

NLMK GROUP  
Annual report 2009



**INNOVATION  
IN STEEL**

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THE FIRST BLAST FURNACE

NLMK launches the first blast furnace with a capacity of 250 000 tpa of pig iron.

› INNOVATION  
IN STEEL



HEAVY ENGINEERING  
DEVELOPMENT

BF-1, one of the largest and technologically advanced facilities of its time, created the foundation for the development of heavy engineering in the central USSR.



A LEADING  
INDUSTRIAL POWER

During the second five-year plan from 1933 to 1937 pig iron production in the USSR more than doubled and steel output grew three-fold.

Steelmaking caught up with the rest of industry, meeting industrialization targets, ensuring capacity growth and boosting heavy engineering production.

From a predominantly agrarian country, the USSR was transformed into a leading industrial nation.

NLMK GROUP  
OVERVIEW

BLAST FURNACE #1

1934





## ABOUT NLMK GROUP

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

NLMK companies specialize in flat and long steel products. In 2009 NLMK Group supplied its products to 75 countries worldwide with around 73 % of steel products sold outside of Russia.

NLMK is a vertically integrated group controlling the entire production and sales chain from mining to delivering finished products to end-users. The Group's optimal structure, wide product range, flexible sales policy, and modern production facilities help optimize the impact of negative market trends and ensure a strong financial performance.

NLMK enjoys a favorable geographic position. Our production capacities are strategically located in regions with a well-developed transport infrastructure. Our suppliers of iron ore are in close proximity to the main production site in Lipetsk. Two export ports (on the Black Sea and the Baltic Sea) are easily accessible. Most of our Russian consumers are within 1,000 km of our main production site which helps to minimize logistics costs.

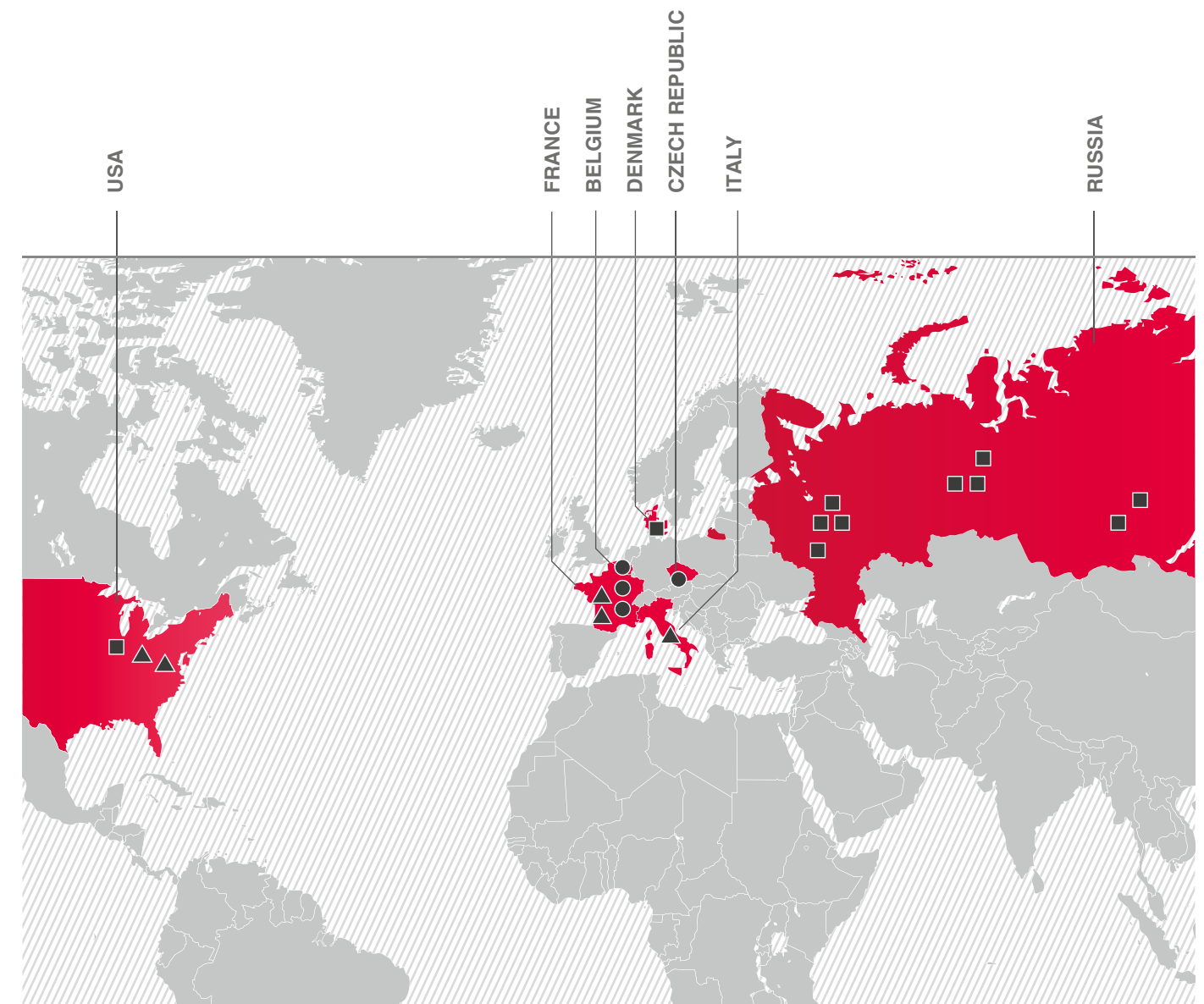
NLMK Group is one of the most financially and operationally efficient steel companies in the world. In 2009 the Company reported an EBITDA margin of 24% and consolidated revenue of \$6.1 billion. The average EBITDA margin over a five-year cycle amounted to about 40%.

