below Q3 2008 levels.

In late 2007 the NLMK Group consolidated Maxi-Group, which had more than USD1.3 billion in debt on its balance sheet. In addition, in August 2008 the parent Company secured a USD1.6 billion syndicated loan. Increased Group debt led to significantly higher interest expenses, which reached USD217 million in 2008.

Income tax reached USD703 million, or 16% less than in 2007. The effective tax rate in 2008 decreased to 22.5% driven by a reduction in corporate income tax from 24% to 20% from January 1, 2009 (achieved through deferred taxes) and a reduction of dividend tax from 9% to 0% from January 1, 2008.

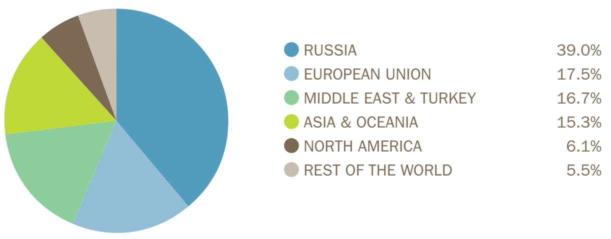
FY2008 EBITDA reached USD4,538 million, 36% higher than in 2007. The EBITDA margin reached 39%, down 4 percentage points year-on-year as a result of the consolidation of the companies with lower margins. EBITDA growth was also constrained by weak performance in Q4, when EBITDA amounted to USD518 million, a decrease of 71% quarter-on-quarter.

In 2008 the Company achieved a record net profit of USD2.3 billion. This accounts for USD653 million negative value of unrealized currency forward and options contracts, appearing as net foreign exchange differences, and USD234 million settlement amounts paid under the settlement agreement between NLMK and DBO Holdings.

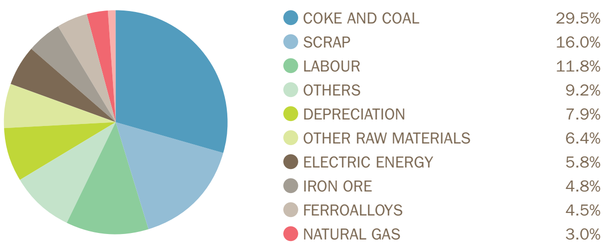
The interest coverage ratio (profit before tax and interest to total interest payable) in 2008 amounted to 15.4x.

Share in the losses of Steel Invest and Finance S.A. (joint venture with the Duferco Group), recognised by the Group in FY2008 increased to USD151 million, representing growth of three times year-on-year. The main reasons for the increase were the deterioration in market conditions from H2 2008 onwards and the recognition of losses related to inventory revaluation amounting to around Euro 200 million.

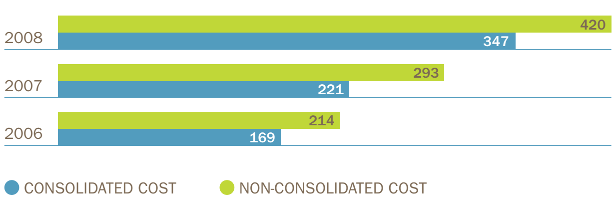
SALES REVENUE BY REGION, 2008



CONSOLIDATED PRODUCTION COST STRUCTURE, 2008

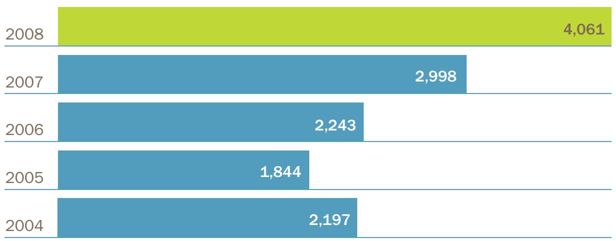


CASH COST PER TONNE OF SLAB, 2006-2008 (USD/TONNE)

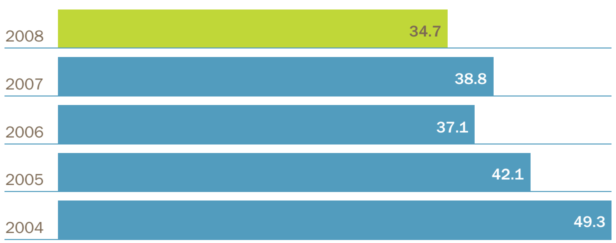


Financial review continued

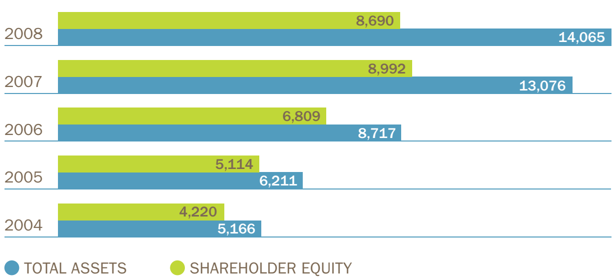
OPERATING PROFIT, 2004–2008 (USD MILLION)



OPERATING PROFIT MARGIN, 2004–2008 (USD MILLION)



CHANGES IN TOTAL ASSETS AND EQUITY
2004-2008 (USD MILLION)



Cash Flow

NLMK Group's stable financial position is underpinned by its ability to generate significant cash flow from its operations.

Operating cash flow in 2008 reached USD2,781 million. Cash flow were driven by the pricing environment, the consolidation of trading companies, changes in operating assets and liabilities and other factors.

In the course of the consolidation of the international trading companies, a one-off change in the Group's operating assets and liabilities occurred, with the reflection of corresponding effects in operating activities in the cash flow statement. Receivables from traders at the date of the acquisition of USD418 million were recorded as cash flow from investment activities less the cost related to traders' acquisition, with the corresponding decrease in operating cash flow.

FY 2008 cash outflow from investment activities was USD2,399 million. It was used for the acquisition and construction of property, plant and equipment (PPE) amounting to USD1,934 million.

In addition, in Q1 2008 the initial payment of USD300 million for the acquisition of shares in Maxi-Group was made. As of the date of these consolidated financial statements, the settlement with Maxi-Group has not yet been finalised. Management's estimate of the fair value of the Maxi-Group stake is USD299 million (FX rate at ownership transfer date).

In Q2 2008 the NLMK Group acquired the trading companies Novexco Limited and Novex Trading S.A. for USD120 million.

In Q4 2008 the Company acquired Beta Steel Corp., a US-based steel producer, for USD350 million.

In FY 2008, the parent Company paid USD170 million to buy-out minority shareholders in its subsidiaries and for the acquisition of new subsidiaries. As of the end of FY 2008, NLMK owns 100% of the shares in the key raw materials assets of the Group, including Stoilensky GOK, Stagdok, Dolomit, and Altai-koks.

Net cash from financial activities in FY 2008 amounted to USD799 million. Cash flow received from financial activities mainly comes from the syndicated loan facility (PXF). Proceeds from the TMTP disposal in 2008 amounted to USD258 million.

USD843 million was allocated to dividend payments to shareholders in 2008.

Net cash inflow for the period was USD1,181 million. Cash and cash equivalents as of the 2008 year end totalled USD2,160 million.

Consolidated Balance Sheet

As of 31 December, 2008 Group assets totalled USD14,065 million, an 8% increase compared to 31 December, 2007.

The share of shareholders equity in the Group's liabilities as of 31 December, 2008 amounted to 62%, a decrease of 7 percentage points from the start of the year.

Net debt as of 31 December, 2008 reached USD842 million (an increase of USD540 million or 179% year-on-year). Lower shareholder equity share in liabilities and higher net debt resulted from increased borrowing in Q3 2008 through a USD1.6 billion 5-year loan facility bearing an interest rate of LIBOR +1.2% p.a.

Cash and cash equivalents as of the end of 2008 rose to USD2,160 million, an increase of 87% compared to 2007.

The FY 2008 Net debt/EBITDA ratio reached 0.19. Long-term liabilities make up around 64% of the Company's debt. Short-term liabilities are distributed evenly throughout 2009. The bulk of the Company's short-term debt is ruble denominated.

Current assets grew by 22% and amounted to USD5,346 million. This growth is attributable to an increase in cash and inventories.

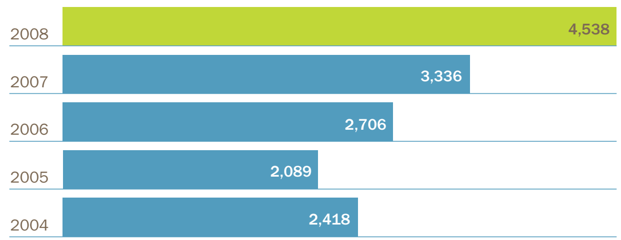
Accounts payable increased due to the recognition in 'Other Costs' of the fair value of unrealized currency forward and options contracts amounting to USD496 million, and also due to the increase in settlement terms with suppliers and subcontractors.

Accounts receivable reached USD1,488 million, a decline of 12% year-on-year, mainly caused by a decrease in advance payments to suppliers driven by working capital optimisation. Bad debt provisions grew by 11% and reached USD271 million. The provision was augmented due to deteriorating liquidity conditions in Q4 2008, impacting the Group's debtors and their ability to pay debts on time.

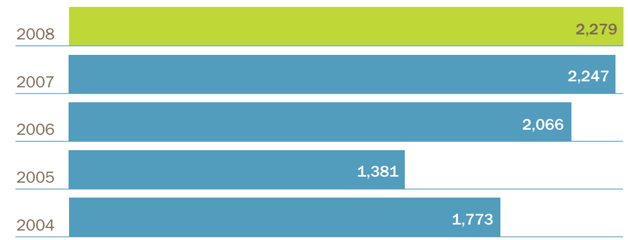
Inventories grew by USD319 million, rising to USD1,556 million due to stockpiling unsold products resulting from the switch in Q1 2008 to new delivery terms. However, growth in inventories was almost completely offset by a lower level of accounts receivable, particularly by advance payments. Provision for inventories impairment increased to USD84 million, twice the size of 2007.

Return on Assets (ROA) in FY 2008 was 17%, while Return on Equity (ROE) reached 26%.

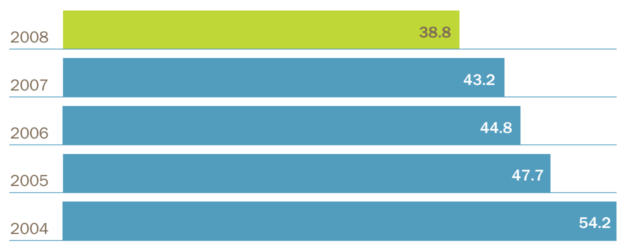
EBITDA, 2004–2008 (USD MILLION)



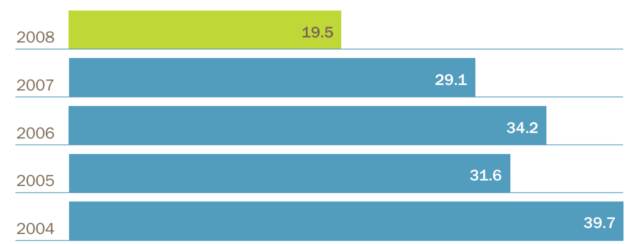
NET INCOME, 2004–2008 (USD MILLION)



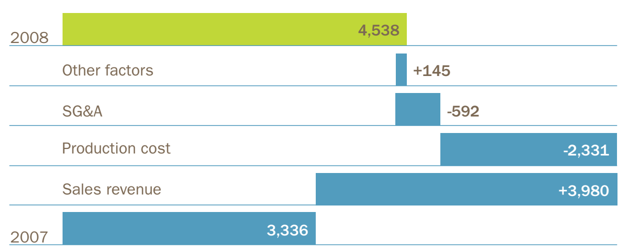
EBITDA MARGIN, 2004–2008 (%)



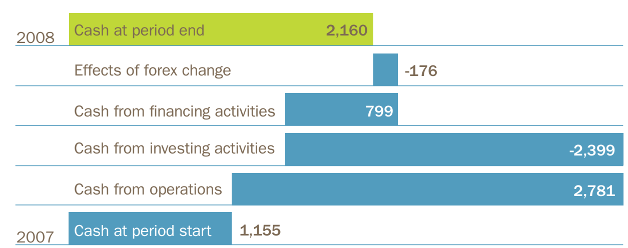
NET INCOME MARGIN, 2004–2008 (%)



CHANGES IN NLMK GROUP EBITDA, 2008 (USD MILLION)

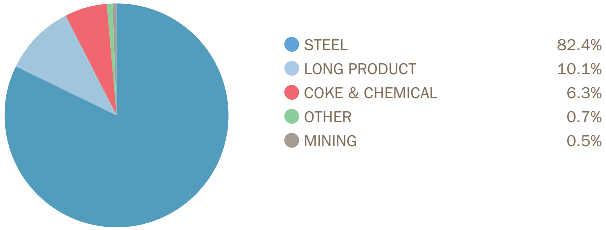


GROUP FREE CASH FLOW, 2008 (USD MILLION)

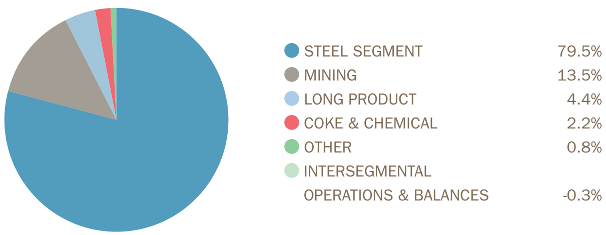


Financial review continued

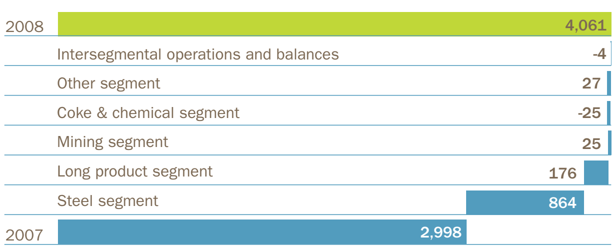
SALES REVENUE BY SEGMENT, 2008



OPERATING PROFIT BY SEGMENT, 2008



CHANGES IN OPERATING PROFIT, 2008 (USD MILLION)



Performance by Segment

Steel Segment

The Group's financial performance is largely defined by the performance of the steel segment comprising NLMK, VIZ-Stal (a producer of electrical steel), DanSteel A/S (a plates producer), Beta Steel (since October 2008, US-based steel and flats producer), trading companies Novexco Limited, Cyprus and Novex Trading S.A., Switzerland (since May 2008) as well as a number of service companies.

The segment's FY 2008 revenue from external customers amounted to USD9,643 million, 39% higher than in 2007. Operating profit was USD3,227 million (37% over and above 2007). The increase in headline numbers came on the heels of a growth in prices and sales volumes during the first nine months of 2008. Revenues from external sales and operating profit account for 82% and 79% of the Group's consolidated numbers, respectively.

Profit before minorities grew sharply compared to 2007 by USD1,048 million (59%) due to larger dividend volumes received from NLMK's subsidiaries in FY2008.

Weaker financials in Q4 2008 compared to the previous quarter are attributable to a sharp decrease in demand and the related plunge in prices for steel products coupled with high prices on basic raw materials.

Long Products Segment

The long products segment performance includes Maxi-Group companies consolidated by the Group from December 2007.

The segment's FY 2008 revenue from external customers amounted to USD1,178 million, a 19-fold increase year-on-year, while operating profit reached USD177 million (114 times higher). Revenues from external sales and operating profit account for 10% and 4% of the Group's consolidated numbers, respectively.

Notably, the annual performance was affected by poor Q4 results, reflecting a deterioration in the markets for long products and scrap. Q4 results include goodwill impairment of USD128 million.

Mining Segment

During FY 2008 NLMK's Mining segment comprised Stoilensky GOK, Dolomite and Stagdok. These companies supply raw materials to NLMK's core production facilities in Lipetsk and also sell limited volumes outside the Group.

Revenues from sales to third parties in 2008 amounted to USD63 million, a decline compared to the previous year caused by lower sales volumes outside the Group.

Meanwhile, FY 2008 revenue from inter-segmental transactions grew by 11% compared to 2007 and amounted to USD870 million triggered by higher iron ore prices in 2008.

As 93% of sales of the Mining segment are made within the Group, the segment's share in the FY 2008 consolidated revenue is less than 1%. At the same time, the mining segment accounts for 13.5% of Group consolidated profits.

In the first three quarters of 2008 the mining segment showed a stable financial performance. In Q4 financial results went down mostly due to lower sales volumes as the main production site in Lipetsk cut its production.

Coke-chemical Segment

The coke-chemical segment comprises Altai-koks and its subsidiaries. Altai-koks is the leading Russian coke-chemical producer in terms of coke output.

Revenue from external customers amounted to USD732 million, 41% higher compared to 2007, helped mainly by an increase in coke prices.

Improvements in the financial performance were constrained by Q4 results, with falling output volumes and prices. This translated into a negative financial performance as the coke-chemical products prices collapsed faster than the purchasing prices for coal concentrate.

Risk management

This section of the annual report describes key risks that may have a negative impact on companies' activities, operational and financial results.

NLMK recognises that like any other business the Company faces risks in the course of its operations. The Company therefore is strongly focused on risk management for the purposes of mitigating the potential negative impact on its business.

In 2008 the parent Company, OJSC NLMK (Lipetsk site), launched a project to implement a comprehensive risk management system and completed phase one of the project. MARSH, a leading risk management international consultant, was engaged in phase one and assisted in the implementation of the following actions:

- Analysis of the Company's existing risk management system;
- Appraisal of the Company's risk-tolerance levels;
- Risk ranking and mapping;
- Design of the internal regulations governing risk management;

NLMK's management, working with the MARSH consultants, devised specific measures to manage the principal risks the Company faces.

In 2009 further action will be taken to implement a comprehensive risk management system for OJSC NLMK. It is expected that a first annual risk management cycle will be completed by the Company on its own.

Key Group risks

Market risks

Market risks arise from changes in prices for raw materials, finished products, natural monopolies' services and logistics services. The initiative of authorities with respect to the market in which the Company operates is also considered to be a market risk.

Commercial Risks

1. Raw Materials and Supplies

The risks related to raw materials and supplies are of particular importance for the Company. Raw materials supplies are subject to specific sector risks.

In order to mitigate this risk, NLMK is pursuing a policy of developing into a vertically integrated holding Company by including businesses which provide a reliable source of raw materials for steel-making. Today, the Group is self-sufficient in iron ore, fluxing materials, coke and largely in scrap.

NLMK applies a balanced approach to working capital management:

- Certain limits and norms applied to manage current assets (inventory, semi-finished products). The control of non-production expenditures is performed by the appropriate body.
- The respective commission is involved in receivables/payables management in order to avoid bad debt risks and risks related to counterparties' obligations fulfilment.

In recent years the Company has maintained its consecutive policy toward diversifying supplies. Our compulsory practice in supply chain considers analysis of the market, and negotiations with suppliers towards the conclusion of long term contracts with favourable pricing.

LLC Trade House plays a major part in the Group's commercial activities which allows NLMK to reduce its commercial costs and rationalise transport expenses.

2. Finished Products

Sales of finished products constitute the following risks:

- cyclicity of demand for steel products;
- pricing volatility both on internal and external markets;
- macroeconomic risks on external and internal markets (economic growth, inflation and energy resources);
- quotes and other trading barriers on the main export markets;
- increasing competition among steel producers including those from emerging markets (China, India, Brazil).

The second half of 2008 saw an increased impact from the key risk affecting NLMK sales, such as low demand for steel from end consumers. The drop in demand spilled over into all Group businesses, forcing to reduce sales of their products.

To address this risk NLMK and the Russian Government take an active part in elaborating measures towards the stimulation of end user demand and the realisation of steel sensitive infrastructure projects.

A lower ability to pay and deteriorating solvency of several NLMK debtors led to increased credit risks, including higher receivables. The Company strives to mitigate this sales-related risk by quickly engaging clients in cases of overdue accounts, identifying appropriate payment conditions and maximising the collection of sales revenue. To cover this risk, the Company plans to implement a customer ranking system that would reduce non-payments from the clients.

The likelihood of the risk of lower prices, stemming from lower demand remains in the 1st half of 2009.

3. Logistics risks

Railways are used to transport a major part of the NLMK's stock. There are certain risks related to transportation infrastructure, tariffs, and insufficiency of railcars.

The Company successfully addresses the risk by being the 100% owner of NTK, the transportation unit which has its own fleet of railcars. NTK transports a major part of NLMK's stock.

4. Natural monopolies risks

Nearly all energy resources are provided by natural monopolies giving rise to the risk of regulated tariffs rising in the medium term.

To mitigate this risk, the Company actively purchases electricity on the spot market and increases its self-sufficiency in energy resources. NLMK achieved 40% self-sufficiency in electricity in 2008 and aims to increase this share to 60% through the completion of the second stage of the investment programme.

To cover the risk of rising energy tariffs, NLMK's representatives participate in industry consultative bodies and non-profit organisations.

Operational risks (property, environment, project risks)

Property risks

Property risks involve the possibility of losing all or part of a property as a result of industrial accidents, and the risk of reduced earnings due to interruptions in operations. In order to mitigate these risks, NLMK Group take precautionary measures aimed at the prevention of accidents and hazardous events, maintenance of a reasonable stock of work-in-progress and auxiliary supplies in case of an emergency shutdown. Property is safeguarded, and alarm and fire systems have been installed at the production facilities.

Large businesses within the Group take out insurance for their property assets and against production interruptions with priority reinsurance in major western markets. Prominent international brokers are invited to participate in tenders for the development of the most effective insurance and protection programmes, which provide for the most favourable pricing terms, as well as guaranteed insurance indemnity paid in case of an insured event.

In 2008 NLMK's insurance programme was awarded 'Best Insurance' as part of the 'Best risk management in Russia and CIS 2008', an event organised by the Russian Risk Management Society.

National, regional and administrative risks

National and regional risks

NLMK sales products to export markets. Countries to which NLMK exports products can be subject to risks. The Company has certain opportunities to diversify sales towards the most attractive markets which allows the Company to minimise losses arising as a result of quotes and other protective measures.

Historically, NLMK's priority markets were Europe and the Middle East (most attractive countries in 2008). A large proportion of sales was made to South-East Asian countries.

Administrative risks related to regulating bodies

Together with the Russian Government, NLMK elaborates trading protection instruments directed toward internal market protection from steel imports.

Political risks

Core NLMK Group businesses operate within the Russian Federation. Given the current political situation in Russia, country risks for the Company are insignificant.

Risks associated with potential military conflicts, states of emergency and industrial action are almost non-existent, because NLMK Group operates within regions which enjoy economic and social stability.

Investment risks

Project risks

Given the current financial crisis, the risk of not completing investment programmes has risen as the Group has fewer own sources for projects and the cost of financing has risen as well.

The measures taken by the management to reduce the risk impact are the following:

- review of the technical upgrade programme in order to specify the key and most effective projects, the financing of which will be continued. Currently the projects dedicated to cost reduction, quality and product mix improvement take the highest priority.
- attraction of acceptable low cost financing from western financial markets.

Risks associated with acquisitions, disposals

The Group was active in the mergers and acquisitions market, and risks related to non-completion of these projects may arise. In order to mitigate the risk the Company actively integrates acquired subsidiaries, combines Russian and international management teams, and optimises business processes.

Investment attractiveness decrease risk

Factors:

- a decrease in group profitability as a result high expenditures occurred in recent acquisition;
- increase in debt burden;
- cut in credit agency ratings;
- others.

In order to mitigate risk, the Company regularly organises events with the investor community to enhance understanding of our business. The management team sequentially comments on key decisions made by the Group.

Finance risks

Currency Risks

The Group's export-oriented businesses are affected by currency risks. The financial crisis followed by high volatility in the currency exchange market caused a risk that may have a significant impact on financial performance.

In order to minimise currency risk, the Company considers the expected exchange rate volatility in export planning. Measures are taken to diversify foreign currency revenue. Concluding export contracts the Company hedges its foreign currency operations through matching the currencies of cash inflow and outflow.

About 60% of sales come from exports while a major part of our costs is incurred in rubles. In order to balance sales and the costs budget, in 2008 NLMK entered into forward contracts with maturity in 2009. The rationale for this was based on currency exchange rate forecasts and market expectations given in 2008.

Interest rate risks

The Group applies financing from international financial markets nominated in foreign currency (USD, EUR), hence we are exposed to the risk of interest rates changes. In order to cover this risk, the Company takes measures to balance fixed and floating rate borrowings.

Social risks

Environmental Risks

Environmental risks emerge during the construction and operation of production facilities, wherever there is a probability of causing damage to the natural environment.

For the purposes of mitigating environmental risks we conduct continuous chemical monitoring of air emissions and effluents, and the overall impact on the environment is further reduced with the commissioning of environmentally-friendly technology and by the upgrading of installed equipment.

NLMK Group carries third-party liability insurance against accidents during the operation of hazardous production facilities.

Personnel risks

Personnel risks relate to matters such as the deficit of qualified staff, risk of accidents caused by personnel, illness and others.

In order to address this risk the Company has elaborated its corporate standards which dictate hiring and dismissal, training and assessment of professional skills, staff awards, the hiring of young trainees, and the implementation of other internal programmes aimed at improving the life of employees.

Well balanced social policy applied by NLMK during the period of a downturn allows the Group to maintain a stable social environment in the companies.

Operating review
Main production site at Lipetsk

A RAW MATERIALS DELIVERIES

1. Purchased scrap – 1.067mt
2. Purchased coke – 0.876mt
3. Coal concentrate – 5.109mt
4. Flux – 3.203mt
5. Iron ore – 10.346mt
6. Pellets – 2.004mt
7. Power – 3077 mln KWh
8. Gas – 1875 mln m³

B CONVERTING COAL INTO COKE AND RAW MATERIALS INTO SINTER ORE FOR CHARGING THE BLAST FURNACE

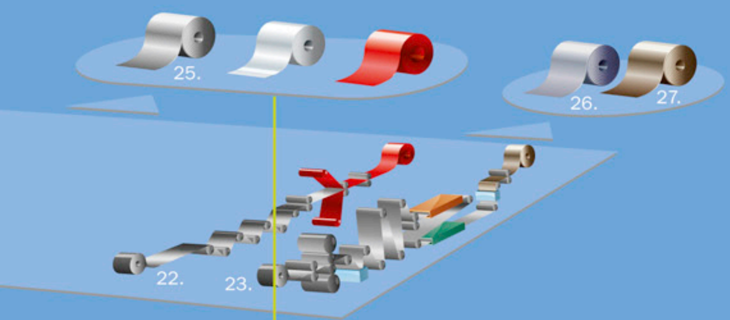
9. Coke battery
10. Sinter plant
11. Coke – 3.795mt
12. Sinter ore – 12.836mt

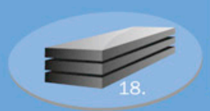
C MELTING PIG IRON, MAKING CRUDE STEEL, CASTING INTO SLABS, TO EITHER BE SOLD OR FURTHER ROLLED INTO OTHER STEEL PRODUCTS

13. Pig iron – 8.408mt
14. Blast furnace
15. Oxygen aggregate
16. Basic oxygen furnace
17. Continuous casting
18. Slabs – 8.48mt

D THE PROCESS OF ROLLING SLABS INTO 'AS PRODUCED' STEEL FOR MARKET SALE

19. Hot rolling mill
20. Cold rolling mill
21. Hot dip galvanising line
22. Coating mill
23. Electrical steel mills





E AS PRODUCED' STEEL IS SOLD TO BE MADE INTO FINISHED PRODUCTS

24. Hot-rolled and hot-rolled pickled coils – 1.333mt
25. Cold-rolled, galvanized, colour coated and hot-rolled pickled coils – 2.467mt
26. Cold-rolled, including galvanized and non-grain-oriented steel – 0.552mt
27. Cold-rolled grain-oriented steel – 0.164mt

Steel-making and rolling

Vladimir Nastich
Senior Vice President, Head of Steel Division

Joined NLMK in 1975. General Director of NLMK since 2004. Graduated from Donetsk Polytechnic Institute with a major in metal forming. Ph.D in Technical Sciences.

Companies	Novolipetsk Steel, VIZ-Stal, Maxi-Group, DanSteel A/S, Beta Steel
Location	Lipetsk, Ekaterinburg, Sverdlovsk region (Russia), Frederiksvaerk (Denmark) Portage (USA)
Highlights	Steel production – 10.5mt Flat production – 5.0mt Long production – 1.3mt
Products	Slabs, flat and long products

The core business of the NLMK Group is manufacturing and sales of steel and steel products. The Company's steel assets in Russia include OJSC NLMK (the parent Company of the Group), VIZ-Stal LLC, a producer of electrical steel, and the integrated holding OJSC Maxi-Group, which specialises in long products.

NLMK Group's overseas assets include DanSteel A/S, the Danish producer of thick plate, and US steel and rolled products manufacturer Beta Steel.

Beta Steel (US) was acquired in October 2008 as part of the Group's strategy to diversify operations and acquire high-quality assets in strategic markets. This acquisition will help NLMK strengthen its position in the US steel market.

NLMK also owns a 50% stake in Steel Invest and Finance S.A. (a joint venture with Duferco), which comprises one steel maker and six rolling businesses in Europe and North America.

NLMK supplies a wide range of high-value added products.

Operating review continued

Consolidated steel companies production results 2007-2008[1]

000's tonnes	2008	2007	Change +/-	Change %
Steel	10,500	9,177	1,323	14.4
Commercial pig iron	636	853	-218	-25.5
Slabs	3,093	3,153	-60	-1.9
Billets	542	15	526	3,409
Rolled steel products	6,343	5,433	910	16.7
Flat steel products	5,009	5,342	-333	-6.2
Hot-rolled steel	2,026	2,345	-319	-13.6
Cold-rolled steel	1,494	1,454	40	2.8
Hot-dip galvanized steel	452	476	-24	-5.1
Pre-painted steel	358	344	14	3.9
Transformer steel	353	328	25	7.5
Dynamo steel	326	395	-69	-17.5
Long products and metalware	1,334	91	1,243	1,360
Total	**10,613**	**9,455**	**1,159**	**12.3**

[1] Steel Invest and Finance S.A. production results are not included.

Our pre-painted steel is used in construction, automotive sector and white-goods manufacturing.

RUSSIAN STEEL ASSETS

NLMK (Lipetsk plant) – Parent Company

Business Profile

NLMK (Lipetsk plant) is the core asset of the NLMK Group's steel division and is its main production site, located in the city of Lipetsk. NLMK's Lipetsk production site is one of Russia's top four steelmakers and specialises in flat rolled products. The Company is the leader in Russia for cold-rolled steel and is one of the world's largest producers of electrical steel.

NLMK product mix includes pig iron, slabs (steel intermediates), hot-rolled flat products, cold-rolled flat products, galvanized and pre-painted steel, and electrical steel (dynamo and transformer).

The Company's products are used in construction, automobile manufacturing, machine-building, ship-building, the manufacturing of electrical equipment, and other industries.

Reliance on advanced technology ensures strict quality assurance at all stages of the production process. OJSC NLMK's products have been certified by leading Russian and international certification authorities.

OJSC NLMK is an integrated iron and steel operation occupying a plot of approximately 27 square kilometres in Lipetsk.

The concentration of core production operations within one site offers a competitive advantage for the Company and helps optimise the production process and reduce the cost of logistics.

During the first nine months of 2008, with a favourable market environment for its products, OJSC NLMK operated at high capacity utilisation rates, with pig iron and steel-making units operating at 99% capacity and rolling facilities operating at 95-105% capacity depending on the product type.

After a significant decline in demand for products in late Q3 2008, a decision was made to adjust the production programme. During Q4 2008 three blast furnaces were shut down for overhaul ahead of schedule, followed by the de-commissioning of two coke batteries. The decision to de-commission these coke batteries was also expedited by the serious deterioration in the quality of Russian coal supplies, resulting in the accelerated wear of the batteries.

Measures taken to reduce output helped prevent the overstocking of manufactured products and to streamline working capital in these challenging times.

Production Highlights

Production performance in 2008 was defined by the significant slump in demand in Q4 2008 and the subsequent adjustment of the production programme.

Pig iron output decreased by 7% to 8.4 million tonnes, while steel output contracted by 6% to 8.5 million tonnes.

The largest reduction in demand was observed for low value added products. The output of commercial pig iron was reduced by 26%. Increased sales of NLMK slabs to SIF (joint venture with Duferco) businesses helped contain the reduction in slabs output to 3.6 million tonnes (3% less than in 2007).

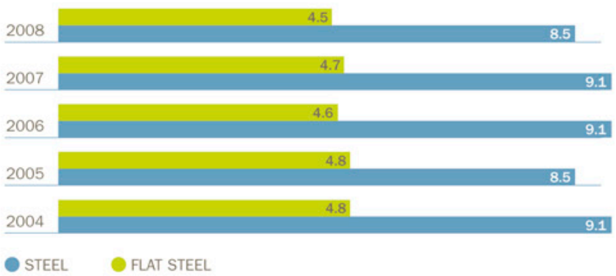
Output of flat rolled products decreased by 5% to 4.5 million tonnes. It is worth noting that the reduction applied to hot-rolled products, while output of cold-rolled products, and of painted and transformer steel increased compared to the previous year. A significant increase in the production of transformer steel was made possible by the commissioning of new equipment.

NLMK main site production results

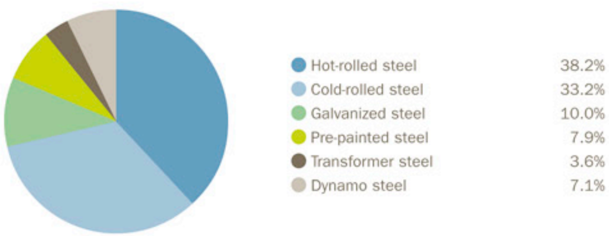
000's tonnes	2008	2007	Change +/-	Change %
Sinter	12,836	14,093	-1,257	-8.9
Coke of 6% moisture	3,795	4,051	-256	-6.3
Pig iron	8,408	9,056	-648	-7.2
Steel	8,514	9,056	-542	-6.0
Commercial pig iron	636	853	-218	-25.5
Slabs	3,612	3,724	-112	-3.0
Flat steel, including:	4,504	4,741	-237	-5.0
Hot-rolled steel*	1,719	1,953	-235	-12.0
Cold-rolled steel	1,494	1,454	40	2.8
Hot-dip galvanized steel	452	476	-24	-5.1
Pre-painted steel	358	344	14	3.9
Transformer steel	164	139	25	17.7
Dynamo steel	318	376	-57	-15.3

* Including hot-rolled steel supplied to other companies of the Group.

LIPETSK PLANT PRODUCTION OF STEEL AND FLAT PRODUCTS, 2004–2008 (MILLION TONNES)



LIPETSK PLANT PRODUCTION STRUCTURE OF FLAT PRODUCTS, 2008



VIZ-Stal LLC

Business Profile

VIZ-Stal became part of NLMK Group in 2006. VIZ-Stal is located in Yekaterinburg (the Urals region) and is Russia's largest producer of transformer steel. Its share of worldwide production of transformer steel is around 11%.

VIZ-Stal LLC's installed capacity includes a number of high-technology machines capable of producing dynamo and tranformer steel coated with various types of electrical insulation.

The Company uses hot-rolled substrate with special chemical properties, the bulk of which is supplied from NLMK's Lipetsk steel plant.

Finished products manufactured by the Company are used for a variety of electrical equipment, including mains and distribution power transformers, welding and heat-treatment machinery, elevated and high frequency generators, and converters and motors, etc.

Production Highlights

Electrical steel output was also affected by the sharp slump in demand for steel and products in Q3 2008, calling for adjustments in the production programme. In 2008 VIZ-Stal produced 197,000 tonnes of electrical steel, including 189,000 tonnes of transformer steel and 8,000 tonnes of dynamo steel (a decline of 61%).

The production of cold-rolled flat products was above target by 35,000 tonnes (an increase of 149%), which was further utilised by the parent Company for the production of electrical steel.

Notwithstanding the downward adjustment of the production programme, transformer steel producing capacities were running at almost 100% utilisation rates.

After the world market for steel products slumped, VIZ-Stal has been pursuing measures to reduce costs, streamline its inventory stockpiles, and collect receivables from customers on a more timely basis.

VIZ-STAL PRODUCTION SITE

A RESOURCES

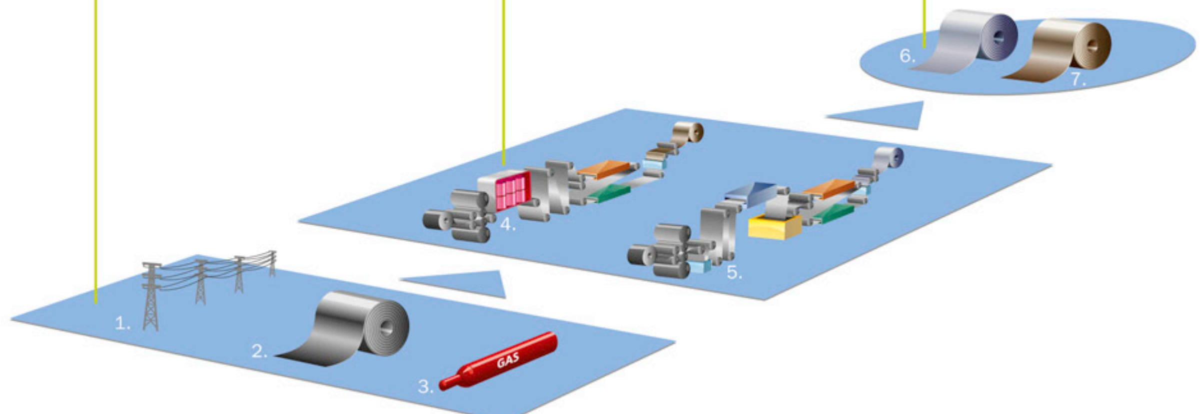
1. Power – 0.583 mln KWh
2. 0.26 of hot-rolled coils incl. 0.18mt from Lipetsk plant
3. Gas – 2 mln m³

B ROLLING MILLS

4. Dynamo steel mill
5. Transformer steel mill

C MARKET PRODUCTS

6. Dynamo steel – 0.008mt
7. Transformer steel – 0.189mt

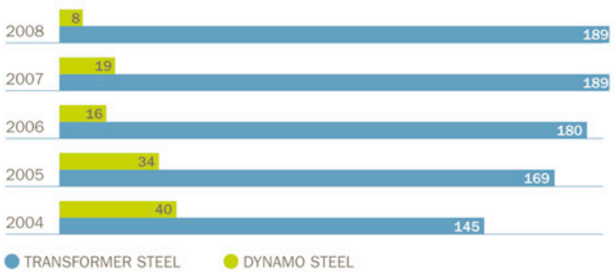


Despite the downturn in the markets for rolled products in the latter half of 2008, we are confident of the longer-term prospects and intend to develop the Company further. In order to strengthen our positions in the market for transformer steel we are planning to introduce new technology and capacity for manufacturing high permeability transformer steel.

Viz-Stal Products

000's tonnes	2008	2007	Change +/-	Change %
Transformer steel	**189**	189	0	0
Dynamo steel	**8**	19	-12	-61

VIZ-STAL PRODUCTION RESULTS, 2004–2008
(000'S TONNES)



Maxi-Group

Business Profile

Maxi-Group has been part of the consolidated NLMK Group since December 2007. Maxi-Group is a vertically integrated Company, with several metallurgical businesses combined in a single production system involving a number of operations: from collection and processing of ferrous scrap to production of products with high added value.

Maxi-Group includes two divisions: steel and scrap.

In terms of its format, the Maxi-Group steel division is based on the concept of mini-mills, and includes the Nizhneserginsky Hardware Factory (NSMMZ) with production sites in Nizhniye Sergi and Revda, and the Urals Precision Alloys Factory (UZPS). In 2008 at the Berezovsky Electrometallurgical Factory (BEMZ) start-up and adjustment works were conducted. All the facilities operated by the division are located in the Sverdlovsk Province (Urals region of Russia). The product mix includes long billets, reinforcement bars in rods and coil, and wire rod. In addition, a wide array of hardware is produced, including wire, nails, wire screen, and fittings.

Maxi-Group facilities rely on electric arc furnaces to smelt steel, with scrap being the major input.

The Maxi-Group scrap collection and processing division makes its smelting operations self-sufficient in scrap and, to a large extent, meets the demand for scrap from the parent Company. It includes 40 sites for collecting and processing ferrous metal scrap. The sites are located in various regions across Russia and ensure a stable supply of inputs for the manufacturing of steel and products.

MAXI-GROUP PRODUCTION FLOWCHART

A RESOURCES

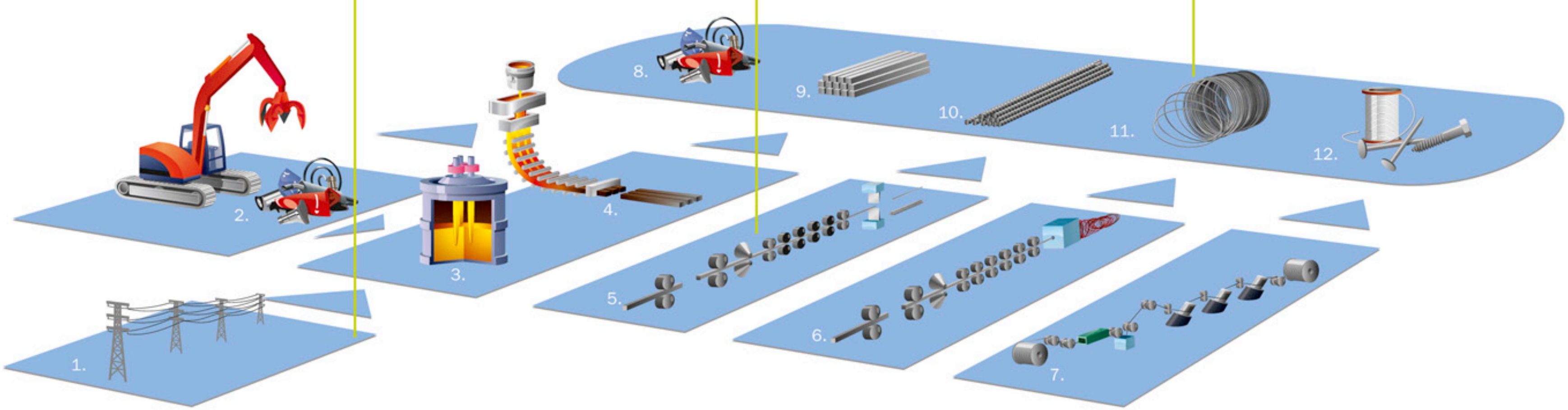
1. Power – 1249 mln kWh
2. Scrap – 2.216mt

B ROLLING MILLS

3. EAF
4. Continuous Casting
5. Rolling mill 250
6. Rolling mill 150
7. Hardware mill

C MARKET PRODUCTS

8. Scrap – 0.813mt
9. Billet – 0.542mt
10. Rebar – 0.984mt
11. Wire rod – 0.204mt
12. Metalware – 0.146mt



Operating Highlights

Maxi-Group businesses performed strongly in the first half of 2008 with sustained growth in demand for long products in Russia and overseas. The global economic crisis had a significant impact on developments in Russia, leading to a decline in construction growth rates in the latter half of the year and a substantial slump in domestic demand for reinforcement bars, and requiring adjustments to the production programme. Due to lower demand for scrap the scrap division reduced the scope of its operations. These developments showed the advantages of the electric arc mini-mill format. The arrangement allows for greater flexibility in managing output without the added cost of resuming production at regular scale.

Notwithstanding the serious slump in output in the latter half of 2008, production of core products was higher than in 2007.

A total of 1.9 million tonnes of steel, 0.5 million tonnes of long billets, 1.2 million tons of long products and 146,000 tonnes of hardware was produced in 2008.

Key crisis management actions taken by the Maxi-Group businesses involved reductions in operating and administrative expenses, streamlining of third-party costs, improved controls over working capital, and timely collection of payments for products from customers. Curtailment of investment expenditures helped restrict cash outflows.

Maxi-Group's future development strategy calls for strengthening its position in the rolled products market through improved vertical integration across the board from scrap collection and processing to manufacturing a wide range of high quality steel products.

This will be achieved within the framework of the Maxi-Group development strategy both by rearranging existing capacity and expanding the ferrous metals scrap collection and processing network, and by installing new hot-rolling mills to manufacture long products.

The implementation of investment projects will be directly linked to the development of a market for high quality steel products.

Maxi-Group Products

000's tonnes	2008	2007	incl Dec[1]	Change +/-	Change %
Steel	**1,931**	1,784	121	148	8
Billets	**542**	819	15	-277	-34
Long products	**1,188**	685	84	503	74
Metalware	**146**	268	7	-122	-46
Scrap	**2,735**	2,026	140	709	35

[1] Maxi-Group has been part of the NLMK Group since December 2007.

OVERSEAS STEEL ROLLING ASSETS

DanSteel A/S

Business Profile

DanSteel A/S joined NLMK Group in December 2005. This helped strengthen NLMK's position in the global steel products markets.

The Company's main production assets include plate rolling operations, shipping facilities and its own sea port used for handling incoming slabs and outgoing finished products.

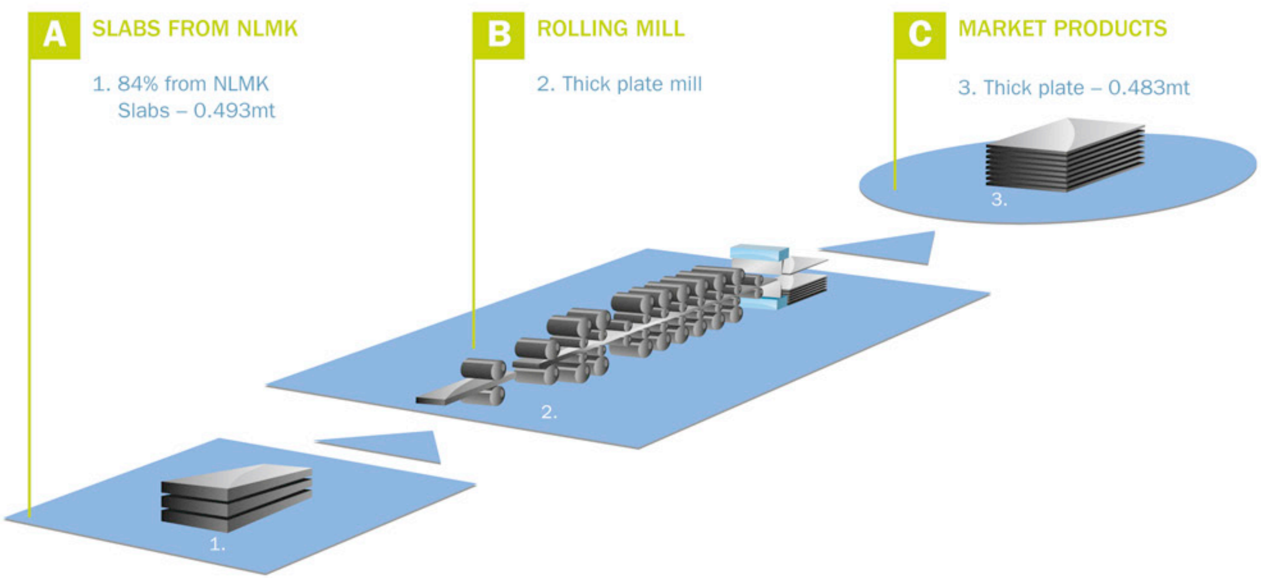
The Company produces construction and ship-building steel, and steel used in the manufacturing of boilers and high-pressure vessels. It supplies the bulk of its products to customers in the EU.

In recent years DanSteel A/S has been focusing on improving its strong niche position in the market for steel plate used for construction of large-scale wind power generation facilities installed on the continental shelf.

DanSteel A/S Products

000's tonnes	2008	2007	Change +/-	Change %
Plates	**483**	520	-36	-7

DANSTEEL PRODUCTION FLOWCHART



Production Highlights
Due to the global financial crisis, demand for steel plate declined in the second half of 2008, leading to lower output. Nevertheless, DanSteel A/S continued to operate at more than 90% capacity for the year as a whole. In 2008 it produced 483,000 tonnes of steel plate and processed 595,000 tonnes of slabs, the bulk of which was supplied by the Lipetsk production site.

Throughout 2008 work was underway to revamp facilities with a view to improving the quality of products, coupled with investments to streamline in-house logistics which are expected to generate significant economic benefits in the future.

Beta Steel

Business Profile
A US Company, Beta Steel was acquired by NLMK in October 2008 as part of its strategy to acquire rolling capacity in key markets. Beta Steel was established in 1992 and operates modern production facilities where it produces a wide range of high quality products. Beta Steel manufactures hot-rolled flat products used in construction, the pipe industry and other sectors. Beta Steel is located in Portage, Indiana (USA). It has electric arc smelting capacity of 0.7 million tonnes per annum and rolling capacity of 1.1 million tonnes.

The Company benefits from its geographic location in the US Mid-West, near to its key customers who account for 80% of Beta Steel sales The same region produces 40% of scrap collected in the US, and the Company relies on scrap as its major input. Proximity to suppliers of key raw materials and customers helps optimise transportation costs for the Company.

Operating Highlights
In 2008 Beta Steel produced 510,000 tonnes of steel, including 54,000 tonnes produced after it joined the NLMK Group. Annual output of hot-rolled products reached 450,000 tonnes, including 14,000 tonnes as part of the NLMK Group.

Assuming a favourable market environment, rolling facilities may be operated at full capacity in the future with additional slabs supplied by the parent Company.

Beta Steel Products

000's tonnes	2008	incl Nov-Dec
Steel	510	54
Hot-rolled steel	450	14

Steel Invest and Finance (joint venture with Duferco Group)

Business Profile
In late 2006 the NLMK Group acquired a 50% stake in Steel Invest & Finance, a joint venture with Duferco Group, registered in Luxembourg.

The joint venture comprises nine production assets located in Belgium, France, Italy and the US. Its distribution division maintains eight service centres in the EU, and a trading Company.

STEEL INVEST AND FINANCE PRODUCTION FLOWCHART

A RESOURCES

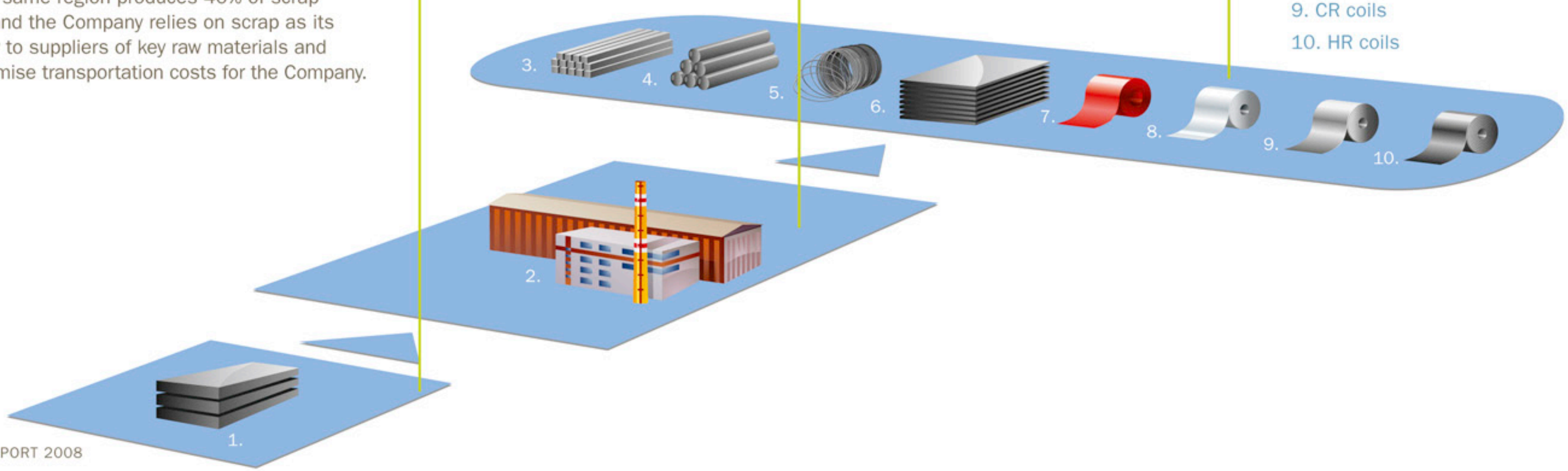
1. Slabs from NLMK

B THE PROCESS OF ROLLING SLABS INTO FINISHED STEEL PRODUCTS

2. Duferco JV facilities

C MARKET PRODUCTS

3. Rebar
4. Heavy steel forged ingots
5. Wire rod
6. Thick plate
7. Pre-painted steel
8. HDG, EG coils
9. CR coils
10. HR coils



SIF specialises in the manufacturing of high value-added products. The key finished products manufactured by SIF businesses include steel plate, hot- and cold-rolled flat products, painted steel and long products.

Production Highlights
Performance of SIF companies were also affected by the global financial crisis. Lower demand since Q4 2008 has led to lower prices and orders, requiring adjustments in the production programme.

The Carsid blast furnace was shut down in November 2008 (Carsid manufactures slabs for re-rolling at other SIF businesses). Demand for slabs was, in part, offset by increased supplies from NLMK.

In 2008 SIF produced 2.3 million tonnes of crude steel (+7% y-o-y) and sold 4.6 million tonnes of steel products (-4% y-o-y).

The Company has revised its production policy since Q4 2008. To prevent over-stocking, all products are made to order, and customers are engaged to encourage demand and receive payment for products on a timely basis. Some SIF businesses have significantly curtailed their production expenses and idle capacity is being upgraded. The Company's investment programme has been scaled down and key projects have been delayed.

Sales of steel products

000's tonnes	2008
Semi-finished steel (slabs, billets, ingots)	465
Plates	740
Hot-rolled and pickled steel	1,547
Cold-rolled products	514
Long products	195
Galvanized steel	809
Pre-painted steel	70
DTE products	255
Total	4,596

TBEA & NLMK (Shenyang) Metal Product Co., Ltd. Joint Venture

The TBEA & NLMK (Shenyang) Metal Product Co., Ltd. joint venture was established in 2008 to build a service centre in China for the processing and sales of transformer steel produced by NLMK. The joint venture was registered in October 2008 in China. NLMK contributed 50% of the charter capital of the joint venture for a total of Yuan 44.3 million.

The objectives of the joint venture are as follows:

- strengthen NLMK's positions in transformer rolled products in China, the world's largest market for electrical steel (about 50% of global consumption);
- encourage further processing of rolled electrical steel produced by NLMK.

The project envisages the creation of a service centre in China with an annual capacity to process around 30,000 tonnes of transformer steel produced by NLMK.

Our advanced technologies provide the highest quality of our products.

A MINING OPERATIONS, STORING AND TRANSPORTATION FOR ENRICHMENT

1. Total volume of ore transported – 25.09mt
2. Temporary store

B ENRICHMENT OF IRON ORE INTO IRON ORE CONCENTRATE, SINTERING

3. Enrichment plant

C MARKET PRODUCTS

4. Iron ore concentrate – 11.48mt
5. Sinter ore – 1.63mt

Alexander Gorshkov
Vice President, Head of Iron Ore Division

Head of Iron Ore Division since 2007. Since 2004 – General Director of Stoilensky GOK. Graduated from Novosibirsk Electro-Technical Institute, majoring in development and production.

Mining

Companies	Stoilensky GOK, Dolomite, Stagdok
Location	European part of Russia (Belgorod and Lipetsk regions)
Highlights	Iron ore raw material production – 13.1mt
Products	Iron ore concentrate, sinter ore, dolomite, limestone

Stoilensky, the lowest cost iron ore supplier in Russia, has a mine life of 190 years with 5 bn t of ore reserves.

The mining and processing of iron ore is another key line of business for the Group. This allows the Company to control the costs of a key input for its steel-making operations, and to smooth out the impact of volatile prices for raw materials.

The core business within the mining division is Stoilensky GOK, a producer of iron ore, which became part of NLMK Group in 2004.

Stoilensky GOK makes NLMK fully self-sufficient in iron ore concentrate.