The Company's iron ore supplier Stoilensky is located in the Kursk Magnetic Anomaly (KMA), the world's largest iron ore deposit, only 350 km from the main steel-making facilities of the Company, minimizing iron ore delivery costs. Altai-Koks Corp., one of

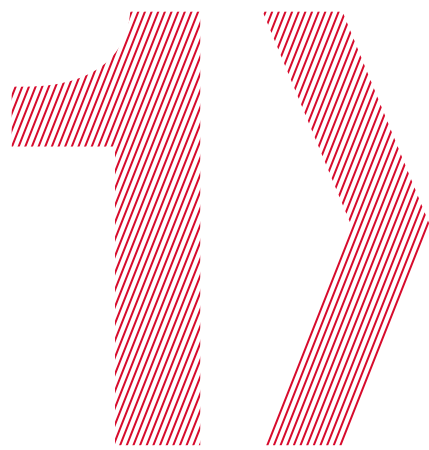
Russia's largest and most efficient coke producers, is located close to major coal deposits in the Kuznetsk Coal Basin. VIZ-Stal, an electrical steel producer, and the production facilities of the Long Products Division (NLMK Long Products), acquired in late 2007, are located in the Urals Region of Russia. Assets of the joint venture of NLMK and Duferco Group located in the EU and USA, as well as the Danish DanSteel A/S and Beta Steel, a US-based steel producer, ensure the Group's presence in key markets.



NLMK IS ONE OF THE WORLD'S LEADING PRODUCERS OF STEEL AND ONE OF RUSSIA'S LARGEST STEEL COMPANIES, WITH KEY PRODUCTION ASSETS LOCATED IN RUSSIA, THE EU AND THE US.

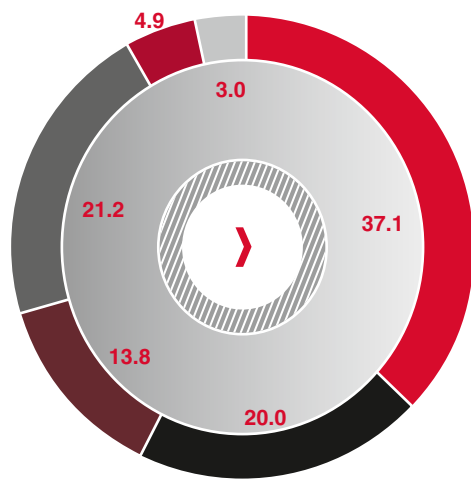


- NLMK GROUP ASSETS
- ▲ JOINT VENTURE WITH DUFERCO GROUP COMPANIES
- JOINT VENTURE WITH DUFERCO GROUP SERVICE CENTERS



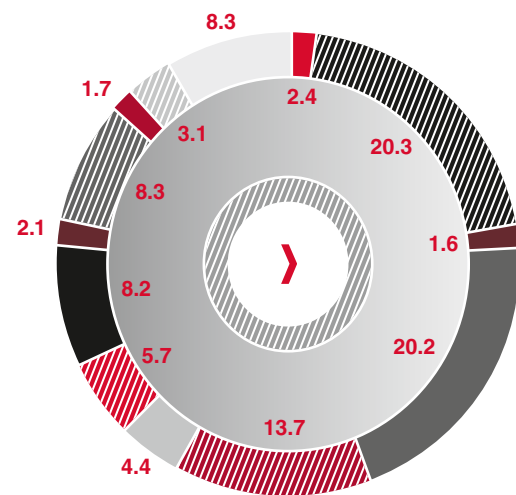
GROUP HIGHLIGHTS

2009 SALES REVENUE BY REGION  
PERCENT



- 37.1 Russia
- 20.0 Asia
- 13.8 EU
- 21.2 Middle East and Turkey
- 4.9 North America
- 3.0 Other regions

2009 SALES REVENUE BY PRODUCT  
PERCENT



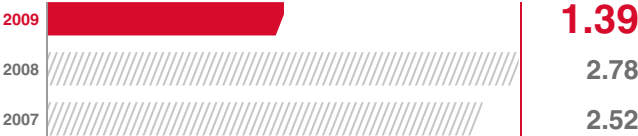
- 2.4 Pig iron
- 20.3 Slabs
- 1.6 Billets
- 20.2 Hot-rolled steel
- 13.7 Cold-rolled steel
- 4.4 Galvanized steel
- 5.7 Pre-painted steel
- 8.2 Transformer steel
- 2.1 Dynamo steel
- 8.3 Long products
- 1.7 Metalware
- 3.1 Coke
- 8.3 Other

For more detailed information please visit our corporate website at [www.nlmk.com](http://www.nlmk.com)

SALES REVENUE  
USD BILLION



OPERATING CASH FLOW  
USD BILLION



OPERATING INCOME  
USD BILLION



ACCIDENT RATE\*



NET INCOME PER SHARE  
USD



STEEL PRODUCTION  
MILLION TONNES



EBITDA  
USD BILLION



ATMOSPHERIC EMISSIONS  
'000 TONNES



EBITDA MARGIN  
PERCENT



\* Accident rate at NLMK's main production site



IN 2009 NLMK GROUP SUPPLIED ITS PRODUCTS TO 75 COUNTRIES WORLDWIDE. AROUND 73% OF STEEL PRODUCTS WERE SOLD OUTSIDE OF RUSSIA.