Two other mining operations within the Group, Stagdok and Dolomite, supply fluxing materials to our main production site in Lipetsk.

Stoilensky GOK

Business Profile

Stoilensky GOK is one of Russia's largest mining companies, specialising in mining and processing iron ore. The operation is located in the Belgorod region (Central Russia), 350 kilometres from NLMK Group parent Company and is currently developing a part of the Kursk Magnetic Anomaly, the country's largest iron ore deposit. Ore is mined in an open pit using modern technology, allowing the business to remain one of the lowest cost mining companies in the world.

As of January 1, 2009 iron ore reserves were as follows:

- Rich iron ore reserves of 53 million tonnes, with 22 million tonnes within the final pit boundary;
- Magnetic quartzite reserves of 4,860 million tonnes, with 1,337 million tonnes within the final pit boundary.

With current rates of production the reserves of quartzite within the final pit boundary would last at least another 53 years, while rich iron ore deposits would last another 20 years.

Stoilensky GOK produces iron ore concentrate (average iron content of 66.5%) and sintered ore (52%), both of which are used as raw materials in the steel-making industry.

Production Highlights

The primary objective of OJSC Stoilensky GOK is to supply high-quality low-cost iron ore raw materials to the Group. Against a background of sustained demand for steel and, respectively, iron ore raw materials, Stoilensky GOK was operating at full capacity in the first three quarters of 2008. After a significant drop in demand for steel products in Q4, the demand for iron ore by the parent Company declined quite substantially, with almost no demand from third-party customers. This resulted in the curtailment of the production programme. Output of iron ore concentrate in 2008 declined by 1% compared to 2007, to 11.5 million tonnes. Sintered ore production fell 7% to 1.6 million tonnes. Some 95% of iron ore concentrate and 45% of sintered ore was shipped to the main production site in Lipetsk. In 2008 Stoilensky GOK also supplied its products to other steel-makers in Russia, Ukraine, China, and Eastern Europe.

Crisis management measures adopted by the Company involve curtailment of production costs, streamlining of cash flows, pursuing a more flexible sales policy and delaying investment projects.

Fluxing Materials Production

Other assets in the mining division include fluxing materials businesses, Stagdok and Dolomite. Both businesses have been part of the NLMK Group since 1999.

Stagdok

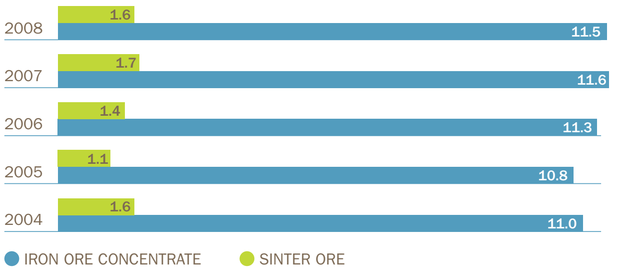
The key product of Stagdok is fluxing limestone used in steel-making. It also produces construction and road-building materials.

Stagdok fully meets the demand of the NLMK Group steel-making operations in fluxing limestone.

Stagdok production facilities are located within 20 kilometres of NLMK's main production site. Limestone reserves at the end of 2008 were estimated at 162 million tonnes. Assuming the current rate of production, the reserves would last for another 32 years.

In Q4, given lower demand by the parent Company for fluxing materials and the overall decline in demand for Company products, a decision was made to reduce output. Against this background, output in 2008 declined by 8% to 3.0 million tonnes. In 2008 the Company shipped 3 million tonnes of commercial product to NLMK, 2.2 million tonnes of which was limestone.

STOILENSKY GOK PRODUCTION, 2004–2008
(MILLION TONNES)



Since the major consumers of Company products operate in sectors which have suffered the most from the financial crisis, a number of measures to mitigate the impact of the crisis have been put in place, including the reduction of production costs and measures to streamline Company cash flows.

Dolomite

Dolomite produces fluxing dolomite and dolomite powder for use in steel-making, construction and agriculture, making NLMK Group fully self-sufficient in dolomite.

Mineral reserves in the deposit under development are estimated at 390 million tonnes. At current production rates, reserves would last for more than 95 years.

In 2008 the Company produced 2.27 million tonnes of dolomite and dolomite powder, some 2.7% more than in the previous year. Commercial product deliveries to customers reached 2.26 million tonnes, of which the NLMK accounted for 38%.

In a move to mitigate the impact of the financial crisis, the business has rationalised production costs and is streamlining employment.

Coke-chemical: Altai-koks

A DELIVERIES AND STORING OF COAL

1. Coal store – 0.196
2. Coal concentrate – 4.732mt

B COKING PROCESS

3. Coke
4. Coke battery
5. Coke gas with chemical agents – 1416.3mt m³

C COKE DRYING

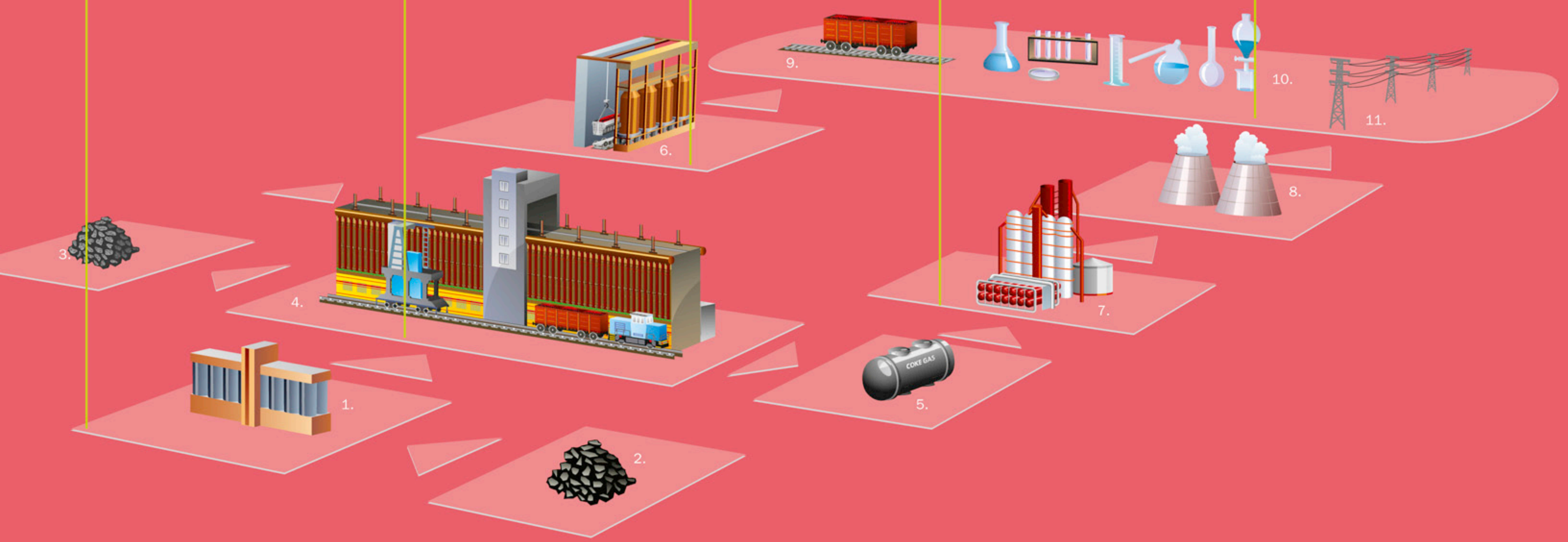
6. Coke dry quenching installation

D CHEMICAL PROCESSING OF SECONDARY CONSTITUENTS

7. Chemical production
8. Heat energy central (using coke gas) – 682.3mt m³

E MARKET PRODUCTS

9. Merchant dry coke – 3.295mt
10. Chemicals, sulphate ammonium, coal tar, benzol etc – 0.438mt
11. Power – 800.5 mln KWh



Coal and coke

Alexander Saprykin
Vice President, Head of Coal Division

Head of Coal Division. From 2006 until July 2007 he headed Iron Ore Division. Graduated from Moscow State Mining University.

Companies	Altai-koks, Zhernovskoe-1 (coal deposit to be developed)
Location	Altai region, Kemerovo region, Siberia
Highlights	Coke production (6% humidity) – 3.5mt
Products	Coke and chemical products; coking coal (from 2011)

Altai-koks, one of the most efficient coke producers in Russia, ensures the Company's self-sufficiency in coke.

Blast-furnace coke is one of the key raw materials for steel-making. NLMK Group is more than 100% self-sufficient in coke.

Coke Production

The bulk of demand for coke is met by the parent Company's production capacities and the balance is supplied by Altai-koks, which became part of NLMK Group in April 2006. Altai-koks is Russia's largest non-integrated producer of coke and by-products, accounting for about 11% of all coke produced in Russia. The Company is located in the Altai region (Siberian Federal District), giving it proximity to suppliers of coking coal located within the Kuznetsk Coal Basin, and helping to reduce the cost of transportation.

Key products include coke and chemical by-products: coal-tar pitch, benzene, and ammonium sulphate.

The Company is equipped with modern technology, allowing it to produce quality coke for steel-making. In addition, Company products are used in the chemical, agricultural and other sectors. After the commissioning of a new coke battery in late 2006, annual production capacity reached 5 million tonnes of coke with 6% moisture content.

Due to a steep decline in demand for coke from steelmakers following a significant contraction of the market for steel products in Q4 2008, a decision was made to reduce coke associated products output. The significant decline in demand for coke was in part offset by higher demand from the parent Company, after an early de-commissioning of coke batteries at the production site in Lipetsk. Coke output (6% moisture content) in 2008 was 3.5 million tonnes, or 8% below 2007 levels. Output of chemical products also declined. About half of Company output in 2008 was marketed to domestic customers, with NLMK in 2008 accounting for 0.9 million tonnes of coke, 13% higher than the previous year. Some 0.6 million tonnes of coke were shipped to SIF facilities (joint venture with Duferco).

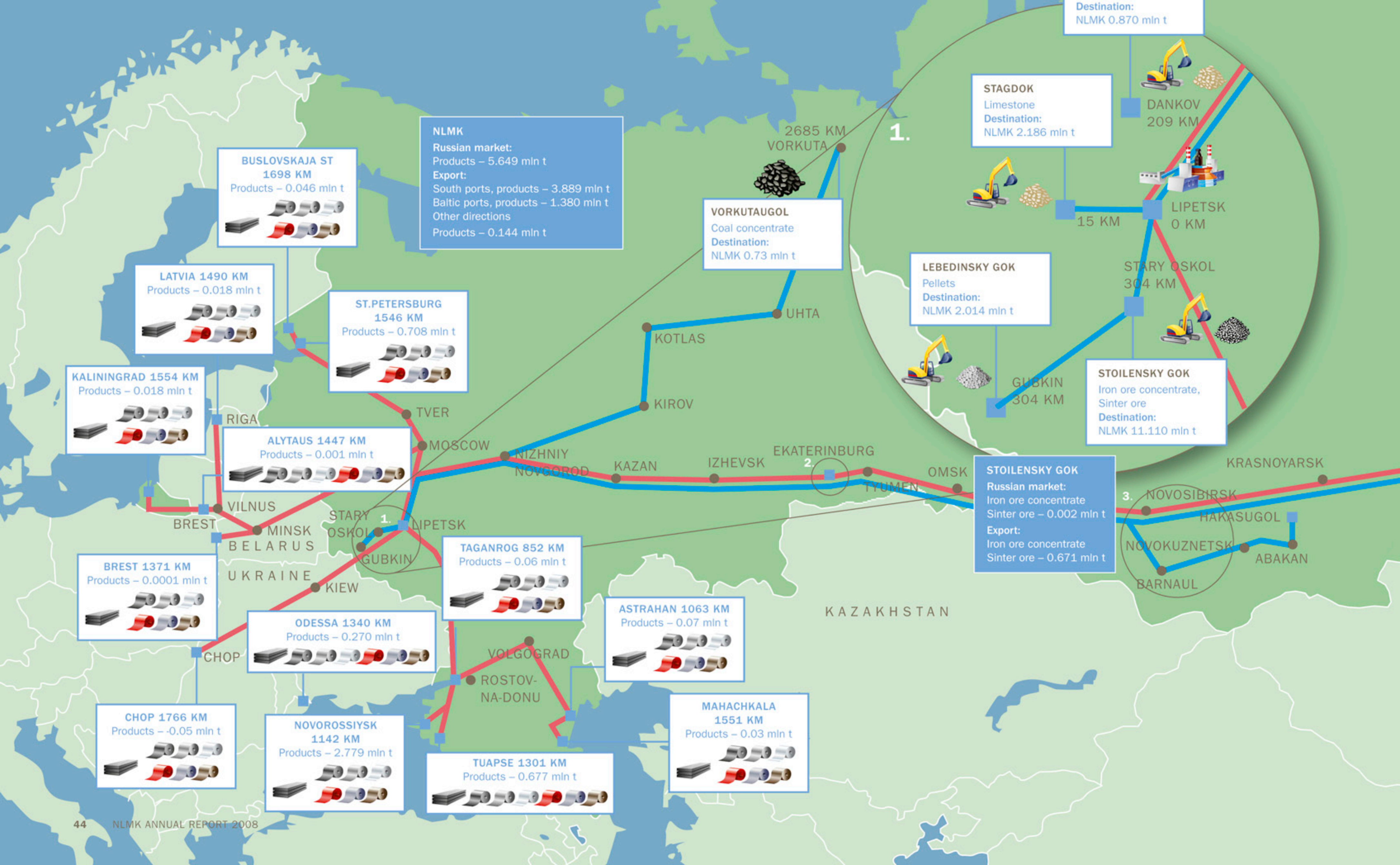
In addition, according to Chermet, in the second half of 2008 a total of 11 coke batteries were de-commissioned and mothballed in Russia, accounting for about 14% of the total coke production capacity in the country. This may encourage domestic demand for coke once the markets recover.

ALTAI-KOKS PRODUCTION, 2004–2008* (MILLION TONNES)

* Coke (6% moisture).

Operating review continued

Other: NLMK railway logistics map



Viktor Kirilenko
Logistics Director

Director for logistics in NLMK since 2006. From 2004 - Director of mineral resources Department of LLC 'Trade House NLMK'. Graduated from Moscow Institute of Steel and Alloys. In 1991 obtained a Ph.D in Technical Sciences.

Other businesses

Companies	Novex, Novexco, NTK, Lipetsk Chance
Location	Switzerland, Cyprus, Russia
Highlights	Export sales volume by traders – 3.4mt Transportation volume – 45mt
Services:	Transportation, trading, insurance

Trade and Logistics

In addition to production assets, NLMK Group also includes traders and logistics operations helping it to increase the effectiveness of export activities and to streamline the movement of commercial cargo.

Trading companies Novexco Limited (Cyprus) and Novex Trading S.A. (Switzerland) joined NLMK Group in 2008. The Group's key logistics asset is the Independent Transportation Company LLC (NTK).

Trading

In order to streamline commercial cargo flows, develop an effective marketing system and improve control over exports, NLMK International BV, a subsidiary of the NLMK, acquired trading companies Novexco Limited (Cyprus) and Novex Trading S.A. (Switzerland) for Euro 77.5 million in 2008.

In 2007 Novex Trading S.A. and Novexco Limited acquired the international trading companies Steelco Mediterranean Trading Ltd., Tuscany Intertrade (UK), and Moorfield Commodities Company, which for a number of years had maintained exclusive partnership arrangements with NLMK. All business associated with trading operations and the customer base of the above companies were transferred to the acquiring companies.

Skilled professionals employed by Novex Trading S.A. and Novexco Limited have extensive experience in the steel trade, operate with a vast client base and cooperate closely with end-customer agents and representatives, allowing for the improved effectiveness of NLMK Group exports.

Since becoming part of the Group the traders have sold more than 3 million tonnes of products produced by Russian steel assets. As well as steel products, the traders are also involved in the export of iron ore, coke and chemical products.

In Q4 2008, following the sharp decline in demand in the wake of the global financial crisis, the trading companies introduced a number of crisis management measures, including the following:

- Continuous monitoring of clients' credit worthiness;
- Proactive use of various instruments to minimise market risks, e.g. credit insurance;
- Shorter payment deferral periods for new contracts;
- Improved oversight of product delivery to clients at every stage and timeliness of payments.

Logistics
The Independent Transportation Company LLC (NTK) is the NLMK Group's key logistics asset.

NTK LLC provides for the timely delivery of raw materials for steel-making and shipping of finished products to customers both throughout Russia and overseas. NTK LLC coordinates its export-oriented operations with OJSC Russian Railways and sea port authorities.

The availability of a transportation asset within the NLMK Group allows it to rely on the skills and knowledge of high-quality experts in logistics.

NTK LLC offers a comprehensive range of services from developing and selecting the best available low-cost transportation arrangements to accompanying the customer's cargo to its point of destination.

NTK LLC provides transportation and forwarding services by rail and sea. Shipping by rail is done with in-house and leased NTK rolling stock, as well as by OJSC Russian Railways rolling stock designated for general use. In 2008 the NTK-owned fleet of rolling stock increased to 4700 cars, net of railcars leased from Russian Railways. In 2008 some 93% of all shipping operations were associated with the NLMK Group (raw materials and finished products).

The deterioration in performance was caused by the sharp decline of transportation operations in Q4 2008, due to a contraction in output and sales of steel and products, and the resulting reduction in shipments of raw materials to production sites.

In the future the Company intends to further diversify its client base across sectors and geographical regions, and to expand its fleet of rolling stock.

NTK continues to provide logistics support to the Company covering 50% of all Group deliveries.

NTK TRANSPORTATION AND FORWARDING, 2004–2008
(MILLION TONNES)

TMTP (Tuapse Sea Port)

TMTP had been part of NLMK Group since mid-2004. The commercial sea port of Tuapse is the operator of the sea port in the city of Tuapse, one of Russia's five largest ports. The port handled some steel exports for the Group.

As part of the previously announced internal restructuring exercise, which has a key focus on streamlining the asset structure, in January 2009 a deal was closed to sell the stake in TMTP to Universal Cargo Logistics Holding B.V. (UCLH).

Corporate social responsibility

The Environment

Yuri Larin
Vice President, Technology and Environment

Mr. Larin was Director of Engineering Centre NLMK (1999-2006) and from 1996 to 1999 he worked as Deputy Director of Central Lab of NLMK and was responsible for technology. He graduated from Voronezh Polytechnic Institute. Ph.D in Technical Sciences.

A key priority for the NLMK Group's activities is the mitigation of the negative impact that operations may have on the environment. The Group follows an environmental policy which links key points between its business strategy, environmental guidelines and Company objectives.

Business strategy for the environment:

- Gain recognition as a leading steel Company committed to preserving the environment;
- Rigorous compliance with environmental quality standards and statutory requirements;
- Modernisation and upgrading of technology employed by core and auxiliary production operations;
- Implement and improve systemic business management methods, including the ISO 14000 standards;
- Due consideration of public opinion in decisions regarding the development and expansion of operations.

Environmental Guidelines:

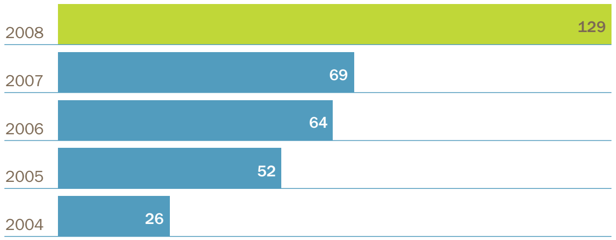
- Corporate accountability to the public for the state of the environment;
- Compliance with environmental protection laws and regulations;
- Reliance on best available technology when installing and upgrading facilities, de-commissioning of old and obsolete facilities;
- Improvements in production processes, environmental protection equipment and methods in order to limit the negative impact on the environment;
- Rational use of natural resources;
- Development and implementation of waste recycling solutions.

Environmental objectives:

- Maintain statutory environmental quality standards;
- Achieve resource conservation in production activities in line with world practices;
- Implement low-waste processes (technology) and effective waste recycling methods.

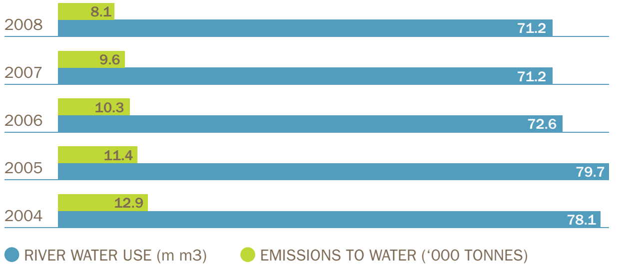
One key element of the Technical Upgrade Programme is improving the environmental performance of operations. This will help achieve strategic objectives by eliminating potential environmental risks.

NLMK ENVIRONMENTAL INVESTMENTS, 2004–2008
(USD MILLION)



NLMK GROUP ATMOSPHERIC EMISSIONS, 2004–2008
('000 TONNES)

NLMK WATER BODY IMPACT, 2004–2008



Note: Main production site in Lipetsk.

Consistent with its approved strategy, Group businesses are consistently implementing environmental management systems in line with best international practice. In addition to the parent Company and Stoilensky GOK, which already comply with international standards, management systems compliant with ISO 14001:2004 are being introduced at Altai-koks and DanSteel A/S.

In 2008 some USD129 million was spent on environmental projects, of which USD105 million was invested at the Lipetsk plant, where air treatment facilities were upgraded for blast furnace and refractory operations, and carbon dioxide emissions were reduced at sintering operations. The Lipetsk plant also completed the upgrade of the process water supply system, and technology upgrades were also under way at Altai-koks, Stoilensky GOK, VIZ-Stal and other Group assets. The de-commissioning of two environmentally hazardous coke batteries at the site in Lipetsk helped significantly improve environmental performance.

These significant capital expenditures helped achieve tangible results.

For key Group NLMK assets, gross atmospheric emissions declined by 8%, while emissions per tonne were reduced by 4%. The introduction of methods preventing the discharge of pollutants with effluent helped reduce the relevant indicator by 16%.

All waste generated by the parent Company is recycled and used in the manufacturing of products for the chemical sector, road building and the construction materials sector. Previously stockpiled waste is also being recycled at the Lipetsk site with a recycling rate above 100%.

Looking forward, the Company intends to maintain significant levels of capital expenditure for environmental protection purposes. The introduction of new processes and installation of new technology will place the Company in line with top European business performers in terms of environmental safety, improve its competitive advantage and encourage sustained development of the Company as a business which fully complies with international environmental standards.

NLMK's ecological management system is considered one of the best in Russia.

Human Resources

Stanislav Tsyrlin
Vice President, HR and Management System

Head of HR and Management System since 2004. Graduated from Moscow Institute of Physics and Technology and from Stanford University.

NLMK Group's human resources (HR) strategy is directed at continued improvements in HR policy and occupational health and safety.

NLMK Group recognises that human capital management policies are a key factor contributing to the successful development of the Company.

Policies and principals
NLMK's HR policies are based on the principles of social partnership between employees and their employer, their mutual accountability for the results of labour, provision of safe working environments, performance-based compensation, equal opportunities for all employees, maintenance of social benefits and guarantees, and the implementation of additional corporate social initiatives.

The Company rigorously adheres to these principles and consistently pursues programmes intended to motivate employees for greater labour productivity and increased wages, create an environment to promote skill improvement, give career-growth priority to top performing personnel, and recruit both talented young and experienced employees.

Employees
At present the NLMK Group comprises more than 100 businesses in Russia, the EU and the US. In 2008 average headcount for all businesses within the Group stood at 70,100 employees. Headcount growth compared to the previous year was mainly attributed to the consolidation of newly acquired steel assets. At the same time, with some employment streamlining at the Lipetsk site, average annual headcount there was reduced by 2% to 34,200 employees.

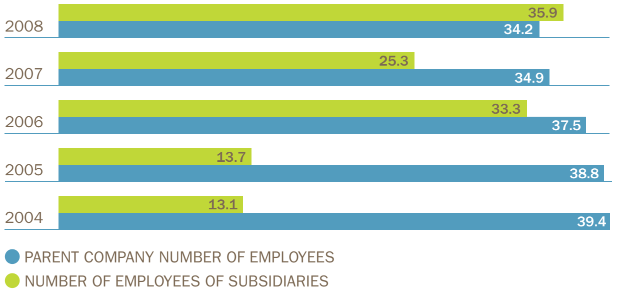
Throughout 2008 NLMK Group continued to improve its employee remuneration approach, aiming to reward highly-skilled employees, recruit a younger generation of staff and increase employee motivation for productive labour and quality products.

These efforts led to a 28% increase in the average monthly wage within the Group to USD1,004 and a 27% increase to USD1,048 at the parent Company.

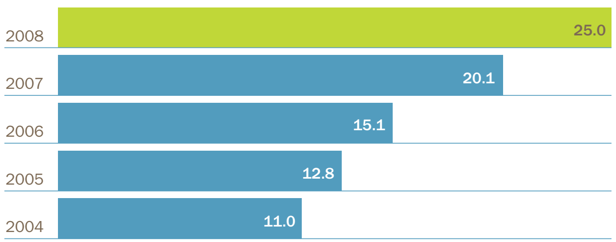
The global financial crisis and falling demand and prices for steel and products caused a decline in output and employment numbers. In a crisis environment the key priority of the HR policy is to retain both highly-skilled employees with professional experience and promising young employees to replenish the talent pool. Employees who were made redundant due to production cuts were involved in other activities.

During the crisis the Company resorted to streamlining employment numbers primarily by cutting the number of support staff and refraining from hiring new personnel. In addition, employees of retirement age were encouraged to retire by offering separation packages; as a result, some 1,200 employees retired from the parent Company in December.

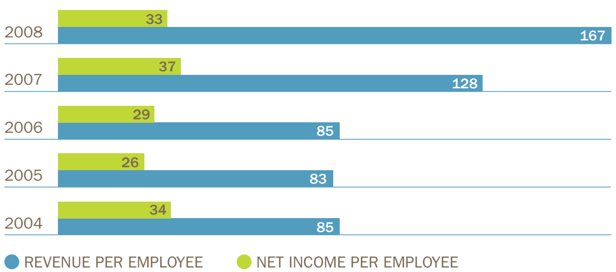
NUMBER OF EMPLOYEES AT PARENT PLANT, 2004–2008
(000'S PEOPLE)



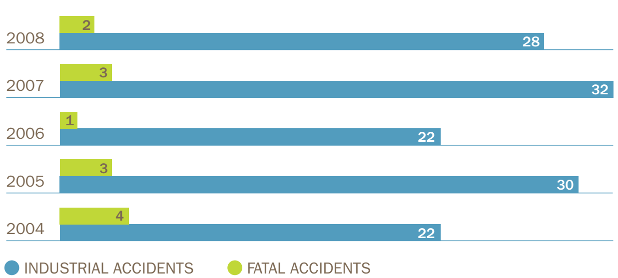
AVERAGE MONTHLY WAGE, 2004–2008 ('000 RUBLES)



REVENUE AND NET INCOME PER EMPLOYEE, 2004–2008 ('000 USD/EMPLOYEE)



NLMK ACCIDENT RATE (PARENT COMPANY)



The above measures helped control personnel expenses and also retain skilled employees and in local communities.

Health and safety

The key priority of the Company's HR policy is to create a favourable environment for high labour productivity and the manufacturing of high value-added products

More than half of all NLMK Group employees boast high levels of proficiency, making this a major competitive advantage for the Company and creating the opportunity for implementing a large-scale technical upgrade and development programme.

The Company treats investments in professional personnel training as a prerequisite for maintaining long-term competitiveness, fast-paced development, increasing the value of human capital and, eventually, the capitalisation of the Company. Proper professional training provides both skill levels required to handle production challenges, and improves employee loyalty and dedication. It also encourages a healthy social and psychological climate at work, as well as directly promoting the development of a corporate culture.

More than half of NLMK Group employees have completed skill improvement courses in 2008.

Company personnel policies received strong outside recognition when NLMK won the Best Human Resources Service in the 2008 nationwide competition.

The Company operates hazardous production facilities and is responsible for the lives and health of its employees. Its current occupational health and safety management system is built in compliance with international standards. The Company industrial safety policy covers the following key areas: regular monitoring of industrial safety arrangements; medical examinations of employees, provision of personal and collective protective equipment, OHS briefings, increased personnel motivation for strict compliance with OHS requirements, improved workplace culture and stronger labour discipline.

In 2008 NLMK Group spent around USD19 million on occupational health and safety measures, a 51% increase year-on-year. This significant increase was due to the consolidation of Maxi-Group during the year. Substantial spending on industrial safety helped reduce industrial accidents at the main production site in Lipetsk in 2008 by 14% to 30 cases, with 2 fatal accidents compared to 3 in 2007.

NLMK believes that continuous improvement of health and safety performance is essential for a successful Company.

Social Programmes

Social Mission

The Company sees its social mission as achieving sustainable development goals aligned with the long-term economic interests of the business, contributing to community social welfare, the conservation of the environment and the encouragement of the observance of human rights within its territory of operation.

The combined efforts of the Company, its employees and civil society are aimed at creating a favourable and stable social and economic environment for its employees and local communities.

The Company recognises that long-term sustainability of its business depends on the macroeconomic stability in the regions of its operation. Against this background we find it strategically advisable to pursue a policy of corporate social responsibility regarding our employees and local communities.

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

- Promoting the sustainable development of territories where the Company's operations are based;
- Supporting the macroeconomic stability of local communities;
- Developing partnerships with regional and local governments;
- Creating comfortable living conditions for Company employees and local residents;
- Establishing and maintaining the reputation of a conscientious and attractive employer.

NLMK Group businesses play an important role in the economic and social sector developments in regions where they operate. NLMK is the largest taxpayer in the Lipetsk region. In 2008 the parent Company paid USD586 million in taxes to the consolidated budget of local governments in the Lipetsk region. Overall, Group companies paid a total of USD1,703 million in taxes to various levels of government.

NLMK provides mandatory and voluntary medical insurance policies for its employees. Under a range of medical insurance programmes, Company employees have access to in-patient and out-patient medical services; first aid treatment; preventive medical examinations; dental prosthetic services; restorative treatment in resorts; and high-tech medical assistance at specialised clinics for complicated medical conditions.

In 2008 overall medical expenses, including medical insurance, for key businesses within the Group totalled around USD5 million.

The NLMK Group is actively pursuing a private pension benefit programme for its employees as a founder of the Sotsialnoe Razvitie (Social Development) Private Pension Fund.

In 2008 NLMK Group businesses contributed USD5.3 million to the Sotsialnoe Razvitie Private Pension Fund on behalf of their employees. Pension fund reserves stood at USD64 million as of January 1, 2009.

NLMK is funding a housing construction programme at its own expense. The programme allows for the commissioning of more than 45,000 square meters of housing in 2008, helping improve conditions for more than 500 Company employees. Other companies within the Group are also involved in housing construction and improvement of housing conditions.

All NLMK Group businesses are engaged in charity programmes.

NLMK pursues charity activities via the Miloserdiye charity foundation established by the Company. The foundation promotes fitness and sports, science, culture, arts and health, encourages the spiritual development for the Lipetsk community. It provides support to low-income senior and physically challenged citizens, and to art clubs for children, studios, libraries, museums, and art galleries. Financial aid is provided to protect and maintain historical and architectural monuments.

We are promoting NLMK as an employer of choice for graduates and young professionals. Prospective employees at Lipetsk site.

Support for continuous improvement is a main focal point for our Company.

Board of directors

Board of directors

The Board is responsible to shareholders for creating and sustaining shareholder value through the strategic management of NLMK's operations. It is also committed to ensuring that the highest standards of corporate governance are maintained by NLMK.

Nikolai Gagarin
Member of the Board.
Appointment: 2001.
Committee membership: Strategic Planning Committee.

Igor Fyodorov
Member of the Board.
Appointment: 2002.
Committee membership: Strategic Planning Committee, Audit Committee.

Oleg Bagrin
Member of the Board.
Appointment: 2004.
Committee membership: Strategic Planning Committee, Audit Committee.

Bruno Bolfo
Non-executive Director.
Appointment: 2007.
Committee membership: Strategic Planning Committee.

Vladimir Lisin
Chairman (1998).
Appointment: 1996.
Committee membership: Chairman, Strategic Planning Committee.

Vladimir Skorokhodov
Deputy Chairman of the Board.
Appointment: 1996.
Committee membership: Strategic Planning Committee.

Dmitriy Gindin
Non-executive Director.
Appointment: 2004.
Committee membership: Chairman, Personnel Remuneration and Social Policy Committee.

Randolph Reynolds
Non-executive Director.
Appointment: 2005.
Committee membership: Chairman, Audit Committee.

Karl Doering
Non-executive Director.
Appointment: 2006.
Committee membership: Strategic Planning Committee.

Nikolai Gagarin *1950*
Background: Graduate of the Moscow University, majored in law.

Professional Experience: In 2003 was appointed Chairman of the Board of Reznik, Gagarin, Abushakhmin and Partners Law Offices, where he has been Managing partner since 1999. At present is the Vice-President of the RF Federal Bar Association.

Igor Fyodorov *1966*
Background: Graduate of the School of Law, Moscow University.

Professional Experience: Admitted to the Moscow Bar Association in 1991. Between 1994 and 2003 worked as business advisor at Reznik, Gagarin, Abushakhmin and Partners Law Offices. Currently a member of the Moscow Chamber of Lawyers and partner at Reznik, Gagarin, Abushakhmin and Partners Law Offices.

Oleg Bagrin *1974*
Background: Graduate of the Public Management University, Ph.D.; MBA, University of Cambridge.

Professional Experience: Between 2000 and 2002 was Director of Treasury and (between 2002 and 2003) – Deputy Chairman of AKB Avtobank. From 2003 until 2005 Mr. Bagrin was Director for Financial Assets Management Rumelco LLC. CEO of Libra Capital Investment Company since 2005.

Bruno Bolfo *1941*
Background: Studied economics at the University of Parma. Holds an honorary degree in Economics from the University of Genoa.

Professional Experience: President of Duferco S.A. and Chairman of the Board of Directors of Duferco Participations Holding. From 1962 to 1978 served as the Director for Exports and was responsible for operations in North America at Italsider, an Italian state-owned metallurgical Company. In 1979 he founded Duferco, which has grown into one of the world's largest companies specialising in the trade, production and logistics of steel products.

Vladimir Lisin *1956*
Background: Graduate of the Siberian Metallurgic Institute, Engineer of Metallurgy. 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 Honour.

Professional Experience: 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.

Vladimir Skorokhodov *1951*
Background: Graduated from the Moscow Steel and Alloys Institute in 1973, majored in pressure treatment of metals. In 1976 completed post-graduate studies and obtained a Ph.D. in the same area. Engineer of Metallurgy. Ph. D., Tech. (1991 from the Board of Academics at the Moscow Steel and Alloys Institute), professor. Holder of the 1982 National Prize for Science and Technology. 281 academic research papers: 117 academic publications, 6 books, 158 patent descriptions.

Professional Experience: Between 1977 and 1991 worked as junior, then senior researcher, head of laboratory, Deputy Director of the Bardin Central Institute of Ferrous Metallurgy. Between 1992 and 1994 worked as Chief Expert at the Ministry of Industry and the Ministry of Economy of the Russian Federation. Has been with Rumelco since 1999.

Dmitriy Gindin *1946*
Background: Graduate of the Moscow Steel and Alloys Institute, Engineer of Metallurgy.

Professional Experience: CEO of Moscow Factory Sapphire since 1997.

Randolph Reynolds *1941*
Background: Graduate of the Bellarmine College.

Professional Experience: Currently the President of Industrial Advisors Services, Inc. Was employed by the Reynolds Metals Company between 1969 and 2000. Also served on the Board of Directors for Reynolds Metals Company from 1984 until 2000 when Alcoa purchased the Company. Previously a member of the Board of Directors of First Union National Bank. Currently serves on the Boards of the Greater Richmond Chapter of the American Red Cross and The Carpenter Company.

Karl Doering *1937*
Background: Graduate of the Moscow Steel and Alloys Institute. Ph. D., Tech.; Ph.D. Ec.

Professional Experience: Heads Project Consulting, a consultancy Company. Represented 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, GDR, supervised technology development and capital expenditures.

Executive committee

Management Board

The Management Board is responsible for the overall NLMK Group business and affairs and day-to-day management of its operations. It consists of nine members chaired by the President (Chairman of the Management Board).

Stanislav Tsyrlin
Vice-President, HR and Management System.
Committee membership: Personnel Remuneration and Social Policy Committee.

Alexey Lapshin
President (Chairman of the Management Board) of NLMK.
Committee membership: Strategic Planning Committee.

Yury Larin
Vice-President, Technology and Environment.

Galina Aglyamova
Vice-President, Finance.

Alexander Gorshkov
Vice-President, Iron Ore Division.

Igor Anisimov
Vice-President, Technical Upgrade and Development.

Alexander Saprykin
Vice-President, Coal Division.

Dmitry Baranov
Vice-President, Sales.

Vladimir Nastich
First Vice-President and Head of Steel Division.
Committee membership: Strategic Planning Committee.

Stanislav Tsyrlin *1968*
Background: Graduated from the Moscow Institute of Physics and Technology and from Stanford University.

Professional Experience: From 2004 to 2006 served as Director for Strategy and Management Systems of NLMK, having previously worked for Rumelco Ltd. (2003 to 2004). Mr. Tsyrlin 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.

Alexey Lapshin *1947*
Background: Graduate of the Orsk Petroleum Technology Vocational Training School and the All-Union Distance Learning Polytechnic Institute.

Professional Experience: Managing Director of DanSteel A/S from January to June 2006 and a management and technical consultant with DanSteel A/S for four years prior to that. Mr. Lapshin was Head of Department at Rumelco Ltd. from 1999 to 2002 and, at the same time, was on the Board of NLMK. From 1994 to 1999, Mr. Lapshin held positions in various companies, while he also managed the development of the Stinol refrigerator manufacturing plant in Lipetsk as a consultant. Started his career at Gaiskiy GOK in 1967, and then worked for Yuzhuralnickel non-ferrous metals production facility between 1975 and 1994, starting as a foreman and rising through the ranks to become Deputy CEO.

Yury Larin *1952*
Background: Graduate of the Voronezh Polytechnic Institute. Holds a Ph.D. in Technical Sciences.

Professional Experience: Mr. Larin was VP for Technology and Environment in 2006 and 2007. Prior to that he was Director of Engineering Centre of NLMK (1999 to 2006) and from 1996 to 1999 he worked as Deputy Director of Central Lab of NLMK and was responsible for technology.

Galina Aglyamova *1961*
Background: Graduated from the Moscow Steel and Alloys Institute. Ph.D., Ec. Honorary economist of Russia.

Professional Experience: Was NLMK Deputy General Director for Economics and Finance from 2005 to 2006, and, from 2000 to 2005, Director for Economics and Finance. From 1997 to 2000 worked as Deputy Director for Economics. She joined NLMK as a planning economist in 1985.

Alexander Gorshkov *1961*
Background: Graduated from the Novosibirsk Electro-Technical Institute.

Professional Experience: Alexander Gorshkov has been General Director of Stoilensky GOK since 2004. From 2003 to 2004 he was Deputy Director of the Lipetsk branch of Rumelco Ltd. From 1999 to December of 2003 served as General Director of Dolomite.

Igor Anisimov *1965*
Background: Graduated from the Karaganda State University and the All-Russian Distance-Learning Institute of Finance and Economics. Holds a Ph.D. in Economics.

Professional Experience: Served as Vice-President, Purchasing, between 2006 and 2007. He served as Purchasing Director of NLMK from 2001 to 2006, prior to which he was Deputy Purchasing Director and Head of the Equipment and Import Purchasing Department (1997 to 2001). He started his career with NLMK in 1995 as an engineer.

Alexander Saprykin *1967*
Background: Graduated from the Moscow Mining University.

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

Dmitry Baranov *1968*
Background: Graduated from the Moscow Aviation Institute and the Finance Academy under the Government of the Russian Federation.

Professional Experience: Served as Sales Director at Trading House NLMK Ltd from 2004 to 2006. Between 2000 and 2004 worked as an expert in the Domestic Market Analysis Division at Rumelco Ltd., and later became head of the same division. Previously, Mr. Baranov served as a sales manager for Nikar Ltd. and Lonit Ltd. (1999 to 2000). From 1995 to 1999 held sales management positions at the sea and land transportation department and customs clearing department at Frits Companies SNG LLC.

Vladimir Nastich *1953*
Background: Graduate of the Donetsk Polytechnic Institute. Ph.D., Tech.

Professional Experience: General Director of NLMK from 2004 to June 2006. Worked as Chief Engineer – First Deputy General Director from 2000 until 2004. From 1998 he served as Metallurgy Director, prior to which he was Production Director (1996 to 1998). Began his career at NLMK in 1975 as a rolling-mill worker.

Corporate governance

Corporate Governance Principles
The underlying corporate governance principles and procedures are summarised in the NLMK Code of Corporate Governance. The NLMK Code of Corporate Governance is consistent with the guiding principles advised by the Organisation for Economic Cooperation and Development (Principles of Corporate Governance, 1999), and the provisions of the Corporate Governance Code approved by the Russian Federation regulatory authorities.

The NLMK Code of Corporate Governance defines the following major principles:

1. Seek to ensure effective and transparent arrangements to guarantee the rights and interests of shareholders
2. Provide equal treatment of all shareholders
3. Seek to provide shareholders with the opportunity to exercise their right to participate in the management of the Company
4. Observe the rights of third parties
5. 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
6. Policy of open and transparent communications
7. Policy of complying with business ethics in conducting its operations
8. Seek to comply with the applicable legislation and international Corporate Governance standards

NLMK recognises the importance of corporate governance for building an attractive investment case for the Company and continues to improve its corporate governance in line with best international practice.

Company Governance Structure
The governing authority of NLMK is the General Meeting of Shareholders. The Board of Directors takes responsibility for the overall operations of the Company and its long-term development strategy. The executive bodies, the President (Chairman of the Management Board) and the Management Board manage the day-to-day activities of the Company. An Independent Auditor and the Internal Audit Committee supervise the financial and business activities of the Company. Financial statements are subject to mandatory audits in accordance with Russian laws and the US Generally Accepted Auditing Standards.

In addition to the Code of Corporate Governance and Charter of the Company, the activities of its managing and supervisory authorities are also governed by other corporate documents, including the General Meeting of Shareholders Regulations, the Board of Directors Regulations, and the Internal Audit Commission Regulations.

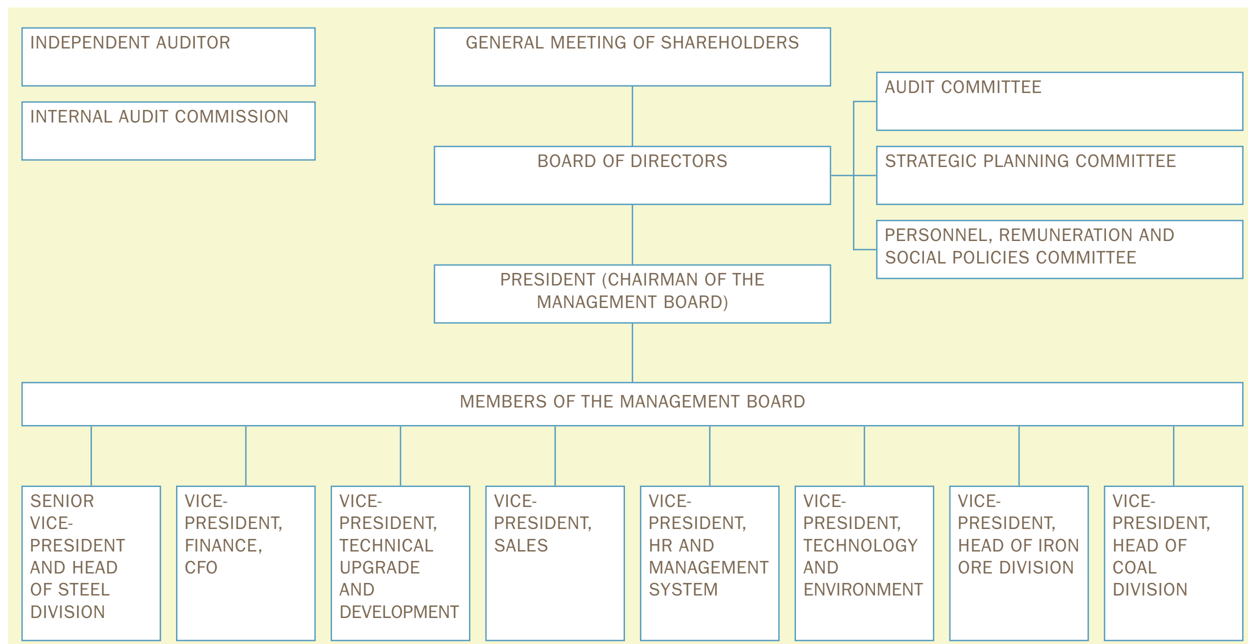
General Meeting of Shareholders
Our shareholders as owners of the Company exercise their rights to participate in managing the Company by approving decisions at the General Meeting of Shareholders.

Two General Meetings of Shareholders were held in 2008, including the Annual Meeting and one Extraordinary Meeting of Shareholders.

The following issues were included in the agenda of the Annual Meeting of Shareholders, which was held on June 6, 2008:

- Approval of the Annual Report of the NLMK for 2007;
- Declaration of dividends for 2007;
- Election of Company managing and supervisory authorities;
- Approval of related party transactions;
- Payment of compensation to members of the NLMK Board of Directors.

NLMK GOVERNANCE STRUCTURE



The Extraordinary General Meeting of Shareholders was convened on September 19, 2008, and approved the following decision:

- Payment of dividends for the first half of 2008 in the amount of RUR2.00 per ordinary share.

Board of Directors
The Board of Directors of NLMK is the key element in the corporate governance framework of the Company. The Board of Directors exercises overall control of Company operations, defines its long-term development strategy and acts within the authority defined by the Charter of NLMK and the NLMK Board of Directors Regulations.

Members of the Board of Directors are elected at the General Meeting of Shareholders until the next Annual Meeting. Any shareholder owning in aggregate at least 2% of NLMK Group voting stock is entitled to nominate a Director. Directors are elected by cumulative voting during General Meetings of Shareholders.

Decisions by the Board of Directors are approved by a simple majority of votes of Directors present and voting at the meeting, unless otherwise defined by the Charter and law. Every Director is entitled to one vote for the purposes of voting at Board meetings.

Board meetings are convened by the Chairman of the Board of Directors in accordance with the approved meeting schedule.

Extraordinary meetings of the Board may be convened by the Chairman of the Board at his own initiative, at the request of a Director, the Internal Audit Committee or Auditor of the OJSC NLMK, its executive authority, as well as shareholders owning in aggregate more than 5% of voting stock in the Company.

Chairman of the Board of Directors
The Chairman of the Board of Directors is elected from the members of the Board of Directors. Elections are effected by the majority of the Board members. The Chairman arranges the business of the Board convenes meetings of the Board and presides at these meetings, arranges for recording of proceedings during meetings, arranges for approval of Board of Directors decisions by absentee voting, arranges keeping minutes and presides at the General Meetings of Shareholders or delegates the responsibility of his presidency. The Chairman of the Board supervises the consideration of key issues, including strategic development plans and priority areas for the activities of NLMK, approval of transactions involving the acquisition of assets of strategic importance for NLMK Group development and the disposal of non-core assets.

Mr. Vladimir S. Lisin, Chairman of the Board of Directors of NLMK, has been a member of the Board for 12 years, and has served as Chairman for 10 years.

Members of the Board of Directors
The Board of Directors of NLMK includes 9 members. In accordance with international governance standards and statutory requirements, the Company seeks to have not less than three independent Directors on the Board. The criteria for independent Directors have been defined in corporate by-laws and are in line with international best practice corporate governance. The Board currently includes 4 non-executive directors.

Background information on Directors and members of the Management Board can be found at the NLMK Group Web-site at: http://www.nlmksteel.com/StandardPage____92.aspx

Board of Directors Activities in 2008
In 2008 the NLMK Group Board of Directors held 10 meetings. Key decisions approved in 2008 include the following:

- Election of the Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, appointment of Corporate Secretary (Secretary of the Board of Directors), establishment of NLMK Board of Directors committees;
- Convening and holding of the 2007 Annual General Meeting of Shareholders of NLMK and the Extraordinary General Meeting of Shareholders of NLMK;
- NLMK participation in the charter capital of other companies;
- Approval of the budget;
- Approval of related party transactions.

As of December 31, 2008 the OJSC NLMK Board of Directors includes the following Directors

Name	Position	Number of years on the Board	Independent	Audit Committee	Strategic Planning Committee	Human Resources, Remuneration and Social Policies Committee
Vladimir Lisin	Chairman of the Board of Directors	12	No		Chairman	
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	12	No		Member	
Oleg Bagrin	Member of the Board	4	No	Member	Member	
Bruno Bolfo	Member of the Board	1	Yes		Member	
Nikolai Gagarin	Member of the Board	7	No		Member	
Dmitriy Gindin	Member of the Board	4	Yes			Chairman
Karl Doering	Member of the Board	2	Yes		Member	
Randolph Reynolds	Member of the Board	3	Yes	Chairman		
Igor Fyodorov	Member of the Board	6	No	Member	Member	

In the course of the year the Directors have attended the following Board meetings:

	Board of Directors Meetings[1]
Vladimir Lisin	8 (10)
Vladimir Skorokhodov	10 (10)
Oleg Bagrin	9 (10)
Bruno Bolfo	10 (10)
Nikolai Gagarin	10 (10)
Dmitriy Gindin	10 (10)
Karl Doering	10 (10)
Randolph Reynolds	9 (10)
Igor Fyodorov	10 (10)

[1] Number in parenthesis indicates total number of meetings held.

Board of Directors Involvement in Risk Management
An important function of the Board of Directors is the design of an effective system for risk assessment and risk management, one that would allow the Company to gauge its exposure to risks, to mitigate the negative impact of these risks, and to streamline actions required to achieve its objectives.

The Board of Directors assesses strategic risks (identifies Company strengths and weaknesses, its opportunities and threats), approves internal control procedures used for risk management, and supervises compliance with these controls, reviews their effectiveness and encourages their improvement.

Directors' Remuneration and Compensation
Directors are entitled to remuneration subject to performance of their duties in good faith. Any fees paid to remunerate any Director are dependent on the individual's personal participation in the activities of the Board of Directors.

The General Meeting of Shareholders has approved the Regulations for Director Remuneration (Director Remuneration Policy) for members of the NLMK Group Board of Directors, which defines the criteria for remunerating Directors and providing reimbursement of their expenses.

Based on Company performance in a given fiscal year, the Annual General Meeting of Shareholders, acting on the advice of the Human Resources, Remuneration and Social Policies Committee, may decide to pay a bonus to each Director equal to within 0.1% of the NLMK Group net profits for the reported period, as determined in accordance with the Generally Accepted Accounting Principles (US GAAP). 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.

Remuneration and Compensation to Board Members in 2008

USD thousands

Item	2008
Remuneration and Compensation to Board Members	1,883.5

Note: paid in the calendar year.

The Company reimburses Directors for any expenses directly associated with the discharge of their functions, including expenses incurred in connection with soliciting the professional advice of experts in issues raised during Board of Directors meetings, and in connection with foreign translation services of documents or materials used by the Director for their consideration.

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

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

Strategic Planning Committee
The Strategic Planning Committee drafts and submits to the Board recommendations 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 Committee includes nine members. In addition to Directors, the Committee includes two members of the NLMK Group Management Board: Mr. Alexey Lapshin, President (Chairman of the Management Board) and Mr. Vladimir Nastich, First Vice-President and CEO.

In 2008 the Strategic Planning Committee held meetings to discuss the following key issues:

- Key areas for the development of NLMK Group production until 2015;
- Design of the NLMK Group programme for technology upgrade and development for the years 2008-2015;
- Approval of recommendations to the Board regarding the size of dividends payable on shares and procedures for their payment for FY 2007 and the first half of FY 2008.

Audit Committee
The Audit Committee 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 Committee comprises three Directors.

In 2008 the Audit Committee held 4 meetings to discuss the following key business:

- Drafting and submission for the consideration of the Board the proposal recommending that the Annual General Meeting of Shareholders should approve the RAS financial (accounting) statements and the US GAAP consolidated financial statements of NLMK Group for 2007;
- Review of the draft auditor's report by the NLMK Group Auditor with respect to RAS financial (accounting) statements of NLMK Group for 2007;
- Review of the nominations for the NLMK Group Auditor and auditors of its subsidiaries and affiliates and the development of recommendations for their approval.

Human Resources, Remuneration and Social Policies Committee
The primary purpose of the Human Resources, Remuneration and Social Policies Committee is the development of draft guidance regarding Company personnel policies and remuneration policies for officers of Company executive authorities and members of the Internal Audit Commission.

The Committee also reviews issues pertaining to Company social policies, environmental safety and Federal and municipal government relations.

The Committee includes three members. It is chaired by Mr. Dmitriy Gindin, Director. The other two members of the Committee are Mr. Stanislav Tsyrlin, Vice-President for Human Resources and Management Systems, and Mr. Sergey Melnik, Personnel and General Issues Manager at NLMK.

Internal Audit Commission

The Internal Audit Commission is a full-time internal controls 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 in the interests of the shareholders and is elected by the General Meeting of Shareholders for a term of one (1) year.

The report of the Internal Audit Commission is an integral part of the NLMK Group RAS financial statements.

The General Meeting of Shareholders in 2008 elected the following members of the Internal Audit Commission:

Name	Position
Valeriy Kulikov	Chairman
Tatyana Gorbunova	Member
Lyudmila Kladienko	Member
Larissa Ovsyannikova	Member
Galina Shipilova	Member

Management Board

The day-to-day operations of the Company are managed by its sole executive authority, the President (Chairman of the Management Board), and the plural executive authority, the Management Board. The actions of the President (Chairman of the Management Board) and Management Board are governed by laws of the Russian Federation, the Charter of NLMK Group and the Management Board of the NLMK Group Regulations, as approved by decisions made at the General Meeting of Shareholders.

The President (Chairman of the Management Board) is elected at the General Meeting of Shareholders and serves until the next Annual General Meeting, unless otherwise defined by a decision at the General Meeting of Shareholders.

The President (Chairman of the Management Board) manages the day-to-day operations of NLMK, except for issues that fall under the exclusive authority of the General Meeting of Shareholders, the Board of Directors and/or the Management Board, and arranges for the implementation of decisions approved by the General Meeting of Shareholders and the Board of Directors. The composition and number of members of the Management Board are approved by the Board of Directors of NLMK Group with due regard for the opinion of the President (Chairman of the Management Board). Individual members of the Management Board are approved by the Board of Directors based on nominations made by the President (Chairman of the Management Board).

Management Board Members

Mr. Alexey A. Lapshin has been President (Chairman of the Management Board) of NLMK Group since 2006. He was re-elected for a new term on June 6, 2008.

Currently the Management Board of NLMK Group includes nine members.

Management Board Activities in 2008

The Management Board has considered the following key issues in its meetings in 2008:

- Recommendations to the Board of Directors of NLMK Group and management bodies of major subsidiaries and affiliates.
- Review of US GAAP-based financial performance results for NLMK Group in 2008 and the execution of the consolidated budget for NLMK Group of companies.
- Approval of draft decisions regarding issues falling under the mandate of general meetings of shareholders in companies where NLMK Group is the single shareholder.

The Management Board as of December 31, 2008

Management Board Member	Position	Meetings[1]
Alexey Lapshin	President, Chairman of the Management Board	31 (31)
Vladimir Nastich	First Vice-President and CEO	28 (31)
Galina Aglyamova	Vice-President, Finance	29 (31)
Igor Anisimov	Vice-President, Technical Upgrade and Construction	27 (31)
Dmitry Baranov	Vice-President, Sales	30 (31)
Alexander Gorshkov	Vice-President, Iron Ore Operations	30 (31)
Yury Larin	Vice-President, Development and Environment	31 (31)
Alexander Saprykin	Vice-President, Coal Operations	30 (31)
Stanislav Tsyrlin	Vice-President, Human Resources and Management System	30 (31)

[1] Number in parenthesis indicates total number of meetings held.