## WHERE WE OPERATE





**NEW CONTINUOUS CASTING  
TECHNOLOGY**

NLMK was the first company in the world to implement the Continuous Casting technology.

› **INNOVATION  
IN STEEL**



**HIGH PERFORMANCE**

The new technology took global steelmaking to a new level of productivity and quality.

Steel produced for further processing grew by 35%, whilst energy consumption was cut by 80%. Large-scale production of high grades of steel became possible.



**GLOBAL  
STEELMAKING  
DEVELOPMENT**

Increased output, reduced costs, and large-scale production of high-end grades of steel triggered global technological development.

At the end of the twentieth century, output of continuously-cast steel reached 96.4% in the EU, 97.2% in Japan and 95.6% in the US. As of the beginning of 2000, 93 countries around the world have mastered continuous casting and 85% of global steel (around 600 million tonnes) was made via this process.

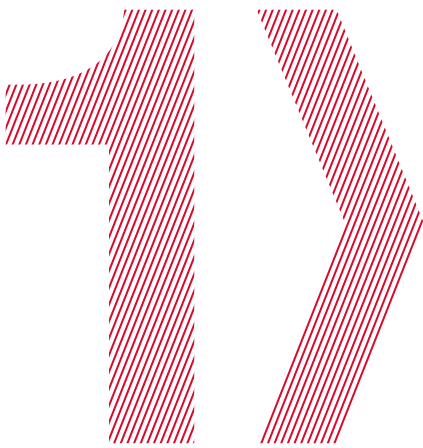
**NLMK GROUP  
REVIEW  
(CONTINUED)**

**CONTINUOUS CASTING**

› **WORLD'S FIRST**

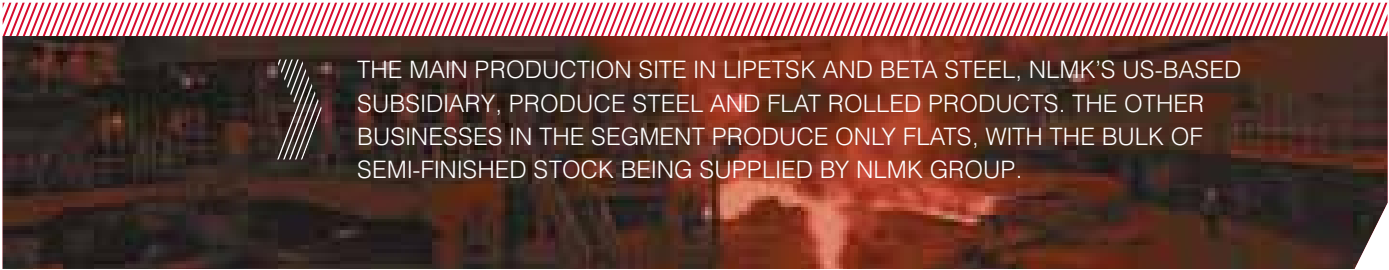
1959





WHAT WE DO

FLAT STEEL



THE MAIN PRODUCTION SITE IN LIPETSK AND BETA STEEL, NLMK'S US-BASED SUBSIDIARY, PRODUCE STEEL AND FLAT ROLLED PRODUCTS. THE OTHER BUSINESSES IN THE SEGMENT PRODUCE ONLY FLATS, WITH THE BULK OF SEMI-FINISHED STOCK BEING SUPPLIED BY NLMK GROUP.