- Appointment of NLMK Group representatives for participation in meetings of shareholders of subsidiaries, affiliates and other businesses where the Company is a shareholder, founder or member, and approval of voting guidelines for these representatives.
- Approval of the list of significant subsidiaries and affiliates of NLMK.
- Approval of the list of nominees to be elected for the management and supervision bodies of major subsidiaries and affiliates.
- Approval of transactions where the value exceeds 10% of the balance sheet value of NLMK assets as of the most recent reporting date.

External Auditors
As required by the laws of the Russian Federation, the General Meeting of Shareholders of NLMK Group on an annual basis appoints an auditor to review the financial and operating performance of the Company. The Audit Committee drafts proposals for the Board of Directors regarding the nomination of the Auditor of the Company, selected from recognised independent auditors. While drafting its proposals the Audit Committee is guided by the following principles:

- professional qualifications of the auditor;
- quality of services;
- compliance with requirements for auditor independence.

In 2008 the Annual General Meeting of Shareholders, acting on the advice of the Audit Committee, approved ZAO PricewaterhouseCoopers Audit, which performs audits of both RAS and US GAAP-based financial statements, as the Auditor of NLMK.

Company Policy on Related Party Transactions
Related party transactions of NLMK shall be approved based on the requirements of the Russian legislature and according to the Company's Charter. The Company has designed an internal control system which successfully monitors the compliance with the requirements applied to the settlement of related party transactions of NLMK and the procedures by which they were approved.

The mandate of the Management Board includes issuing advice to the Board of Directors of NLMK Group regarding approval of one or several transactions with related parties submitted for the consideration of the Board in connection with its authority.

Information regarding related party transactions executed in 2008 is reported in the appropriate sections of the Group's consolidated (US GAAP) statements and NLMK Group non-consolidated (RAS) statements.

Remuneration to the Management Board
In accordance with the NLMK Group Management Board Regulations, members of the Management Board are entitled to remuneration and reimbursement of expenses in connection with the performance of their duties as members of the Management Board during their tenure.

The terms and conditions for remunerating members of the Management Board are defined by appropriate contracts executed in accordance with the Regulations for Management Board Member Remuneration as approved by the Board based on the advice of the Personnel and Remuneration Committee.

Information for Shareholders and Investors

Ordinary Shares
The share capital of the Company is divided into 5,993,227,240 shares with a par value of RUR1. NLMK shares are listed on the Russian stock exchanges (RTS and MICEX), and are also traded at the London Stock Exchange (LSE) in the form of Global Depository Shares (GDS) (1 GDS equals 10 ordinary shares).

Company Shares Listings

RTS (Moscow) Ticker Code	NLMK
MICEX (Moscow) Ticker Code	NLMK
LSE (London) Ticker Code	NLMK
Bloomberg Code	NLMK
Reuters Code	NLMK

Global Depository Shares (GDS)
The ratio of global Depository shares to ordinary shares is 1:10. As of 31 December, 2008 the global Depository shares issued by the NLMK Group and traded at the London Stock Exchange account for 8.45% of share capital. As of 29 April, 2009 GDSs were trading at USD15.8.

The Depository bank for the Company is Deutsche Bank Trust Company Americas (see contact details on page 61).

Share Price
NLMK Ordinary Shares at RTS

	2008	2007
Maximum (USD)	**5.65**	4.35
Minimum (USD)	**0.63**	2.3
At end of year (USD)	**1.15**	4.0
Number of Trades	**234**	401
Trading Volume (USD, millions)	**23.3**	37

NLMK Ordinary Shares at MICEX

	2008	2007
Maximum (RUR)	**131.96**	107.9
Minimum (RUR)	**16.41**	56.11
At end of year (RUR)	**23.09**	99.51
Number of Trades	**167,646**	68,431
Trading Volume (RUR, millions)	**45,102**	8,228

Note: Ordinary shares were listed on the Moscow Interbank Currency Exchange (MICEX) on April 6, 2006.

NLMK Global Depository Shares at the London Stock Exchange

	2008	2007
Maximum (USD)	**57.00**	44.89
Minimum (USD)	**5.20**	20.80
At end of year (USD)	**10.20**	40.9
Trading Volume (USD, millions)	**169**	94

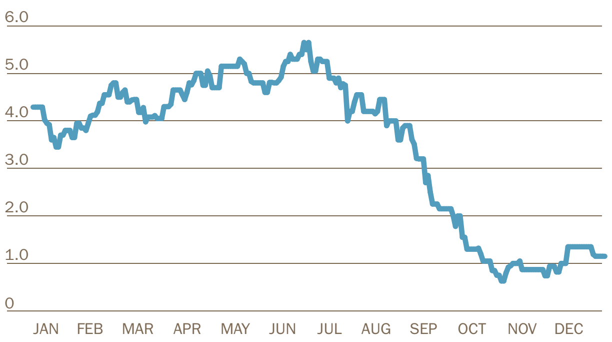
Note: Company stock was listed on the London Stock Exchange in the form of Global Depository Shares on December 15, 2005.

Market capitalisation
Market capitalisation reached a record high of over USD34 billion in June 2008. At the end of the year market capitalisation decreased to USD6.1 billion.

Taxation
The statutory rate of taxation of dividends in Russia for corporate shareholders is 9% for residents of the Russian Federation and 15% for non-residents. For individuals the rates are 9% and 15%, respectively (the tax rate applies from January 1, 2008). Wherever an avoidance of double taxation treaty is in effect, taxes are assessed at the rate defined by the treaty. Taxation information is provided for general information only. Potential and existing investors should consult their advisors on taxation implications for investments in Company shares, including Global Depository Shares (GDS).

Dividends
Dividend Policy
The Company's dividend policy was approved in June 2006 and aims to offer clear guidance to shareholders and all parties concerned about the Company's strategy with respect to the distribution and use of NLMK net profits. The Dividend Policy states that dividend shall be no less than 20% of net profit as defined in accordance with US GAAP provided that sustainability of the financial standing and platform for further development of the Company are ensured. Over a five-year period NLMK targets an average dividend pay-out of at least 30% of net profit as defined in accordance with US GAAP. Net gains from the disposal of financial investments in equities, which do not offer significant influence or control over their issuers, may in their full amount be directed to payment of dividends provided there is no need to raise cash for investment purposes.

Share price at RTS in 2008 (USD)



Share price at MICEX in 2008 (RUR)

Information for Shareholders and Investors continued

GDS price performance at LSE in 2008 (USD)

The amount of dividends payable for the defined period as proposed by the Board of Directors shall be approved by shareholders and depends, among others, on the financial standing of the Company, its performance, cash flow, forward-looking projections, overall economic environment and other considerations.

Declared dividends are paid to shareholders within 90 days of the date of their declaration, unless a decision made at the General Meeting of Shareholders approving dividend payments stipulates a shorter time-frame.

Dividends per GDS
Any dividends payable on share ownership which is certified by Global Depository Shares shall be declared and paid to the Depository Bank in Russian rubles or foreign currency, and shall be converted by the Depository into US dollars (whenever dividends are paid in any currency other than US dollars) and distributed to GDS holders net of Depositary Bank fees and expenses.

Proposals Regarding Distribution of Profits
The Board of Directors of NLMK Group recommended that the General Meeting of Shareholders to declare dividends for 2008 in the amount of RUR2.0 per ordinary share.

Shares Issued	5,993,227,240
Dividends per 1 ordinary share with par value of RUR1, rubles (projected)	2.0
Total dividends payable for 2008 (projected)	RUR11,986,454,480

The Board of Directors has recommended that the general shareholders' meeting approve a decision to declare dividends for 2008 on ordinary issued shares in the amount of RUR2.0 in cash per ordinary share (1 GDS = 10 ordinary shares). In view of interim dividends of 2.0 rubles per share declared for and fully paid in the first half of 2008, the Board of Directors recommends no payment of dividends for the second half of 2008. The decision is fully in line with the dividend policy of NLMK.

Board of Directors recommended to allocate the profit that remained after dividends payments for the realization of capex programme and dividend payments in the subsequent periods.

Dividend per Share

Year		Dividend per Share	Declaration Date	Total Amount of Dividend Declared	Dividend/ Net Income
2002	Full Year	RUR 312.5 (USD 10.3010)	27.06.03	RUR 1,871,012,500 USD 61.675 million	18%
2003	Full Year	RUR 0.6045 (USD 0.0208)	25.06.04	RUR 3,622,905,867 USD 124.834 million	19%
2004	Full Year	RUR 1.8 (USD 0.0643)	20.05.05	RUR 10,787,809,032 USD 385.556 million	22%
	of which 9 months interim	RUR 1 (USD 0.0357)	03.12.04	RUR 5,993,227,240 USD 214.081 million	
2005	Full Year[1]	RUR 3 (USD 0.1101)	06.06.06	RUR 17,979,681,720 USD 659.573 million	48%
	of which 6 months interim	RUR 1 (USD 0.0352)	26.09.05	RUR 5,993,227,240 USD 210.792 million	
2006	Full Year[1]	RUR 3 (USD 0.1140)	05.06.07	RUR 17,979,681,720 USD 683.226	33%
	of which 6 months interim	RUR 1.5 (USD 0.0561)	29.09.06	RUR 8,989,840,860 USD 336.071 million	
2007	Full Year	RUR 3 (USD 0,1231)	06.06.08	RUR 17,979,681,720 USD 737,682 million	33%
	of which 6 months interim	RUR 1,5 (USD 0,0601)	28.09.07	RUR 8,989,840,860 USD 360,142 million	
2008	Full Year (project)	RUR 2 (USD 0,0786)		RUR 11,986,454,480 USD 471,338 million	21%
	of which 6 months interim	RUR 2 (USD 0,0786)	19.09.08	RUR 11,986,454,480 USD 471,338 million	

[1] In accordance with the NLMK Dividend Policy, net gains from disposals of financial investments in equities, which do not offer significant influence or control over their issuers, may be directed in full to payment of dividends provided there is no need to raise cash for investment purposes. In Q1 of 2006, NLMK sold a minority stake in Lebedinsky GOK. Notwithstanding that the disposal occurred in Q1 of 2006, the Annual General Meeting of Shareholders held on June 6, 2006 approved the decision to use the proceeds to pay dividends for 2005.

Share Capital Structure as of December 31, 2008

Beneficiary	Share, %
Controlling Shareholder	84.61
Global Depositary Shares Traded on the London Stock Exchange	8.45
Other Shareholders	6.94

Corporate Documents

Company corporate documents, including its Charter, may be found on the Company website: www.nlmksteel.com

Financial Reporting

The Company posts its notices of results on the LSE web-site via Regulatory News Service (RNS) and then publishes them on its website as press releases and distributes them among the media.

The Company publishes its financial performance indicators on a quarterly basis.

The Company's annual report is published electronically on its website, www.nlmksteel.com, on the day of its official publication, which the Company announces in a special press release. Our annual report in hardcopy is available upon request at the Shareholder Register's office and our PR consultants in London.

Contacts

Shareholder Register

The register of our shareholders is maintained by OJSC 'RNR Agency' (assignee of the R-Stinol LLC).

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

Depositary Bank

New York Headquarters
60 Wall Street, New York, NY 10005
USA

London Headquarters:
Winchester House, 1 Great Winchester Street,
London EC2N 2DQ,
United Kingdom

IR contacts

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PR Consultant

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e-mail: jon.simmons@fd.com
Financial Dynamics
Holborn Gate, 26, Southampton Buildings
London, WC2A 1PB
United Kingdom

Information for Shareholders and Investors continued

NLMK Subsidiaries and Affiliates as of December 31, 2008

Company Name	Location	Activity	NLMK's Share in Charter Capital (%)
Subsidiaries			
1. NLMK International B.V.	Amsterdam, The Netherlands	Holding Company, holds shares in subsidiary production and trading companies, manages subsidiaries, provides financing	100
2. Top Gun Investment Corp.II	32 West Loockerman Street, Suite 201, City of Dover, County of Kent 19904, State of Delaware, USA	Holds shares in subsidiary production and trading companies, manages subsidiaries, provides financing	100
3 Novolipetsky Metallurg Resort	25 Chekhova St., Morskoye Village, Sudak, Crimea Autonomous Republic, 334886 Ukraine	Rest and recreation services, health and rehabilitation facility	100
4. NLMK Construction and Assembly Trust LLC	2 Fanernaya St., Lipetsk, 398017 Russia	Contracting of industrial, housing, utilities, services, and road construction works, construction of health facilities, urban natural gas supply lines	100
5. Novolipetsky Private Security Firm LLC	8 Ferrosplavnaya St., Lipetsk, 398040 Russia	Security of individuals, protection of assets (including during their transportation) owned, held, used, operated, entrusted or otherwise	100
6. VIZ-Stal LLC	28 Kirova St., Yekaterinburg, 620219 Russia	Production and marketing of electrical steel	100
7. Vtormetsnab NLMK LLC	2 Metallurgov Sq., Lipetsk, 398040 Russia	Collection, processing and sales of ferrous scrap	100
8. Vtorchermet NLMK LLC	2 Metallurgov Sq., Lipetsk, 398040 Russia	Collection, processing and sales of ferrous and non-ferrous scrap	100
9. Karamyshevskoye LLC	1 Tsentralnaya Sq., Karamyshevo Village, Gryazinsky District, Lipetsk Region, 399077 Russia	Production and processing of agricultural produce	100
10. Lipetsk Insurance Company Chance LLC	30 Nedelina St., Lipetsk, 398059 Russia	Insurance underwriting	100
11. Independent Transport Company LLC	32A Leninsky Prospekt, Moscow, 119991 Russia	Cargo transportation and other transportation and forwarding services	100
12. Novolipetskoye LLC	Tyushevka Village, Lipetsk District, Lipetsk Region, 398502 Russia	Production and processing of agricultural produce	100
13. Steel LLC	1 Lenina St., Uglich, Yaroslavl Region, 152620 Russia	Raw materials, supplies, scrap for steel-making	100
14. NLMK Trading House LLC	Building B, 1/15 Kotelnicheskaya nab., Moscow, 109240 Russia	Consolidated purchases of raw materials and inputs, sales of NLMK group by-products	100

Company Name	Location	Activity	NLMK's Share in Charter Capital (%)
Subsidiaries (continued)			
15. Altai-koks OJSC	Zarinsk, Altaysky Kray, 659107 Russia	Production and marketing of coke and by-products, generation and marketing of heat and electric power	100
16. Dolomite OJSC	1 Sverdlova St., Dankov, Lipetsk Region, Russia	Dolomite mining and processing	100
17. Stoilensky GOK OJSC	Stary Oskol, Belgorod Region, Russia	Mining and processing of iron ore and other minerals	100
18. Studenovskaya Joint Stock Mining Company OJSC	4 Gaydara St., Lipetsk, 398008 Russia	Production of fluxing limestone for steel-making, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roads	100
19. Larmet LLC	44/28 Studencheskaya St., Moscow, 121165 Russia	Wholesale steel and steel products trade	99.98
20. Vimet LLC	2 Metallurgov Sq., Lipetsk, 398040 Russia	Wholesale in raw materials for steel-making, steel products wholesaler	99.97
21. Commercial Sea Port of Tuapse OJSC*	2 Morskoy Blvd., Tuapse, Krasnodarsky Kray, 352800 Russia	Cargo handling, servicing of Russian and foreign vessels	69.41
22. Lipetsky Gipromez OJSC	1 Kalinina St., Lipetsk, 398600 Russia	Design and survey operations	57.57
23. North Oil and Gas Company OJSC	Building 1, 14 Spartakovskaya Sq., Moscow, 105082 Russia	Prospecting and exploration of oil and gas fields	51
24. Maxi-Group OJSC	18 3rd Yamskogo Polya St., Moscow,125040 Russia	Consulting services, corporate financial management	50.00005
Affiliates			
1. Neptune LLC	Office 35, 1C Adm. Makarova St., Lipetsk, Russia	Wellness services	25

Note: List includes only direct NLMK subsidiaries and affiliates.
* In January 15, 2009, NLMK closed the deal to sell its 69.41% stake in Tuapse Sea Port (TMTP) to the Universal Cargo Logistics Holding B.V.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of OJSC Novolipetsk Steel and its subsidiaries (the 'Group') as at December 31, 2008, 2007 and 2006, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2008, 2007 and 2006 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moscow, Russian Federation
March 23, 2009

The OJSC NLMK management's opinion on the group consolidated US GAAP financial statements

The Management's Opinion stated below should be considered as an integral part of these consolidated financial statements of the OJSC Novolipetsk Steel (further - NLMK) prepared in accordance with the accounting principles generally accepted in the United States of America.

The NLMK management confirms its responsibility for the preparation of the consolidated financial statements of the Group as at and for the years ended December 31, 2008, 2007 and 2006 consisting of balance sheets, statements of income, statements of cash flows, statements of shareholders' equity and comprehensive income and notes to consolidated financial statements.

The NLMK financial statements, its subsidiaries and affiliated companies underwent an independent audit which confirms its compliance with the accounting principles generally accepted in the United States of America. Independent audit is held by the international company PricewaterhouseCoopers. While conducting their audits, independent auditors have access to the financial and other documents and also implement other tests needed to achieve sufficient confidence for expressing an opinion that the consolidated financial statements comply with the current legislation requirements and free of material misstatement.

Companies of the NLMK Group have an operating system of internal financial control, which major goal is to provide:

- the most effective organization of accounting;
- compliance with current legislation requirements;
- safety of property and other assets.

On the completion of the internal and external control procedures, the appropriate reports were given to the NLMK management, confirming fair presentation of the financial position, results of operations and cash flows of the NLMK and its subsidiaries and affiliated companies in the consolidated financial statements and its conformity with the accounting principles generally accepted in the United States of America.

President (Chairman of the Management Board)
Alexey Lapshin

Chief Accountant
Alexander Sokolov

Responsibility statement

Mr. Alexey Lapshin, President (Chairman of the Management Board), confirms on behalf of the management board of NLMK to the best of her knowledge that:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and net income or loss of the Company; and
- the annual report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Neither Novolipetsk Steel (NLMK) nor the directors accept any liability to any person in relation to the management report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

President (Chairman of the Management Board)
Alexey Lapshin

Consolidated balance sheets

as at December 31, 2008, 2007 and 2006

(All amounts in thousands of US dollars, except for share data)	Note	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
ASSETS				
Current assets				
Cash and cash equivalents	4	2,159,989	1,154,641	665,213
Short-term investments	6	8,089	153,462	37,261
Accounts receivable and advances given, net	7	1,487,847	1,696,451	1,150,492
Inventories, net	8	1,555,762	1,236,433	856,940
Other current assets	9	99,960	147,191	331,322
Restricted cash	5	–	–	8,372
Current assets held for sale	18(a)	34,432	–	–
		5,346,079	**4,388,178**	**3,049,600**
Non-current assets				
Long-term investments, net	6	815,527	818,590	810,350
Property, plant and equipment, net	10	6,826,139	6,449,877	3,988,128
Intangible assets, net	11(b)	235,283	189,084	199,030
Goodwill	11(a)	613,668	1,189,459	559,703
Other non-current assets	9	33,546	40,754	110,179
Non-current assets held for sale	18(a)	194,286	–	–
		8,718,449	**8,687,764**	**5,667,390**
Total assets		**14,064,528**	**13,075,942**	**8,716,990**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	12	1,879,213	1,394,934	664,319
Short-term borrowings	13	1,079,806	1,536,570	248,782
Current income tax liability		10,497	70,686	80,350
Current liabilities held for sale	18(a)	10,959	–	–
		2,980,475	**3,002,190**	**993,451**
Non-current liabilities				
Deferred income tax liability		296,875	585,567	537,647
Long-term borrowings	13	1,929,772	73,225	48,153
Other long-term liabilities	14	128,944	316,616	194,872
Non-current liabilities held for sale	18(a)	5,393	–	–
		2,360,984	**975,408**	**780,672**
Total liabilities		**5,341,459**	**3,977,598**	**1,774,123**
Commitments and contingencies		–	–	–
Minority interest	16	**33,100**	**106,813**	**133,425**
Stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2008, 2007 and 2006	17(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		52,395	52,395	1,812
Accumulated other comprehensive (loss)/income		(549,879)	1,181,546	589,986
Retained earnings		8,956,013	7,526,150	5,986,204
		8,689,969	**8,991,531**	**6,809,442**
Total liabilities and stockholders' equity		**14,064,528**	**13,075,942**	**8,716,990**

The consolidated financial statements as set out on pages 67 to 110 were approved on March 23, 2009.
The accompanying notes constitute an integral part of these consolidated financial statements.

Consolidated statements of income

for the years ended December 31, 2008, 2007 and 2006

(All amounts in thousands of US dollars, except for earnings per share amounts)	Note	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Sales revenue	26	**11,698,661**	**7,719,061**	**6,045,625**
Cost of sales				
Production cost		(5,808,780)	(3,569,331)	(2,716,434)
Depreciation and amortisation		(498,994)	(407,699)	(357,941)
		(6,307,774)	**(3,977,030)**	**(3,074,375)**
Gross profit		**5,390,887**	**3,742,031**	**2,971,250**
General and administrative expenses		(366,664)	(214,836)	(188,648)
Selling expenses		(734,489)	(442,657)	(325,361)
Taxes other than income tax		(100,025)	(79,977)	(57,215)
Accretion expense on asset retirement obligations		–	(6,190)	(19,765)
Impairment losses		(128,389)	–	(136,916)
Operating income		**4,061,320**	**2,998,371**	**2,243,345**
Loss on disposals of property, plant and equipment		(9,594)	(27,285)	(3,582)
Gains/(losses) on investments, net	21	(21,319)	(23,522)	400,696
Interest income		100,238	99,751	111,789
Interest expense		(217,270)	(31,417)	(29,692)
Foreign currency exchange, net		(366,984)	80,495	(74,975)
Gain from disposal of subsidiaries	18	–	83,122	–
Other expenses, net	30(b)	(414,694)	(22,688)	(26,526)
Income from continuing operations before income tax and minority interest		**3,131,697**	**3,156,827**	**2,621,055**
Income tax	20	(703,474)	(837,003)	(706,605)
Income from continuing operations before minority interest		**2,428,223**	**2,319,824**	**1,914,450**
Minority interest	16	1,730	(23,490)	(25,773)
Equity in net earnings/(losses) of associates		(151,212)	(50,312)	501
Income from continuing operations		**2,278,741**	**2,246,022**	**1,889,178**
Discontinued operations				
Gain from operations of discontinued subsidiary (including gain on disposal of $227,524 in 2006)	18(d), 21(b)	–	1,261	228,499
Income tax		–	–	(51,714)
Income from discontinued operations		**–**	**1,261**	**176,785**
Net income		**2,278,741**	**2,247,283**	**2,065,963**
Income from continuing operations per share (US dollars)				
basic and diluted		0.3802	0.3748	0.3152
Income from discontinued operations per share (US dollars)				
basic and diluted		–	0.0002	0.0295
Net income per share (US dollars)				
basic and diluted	19	0.3802	0.3750	0.3447

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

Consolidated statements of cash flows

for the years ended December 31, 2008, 2007 and 2006

(thousands of US dollars)	Note	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**2,278,741**	**2,247,283**	**2,065,963**
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest		(1,730)	24,592	25,773
Depreciation and amortisation		498,994	407,699	357,941
Loss on disposals of property, plant and equipment		9,594	27,285	3,582
(Gains)/losses on investments, net		21,319	23,522	(400,696)
Gain from disposal of subsidiaries		–	(83,122)	(227,524)
Gain from operations of discontinued subsidiary		–	(1,261)	–
Equity in net (earnings)/losses of associates		151,212	50,312	(501)
Deferred income tax (benefit)/expense		(259,446)	37,925	(38,732)
Impairment losses	11(a)	128,389	–	136,916
Loss/(income) on forward contracts	15	653,297	(58 708)	(6 125)
Settlement agreement on the dispute	30(b)	234,000	–	–
Accretion expense on asset retirement obligations		–	6,190	19,765
Cash in assets held for sale		(11 431)	–	–
Other		68,285	16,348	21,386
Changes in operating assets and liabilities				
Increase in accounts receivable		(698,002)	(33,325)	(135,234)
Increase in inventories		(364,316)	(200,074)	(159,995)
Decrease/(increase) in other current assets		45,690	(43,633)	(16,905)
Increase in loans provided by the subsidiary bank		–	(106,260)	(69,776)
Increase/(decrease) in accounts payable and other liabilities		89,776	242,830	(23,125)
(Decrease)/increase in current income tax payable		(63,610)	(33,700)	32,376
Net cash provided by operating activities		**2,780,762**	**2,523,903**	**1,585,089**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired of $422,841 in 2008, $25,047 in 2007 and $14,127 in 2006	25(a) 25(h)	(514,156)	–	(1,347,545)
Purchases of equity investments	6(b)	(6,488)	–	(805,503)
Net cash acquired in business combination	25(b)	297,905	24,038	–
Proceeds from adjustment of the original purchase price of subsidiaries		–	37,089	–
Proceeds from disposal of discontinued operations		–	–	302,526
Proceeds from sale of property, plant and equipment		9,789	12,278	15,565
Purchases and construction of property, plant and equipment		(1,934,274)	(957,719)	(618,677)
Proceeds from sale of investments and loans settled		95,803	11,606	465,274
Purchases of investments		(33,386)	(199,469)	(54,758)
Payment for acquisition of interests in new subsidiaries	25(c)	(299,928)	–	–
Loan issued		(12,839)	(134,300)	–
Disposal of subsidiaries		–	(60,063)	–
Movement of restricted cash		(1,006)	(1,020)	339
Net cash used in investing activities		**(2,398,580)**	**(1,267,560)**	**(2,042,779)**

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

Consolidated statements of cash flows continued

for the years ended December 31, 2008, 2007 and 2006

(thousands of US dollars)	Note	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		3,735,078	268,844	224,870
Repayment of borrowings and notes payable		(2,248,720)	(451,802)	(183,305)
Capital lease payments		(90,675)	(3,066)	(379)
Proceeds from disposal of assets to the Company under common control	18(d)	–	78,469	–
Payments to controlling shareholders for common control transfer of interests in new subsidiaries		–	–	(104,000)
Dividends paid to previous shareholder of acquired subsidiary		–	–	(83,547)
Prepayment for disposal of assets to a Company under common control	18(a)	258,182	–	–
Dividends to minority shareholders of existing subsidiaries		(12,324)	(19,146)	(20,228)
Dividends to shareholders		(842,792)	(702,983)	(766,646)
Net cash provided by/(used in) financing activities		**798,749**	**(829,684)**	**(933,235)**
Net increase/(decrease) in cash and cash equivalents		**1,180,931**	**426,659**	**(1,390,925)**
Effect of exchange rate changes on cash and cash equivalents		(175,583)	62,769	131,990
Cash and cash equivalents at the beginning of the year	4	1,154,641	665,213	1,924,148
Cash and cash equivalents at the end of the year	4	**2,159,989**	**1,154,641**	**665,213**
Supplemental disclosures of cash flow information:				
Non cash investing activities:				
Capital lease liabilities incurred	23	107,793	448,731	8,460
Elimination of intercompany loan in business combination	25(a)	161,023	–	–
Non cash investing and financing activities as a result of:				
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $422,841 in 2008, $25,047 in 2007 and $14,127 in 2006	25	514,156	533,468	1,347,545

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

Consolidated statement of stockholders' equity and comprehensive income

for the years ended December 31, 2008, 2007 and 2006

(thousands of US dollars)	Note	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive (loss)/income	Retained earnings	Total stockholders' equity
Balance at December 31, 2005 (see Note 25(g))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		–	–	–	–	2,065,963	2,065,963
Other comprehensive income:							
Net unrealized loss on a change in valuation of investments		–	–	–	(1,177)	–	(1,177)
Cumulative translation adjustment	2(b)	–	–	–	519,034	–	519,034
Comprehensive income							**2,583,820**
Dividends to shareholders	17(b)	–	–	–	–	(784,853)	(784,853)
Payments to controlling shareholders for common control transfer of subsidiary	25(g)	–	–	–	–	(104,000)	(104,000)
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**
Comprehensive income:							
Net income		–	–	–	–	2,247,283	2,247,283
Other comprehensive income:							
Cumulative translation adjustment, attributable to associate		–	–	–	15,562	–	15,562
Cumulative translation adjustment	2(b)	–	–	–	575,998	–	575,998
Comprehensive income							**2,838,843**
Dividends to shareholders	17(b)	–	–	–	–	(707,337)	(707,337)
Earnings from disposal of assets to the Company under common control	18(d) 28(d)	–	–	50,583	–	–	50,583
Balance at December 31, 2007		**221,173**	**10,267**	**52,395**	**1,181,546**	**7,526,150**	**8,991,531**
Comprehensive income:							
Net income		–	–	–	–	2,278,741	2,278,741
Other comprehensive income:							
Cumulative translation adjustment, attributable to foreign subsidiaries and associate		–	–	–	79,827	–	79,827
Cumulative translation adjustment	2(b)	–	–	–	(1,811,252)	–	(1,811,252)
Comprehensive income							**547,316**
Dividends to shareholders	17(b)	–	–	–	–	(848,878)	(848,878)
Balance at December 31, 2008		**221,173**	**10,267**	**52,395**	**(549,879)**	**8,956,013**	**8,689,969**

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

Notes to the consolidated financial statements

as at and for the years ended December 31, 2008, 2007 and 2006

1 BACKGROUND

OJSC Novolipetsk Steel (the 'Parent Company') and its subsidiaries (together – the 'Group') is one of the largest iron and steel groups in the Russian Federation 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's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, long products, hot-rolled steel, cold-rolled steel, galvanized cold-rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel. These products are sold both in the Russian Federation and abroad. The Group also operates in the mining and coke-chemical segments and has a less significant seaport operating segment (Note 26).