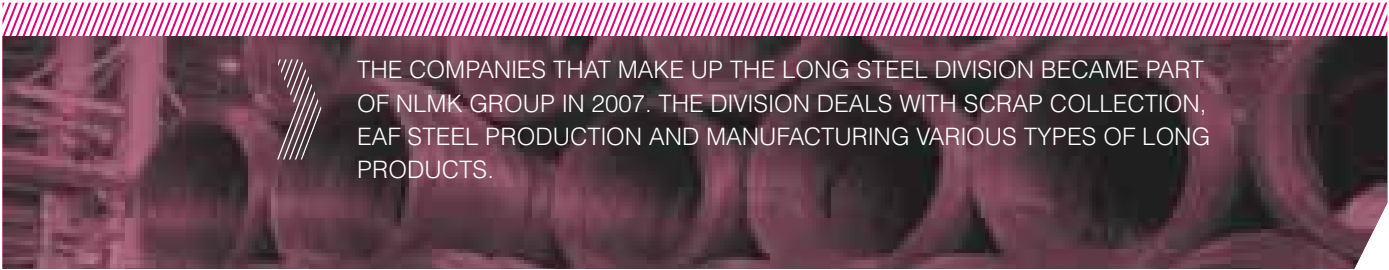
MAIN COMPANIES	MARKETS	KEY PRODUCTS	KEY INDICATORS*
<b>LIPETSK PLANT</b> (Russia, Lipetsk) Crude steel and flats production	<b>18%</b> SHARE OF THE GLOBAL SLAB MARKET	<b>SLABS</b> (Lipetsk plant)	<b>8.9</b> MILLION TONNES CRUDE STEEL PRODUCTION (+4% Y-O-Y)
<b>VIZ-STAL</b> (Russia, Yekaterinburg) Electrical steel production	<b>23%</b> SHARE OF THE RUSSIAN CRC MARKET	<b>HR STEEL</b> (Lipetsk plant, DanSteel, Beta Steel Corp.)	<b>5.0</b> MILLION TONNES FLATS PRODUCTION (FLAT Y-O-Y)
<b>DANSTEEL A/S</b> (Denmark) Plates production	<b>28%</b> SHARE OF THE RUSSIAN PRE-PAINTED STEEL MARKET	<b>CR STEEL</b> (Lipetsk plant)	<b>220</b> USD/TONNE CRUDE STEEL CASH COST AT LIPETSK PLANT (-37% Y-O-Y)
<b>BETA STEEL CORP.</b> (Portage, USA) Steel and hot-rolled production		<b>GALVANIZED STEEL</b> (Lipetsk plant)	<b>785</b> USD MILLION 88% SHARE OF THE GROUP'S OPERATING PROFIT
		<b>PRE-PAINTED STEEL</b> (Lipetsk plant)	<b>35.3</b> THOUSAND PEOPLE PERSONNEL
		<b>DYNAMO STEEL</b> (Lipetsk plant, VIZ-Stal)	
		<b>TRANSFORMER STEEL</b> (Lipetsk plant, VIZ-Stal)	

\* Financial results of steel traders and logistics companies are included in the Steel segment (see Consolidated Financial Statements).



NLMK IS ONE OF THE LARGEST STEEL PRODUCERS IN RUSSIA AND IN THE WORLD. IN 2009 THE GROUP'S COMPANIES PRODUCED 10.6 MILLION TONNES OF STEEL. ITS REVENUE AMOUNTED TO USD6.1 BILLION.

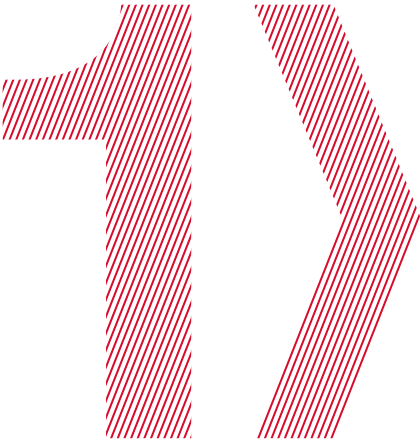
LONG STEEL



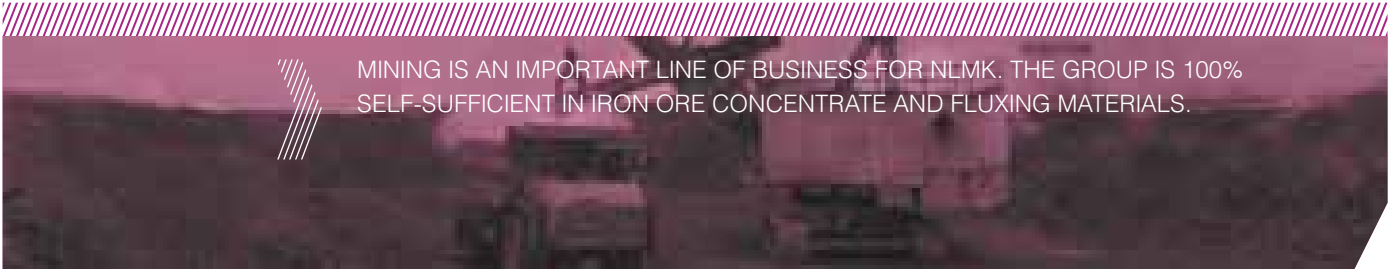
THE COMPANIES THAT MAKE UP THE LONG STEEL DIVISION BECAME PART OF NLMK GROUP IN 2007. THE DIVISION DEALS WITH SCRAP COLLECTION, EAF STEEL PRODUCTION AND MANUFACTURING VARIOUS TYPES OF LONG PRODUCTS.