The Group's main operations are in the Lipetsk region of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the subsidiaries' regional authorities.

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

- Mining companies OJSC Stoilensky GOK (acquired in 2004), OJSC StAGDoK and OJSC Dolomite. The principal business activity of these companies is mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical Company OJSC Altai-koks and its subsidiaries (acquired in 2006). The principal business activity of these companies is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling Company LLC VIZ-Stal (acquired in 2006). The principal business activity of this Company is the production of cold-rolled grain-oriented and non-oriented steel.
- OJSC Maxi-Group and its subsidiaries (acquired in 2007). The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.

The Group's major subsidiaries and equity investments, located outside the Russian Federation, comprise:

- Joint Venture with Duferco Group – established in 2006 on the basis of Steel Invest & Finance (Luxembourg) S.A. ('SIF S.A.') in which both parties hold a 50% interest. SIF S.A. holds 100% interests or majority votes in 24 companies located in Europe and USA which include one steel-making plant and five steel rolling facilities as well as a network of steel service centres (Note 6(b)).
- Danish steel rolling Company DanSteel A/S (acquired in 2006). The principal business activity of this Company is production of hot-rolled plates.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. (acquired in 2008). The principal business activity of these companies is sales of Group's products outside the Russian Federation.
- American electric arc furnace steel-making and hot-rolled coils producer Beta Steel Corp. (acquired in 2008). The principal business activity of this Company is production of hot-rolled steel.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group's Company. 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').

(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.

The Group's principal functional currency 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, utilising period-end exchange rates for assets and liabilities, period weighted average exchange rates for consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. As a result of these translation procedures, a cumulative translation adjustment of $(1,811,252), $575,998 and $519,034 as at December 31, 2008, 2007 and 2006, respectively, which accounts for such translation gains/(losses), was recorded directly in stockholders' equity.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2008, 2007 and 2006 were 1 US dollar to 29.3804, 24.5462 and 26.3311 Russian rubles, respectively. The annual weighted average exchange rates were 24.8553, 25.5770 and 27.1852 Russian rubles to 1 US dollar for the years ended December 31, 2008, 2007 and 2006, respectively.

In these consolidated financial statements items of consolidated statement of income are translated at weighted average exchange rate of Russian ruble to 1 US dollar for 2008. But due to significant decline in exchange rate of Russian ruble to 1 US dollar in the fourth quarter 2008 the Group recalculated items of consolidated statement of income using weighted average exchange rate for the nine months ended September 30, 2008 (24.0454 Russian rubles to 1 US dollar) for the corresponding income and expenses in nine months ended September 30, 2008 and weighted average exchange rate for the fourth quarter 2008 (27.2672 Russian rubles to 1 US dollar) for calculation of income and expenses in the fourth quarter 2008.

(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 programmes; depreciation and amortisation 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.

(c) Restricted cash

Restricted cash comprise funds legally or contractually restricted as to withdrawal.

(d) Accounts receivable

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

(e) 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 recognised in the balance sheet on a gross basis and disclosed separately within current assets and current liabilities. Where a doubtful debt provision has been made, a loss is recorded for the gross amount of the debt, including VAT.

(f) 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.

(g) 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 amortised cost.

Premiums and discounts are amortised 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. Unrealised 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 realised. Realised 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 recognised when earned.

(h) 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 recognised gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Notes to the consolidated financial statements continued

as at and for the years ended December 31, 2008, 2007 and 2006

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(i) 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(l)). The cost of self-constructed assets includes the cost of materials, direct labour 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 capitalised with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognised as expenses in the consolidated statement of income as incurred.

Capitalised interest

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

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

Where funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of interest costs eligible for capitalisation 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 capitalisation is determined by applying a capitalisation rate to the expenditures on these assets.

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of SFAS No. 141, *Business Combinations*, ('SFAS No. 141') 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 Emerging Issues Task Force ('EITF') on Issue No. 04-2, *Whether Mineral Rights Are Tangible or Intangible Assets*.

Depreciation and amortisation

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 capitalised expenses are depreciated on a straight-line basis over the estimated remaining useful life 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 amortised using the straight-line basis over the license term given approximately even production during the period of license.

(j) 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 recognises the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

(k) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Under SFAS No. 142, *Goodwill and Other Intangible Assets*, ('SFAS No. 142') goodwill and intangible assets with indefinite useful lives are subject to impairment test at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in impairment.

Under SFAS No. 142, goodwill is assessed for impairment by using the fair value based method. The impairment test required by SFAS No. 142 includes a two-step approach. Under the first step, companies must compare 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 recognised and unrecognised) from the fair value of the reporting unit (as determined in the first step).

The Group performs the required annual goodwill impairment test at the end of each calendar year.

The excess of the fair value of net assets acquired over purchase cost is determined as negative goodwill, and is allocated to the acquired non-current assets, except for deferred taxes, if any, until they are reduced to zero.

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

(l) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, mineral rights and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognised for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets held for sale that meet certain criteria are measured at the lower of their carrying amount or fair value less cost to sell.

(m) Derivative instruments

The Group uses foreign currency derivative instruments to manage its exposure to foreign exchange risk. Forwards and options (Note 15) are used to reduce the effects of fluctuations in the foreign exchange rates and corresponding effects on business transactions denominated in foreign currencies. The Group has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of all derivatives are recognised immediately in results of operations in ‘Foreign currency exchange, net’ line.

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

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

(o) Asset retirement obligations

The Group’s land, buildings and equipment are subject to the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group’s asset retirement obligation (ARO) liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

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

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

(p) Borrowing activities

The Group’s general-purpose funding is principally obtained from commercial paper and short-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Borrowings are carried at the principal amount borrowed, net of unamortised discounts or premiums.

(q) Commitments and contingencies

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

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

(r) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognised 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 carryforwards. 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 recognised in income in the period when a different tax rate is enacted.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Pursuant to the provisions of SFAS No. 109, *Accounting for Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realisation of such assets to be more likely than not.

(s) Dividends

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

(t) Revenue recognition

Goods sold

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

Interest income

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

(u) Shipping and handling

Starting in the second quarter of 2006 the Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with revised delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. Previously, arrangements for product delivery were entirely the responsibility of customers. Portion of this expense in selling expenses in 2006-2008 varied from 80% to 86%.

(v) Expenses

Operating lease payments

Operating leases are recognised as an expense in the consolidated statement of income as incurred.

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(i)).

(w) 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 recognised as non-cash transactions.

(x) Recent accounting pronouncements

Accounting changes

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ('SFAS No. 157'). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was initially effective as of January 1, 2008, but in February 2008, the FASB delayed the effective date for applying this standard to nonfinancial assets and nonfinancial liabilities that are not currently recognised or disclosed at fair value in the financial statements until periods beginning after November 15, 2008. In February 2008, the FASB issued FSP No. FAS 157-1, *Application of FAS 157 to FAS 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under FAS 13* ('FSP No. FAS 157-1'). This FASB Staff Position (FSP) amends FASB Statement No. 157, Fair Value Measurements, to exclude FASB Statement No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS No. 141 or No. 141R, regardless of whether those assets and liabilities are related to leases. This FSP was effective upon the initial adoption of Statement 157. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP shall be effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP No. FAS 157, FAS 157-1 and FAS 157-3 did not have a material impact on the Group's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ('SFAS No. 159'). The Group did not adopt fair value option for financial assets and financial liabilities.

New pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51* ('SFAS No. 160'). SFAS No. 160

requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. SFAS No. 160 also establishes accounting and reporting standards for changes in a parents ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This Statement is effective as of January 1, 2009. The adoption of SFAS No. 160 did not have a material impact on the Group's consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ('SFAS No. 141(R)'), which replaces SFAS No. 141. SFAS No. 141(R) requires the acquiring entity in a business combination to recognise all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose certain information related to the nature and financial effect of the business combination. SFAS No. 141(R) also establishes principles and requirements for how an acquirer recognises any noncontrolling interest in the acquiree and the goodwill acquired in a business combination. SFAS No. 141(R) is effective on a prospective basis for business combinations for which the acquisition date is on or after January 1, 2009. Depending on the terms, conditions and details of the business combination, if any, that take place subsequent to January 1, 2009, SFAS No. 141(R) may have a material impact on the Group's consolidated financial statements. SFAS No. 141(R) also amends SFAS No. 109, Accounting for Income Taxes, such that adjustments made to deferred taxes and acquired tax contingencies after January 1, 2009, even for business combinations completed before this date, will impact net income. This provision of SFAS No. 141(R) may have a material impact on the Group's consolidated financial statements. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 141(R) will have on its consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ('FSP No. FAS 140-3'). This FSP applies to a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Earlier application is not permitted. The Group is currently evaluating the potential impact, if any, that the adoption of FSP No. FAS 140-3 will have on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ('SFAS No. 161'), which enhances the current disclosure framework contained in SFAS No. 133. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 161 will have on its consolidated financial statements.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45;* and Clarification of the Effective Date of FASB Statement No. 161. This FSP applies to credit derivatives within the scope of FASB Statement No. 133, hybrid instruments that have embedded credit derivatives, and guarantees within the scope of Interpretation 45. This FSP's amendment to Statement No. 133 also pertains to hybrid instruments that have embedded credit derivatives and requires a seller of credit derivatives shall disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives. This FSP amends paragraph 13(a) of Interpretation 45 to require disclosure of the current status of the payment/performance risk of the guarantee. The provisions of this FSP that amend Statement 133 and Interpretation 45 shall be effective for reporting periods (annual or interim) ending after November 15, 2008. The FSP clarifies the Board's intent about the effective date of FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, to be any reporting period beginning after November 15, 2008. The Group does not expect any material impact on the Group's consolidated financial statements relating to the adoption of this FSP.

In January 2009, the FASB issued FSP No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, which amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasises the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. The FSP shall be effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application is not permitted. The Group is currently evaluating the potential impact, if any, that it will have on its consolidated financial statements.

(y) Segment reporting

According to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, segment reporting follows the internal organisational and reporting structure of the Group. The Group's organisation comprises four reportable segments:

- steel segment, comprising production and sales of 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;
- 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;
- coke-chemical segment, comprising production and sales primary blast furnace coke, cupola coke, nut coke and small-sized coke supplying steel segment and third parties with raw materials.

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.

4 CASH AND CASH EQUIVALENTS

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Cash – Russian rubles	75,561	124,773	113,380
Cash – other currencies	79,688	23,165	44,852
Deposits – Russian rubles	317,772	947,322	466,254
Deposits – US dollars	1,591,632	20,486	1,612
Deposits – Euros	89,683	38,656	37,227
Deposits – other currencies	4,832	–	–
Other cash equivalents	821	239	1,888
	2,159,989	**1,154,641**	**665,213**

5 RESTRICTED CASH

Restricted cash balances as at December 31, 2006 totalled $8,372 and represented obligatory cash reserves, placed with the Central Bank of the Russian Federation by the subsidiary bank (Note 18(b)) in accordance with statutory requirements applicable to credit institutions.

6 INVESTMENTS

Balance sheet classification of investments:

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Short-term investments and current portion of long-term investments	8,089	153,462	37,261
Long-term investments, net	815,527	818,590	810,350
Total investments, net	**823,616**	**972,052**	**847,611**

As at December 31, 2008 major part of short-term investments are represented by loans issued.

Long-term investments include a loan issued to SIF S.A. (Note 28(b)).

(a) Trading securities

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Investments in shares	–	–	10,098
Corporate bonds	–	–	13,575
Eurobonds	–	–	–
Government bonds	–	–	4,767
Subfederal bonds	–	–	7,134
Other	65	–	1,398
	65	**–**	**36,972**

Investments in shares are represented by the marketable securities of companies which are listed on the OJSC ‘Stock Exchange Russian Trading System’. These shares and bonds were held by the Group’s subsidiary bank.

(b) Investments in associates

(thousands of US dollars)	As at December 31, 2008 Ownership	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Steel Invest & Finance (Luxembourg) S.A.	50.00%	50.00%	50.00%	654,134	817,942	805,463
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	–	–	6,488	–	–
OJSC Lipetsky Gipromez	–	–	43.44%	–	–	9
				660,622	**817,942**	**805,472**

Acquisition of Steel Invest & Finance (Luxembourg) S.A. shares

In December 2006 the Group acquired 50% of the issued shares of SIF S.A. for $805 million accounted for by the Group under the equity method in line with a strategic partnership with the Duferco Group who holds an equal participation in SIF S.A.'s share capital.

As at December 31, 2008 the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to $27,419 and was accounted for as if SIF S.A. was a consolidated subsidiary.

The transaction agreements provide for the call options for the Group and put and call options arrangements for Duferco in the event of future major corporate events, including future disagreements, modified in February 2008 to include:

- the Group has a perpetual option to acquire one share of SIF S.A. at the per share price of the Original Transaction and thus increase its participation in SIF S.A. to a controlling (50% plus one share);
- effective from December 18, 2010 the Group will have a perpetual option to buy, and Duferco will have a perpetual option to sell all of Duferco's interest in SIF S.A. at a price based on the change in the consolidated shareholders equity of SIF S.A. starting December 2006 to the exercise date.

Previously reported SIF S.A.'s fiscal year end was September 30. In May 2008 the shareholders approved change of SIF S.A.'s fiscal year to calendar year starting December 31, 2008.

Summarised financial information for equity-method investment in SIF S.A., is as follows:

(thousands of US dollars)	As at December 31, 2008
Current assets	2,289,830
Non-current assets	1,276,334
Total assets	**3,566,164**
Current liabilities	(2,393,931)
Non-current liabilities	(529,535)
Total liabilities	**(2,923,466)**
Equity	**642,698**

The revenues and net income of SIF S.A. for the twelve months, ended September 30, 2008 amount to $4,958,941 and $182,885, respectively.

At December 31, 2008 Group's retained earnings included a loss of $(151,212) related to SIF S.A.

In 2008 the Group's sales to SIF S.A. and its subsidiary were $543,682 (Note 28(a)).

6 INVESTMENTS (continued)

(c) Non-marketable securities

(thousands of US dollars)	As at December 31, 2008 Ownership	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Non-marketable securities, net of current portion:						
OJSC Lipetskenergo	–	–	14.11%	–	–	162
OJSC TGK-4	–	–	2.68%	–	–	2,972
OJSC Lipetsk energy sales Company	–	–	14.11%	–	–	36
OJSC Lipetsk mains systems	–	–	14.11%	–	–	400
OJSC Lipetskoblgaz	–	–	19.40%	–	–	778
Other				393	687	919
				393	687	5,267
Provision for other than temporary diminution in value				(3)	(39)	(389)
				390	**648**	**4,878**

In 2006 the Group sold a 11.96% share in OJSC Lebedinsky GOK to a third party for $400 million (Note 21(a)).

The interest in OJSC TGK-4 was acquired by the Parent Company as a result of a stock conversion of OJSC Lipetsk power generating Company in 2006. There was no cash outflow from the Group as a result of this transaction.

In December 2006 the Group concluded an agreement for the sale of its energy assets to a related party and subsequently sold them in February 2007 (Note 18(d)).

7 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Trade accounts receivable	964,257	996,669	667,369
Advances given to suppliers	123,588	313,550	97,458
Taxes receivable	489,352	416,696	311,993
Accounts receivable from employees	2,709	5,968	2,838
Other accounts receivable	178,996	207,181	84,287
	1,758,902	1,940,064	1,163,945
Allowance for doubtful debts	(271,055)	(243,613)	(13,453)
	1,487,847	**1,696,451**	**1,150,492**

As at December 31, 2007 and 2006, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totalled $194,648 and $473,841 at December 31, 2007, $159,826 and $236,514 at December 31, 2006, respectively.

As at December 31, 2006, the Group also had accounts receivable from Tuscany Intertrade (UK) which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by this debtor totalled $104,155 at December 31, 2006.

As at December 31, 2008 and December 31, 2007, the Group had other accounts receivable of $95,033 and $73,051, respectively, from companies for which a 100% allowance was recorded. These accounts receivable were acquired by the Group through a business combination (Note 25(c)).

As at December 31, 2006 the Group had accounts receivable of $37,089 from the sellers of coal and coke-chemical assets due to the adjustment of the original purchase price (Note 25(e)), which is included in other accounts receivable.

8 INVENTORIES

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Raw materials	833,236	756,983	554,126
Work in process	326,168	310,832	199,243
Finished goods and goods for resale	480,135	209,878	129,421
	1,639,539	1,277,693	882,790
Provision for obsolescence	(83,777)	(41,260)	(25,850)
	1,555,762	**1,236,433**	**856,940**

As at December 31, 2008 and December 31, 2007, inventories of $35,900 and $82,920, respectively, served as collateral for certain borrowings (Note 13).

9 OTHER CURRENT AND NON-CURRENT ASSETS

Positive fair values of unrealized forward exchange contracts, amounting to nil, $68,392 and $6,323 respectively, are included in other current assets as at December 31, 2008, 2007 and 2006 (Note 15).

Other current and non-current assets as at December 31, 2006 included short-term and long-term loans provided by the subsidiary bank (Note 18(b)) totalled $241,030 (net of allowance) and $80,435, respectively.

10 PROPERTY, PLANT AND EQUIPMENT

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Land	91,553	88,353	77,191
Mineral rights	527,162	616,620	583,962
Asset retirement cost	–	–	24,277
Buildings	1,385,103	1,428,223	1,201,439
Land and buildings improvements	1,213,582	1,339,274	1,204,403
Machinery and equipment	5,699,662	5,841,034	5,030,473
Vehicles	333,351	333,209	278,711
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,355,259	2,197,131	773,388
Leased assets	310,534	457,191	8,460
Other	72,169	79,393	76,763
	11,988,375	12,380,428	9,259,067
Accumulated depreciation	(5,162,236)	(5,930,551)	(5,270,939)
	6,826,139	**6,449,877**	**3,988,128**

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as at January 1, 2000. As at December 31, 2008, 2007 and 2006, the net book value of these items amounted to 4%, 6% and 12% of the total net book value of property, plant and equipment, respectively.

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, 2008 is $31,242.

The other major part of mineral rights relate to mining segment, and was acquired by the Group in 2004 through a business combination. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2008 and 2007, property, plant and equipment of $272,678 and $390,816, respectively, (net book value) were collaterized against certain borrowings (Note 13).

11 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

(thousands of US dollars)	
Balance as at December 31, 2005	**173,357**
Acquired in new subsidiaries (Note 25)	370,020
Disposal of subsidiary	(17,749)
Cumulative translation adjustment	34,075
Balance as at December 31, 2006	**559,703**
Acquired in new subsidiaries (Note 25)	592,171
Cumulative translation adjustment	37,585
Balance as at December 31, 2007	**1,189,459**
Acquired in new subsidiaries	54,772
Acquired in existing subsidiaries	43,188
Change associated with purchase price adjustment (Note 25(c))	(310,988)
Goodwill associated with disposal assets held for sale (Note 18(a))	(77,238)
Goodwill impairment	(128,389)
Cumulative translation adjustment	(157,136)
Balance as at December 31, 2008	**613,668**

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2008 of a controlling interest in Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. amounted to $2,055 and was allocated to the steel segment. Preliminary estimated goodwill in Beta Steel Corp. amounted to $35,727 and was also allocated to the steel segment. Goodwill arising from the other immaterial acquisitions in 2008 (Note 25(h)) amounted to $16,991 in new subsidiaries and $43,188 in existing subsidiaries and was allocated to the steel and mining segments. Calculated based on the Group's management best estimate of final consideration, the goodwill arising from the acquisition of a controlling interest in OJSC Maxi-Group and its subsidiaries in 2007 amounted to $281,183 and was allocated to the long products segment (Note 25(c)) and was subsequently impaired. Goodwill arising from the acquisition of a controlling and minority interests in OJSC Altai-koks and its subsidiaries in 2006 amounted to $276,348 and was allocated to the coke-chemical segment. Goodwill arising from the acquisition of a controlling interest in LLC VIZ-Stal and its subsidiaries in 2006 amounted to $58,112 and was allocated to the steel segment. Goodwill arising from the acquisition of a controlling interest in OJSC Combinat KMAruda in 2006 amounted to $16,798 and was allocated to the mining segment (Note 25(f)).

Goodwill impairment

The Group performed a test for impairment of goodwill at December 31, 2008 using the income approach. As a result the Group determined that the goodwill associated with the Long product segment was partially impaired, recording an estimated charge of $128,389 in 'Impairment losses' line in the consolidated statement of income for the year ended December 31, 2008. The Group's management believes that the current global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill.

The Group performed a test for impairment of goodwill at December 31, 2007 and 2006 which indicated no impairment at such dates.

(b) Other intangible assets

	Subsidiary	Total useful life, months	**Gross book value as at December 31, 2008**	Gross book value as at December 31, 2007	Gross book value as at December 31, 2006
	Note 25				
Industrial intellectual property	LLC VIZ-Stal	149	58,160	69,614	64,895
Customer base	LLC VIZ-Stal	125	110,456	132,207	123,575
Customers relationships (oil)	OJSC TMTP	66	–	12,740	11,876
Customers relationships (dry cargo)	OJSC TMTP	66	–	14,113	13,156
Customers relationships	DanSteel A/S	72	4,470	5,352	4,988
Beneficial lease interest	Beta Steel Corp.	38	8,700	–	–
Customers relationships (electricity)	Beta Steel Corp.	18	7,200	–	–
Customer base	Novexco (Cyprus) Ltd. Novex Trading (Swiss) S.A.	180	89,910	–	–
			278,896	234,026	218,490
Accumulated amortisation			(43,613)	(44,942)	(19,460)
			235,283	**189,084**	**199,030**

The intangible assets were acquired in business combinations (Note 25) and met the criteria for separate recognition outlined in SFAS No. 141. They were recorded under the provisions of SFAS No. 141 at fair values at the date of acquisition, based on their appraised value.

	amortisation expense
Aggregate amortisation expense	
For the year ended December 31, 2008	(16,276)
Estimated amortisation expense in subsequent annual periods	
2009	(26,929)
2010	(23,729)
2011	(21,999)
2012	(21,277)
2013 and later	(141,349)

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Trade accounts payable	489,486	266,640	130,396
Advances received	54,127	165,624	121,654
Customers' deposits and accounts in the subsidiary bank	–	–	201,638
Taxes payable other than income tax	81,966	65,322	66,297
Accounts payable and accrued liabilities to employees	129,724	159,578	104,591
Dividends payable	4,859	4,877	4,602
Short-term capital lease liability	35,722	32,273	1,379
Negative fair values of unrealized forward contracts (Note 15)	495,540	–	–
Other accounts payable	587,789	700,620	33,762
	1,879,213	**1,394,934**	**664,319**

Other accounts payable as at December 31, 2008 include payables to the Company under common control for OJSC TMTP shares of $241,833 (Note 18(a)) and amount of settlement with respect to dispute with DBO Holdings Inc. totalled $234,000 (Note 30(b)).

As at December 31, 2007 the Group had accounts payable of $555,578 to Mr. Maximov (minority shareholder of OJSC Maxi-Group) in respect of the purchase from him of his shares in OJSC Maxi-Group, which was included in other accounts payable. This amount was reduced as at December 31, 2008 as a result of the first payment for the acquired shares for $299,928 (as at the date of the transaction) and subsequent write off of the remaining accounts payable resulting from the purchase price adjustment based on the Group's management revised estimate of the remaining consideration due (Note 25(c)).

13 SHORT-TERM AND LONG-TERM BORROWINGS

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Parent Company			
Loan, RUR denominated, with interest rate of 9.6% per annum	–	203,933	–
Loans, US$ denominated, with interest rate of LIBOR +1.2% – 7% per annum	1,657,105	–	155,026
Maxi-Group			
Russian rubles			
Loans with interest rates of 10.3% – MosPrime1M +7% per annum, mature 2008-2013	908,002	602,456	–
Bonds with interest rates of 10% – 12% per annum	980	93,656	–
Other borrowings	56,065	92,551	–
US dollars			
Loans with interest rates of LIBOR (1 m) +3.75% – 17% per annum, mature 2009-2010	119,431	282,394	–
Other borrowings	–	10,250	–
Euros			
Loans with interest rates of EURIBOR (6 m) +1.3% – 13.75% per annum, mature 2008-2017	122,559	256,700	–
Other borrowings	19,631	33,902	–
	2,883,773	**1,575,842**	**155,026**

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Other companies			
Loans, RUR denominated, with interest rates of 8% – 25% per annum	81,825	14,124	83,970
Loan, US$ denominated, with interest rate of 5% per annum	–	19,677	13,829
Loan, EURO denominated, with interest rate of 5.38% per annum	43,711	–	15,805
Other borrowings	269	152	28,305
	3,009,578	**1,609,795**	**296,935**
Less: short-term loans and current maturities of long-term loans	(1,079,806)	(1,536,570)	(248,782)
Long-term borrowings	**1,929,772**	**73,225**	**48,153**

Included in short-term loans and current maturities of long-term loans of $1,079,806 above are loans with breaches of certain covenants of $178,768.

The Group's long-term borrowings at December 31, 2008 mature between 2 to 9 years.

As at December 31, 2008 and December 31, 2007, more than 40% and 85%, respectively, of total short-term and long-term borrowings of the Group are payable by Maxi-Group.

As at December 31, 2008 and December 31, 2007, loans of $50,204 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of OJSC Maxi-Group (Note 28(f)). As at December 31, 2008 and December 31, 2007, loans of $78,563 and $281,081, respectively, were collateralized with the shares of Maxi-Group companies.

The payment scheduled for long-term loans is as follows:

(thousands of US dollars)	
2010	564,430
2011	516,881
2012	523,086
2013	322,063
Remainder	3,312
	1,929,772

(a) New borrowings, received in the reporting period

The amount of loans, received by the Group under the new loan agreements concluded in the year ended December 31, 2008, and outstanding as at December 31, 2008, is $2,660,139.

Such loan agreements contain certain debt covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations 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, subjective acceleration clauses in relation to unfavorable economic conditions and performance of the borrowers as well as legal claims in excess of certain amount, where reasonable expectation of negative outcome exist and covenants triggered by any failure of the borrower to fulfill the contractual obligations.

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

(b) Loans covenants and restructuring of Maxi-Group's borrowings

In 2007, the Group acquired a controlling stake in OJSC Maxi-Group (Note 25(c)). The Maxi-Group companies had certain debts which were in breach of restrictive covenants.

Loans covenants – Maxi-Group

Due to the breach of certain restrictive covenants and terms of the pledge agreements long-term loans of $56,048 were reclassified to short-term loans as at December 31, 2008 ($148,241 as at December 31, 2007). As a result of this breach the lenders can request payment of $178,768 of short-term loans upon notice, including loans with original short-term maturities of $122,720.