MAIN COMPANIES	MARKETS	KEY PRODUCTS	KEY INDICATORS
<b>NSMMZ</b> (Russia, Sverdlovsk region) Steel and long product production	<b>8.5%</b> SHARE OF THE RUSSIAN LONG PRODUCT MARKET	<b>BILLET</b>	<b>1.7</b> MILLION TONNES CRUDE STEEL PRODUCTION (-11% Y-O-Y)
<b>BEMZ</b> (Russia, Sverdlovsk region) Long product production	<b>SCRAP COLLECTING AND RECYCLING ASSETS</b> (RUSSIA, ALL KEY REGIONS)	<b>REBAR</b>	<b>1.4</b> MILLION TONNES LONG PRODUCTS AND METALWARE PRODUCTION
<b>UZPS</b> (Russia, Sverdlovsk region) Metalware production		<b>WIRE ROD</b>	<b>~302</b> USD/TONNE CRUDE STEEL CASH COST PER TONNE (-41% Y-O-Y)
<b>KNPEMZ</b> (Under construction) (Russia, Kaluga) Steel and long product production		<b>METALWARE</b>	<b>142</b> USD MILLION OPERATING LOSS
			<b>13.7</b> THOUSAND PEOPLE PERSONNEL



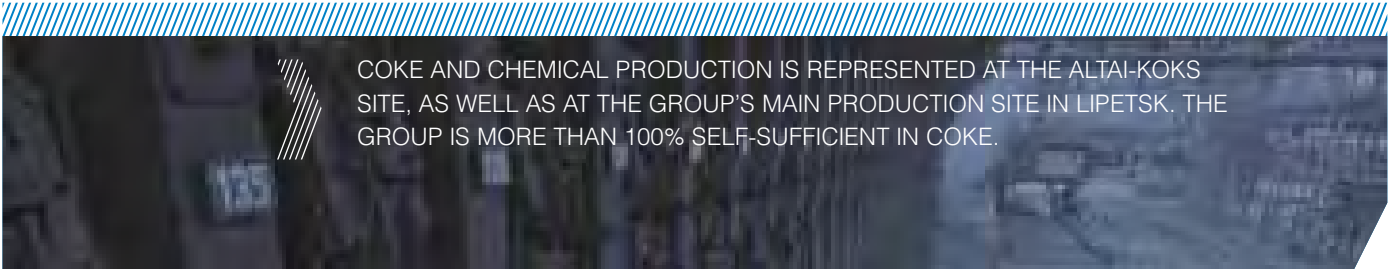


MINING

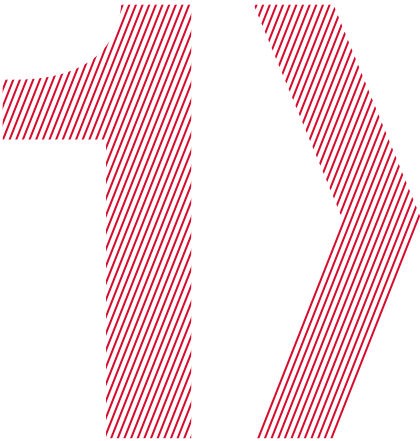


MAIN COMPANIES	MARKETS	KEY PRODUCTS	KEY INDICATORS	
<b>STOILENSKY</b> (Russia, Sary Oskol) Iron ore production	<b>22%</b> SHARE OF THE RUSSIAN IRON ORE CONCENTRATE PRODUCTION	<b>IRON ORE CONCENTRATE</b> (Stoilensky)	<b>12.6</b> MILLION TONNES IRON ORE CONCENTRATE PRODUCTION (-4% Y-O-Y)	
<b>STAGDOK</b> (Russia, Lipetsk) Limestone production		<b>SINTER ORE</b> (Stoilensky)		
<b>DOLOMIT</b> (Russia, Lipetsk region) Dolomite production		<b>LIMESTONE</b> (Stagdok)	<b>16</b> USD/TONNE IRON ORE CONCENTRATE CASH COST (-23% Y-O-Y)	
		<b>DOLOMITE</b> (Dolomit)	<b>160</b> USD MILLION OPERATING PROFIT	
			<b>18%</b> SHARE OF THE GROUP'S OPERATING PROFIT	
			<b>7.7</b> THOUSAND PEOPLE PERSONNEL	

COKE PRODUCTION



MAIN COMPANIES	MARKETS	KEY PRODUCTS	KEY INDICATORS
<b>ALTAI-KOKS</b> (Russia, Siberia) Coke and related products production	<b>11.5%</b> SHARE OF RUSSIAN COKE PRODUCTION (20% SHARE TOGETHER WITH LIPETSK PLANT COKE PRODUCTION)	<b>COKE</b>	<b>3.1</b> MILLION TONNES COKE PRODUCTION (6% MOISTURE) 5.6 MILLION TONNES TOGETHER WITH LIPETSK PLANT COKE PRODUCTION
<b>LIPETSK PLANT</b> (Russia, Lipetsk) Coke and related products production		<b>CHEMICAL PRODUCTS</b>	<b>142</b> USD/TONNE COKE PRODUCTION CASH COST (-51% Y-O-Y)
			<b>60</b> USD MILLION OPERATING PROFIT
			<b>7%</b> SHARE OF THE GROUP'S OPERATING PROFIT
			<b>4.7</b> THOUSAND PEOPLE PERSONNEL



# SUPPORTING BUSINESSES

SUPPORTING BUSINESSES INCLUDE LOGISTICS AND TRADING OPERATIONS WHICH HELP TO DIVERSIFY THE GROUP'S SALES AS WELL AS STREAMLINING THE MOVEMENT OF COMMERCIAL CARGO. 97% OF THE GROUP'S SHIPPING OPERATIONS ARE PERFORMED BY NTK. ALL THE EXPORT ACTIVITIES ARE DONE THROUGH TRADING COMPANIES.

MAIN COMPANIES	MARKETS	KEY PRODUCTS	KEY INDICATORS
<b>NOVEX TRADING S.A.</b> (Switzerland) Export trader	TRADING OPERATIONS ON THE KEY EXPORT MARKETS: EU, MIDDLE EAST, SOUTH-EAST ASIA, NORTH AMERICA	<b>Export sales</b>	<b>5.7</b> MILLION TONNES EXPORT SALES VOLUME (LIPETSK PLANT, VIZ-STAL AND THE LONG PRODUCT DIVISION)
<b>NOVEXCO LTD.</b> (Cyprus) Export trader		<b>Raw materials and other product sales on the Russian market</b>	
<b>NLMK TRADING HOUSE LLC</b> (Russia) Trader/Commodities and materials supplier		<b>Transportation services for NLMK and third parties</b>	
<b>NTK LLC</b> (Russia, Moscow) Transport services		<b>Material supplies to the Group companies</b>	
<b>SHANS LSO</b> (Russia, Lipetsk) Insurance services		<b>Insurance services for NLMK</b>	
			<b>45.0</b> MILLION TONNES TRANSPORTATION VOLUME (FLAT Y-O-Y)

\* Financial results of steel traders and logistics companies are included in the Steel segment (see Consolidated Financial Statements).



EFFICIENT VERTICAL INTEGRATION IS ONE OF NLMK GROUP'S STRATEGIC PRIORITIES

# LEVEL OF SELF-SUFFICIENCY

100%	IRON ORE CONCENTRATE
100%	COKE
80%	SCRAP
45%	ELECTRIC ENERGY*
97%	OF NLMK GROUP'S SHIPPING OPERATIONS ARE PERFORMED BY ITS OWN TRANSPORT COMPANY

\* Main production site in Lipetsk



## TRANSFORMER STEEL PRODUCTION

NLMK is the first in the world to master transformer steel production and casting using the Continuous Casting Technology.

At the same time, hot rolling and cold rolling technologies are optimized and steel structure and texture perfected.

NLMK becomes the leading cold-rolled transformer steel supplier in the USSR.

› **INNOVATION  
IN STEEL**



## ADVANCED ELECTRICAL TECHNOLOGY

The application of this new technology resulted in reduced production costs and increased output of transformer steel.

The electric utility industry made a leap forward: top quality Russian-made electric steel came to be used in the manufacture of high-power transformers, reducing the electrotechnical industry's dependency on import and related constraints in the field of transformer manufacture.



## A UNIFIED ENERGY SYSTEM

In the 60's, the USSR electricity grid went through a construction boom. The total length of USSR Ministry of Energy's OHL 220 kV and above reached over 78,200 kilometers.

In March 1964, the voltage of the Kuybishev-Moscow transmission line was increased to 500 kV, thereby forming the backbone of the USSR Unified Energy System in the European part of the country.

**NLMK GROUP  
REVIEW  
(CONTINUED)**

# TRANSFORMER STEEL PRODUCTION BASED ON UNIQUE DOMESTIC TECHNOLOGIES

› **WORLD'S FIRST**

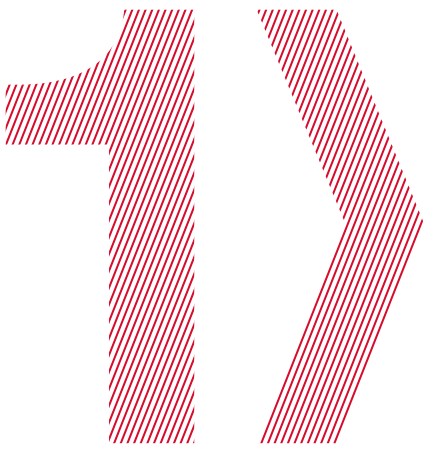
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THE CORNERSTONE OF OUR STRATEGY IS  
TO INCREASE SHAREHOLDER VALUE AND TO  
REDUCE OUR EXPOSURE TO INDUSTRY RISKS.

## CHAIRMAN'S STATEMENT



Dear shareholders,

I am pleased to report that NLMK Group managed to retain its global efficiency leadership in 2009, and continued with its stated development plans, despite last year's economic challenges in the steelmaking industry. This became possible due to our consistent strategy, which aims to enhance our ability to withstand market fluctuations and promote efficiency. It is based on expansion and upgrades, into which we have invested USD6.2 billion over the last ten years,

as well as on enhanced upstream integration and downstream diversification of sales markets and product segments.

As a result, in 2009 NLMK achieved record operating performance while at the same time maintaining its growth rates, sustainable financial standing and social stability.

### Our Strategy Remains Unchanged

The cornerstone of our strategy is to increase shareholder value and to consistently reduce our exposure to industry risks. We have been pursuing these objectives for over 10 years through production upgrades, the growth of steel and rolled product output, the acquisition and development of new assets, the improvement in the quality and range of our product mix, the enhancement of our energy efficiency and sustainability, as well as by entering new markets and optimizing management systems.

In 2009, despite the challenging times, NLMK allocated around USD1.1 billion for its development in Russia without jeopardizing the Company's financial position. In 2011, we will add around 2 million tonnes of steelmaking capacity and in 2012 the Group's production capacities will have grown by 40% from their current level to 17 million tonnes.