None of the bank loans where the breach of loan's covenants existed at December 31, 2008 and 2007 has been called by the lenders either at December 31, 2008 and 2007 or during the subsequent period through to the date of these consolidated financial statements.

The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure future compliance with the terms of the loan agreements.

Restructuring of borrowings

Immediately following the acquisition of the Maxi-Group (Note 25(c)) the Parent Company commenced the restructuring of the borrowings of the Maxi-Group entities which is presently continuing.

For the purpose of the refinancing Maxi-Group companies' have entered into the following major loan agreements:

- August 2008, a nonrevolving Russian ruble denominated credit lines agreements with a number of leading Russian banks totalling approximately $82,000 and $150,000 and maturing in February 17, 2010 and August 14, 2013, respectively.
- September 2008, a nonrevolving Russian ruble denominated credit lines agreements with a leading Russian bank and a subsidiary of a European bank totalling approximately $178,000 and $20,000 and maturing in September 8, 2013 and September 23, 2011, respectively.
- December 2008, a nonrevolving Russian ruble denominated credit line agreement with a leading Russian bank totalling approximately $30,054 and maturing in November 28, 2013.

The Group's management expects to continue the restructuring of the Maxi-Group's credit portfolio in the first half of 2009. The restructuring is expected to reduce the numbers of providers of credit, to lengthen the maturity periods and to change favourably the covenants applying to loans received. As previously reported the Group engaged two leading Russian banks for rendering services on setting up a Russian ruble denominated syndicated loan totalling $510,000, however final satisfactory financial terms were not achieved and as a result no transaction was consummated.

14 OTHER LONG-TERM LIABILITIES

(thousands of US dollars)	**As at December 31, 2008**	As at December 31, 2007	As at December 31, 2006
Customers' deposits in subsidiary bank	–	–	53,547
Long-term capital lease liability (Note 22)	128,712	316,558	6,690
Asset retirement obligations	–	–	134,635
Other long-term liabilities	232	58	–
	128,944	**316,616**	**194,872**

15 FORWARD CONTRACTS

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. The Group uses Euro and US dollar forward sales and purchases contracts with maturities no longer than 12 months to exchange Euros and US dollars to Russian rubles and back, to manage its exposure to foreign currencies price fluctuations.

Positive fair values of unrealized forward exchange contracts, amounting to nil, $68,392 and $6,323 respectively, are included in other current assets as at December 31, 2008, 2007 and 2006. Negative fair values of unrealized forward exchange and option contracts, amounting to $(495,540) are included in other accounts payable as at December 31, 2008 (the corresponding amounts were immaterial as at December 31, 2007 and 2006).

In accordance with SFAS No. 157, the fair value of foreign currency derivatives is determined using Level 2 inputs, which are defined as 'significant other observable' inputs. The inputs used include quoted prices for similar assets or liabilities in active market. Fair value is determined as the sum of the differences between the discounted market forward rate in the settlement month prevailing at December 31, 2008 and the appropriate contract settlement rate, multiplied by the respective notional amount of the contract.

The amounts recorded represent the US dollar equivalent of the commitments to sell and purchase foreign currencies during the next twelve months (no commitments to purchase foreign currencies as at December 31, 2007). The table below summarises by major currency the contractual amounts, positive and negative fair values of the Group's unrealized forward exchange and option contracts in US dollars.

	As at December 31, 2008		As at December 31, 2007		As at December 31, 2006	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	1,411,825	(353,169)	1,767,295	63,247	1,451,076	6,075
Euro	915,723	(142,371)	707,389	5,145	191,315	248
	2,327,548	**(495,540)**	**2,474,684**	**68,392**	**1,642,391**	**6,323**

During 2008, 2007 and 2006 gains/(losses) from realized forward exchange and option contracts amounted to $12,138, $37,911 and $(107), respectively, these gains and losses were included in 'Foreign currency exchange, net' line in consolidated statements of income.

16 MINORITY INTEREST

(thousands of US dollars)

Balance as at December 31, 2005	**92,576**
Minority's share in subsidiaries' net income	25,773
Acquisitions of new subsidiaries (Note 25)	41,765
Purchase of the minority interest in existing subsidiaries	(20,339)
Dividends paid to minority shareholder of existing subsidiaries	(20,228)
Minority interest due to dilution of interest in existing subsidiary	3,037
Minority interest in discontinued operations	938
Disposal of a stake in a non-wholly owned subsidiary	(777)
Cumulative translation adjustment	10,680
Balance as at December 31, 2006	**133,425**
Minority's share in subsidiaries' net income	23,490
Acquisitions of new subsidiaries (Note 25)	(17,144)
Purchase of the minority interest in existing subsidiaries	(2,686)
Dividends paid to minority shareholder of existing subsidiaries	(12,906)
Disposal of a stake in non-wholly owned subsidiaries (Note 18(b),(d))	(26,424)
Cumulative translation adjustment	9,058

16 MINORITY INTEREST (continued)

(thousands of US dollars)

Balance as at December 31, 2007	**106,813**
Minority's share in subsidiaries' net income	(1,730)
Acquisitions of new subsidiaries	2,146
Purchase of the minority interest in existing subsidiaries	(84,913)
Disposal of the minority interest in existing subsidiaries	306
Dividends paid to minority shareholder of existing subsidiaries	(12,383)
Change of the minority interest associated with purchase price adjustment	24,942
Cumulative translation adjustment	(2,081)
Balance as at December 31, 2008	**33,100**

17 STOCKHOLDERS' EQUITY

(a) Stock

As at December 31, 2008, 2007 and 2006, 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 annual stockholders' meeting.

(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. At December 31, 2008, 2007 and 2006 the retained earnings of the Parent Company, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $7,551,800, $6,972,850 and $5,645,329, converted into US dollars using exchange rates at December 31, 2008, 2007 and 2006, respectively.

The dividend policy, which was approved by the General Shareholders' Meeting on June 6, 2006, provides for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

In September 2008, the Parent Company declared interim dividends for the six months ended June 30, 2008 of 2 Russian rubles per share for the total of $471,338. Dividends payable amounted to $4,859 at December 31, 2008 (Note 12).

In June 2008, the Parent Company declared dividends for the year ended December 31, 2007 of 3 Russian rubles per share for the total of $737,682, including interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142.

In September 2007 the Parent Company declared interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142. Dividends payable amount to $4,877 at December 31, 2007 (Note 12).

In June 2007, the Parent Company declared dividends for the year ended December 31, 2006 of 3 Russian rubles per share for the total of $683,267, including interim dividends for the six months ended June 30, 2006 of 1.5 Russian ruble per share for the total of $336,072.

In June 2006 the Parent Company declared dividends for the year ended December 31, 2005 of 3 Russian rubles per share for the total of $659,573, including interim dividends for the six months ended June 30, 2005 of one Russian ruble per share for the total of $210,792. Dividends payable amount to $4,602 at December 31, 2006 (Note 12).

18 DISPOSALS OF ASSETS

(a) Disposal of TMTP Group

In December 2008 the Parent Company reached an agreement to sell, to a Company under common control, its full controlling share (69.41%) in OJSC TMTP for a total consideration of $258,182 (as at the date of payment). The deal closed in January 2009.

Under the terms of the agreement the Company under common control is obliged to offer all the Parent Company's minority shareholders the opportunity to acquire OJSC TMTP's shares for 1.17 Russian rubles per one ordinary share on a pro rata basis in accordance with their shareholding in the Parent Company as of the transaction date.

Management of the Group plans to continue to use the shipping services provide by OJSC TMTP. Accordingly, operations of OJSC TMTP in these consolidated financial statements are recognised within continuing operations of the Group within other segments.

In these consolidated financial statements the assets and liabilities of OJSC TMTP and its subsidiaries are classified as assets and liabilities held for sale. Associated minority interest of disposal group of $41,103 was included into 'Minority interest' line in the consolidated balance sheet as at December 31, 2008.

In 2008 cash consideration for OJSC TMTP shares was received and corresponding liability to a Company under common control is included in 'Accounts payable and other liabilities' line of the consolidated balance sheet as at December 31, 2008.

The carrying amounts of the major classes of assets and liabilities of OJSC TMTP at December 31, 2008 are as follows (in relation to the 100% stake):

(thousands of US dollars)

Current assets	34,432
Goodwill	77,238
Other non-current assets	117,048
Total assets	**228,718**
Current liabilities	(10,959)
Non-current liabilities	(5,393)
Minority interest, related to OJSC TMTP subsidiaries	(663)
Total liabilities	**(17,015)**
Net assets	**211,703**

Information on OJSC TMTP transactions, for 2008 is as follows:

(thousands of US dollars)

Sales revenue	87,746
Net income	20,971

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors in February 2006, the interest in OJSC TMTP was classified as a none-core asset.

18 DISPOSALS OF ASSETS (continued)

(b) Disposal of a subsidiary bank

In June 2007, the Group completed the sale, to a related party (OJSC Bank Zenit) (Note 28(d)), of its full share in OJSC Lipetskcombank (54.88%) for a total consideration of $47,662. A pre-tax gain on this transaction of $24,097 was recognised by the Group, and included within the 'Gain from disposal of subsidiaries' line in the consolidated statement of income for the year ended December 31, 2007.

The carrying amounts of the major classes of assets and liabilities of OJSC Lipetskcombank at June 29, 2007 are as follows (in relation to a 100% stake):

(thousands of US dollars)	
Current assets	509,508
Non-current assets	86,031
Total assets	**595,539**
Current liabilities	(507,642)
Non-current liabilities	(44,759)
Total liabilities	**(552,401)**
Net assets	**43,138**

Information on OJSC Lipetskcombank transactions, for the period from January 1, 2007 to June 29, 2007 is as follows:

(thousands of US dollars)	
Income	33,823
Net loss	(237)

This transaction was carried out in line with the previously announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors in February 2006, the interest in OJSC Lipetskcombank was classified as a none-core asset.

(c) Disposal of Prokopievskugol group

In April 2007, a subsidiary of the Parent Company – Kuzbass Asset Holdings Limited – sold to MUE Municipal Sustenance Department, owned by the Administration of Prokopyevsk (Kemerovo Region), the Group's coal producing companies, the Prokopievskugol group, for one US dollar. A pre-tax gain on this transaction of $57,577 was recognised by the Group, and included in 'Gain from disposal of subsidiaries' line.

Due to the high level of production cost at those companies and the inability of the Group to significantly cut costs without closing down loss-making mines and operations and, hence, implement personnel lay offs the Group took a decision to sell the Prokopievskugol group. Given the fact that proper attention to social aspects is a key issue of such restructuring, the Group management accepted the offer referred to above.

During 2006, the Parent Company granted an interest-free loan to Prokopievskugol group companies in the total amount of approximately $140,000. In February 2007, the Parent Company assigned its rights under the loan to a third party for a total amount of $30,000. In March 2007 the third party waived its right to claim the loan from Prokopievskugol group entirely (a related income tax effect of $33,413 was accrued by the Group and included in the 'Income tax' line). A net pre-tax gain on this operation of $30,028 was recognised by the Group, and included within the 'Other expenses, net' line.

The carrying amounts of the major classes of assets and liabilities of Prokopievskugol group companies at April 2, 2007 were as follows (in relation to 100% stake):

(thousands of US dollars)

Current assets	44,364
Non-current assets	114,401
Total assets	**158,765**
Current liabilities	(40,947)
Non-current liabilities	(175,395)
Total liabilities	**(216,342)**
Negative net assets	**(57,577)**

Information on the Prokopievskugol group companies' transactions, before intercompany eliminations, for the period from January 1, 2007 to April 2, 2007 is as follows:

(thousands of US dollars)

Sales revenue	37,865
Net income (including gain, less tax, on entire waiving by a third party of the right to claim the loan totalled $106,400)	74,412

(d) Disposal of energy assets

In February 2007, the Parent Company completed the sales to a Company under common control of its full controlling interest in LLC Lipetskaya municipal energy Company (51.00%) and minority interests in several other investees for $78,469.

The carrying amounts of the major classes of assets and liabilities of LLC Lipetskaya municipal energy Company and its subsidiary at February 28, 2007 were as follows (in relation to 100% stake):

(thousands of US dollars)

Current assets	22,663
Non-current assets	7,067
Total assets	**29,730**
Current liabilities	(18,058)
Total liabilities	**(18,058)**
Net assets	**11,672**

Information on LLC Lipetskaya municipal energy Company and its subsidiary transactions, for the two months ended February 28, 2007 is as follows:

(thousands of US dollars)

Sales revenue	28,860
Net income (less income tax of $486)	2,403

These transactions were carried out in line with the Group's strategic development planned for 2007 to 2011. In accordance with a resolution passed by the Board of Directors in February 2006, the interests in the energy companies were classified as none-core assets.

19 EARNINGS PER SHARE

(thousands of US dollars)	**Year ended December 31, 2008**	Year ended December 31, 2007	Year ended December 31, 2006
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	2,278,741	2,247,283	2,065,963
Basic and diluted net income per share (US dollars)	**0.3802**	**0.3750**	**0.3447**

Basic net income 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, after giving retroactive effect to any stock splits.

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, 2008, 2007 and 2006.

The Parent Company does not have potentially dilutive shares outstanding.

20 INCOME TAX

(thousands of US dollars)	**For the year ended December 31, 2008**	For the year ended December 31, 2007	For the year ended December 31, 2006
Current income tax expense	962,920	799,078	745,337
Deferred income tax expense/(benefit):			
origination and reversal of temporary differences	(259,446)	37,925	(38,732)
Total income tax expense	**703,474**	**837,003**	**706,605**

The corporate income tax rate dominantly applicable to the Group was 24% in 2008, 2007 and 2006.

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

(thousands of US dollars)	**For the year ended December 31, 2008**	For the year ended December 31, 2007	For the year ended December 31, 2006
Income from continuing operations before income tax	3,131,697	3,156,827	2,621,055
Income tax at applicable tax rate	751,607	757,638	629,053
Decrease in income tax resulting from:			
changing from 9% to 0% of the tax rate applicable to income received in form of dividends since January 1, 2008	(77,911)	–	–
changing from 24% to 20% of the income tax rate from January 1, 2009	(64,336)	–	–
Increase in income tax resulting from:			
non-deductible expenses and unrecognised tax assets	94,114	79,365	77,552
Total income tax expense	**703,474**	**837,003**	**706,605**

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

(thousands of US dollars)	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Deferred tax assets			
Accounts payable and other liabilities	108,433	23,160	17,922
Non-current liabilities	30,615	64,367	16,779
Accounts receivable	17,254	5,349	1,250
Other	11,439	2,881	1,821
	167,741	95,757	37,772
Deferred tax liabilities			
Property, plant and equipment	(399,681)	(507,459)	(470,630)
Intangible assets	(28,099)	(46,788)	(51,579)
Inventories	(27,016)	(21,338)	(20,159)
Other	(9,820)	(105,739)	(33,051)
	(464,616)	(681,324)	(575,419)
Total deferred tax liability	**(296,875)**	**(585,567)**	**(537,647)**

21 GAINS ON INVESTMENTS

(a) Disposal of OJSC Lebedinsky GOK shares

In January 2006, the Parent Company sold to third parties 11.96% of the outstanding common shares of OJSC Lebedinsky GOK for a consideration of $400,000; the carrying value of these shares at December 31, 2005 was $9,456 (Note 6(c)). This transaction was consummated in line with the Group's strategy.

The Group recognised a gain on this transaction calculated as the difference between the consideration received and carrying value of these shares as at the date of disposal in the amount of $390,373, as at the transaction date, (included within the '(Losses)/gains on investments, net' line (totalling $(23,522))) in the consolidated statement of income for the year ended December 31, 2006.

(b) Disposal of OJSC Combinat KMAruda shares

In August 2006 the Parent Company signed an agreement for the disposal of 92.04% of the outstanding common shares of OJSC Combinat KMAruda to a third party, for a consideration of $302.5 million. Part of the consideration was settled by an interest bearing promissory note of $25 million which was due and settled in December 2006. This transaction was carried out in accordance with the Group's corporate restructuring plan. The carrying amounts of the major classes of assets and liabilities of OJSC Combinat KMAruda as at August 31, 2006 were as follows (in relation to 100% stake):

(thousands of US dollars)	
Current assets	9,277
Non-current assets	67,590
Total assets	**76,867**
Current liabilities	(8,451)
Deferred income tax liability	(10,628)
Total liabilities	**(19,079)**
Net assets	**57,788**

The Group recognised a gain on this transaction calculated as the difference between the consideration received and net assets as at the date of disposal and goodwill disposed of, in the amount of $231,605, as at the transaction date.

The revenues and net income of OJSC Combinat KMAruda, previously related to the mining segment, for the eight months ended August 31, 2006 were $49,394 and $11,171, respectively. The carrying amount of goodwill, related to OJSC Combinat KMAruda at August 31, 2006 was $17,733.

22 CAPITAL AND OPERATIONAL LEASES

	Capital leases
Future minimum lease payments	
2009	75,783
2010	61,144
2011	46,943
2012	40,781
2013	28,220
Remainder	28,028
Total minimum lease payments	**280,899**
Less: amount representing estimated executory costs (including taxed payable by the lessor) and profit thereon, included in total minimum lease payments	(15,693)
Net lease payments	**265,206**
Less: amount representing interest	(56,927)
Present value of minimum lease payments	**208,279**
Short-term capital lease liability, including advances given	49,303
Less: advances given	(13,581)
Short-term capital lease liability	35,722
Long-term capital lease liability, including advances given	158,976
Decrease of advances given amount	(30,264)
Long-term capital lease liability	**128,712**

The average capital lease contracts term is 6 years.

The discount rate used for calculation of the present value of the minimum lease payments was 10.5% for assets received in 2008, 2007 and 2006.

Capital lease charges of $12,867, $6,333 and $860 were recorded in the consolidated statement of income for the years ended December 31, 2008, 2007 and 2006, respectively.

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2008 were acquired by the Group through a business combination (Note 25(c)).

At December 31, 2008, 2007 and 2006, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

(thousands of US dollars)	**As at December 31, 2008**	As at December 31, 2007	As at December 31, 2006
Machinery and equipment	139,643	323,126	–
Vehicles	170,891	134,065	8,460
	310,534	457,191	8,460
Accumulated depreciation	(44,501)	(39,432)	(690)
Net value of property, plant and equipment obtained under capital lease arrangements	**266,033**	**417,759**	**7,770**

The Group incurred expenses in respect of operational leases of $2,582, $11,251 and $10,538 in 2008, 2007 and 2006, respectively.

23 NON-CASH TRANSACTIONS

Approximately $86,800, $74,000 and $16,900 of the Group's 2008, 2007 and 2006 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods supplied.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

In 2008, 2007 and 2006 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2008, 2007 and 2006, were $107,793, $448,731 and $8,460, respectively (Note 22).

24 FAIR VALUE OF 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 (excluding forward contracts – Note 15), and short-term loans approximate to a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments and notes receivable, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in 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 fair values of trading and available-for-sale securities are based on quoted market prices for these or similar instruments.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of Beta Steel Corp. shares

In October 2008, the Group acquired a 100% of interest in Beta Steel Corp. The acquired Company was consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be October 2008. The initial amount paid to the sellers $190,442 was subject to adjustment in accordance with the terms of the share purchase agreement. The remaining amount of the purchase price totalled $161,023 was paid to the banks as the repayments of Beta Steel Corp's loans in accordance with share-purchase agreement provisions.

The acquisition of Beta Steel Corp. was made as a part of the Group's strategy of product diversification and increasing sales of finished products in its core markets.

The Group is in the process of completing the purchase price allocation, including the assessment of the fair value of property, plant and equipment and intangible assets. The following table summarises the preliminary fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. The resulting goodwill primarily reflects the control premium paid for the acquisition:

(thousands of US dollars)

Current assets	60,356
Intangible assets	15,900
Property, plant and equipment	301,591
Other non-current assets	36
Preliminary goodwill	35,727
Total assets acquired	**413,610**
Current liabilities	(52,075)
Non-current liabilities	(269)
Deferred income tax liability	(9,801)
Total liabilities assumed	**(62,145)**
Net assets acquired	**351,465**
Less: cash acquired	(3,308)
Net assets acquired, net of cash acquired	**348,157**

The revenues and net loss of Beta Steel Corp. in 2008 were $404,848 and $(45,882), respectively.

(b) Acquisition of international traders

In December 2007, the Group reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A., which from December 2007 conduct the business previously operated by Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK) (Note 27(c)). The acquired companies were consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be May 2008. The amount paid to the seller was $119,935.

This acquisition is in line with the Group's strategy to establish an international trading structure. This acquisition will also give the Group better control over export sales and further enhance its presence in core markets.

As both companies were acquired within one share-purchase agreement and share a single client base as their main asset, Group's management believes that it is more practical to disclose the information on assets and liabilities of the acquired entities in the consolidated format.

The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. Property, plant and equipment and intangible assets were recorded at fair values:

(thousands of US dollars)

Current assets	866,137
Intangible assets	89,910
Other non-current assets	109
Goodwill	2,055
Total assets acquired	**958,211**
Current liabilities	(838,276)
Total liabilities assumed	**(838,276)**
Net assets acquired	**119,935**
Less: cash acquired	(417,840)
Net assets acquired, net of cash acquired	**(297,905)**

The revenues and net income of Novex Trading (Swiss) S.A. and Novexco (Cyprus) Ltd. in 2008 were $4,978,904 and $4,475, respectively.

In the course of initially conducted consolidation of international traders one-off change in the Group's operating assets and liabilities has occurred with the reflection of corresponding effects in operating activities in consolidated statement of cash flow.

(c) Acquisition of OJSC Maxi-Group shares

In November 2007, the Parent Company entered into a binding agreement and a shareholder agreement in relation to the acquisition of a controlling stake in OJSC Maxi-Group as well as agreements granting short-term loans (secured by a pledge of shares in companies of Maxi-Group) of $398,152, half of which was granted before the acquisition date.

In December 2007, in accordance with the terms of the agreement the Parent Company acquired a 50% plus one share interest in OJSC Maxi-Group. In accordance with the formula defined in the share purchase agreement, the Group has estimated a preliminary purchase price of $558,515 as at the date of obtaining control and accrued the corresponding liability as at December 31, 2007 (Note 12). In January 2008, the Parent Company paid $299,928 of the purchase price (translated at the exchange rate at the date of payment). The final payment between the parties was required after completion of the Maxi-Group due diligence process and finalisation of the corresponding price adjustment. As at the date of these consolidated financial statements the Maxi-Group due diligence process and corresponding price adjustment are not finalised.

Considering expiration of the time giving for the purchase price allocation on corresponding assets and liabilities in accordance with SFAS No. 141, Group's management prepared its best estimate of the Maxi-Group shares purchase price of $299,088 (as at the transfer of the ownership date).

The acquired companies were consolidated for the first time as at the transfer of the ownership date of OJSC Maxi-Group's shares, which management considers to be December 2007.

This acquisition is in line with the Group's strategy to expand its operations in the Russian market. The acquisition will give the Group a significant share of the domestic long products market and lead to full self-sufficiency in steel scrap.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The Group completed the best estimated purchase price allocation including assessment of fair value of property, plant and equipment, intangible assets and tax, legal, environmental and other contingencies. The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. The resulting goodwill primarily reflects the control premium paid for the acquisition:

(thousands of US dollars)

Current assets	561,301
Property, plant and equipment	1,936,953
Other non-current assets	531
Goodwill	281,183
Total assets acquired	**2,779,968**
Current liabilities	(1,154,228)
Non-current liabilities	(1,277,623)
Deferred income tax liability	(29,729)
Minority interest	(19,300)
Total liabilities assumed	**(2,480,880)**
Net assets acquired	**299,088**
Less: cash acquired	(25,047)
Net assets acquired, net of cash acquired	**274,041**

The major differences between preliminary purchase price allocations, as previously disclosed and the adjusted purchase price as at December 31, 2007 are primarily due to the completion of an independent appraisal of property, plant and equipment and the adjustment of the fair value of assets acquired and liabilities assumed as a consequence of the purchase price adjustment.

The purchase price negotiation is not finalised and under discussion between the parties, however Group's management believes that the final adjustment, if any, will not be material.

(d) Acquisition of LLC VIZ-Stal

In August 2006, the Parent Company acquired from a third party a 100% stake in LLC VIZ-Stal, a steel-rolling Company, for a consideration of $550.7 million, including consulting costs in the amount of $0.7 million. This acquisition was made consistent with the Group's vertical integration strategy, aiming for increasing production volumes of high-value-added products. The acquired Company was consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be August 2006.

Prior to acquisition, the Parent Company was a supplier of different steel products for LLC VIZ-Stal with total sales of $78,681 for the reporting period in 2006.

The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by independent appraiser:

(thousands of US dollars)

Current assets	159,443
Property, plant and equipment and other non-current assets	380,017
Intangible assets	185,190
Goodwill (Note 11(a))	58,112
Total assets acquired	**782,762**
Current liabilities	(106,098)
Non-current liabilities	(1,795)
Deferred income tax liability	(124,170)
Total liabilities assumed	**(232,063)**
Net assets acquired	**550,699**
Less: cash acquired	(12,291)
Net assets acquired, net of cash acquired	**538,408**

Useful lives of the acquired intangible assets are as follows: 125 months for the customer base and 149 months for industrial intellectual property. Carrying value of the acquired intangible assets are $121,312 and $63,878 as at acquisition date, respectively.

Under the purchase agreement the Group has certain rights to make claims against the vendor in respect of additional tax claims relating to any period prior to the acquisition of the Company by the Group.

(e) Acquisition of coal and coke-chemical assets

In April 2006, the Parent Company concurrently acquired 82.23% of the outstanding common shares of OJSC Altai-koks and 100% of the outstanding common shares of a holding Company Kuzbass Asset Holdings Limited, Gibraltar, which owns 100% of the Prokopievskugol group of coal companies, for a consideration of $564.1 million and $187.5 million respectively out of which $564.1 million and $99 million had been paid. In accordance with the provisions of the purchase agreement and the purchase price adjustment agreement finalised in December 2006 the Parent Company reduced the Prokopievskugol purchase price by a total amount of $125.4 million whereof:

- $88.5 million was offset against the last tranche of the purchase price as defined in the share purchase agreement; and
- $36.9 million was recorded as receivables, subsequently fully paid off by the sellers in the first quarter 2007.

As a result, the total consideration paid for the purchase of coal assets amounted to $62.1 million.

During the year ended December 31, 2006 the Parent Company acquired additional stakes of 6.29% and 5.12% in OJSC Altai-koks from minority shareholders for a consideration of $34,355 and $37,936, respectively. As a result, the Group's ownership equals 93.64% of the voting shares. The acquired stake of 6.29% was included (taking into account the acquisition date) in the purchase price allocation presented below, with goodwill of $12,300. The Group recorded goodwill of $18,762 on the 5.12% stake acquired.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

During the year ended December 31, 2007 the Parent Company acquired additional stakes of 0.51% in OJSC Altai-koks from minority shareholders for a consideration of $1,829.

In 2008, the Group acquired the outstanding 5.85% of the shares of OJSC Altai-koks (Note 25(h)).

These acquisitions were made in line with the Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquisition of the Prokopievskugol group was carried out concurrently as a condition for the acquisition of OJSC Altai-koks. The acquired companies were consolidated by the Group for the first time from the effective date of obtaining control which management considers to be April 2006. Subsequently, after further evaluation of the future perspectives of the Prokopievskugol group, the Group made a decision to dispose of this investment (Note 18(c)).

Acquisition of OJSC Altai-koks shares

OJSC Altai-koks is among the leading coke-chemical plants in Russia. It produces high-quality coke and chemical products.

The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by an independent appraiser. Resulting goodwill primarily reflects the control premium paid for the acquisitions:

(thousands of US dollars)

Current assets	78,009
Property, plant and equipment	532,252
Other non-current assets	395
Goodwill (Note 11(a))	276,348
Total assets acquired	**887,004**
Current liabilities	(151,588)
Deferred income tax liability	(95,129)
Total liabilities assumed	**(246,717)**
Minority interest	(41,765)
Net assets acquired	**598,522**
Less: cash acquired	(113)
Net assets acquired, net of cash acquired	**598,409**

Acquisition of Prokopievskugol – group of coal companies

Prokopievskugol – group of coal companies owns seven mines and three processing plants.