The Company is currently investing in constructing a new high-tech blast furnace in Lipetsk, the first in Post-Soviet Russia. We are also implementing a project on producing steel from scrap by building a modern, environmentally friendly mini-mill for the manufacture of long products in the Kaluga region. These and other projects will increase the output of high grades of steel and new finished products for the domestic and world market.

During 2009 we continued to work on the development of our Long Products Division, including the integration of production facilities and the development of the Scrap Collecting Division. NLMK has increased its direct participation in the segment's production companies and created NLMK-Long Products to manage all of the Division's business processes, financial and product flows. We are also active participants in the Federal Car Recycling Program which boosts the efficiency of our Scrap Collecting Division. We are also planning to further expand our scrap collecting facilities to meet the current and future needs of our long products production in the Kaluga region.

Self-sufficiency in raw materials has always been one of our key strategic priorities. In recent years we have invested USD500 million in the expansion of Stoilensky in order to satisfy the demand for iron ore concentrate following the planned launch of the new Blast Furnace. The Company is also planning to

build a pelletizing plant with annual capacity of up to 6 million tonnes.

Enhancing the efficiency of steel production requires an increased supply of high-quality coking coal. Over the past few years we have experienced a deficit in certain coal grades in Russia. In order to improve the quality of coke and increase steel production efficiency, in 2010 we have decided to import high-quality coking coal (up to 10% of NLMK's total annual consumption). Moreover, in order to further develop integration with mining assets, we intend to start developing our coal deposit in the Kemerovo region (Siberia) in the near future. NLMK acquired the license for the deposit a few years ago. As a result we will be able to cover up to 50% of our coking coal needs in three years.

In 2009 we maintained a high level of production capacity utilization. This was largely attributable to significant growth of semi-finished product deliveries to our Duferco Joint Venture's rolling facilities, up to 1.3 million tonnes. In 2010 we expect further growth of deliveries by some 40% to 1.9 million tonnes.

Over the last ten years our sustained investment has allowed us to revamp over 50% of the Group's production facilities. This has ensured stability during the crisis and serves as the best demonstration of the appropriateness of our strategy and the effectiveness of the management team.

### Our Performance

In 2009, despite a significant deterioration of the market environment as compared to the previous year, NLMK Group delivered solid operating and financial performance that demonstrates the commitment of the Company to its long-term growth strategy. 2009 EBITDA totaled USD1.4 billion, and the EBITDA margin reached 24%, having increased consistently from 15% in Q1 to 29% in Q4. Based on 2009 performance, the Board of Directors recommended paying dividends of 21% of the Company's 2009 net profit. We believe that the worst times are behind us and that our performance allows us to continue our dividend policy. Throughout the year, NLMK also demonstrated a high level of financial stability, maintaining its investment credit

IN 2009 NLMK ACHIEVED RECORD OPERATING PERFORMANCE  
AND MANAGED TO MAINTAIN FINANCIAL STABILITY. THIS ALLOWS  
US TO CONTINUE WITH THE PLANS AND OBJECTIVES THAT WE  
LAID OUT A FEW YEARS AGO.

This year we anticipate positive results from our JV supported by 40% production growth. This is despite last year's negative performance of our JV companies which were undermined by deteriorating market conditions. The JV management is currently conducting major business restructuring in order to enhance its efficiency. We are thus implementing our strategy on hedging sales of semi-finished products by rolling them on receptive final sales markets.

rating, and several rating agencies improved their credit outlooks for the Company.

### Board of Directors and Corporate Governance

Compliance with best practice in corporate governance is one of the top priorities for the management and the Board of Directors. In 2009 a Unified Coordination Centre was formed as part of



IN 2012 THE GROUP'S PRODUCTION CAPACITIES WILL HAVE GROWN TO 17 MILLION TONNES.

our anti-crisis program. The Centre, comprised of members of the Board of Directors and Management Board, allowed us to make timely and accurate decisions, to stabilize the situation and to achieve high performance.

The investment community and experts rate highly the Company's level of information disclosure and NLMK's entire corporate governance system. Over recent years, NLMK has been recognized consistently as one of the most transparent companies in Russia by Standard & Poor's rating agency.

#### Corporate Social Responsibility

Social responsibility is at the core of the Company's strategy, helping us to develop a successful and resilient business model. We are convinced that creating better working conditions for professionals, assisting their development, giving support to local communities and backing social initiatives will be key drivers in the acceleration of our recovery and our transition to the next growth stage for the Company and for Russia on the whole. NLMK's Board of Directors and management will adhere to this social partnership strategy.

completely closed water supply cycle and stop waste water discharge. In 2008–2009 we decommissioned four coke batteries. Despite the consistent growth of steel and rolled product output, we were able to significantly reduce our atmospheric emissions by 22% (to 77,000 tpa). And we intend to improve further. In 2009 we invested USD130 million into environmental protection activities. We plan to transition to the best European technologies ensuring substantial further reduction of our environmental impact by 2020.

Accident rates at our production sites are also marked by steady reduction. We are applying consistent effort to improve occupational health and safety at all of our production facilities.