The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by an independent appraiser:

(thousands of US dollars)

Current assets	40,429
Mineral rights	18,151
Property, plant and equipment	202,971
Other non-current assets	2
Total assets acquired	**261,553**
Current liabilities	(80,411)
Non-current liabilities	(99,909)
Deferred income tax liability	(19,090)
Total liabilities assumed	**(199,410)**
Net assets acquired	**62,143**
Less: cash acquired	(459)
Net assets acquired, net of cash acquired	**61,684**

(f) Acquisition of OJSC Combinat KMAruda shares

In February-March 2006, the Parent Company purchased from third parties 43.37% of the outstanding common shares of OJSC Combinat KMAruda, an iron ore producer, for a consideration of $60,629 which resulted in the Group's ownership of 76.26%.

The acquisition of OJSC Combinat KMAruda was accounted for using the purchase method of accounting. OJSC Combinat KMAruda was consolidated for the first time as of the effective date of obtaining control which management considers to be February 28, 2006. The results of operations of the acquired entity were included in the consolidated statement of income starting from March 1, 2006.

The Group generated positive goodwill of $16,798 on the acquisition of the stake in OJSC Combinat KMAruda that gives control (25.37%) and negative goodwill of $3,588 on the subsequent acquisition (18.00%). Negative goodwill was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

The following table summarises the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment, including mineral rights, and intangible assets were established by an independent appraiser (in relation to the 43.37% stake acquired):

(thousands of US dollars)

Current assets	8,239
Mineral rights	18,661
Property, plant and equipment	15,107
Other non-current assets	8,974
Goodwill (Note 11(a))	16,798
Total assets acquired	**67,779**
Current liabilities	(1,187)
Deferred income tax liability	(5,963)
Total liabilities assumed	**(7,150)**
Net assets acquired	**60,629**
Less: cash acquired	(1,264)
Net assets acquired, net of cash acquired	**59,365**

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

In April and June 2006 the Parent Company acquired from minority shareholders additional stakes in OJSC Combinat KMAruda of 8.59% and 7.19% for a consideration of $8,071 and $6,831, respectively, recording negative goodwill of $1,686 and $1,385 respectively, for each acquisition. The acquisitions resulted in the Parent Company's ownership of 92.04%.

As discussed in Note 21(b) in August 2006 the Parent Company signed agreements with third parties for the disposal of the full stake of shares in OJSC Combinat KMAruda, and accordingly it was disposed of in August 2006.

(g) Acquisition of DanSteel A/S shares

In January 2006, a Company under common control outside the Group transferred to the Parent Company 100% of the outstanding common shares of DanSteel A/S, a steel-rolling Company acquired by the common control party in November 2005. In these consolidated financial statements, the Group accounted for this transfer retroactively, in a manner similar to pooling, by reflecting the controlling shareholders' book value of the acquisition cost on such transfer of $63,982 as capital contributions. In January 2006, the Group transferred cash consideration to the common control party of $104,000 which is reflected as distributions to the controlling shareholders. The transaction value was determined based on an independent appraisal.

Negative goodwill of $41,851, generated on the acquisition by the common control party, was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

As a result of the consolidation of DanSteel A/S, revenues and net income of the Group, before the recording of consolidation adjustments, for the year ended December 31, 2006 increased by $365,247 and $44,939, respectively.

(h) Other acquisitions

In 2008, the Parent Company made a number of immaterial acquisitions of stock in existing (OJSC Stoilensky GOK, OJSC Altai-koks, OJSC Stagdok, OJSC Dolomit and LLC Vtormetsnab NLMK) and new subsidiaries (OJSC VIZ and CJSC Vtorchermet) for the total consideration of $170,383 and recorded goodwill of $43,188 on existing and $16,991 on new subsidiaries (Note 11(a)).

26 SEGMENTAL INFORMATION

Following the acquisition of Maxi-Group, the Group has four reportable business segments: steel, long products, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet 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 three operating segments of the Group. Those segments include the trade seaport services business, finance business, comprising banking and insurance services, and coal mining and refining. None of these segments has met any of the quantitative thresholds for determining reportable segment. Rendering banking services and operations on coal mining and refining were ceased in the first half of 2007.

The Group's management accounts for intersegmental sales and transfers, for the purpose of determining intersegmental operations, 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 before minority interest.

Segmental information for the year ended December 31, 2008 is as follows:

(thousands of US dollars)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	9,642,940	1,178,185	62,886	731,816	82,834	11,698,661	–	11,698,661
Intersegment revenue	242,685	658,485	870,296	415,416	6,324	2,193,206	(2,193,206)	–
Depreciation and amortisation	(285,171)	(81,279)	(77,494)	(40,353)	(14,697)	(498,994)	–	(498,994)
Gross profit	**4,039,891**	**532,428**	**611,798**	**202,639**	**41,551**	**5,428,307**	**(37,420)**	**5,390,887**
Operating income	**3,227,065**	**177,421**	**548,473**	**88,364**	**31,278**	**4,072,601**	**(11,281)**	**4,061,320**
Interest income	124,327	3,734	61,580	210	3,919	193,770	(93,532)	100,238
Interest expense	(105,624)	(201,483)	(117)	(3,551)	(27)	(310,802)	93,532	(217,270)
Income tax	(500,876)	(48,475)	(126,615)	(23,377)	(11,953)	(711,296)	7,822	(703,474)
Income/(loss) from continuing operations before minority interest	**2,820,445**	**(206,813)**	**485,025**	**84,965**	**21,793**	**3,205,415**	**(777,192)**	**2,428,223**
Segment assets, including goodwill	12,113,175	2,253,124	1,400,030	1,022,413	187,861	16,976,603	(2,912,075)	14,064,528
Capital expenditures	(1,380,306)	(388,060)	(122,193)	(8,595)	(35,120)	(1,934,274)	–	(1,934,274)

Segmental information for the year ended December 31, 2007 is as follows:

(thousands of US dollars)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,946,050	62,262	105,442	517,308	87,999	7,719,061	–	7,719,061
Intersegment revenue	24,432	–	783,422	167,408	41,904	1,017,166	(1,017,166)	–
Depreciation and amortisation	(265,335)	(4,177)	(80,306)	(40,460)	(17,421)	(407,699)	–	(407,699)
Gross profit	**2,891,787**	**8,792**	**588,204**	**205,744**	**48,583**	**3,743,110**	**(1,079)**	**3,742,031**
Operating income	**2,362,820**	**1,555**	**523,245**	**113,563**	**4,744**	**3,005,927**	**(7,556)**	**2,998,371**
Interest income	30,173	6,914	51,292	–	18,530	106,909	(7,158)	99,751
Interest expense	(11,177)	(16,023)	(378)	(4,270)	(6,727)	(38,575)	7,158	(31,417)
Income tax	(585,917)	(492)	(131,643)	(25,573)	(40,748)	(784,373)	(52,630)	(837,003)
Income/(loss) from continuing operations before minority interest	**1,772,543**	**(31,752)**	**443,108**	**78,769**	**155,582**	**2,418,250**	**(98,426)**	**2,319,824**
Segment assets, including goodwill	7,904,615	2,898,515	1,953,223	1,034,930	328,219	14,119,502	(1,043,560)	13,075,942
Capital expenditures	(794,160)	(37,858)	(98,876)	(8,860)	(17,965)	(957,719)	–	(957,719)

26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended December 31, 2006 is as follows:

(thousands of US dollars)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	5,586,725	–	90,998	252,699	115,203	6,045,625	–	6,045,625
Intersegment revenue	26,065	–	523,558	83,707	107,384	740,714	(740,714)	–
Depreciation and amortization	(224,056)	–	(71,795)	(19,603)	(42,487)	(357,941)	–	(357,941)
Gross profit	**2,513,544**	**–**	**349,329**	**76,377**	**36,707**	**2,975,957**	**(4,707)**	**2,971,250**
Operating income	**2,108,437**	**–**	**297,286**	**23,883**	**(174,713)**	**2,254,893**	**(11,548)**	**2,243,345**
Interest income	45,394	–	22,541	4	44,555	112,494	(705)	111,789
Interest expense	(2,028)	–	–	(5,461)	(22,908)	(30,397)	705	(29,692)
Income tax	(622,962)	–	(72,499)	(6,641)	7,135	(694,967)	(11,638)	(706,605)
Income from continuing operations before minority interest	**1,934,234**	**–**	**242,549**	**7,962**	**(149,063)**	**2,035,682**	**(121,232)**	**1,914,450**
Segment assets, including goodwill	5,913,356	–	1,417,926	968,412	1,003,230	9,302,924	(585,934)	8,716,990
Capital expenditures	(476,650)	–	(80,456)	(25,936)	(35,635)	(618,677)	–	(618,677)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products from international traders (Note 27(c)) and the Group, for goods sold, and also based on the country of the customers' registration for services provided. It does not reflect the geographical location of the international traders. The Group's total revenue from external customers by geographical area for the years ended December 31, 2008, 2007 and 2006, is as follows:

(thousands of US dollars)	**For the year ended December 31, 2008**	For the year ended December 31, 2007	For the year ended December 31, 2006
Russia	4,560,896	2,903,267	2,473,645
European Union	2,045,622	1,542,051	1,083,585
Middle East, including Turkey	1,952,551	1,122,438	798,862
North America	714,511	304,871	647,712
Asia and Oceania	1,785,518	995,709	440,331
Other regions	639,563	850,725	601,490
	11,698,661	**7,719,061**	**6,045,625**

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

27 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

Russian Federation

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. Despite strong economic growth in recent years, the financial situation in the Russian Federation market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian Federation stock market since mid-2008.

Due to deteriorating economic conditions in the Russian Federation against the background of financial and economic crisis a number of measures have been undertaken by the Government to support financial markets, including investment into domestic financial instruments, support for refinancing of international loans by Russian borrowers, and provision of short-term non-securitized loans to Russian banks.

Impact of the ongoing global financial and economic crisis

The ongoing global liquidity and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and higher interbank lending rates and very high volatility in stock and currencies markets. The uncertainty in the global financial market has also led to bank failures and bank rescues in the United States of America, European Union, Russian Federation and other countries.

Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Deteriorating operating conditions may also have an impact on cash flow management and assessment of the impairment of financial and non-financial assets.

Lower liquidity situation in the fourth quarter 2008 led to reduction in demand on steel from ultimate customers and resulted in negative impact on the debtors' ability to timely repay their amounts owed. These circumstances aggregated with downturn in metal prices led to increase in allowance for doubtful debts (Note 7), increase in provision for obsolescence in inventories and decline in value of certain inventories classes to market value (Note 8).

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

(b) Convertibility of Russian ruble

Future movements in the exchange rate between the Russian ruble and the US dollar will affect the reported US dollar amounts related to the Russian ruble carrying values of the Group's assets and liabilities. Such movements may also affect the Group's ability to realise assets presented in US dollars in these consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate. Starting September 2008, volatility on currency market increased and in the fourth quarter 2008 and the first quarter 2009 exchange rate of Russian ruble to US dollar substantially decreased (Note 2(b)) and amounted 33.4230 Russian rubles to 1 US dollar as at March 23, 2009.

(c) Commercial risks

The Group minimises its sales risks 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.

27 RISKS AND UNCERTAINTIES (continued)

The Group's sales outside the Russian Federation in monetary terms for the years ended December 31, 2008, 2007 and 2006 were 61%, 62% and 59% of the total sales, respectively.

The Group relies on export sales to generate foreign currency earnings. As the Group sells outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks.

The Group's future profitability and overall performance are strongly affected by the prices of ferrous metal products set in the international metal trading market that are subject to significant fluctuations.

The Group used to sell to three international traders that accounted for the majority of its sales outside Russia. In 2007, Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), purchased 40%, 23%, and 6% of the Group's sales outside Russia, respectively (2006: 27%, 28% and 19%). Price fluctuations of sales to these companies were in line with general trends in global price fluctuations. The Group's prices for sales outside Russia were comparable to the prices of Russian competitors. As at December 31, 2007 and 2006, 1.02% and 1.02% of the share capital of the Parent Company, respectively, was held by a Company beneficially owned by the shareholders of these traders.

In 2007, Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. acquired the trading business of Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK. All business operations related to these trading companies and the client base of the above mentioned companies were transferred to the acquirers. In May 2008, the Group acquired 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. and consolidated them (Note 25(b)).

Price fluctuations of the Group's sales outside the Russian Federation are in line with general trends in global price fluctuations. The Group's prices for sales outside Russia are comparable to the prices of Russian competitors.

Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimise earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2008 is as follows:

(thousands of US dollars)	US dollar	Euro	Other currencies
Cash and cash equivalents	1,639,737	118,356	7,742
Accounts receivable and advances given	338,980	566,514	20,669
Investments	–	153,745	–
Accounts payable and other liabilities	(125,946)	(126,002)	(44,450)
Short-term borrowings	(279,728)	(154,340)	–
Long-term borrowings	(1,518,045)	(11,930)	–

28 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, Related Party Disclosures. Balances as at December 31, 2008, 2007 and 2006 and transactions for the years ended December 31, 2008, 2007 and 2006 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to associate (SIF S.A.) and its subsidiary were $543,682 and $185,009 for the years ended December 31, 2008 and 2007. Sales to other related parties were $24,074, $7,358 and $20,094 for the years ended December 31, 2008, 2007 and 2006, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equalled $193,875 and $18,953 as at December 31, 2008 and 2007. Accounts receivable from other related parties equalled $4,390, $1,993 and $1,539 as at December 31, 2008, 2007 and 2006, respectively.

Purchases and services

Purchases from subsidiary of an associate (SIF S.A.) were $74,193 for the year ended December 31, 2008. Purchases of raw materials, technological equipment and management services from the Companies under common control, were $8,063, $7,151 and $16,272 for the years ended December 31, 2008, 2007 and 2006, respectively. Purchases of energy from the companies under significant influence of the Group's management (OJSC Lipetsk energy sales Company and other companies, which originated from reorganisation of OJSC Lipetskenergo (Note 6(c))), were $22,514, $61,213 and $162,826 for the years ended December 31, 2008, 2007 and 2006, respectively.

Accounts payable to subsidiary of an associate (SIF S.A.) were $62,990 as at December 31, 2008. Accounts payable to the related parties were $18,154, $27,958 and $2,666 as at December 31, 2008, 2007 and 2006, respectively.

(b) Financial transactions

In May 2007, the Parent Company issued a loan of 100 million euro to its associate (SIF S.A.) for the purpose of financing the acquisition of its new subsidiary Sharon Coating LLC (former Winner Steel LLC). In November 2008, the loan was increased to 109 million euro. The carrying amount of the loan, including interest accrued, is $155,648 and $151,473 as at December 31, 2008 and 2007, respectively.

The subsidiary bank of the Group (which was disposed of in June 2007 (Note 18(b))) had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $8,864 as at December 31, 2006.

Deposits and current accounts of related parties, either the Companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to $22,811 as at December 31, 2006 (Note 18(b)).

Deposits and current accounts of the Group companies in banks under significant influence of the Group's management (OJSC Bank Zenit and OJSC Lipetskcombank) amounted to $69,515, $257,615 and $76,114 as at December 31, 2008, 2007 and 2006, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2008, 2007 and 2006 amounted to $388, $9,341 and $6,310, respectively.

The Group granted interest free loans to management in the total amount of $250, nil and $386 for the years ended December 31, 2008, 2007 and 2006, respectively. The aggregate amount of interest free loans granted to management outstanding as at December 31, 2008, 2007 and 2006 was $204, $151 and $467, respectively.

Agent fees paid to a Company under significant influence of the Group's management for services connected with the purchase of shares in subsidiaries for the years ended December 31, 2008, 2007 and 2006 amounted to $2,746, $42 and $867, respectively (Note 25).

28 RELATED PARTY TRANSACTIONS (continued)

(c) Acquisitions and investments

In January 2006, the Parent Company received from a Company under common control outside the Group 100% of the outstanding common shares of DanSteel A/S (Note 25(g)).

(d) Common control transfers and disposal of investments

In December 2008 the Parent Company reached an agreement to sell, to a Company under common control, its full controlling share in OJSC TMTP for a total consideration of $258,182 (as at the date of payment) (Note 18(a)).

In June 2007, the Parent Company sold, to a related party (OJSC Bank Zenit), all of its shareholding in a subsidiary bank for $47,662 and recorded income, less corresponding tax, of $15,895 on this transaction in the consolidated statement of income (Note 18(b)).

In February 2007, the Parent Company sold, to a common control Company, its full interests in various energy companies for $78,683 and recorded net income of $50,583 on this transaction in additional paid-in capital.

In January 2006, the Group transferred cash consideration to the common control party outside the Group of $104,000 for the transfer of 100% of the outstanding common shares of DanSteel A/S to the Parent Company, which is reflected as distributions to the controlling shareholders (Note 25(g)).

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

Total contributions to a non-governmental pension fund and charity fund amounted to $4,786, $12,363 and $2,736 in 2008, 2007 and 2006, respectively. The Group has the right to appoint and dismiss top management of the non-governmental pension fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the above mentioned funds.

(f) Outstanding balances with the related parties of Maxi-Group originated prior to acquisition by the Group

Accounts receivable

Accounts receivable less provision, including accounts receivable from the Related parties of OJSC Maxi-Group acquired in a business combination, equalled $7,397 and $37,116 as at December 31, 2008 and December 31, 2007, respectively.

Accounts payable

Accounts payable, including accounts payable from the Related parties of OJSC Maxi-Group acquired in a business combination, were $35,959 and $64,808 as at December 31, 2008 and December 31, 2007, respectively.

Financial settlements

Short-term loans issued amount to $2,715 and $4,093 as at December 31, 2008 and December 31, 2007, respectively.

As at December 31, 2008 and December 31, 2007, loans of $50,204 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by the Related parties of OJSC Maxi-Group.

Short-term and long-term loans received amount to $446 and $23,406 as at December 31, 2008 and December 31, 2007, respectively.

(g) Outstanding balances with minority shareholder of Maxi-Group

Short-term loans received from the minority shareholder of Maxi-Group amount to $48,463 as at December 31, 2008.

As at December 31, 2007, the Group had preliminary estimated accounts payable of $555,578, to minority shareholder of OJSC Maxi-Group in respect of the purchase from him of his shares in OJSC Maxi-Group, which is included in other accounts payable (Note 12).

29 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

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

(b) Litigation

In August 2008 the Group announced that it had reached a definitive agreement (the 'Merger Agreement') to acquire the U.S. steel pipe and tube manufacturer John Maneely Company ('JMC') for approximately $3.53 billion (gross purchase price assuming no debt and cash).

On October 15, 2008 a lawsuit was brought against NLMK by DBO Holdings Inc., the parent Company of JMC. The lawsuit was filed in the United States District Court for the Southern District of New York. It alleges that NLMK breached the terms of the Merger Agreement and seeks to obtain damages in an amount to be determined at a trial, an order to compel NLMK to fulfill its obligations under the Merger Agreement, and an award of costs and such other relief as the court may grant. On November 13, 2008 NLMK terminated the Merger Agreement and subsequently settled the dispute (Note 30(b)).

(c) Environmental matters

The enforcement of environmental regulation in 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 recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. 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) Insurance

To minimise its risks the Group has voluntary insurance contracts to insure property, plant and equipment, land transport and aircraft as well as certain type of cargo and purchased accident and health insurance, and medical insurance for employees, and directors and officers liability insurance (D&O). The Group also purchases operating entities civil liability coverage for dangerous production units.

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $1,510,813, $1,635,623 and $396,801 as at December 31, 2008, 2007 and 2006, respectively.

(f) Social commitments

The Group makes contributions to mandatory and voluntary social programmes. The Group's social assets, as well as local social programmes, 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 programmes through the foreseeable future. These costs are recorded in the period they are incurred.

(g) 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 that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. 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.

As at December 31, 2008, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

29 COMMITMENTS AND CONTINGENCIES (continued)

(h) Financial guarantees issued

As at December 31, 2008, 2007 and 2006, the Group has issued guarantees to third parties amounting to $67,058, $118,619 and $1,667, respectively. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

30 SUBSEQUENT EVENTS

(a) Disposal of TMTP Group

In January 2009 the Parent Company has completed disposal to a Company under common control of its full controlling share (69.41%) in OJSC TMTP for a total consideration of $258,182 (as at the date of payment) (Note 18(a)).

(b) Settlement with respect to dispute with DBO Holdings Inc.

In March 2009 NLMK and DBO Holdings Inc. have signed a settlement agreement with respect to their dispute concerning NLMK's acquisition of John Maneely Company which provides for the full mutual release and discharge by the parties arising from the transaction and payment to DBO Holdings Inc. an amount of $234 million. This amount was included in 'Other expenses, net' line in the consolidated statement of income for the year ended December 31, 2008 and in 'Accounts payable and other liabilities' line (Note 12 – 'Other accounts payable') in the consolidated balance sheet as at December 31, 2008. This amount was subsequently fully paid to DBO Holdings Inc.

Glossary

TECHNOLOGY

Cold-Rolling
Changes in the structure and shape of steel achieved through rolling the steel at a low temperature (often room temperature). It is used to create a permanent increase in the hardness and strength of the steel. It is effected by the application of forces to the steel which causes change in the composition, enhancing certain properties. In order for these improvements to be sustained, the temperature must be below a certain range because the structural changes in the steel are eliminated by higher temperatures.

Hot-Rolling
The rolling process of a hot slab reducing into a coil of specified thickness at a relatively high temperature.

Continuous Casting
Process of continuous production of billets or slabs from liquid steel that is poured into a cast or mold.

Blast Furnace
Facility for converting prepared iron ore into liquid iron (pig iron). It works on the counter flow principle: the charge (consisting of ore, burden, additives and coke) is introduced from the top – usually via a rotary chute. The hot blast flows in the opposite direction. The blast is pre-heated in stoves and injected into the furnace through tuyeres. Coke is used as reduction agent. Depending on charge and method of operation, different types of pig iron and even ferroalloys can be produced. A blast furnace remains in operation for many years (furnace campaign). The performance and cost efficiency of a blast furnace can be increased by larger furnace units, automatic charging, burden preparation, high blast temperatures, oxygen injection in the blast and pressurised charging. Blast furnace byproducts are blast furnace gas and blast furnace slag.

Basic Oxygen Furnace/Converter
In the basic oxygen furnace molten iron is made into steel. Oxygen is injected to drive out carbon and other impurities dissolved in the melt. This process generates a lot of heat, so that recycled steel is added to keep the melt at around 1700°C. The resulting crude steel is either further purified or alloyed in subsequent secondary metallurgy processes, or directly brought to the casting process.

Electric Arc Furnace (EAF)
A method of producing steel through the melting of recycled steel and other sources of iron using electricity.

Ladle Furnace
The facility used to maintain the temperature of liquid steel during processing after tapping from the scrap-melting furnace. This also allows the molten steel to be kept ready for use in the event of a delay later in the steel-making process. The ladle furnace consists of only the refractory roof and electrode system of a scrap-melting furnace, but it has no need for a tilting mechanism or scrap charging.

Reversing Mill
Mill stand which forms material as it reciprocates between adjustable rolls. Consists of one or two stands, at least one of which carries out several reversing passes.

Pickling
Removing surface oxides from metals by a chemical reaction.

Hot-Dip Galvanizing
A galvanizing process whereby steel is dipped into molten metal. The process can be performed continuously (by running steel strip through the molten metal) or in batches (by dipping complete products such as automobile bodies or gates into a metal bath).

PRODUCTS AND RAW MATERIALS

Alloy
A metal that consists of atoms of more than one element. Changing composition and microstructure of alloys enables the targeted engineering of desired material properties.

Slab
Compact block of crude steel, product of the casting process in the melt shop, used as a starting material in the rolling mills to produce hot strip.

Electrical Steel
A type of steel that exhibits specific magnetic properties, which are required to make transformers, power generators and electric motors. It is mainly obtained by alloying with silicon.

Coke
The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal.

Iron Ore Concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed by undergoing treatment.

Sinter Ore
Product of combining iron-bearing particles under high temperature into small chunks with aim of conserving the iron for blast furnace process.

Pellets
An enriched form of iron ore shaped into small balls or pellets. Pellets are used as a raw material in the steel-making process.

Scrap (Ferrous)
Ferrous (iron-containing) material that is generally remelted and recast into new steel in electric arc furnaces. Integrated steel mills also use scrap for up to 25% of their basic oxygen furnace charge. Scrap is wasted steel, prepared for recycling.

Pig Iron
An alloy of iron and carbon that is produced in a blast furnace.

Crude Steel
Steel in primary form of hot molten metal.

Billet
A semi-finished steel form that is used for steel long products such as bars, channels, wire rod or other structural shapes.

Rebar (Reinforcement Bar)
A commodity-grade steel used to strengthen concrete in highway and building construction.

Wire Rod
Round, thin, semi-finished steel length that is rolled from a billet and coiled for further processing. Wire rod is commonly drawn into wire products or used to make bolts and nails.

Hot-Rolled Steel (HR, HRC)
Product that is sold in its ‘as-produced’ state off the hot-rolling mill with no further reduction or processing steps, aside from being pickled and oiled (if specified).

Cold-Rolled Steel (CR,CRC)
Steel that is rolled at common or low temperature. This kind of steel has increased hardness and strength.

Glossary continued

Coated Steel
Steel covered with another material (tin, chrome, zinc, polymers), primarily for corrosion resistance.

Hot-Dip Galvanized Steel (HDG)
Steel coated with a thin layer of zinc to provide corrosion resistance in underbody auto parts, garbage cans, storage tanks, fencing wire, etc.

Pre-Painted Steel (PPS)
Steel coated with a thin layer of polymers and used in building structures, instrument casings, household appliances, roofing tiles and other goods.

Transformer Steel (GO – Grain-Oriented)
Steel processed in such a way that the optimum properties are developed in the rolling direction. It is used for the cores of high-efficiency transformers high-efficiency electric motors and generators.

Dynamo Steel (NGO – Non-Grain-Oriented)
Steel that has similar magnetic properties in all directions, which makes it isotropic. It is used in applications where the direction of magnetic flux is changing, such as electric motors and generators.

Coil
Wound steel sheet, the most efficient way to store and transport rolled steel.

Long Products
Classification of steel products that includes bars, rods and structural products that are 'long' rather than 'flat'.

Heavy Plate
Steel sheet with a width of up to five meters and a thickness of at least five millimetres. It is mainly used for construction, heavy machinery, shipbuilding or large diameter pipes.

FINANCE AND SOCIAL

Kyoto Protocol
An accord reached at a United Nations meeting in Kyoto, Japan, in December 1997 to slow global warming due to the greenhouse effect. Countries agreed on the need for an average 5.2% reduction in the 1990 level of emissions in industrialised countries. The protocol aims to achieve this reduction by 2012.

Corporate Social Responsibility (CSR)
A form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure their adherence to law, ethical standards, and international norms.

Non-Governmental Organisations (NGO)
A legally constituted, non-business organisation created by natural or legal persons with no participation or representation of any government.

High Value Added Products (HVA)
Downstream product with the additional value of a commodity over the cost of commodities used to produce it from the previous stage of production.

GDR
A bank certificate issued in more than one country for shares in a foreign Company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares, but are offered for sale globally through the various bank branches.

ADR
Represents the ownership in the shares of a foreign Company trading on US financial markets.

M&A – Mergers and Acquisition
Refers to the aspect of corporate strategy dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing Company in a given industry grow rapidly without having to create another business entity.

Synergy
A financial benefit that the Company expects to realise when it merges with or acquires another Company. This type of synergy is a nearly ubiquitous feature of a corporate acquisition and is a negotiating point between the buyer and seller that impacts the final price both parties agree to.

Vertical Integration
When a firm controls all of these components, from raw materials to final delivery. The advantages of vertical integration include the ability to secure supplies and future orders.

Anti-Dumping Investigation
Measures against dumping, defined as the act of a manufacturer in one country exporting a product to another country at a price which is either below the price it charges in its home market or is below its costs of production.

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FOCUSING ON OUR
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