#### Outlook

We entered 2010 with a sustainable growth strategy which enables the Company to demonstrate stable results both in the bottom of the cycle and during the market upturn. Last year NLMK retained its profitability leadership in the sector. This in turn will allow us to continue with our large-scale Technical Upgrade Program, consider new acquisitions to achieve our long-term goals and ensure the

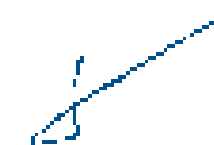


2009 EBITDA TOTALED USD1.4 BILLION, AND THE EBITDA MARGIN REACHED 24%, HAVING INCREASED CONSISTENTLY FROM 15% IN Q1 TO 29% IN Q4 2009.

Finally, I would like to highlight the invaluable contribution of NLMK's employees, and the courage they displayed during last year's challenging times. On behalf of NLMK Group's Board of Directors, I would also like to thank all our shareholders and wish them to continue supporting NLMK Group's aspiration towards steady development and stable growth in 2010.

Vladimir Lisin

Chairman of the Board of Directors



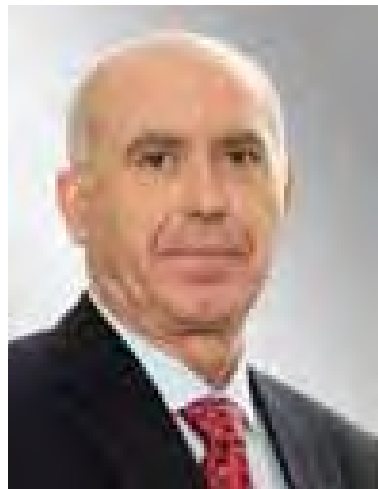
IN RECENT YEARS WE HAVE INVESTED IN THE EXPANSION OF OUR LOW-COST IRON ORE CONCENTRATE PRODUCTION CAPACITIES IN ORDER TO SATISFY THE DEMAND FOR THIS TYPE OF RAW MATERIAL FOLLOWING THE PLANNED LAUNCH OF THE NEW BLAST FURNACE.

The environmental component is a significant part of our investment strategy. Over the last decade we have invested USD450 million into reducing environmental impacts. In 2009 we were the first among leading Russian steelmakers to adopt a

Company's further development without undermining our financial stability.



## PRESIDENT'S REVIEW



Dear shareholders,

This past year turned out to be the most challenging the steelmaking industry has faced over the past decade. At the same time, it was the most interesting in terms of directing our Company's internal reserves to meet these challenges.

In 2009, we were able to increase sales volumes to 10.6 million tonnes. The decline in steel prices led to a significant revenue decrease to USD6,140 million (-48%). An extensive anti-crisis

program, implemented throughout 2009, allowed us to remain one of the most profitable companies in the industry with EBITDA of USD1,444 million and an EBITDA margin of 24%.

Management efforts to optimize our debt portfolio allowed us to significantly reduce the cost of borrowings, as well as to bring down short-term debt to USD557 million. The Group's low debt level and substantial liquidity cushion remain among our competitive advantages. A well-balanced financial policy, stable profitability, as well as efficient management is what makes our company stand out in the industry.

### Efficiency of Anti-Crisis Measures

NLMK Group quickly adapted to the crisis. In response to lower demand, the production program was adjusted to focus on processing existing orders. Three out of five blast furnaces were idled for maintenance and obsolete coke batteries at the Lipetsk site were prematurely decommissioned.

During the most challenging period, H1 2009, we were able to minimize the use of third party iron ore and scrap in favor of our internal resources. This allowed us to fully load the Company's raw material capacities and limit the cash outflow.

As the market began to recover, we restarted idled capacity and by Q3 2009 the pre-crisis utilization rates were restored. This allowed us to maintain stable production volumes even in the context of an 8% global steel production and demand downturn. In 2009, NLMK's synergy with SIF S.A. assets (JV with Duferco) came to the fore. Due to high costs, part of SIF's steelmaking capacities had to be idled and the resulting deficiency was compensated by Lipetsk slab supplies. Thus, the JV rolling capacities were fully provided with high-quality semi-finished products, and NLMK Group enjoyed maximum effect from low-cost steel production.

Taking advantage of the flexibility of the production chain and high asset diversification, NLMK Group was able to minimize its logistical and operational costs, and focus production on the more efficient capacities. Given the decrease in demand for transformer steel, in Q2 2009 all orders for this product were transferred to VIZ-Stal, and transformer steel production at the Lipetsk site was suspended for reconstruction. As the market recovered, transformer steel production in Lipetsk was restored (by September 2009). Also, by partially reducing coke production at the main site, we were able to increase Altai-Koks utilization rates.

Given the material reduction of global demand for steel, the most urgent challenge the Company management faced was finding additional sales channels. A flexible sales strategy and a well-balanced product mix of NLMK Group enabled it to increase sales volumes by 3% year-on-year.



## NLMK IS AN EXTREMELY EFFICIENT AND RESILIENT COMPANY WITH AN ABILITY TO QUICKLY ADJUST TO CRISIS CONDITIONS.

The substantial sales drop on the domestic market, related to weak business activities in key Russian consuming industries, was fully compensated by increased export sales. We increased sales volumes to South-Eastern Asia and the Middle East where market conditions were more favorable.

The Company's management also focused on monitoring the cash inflow from end-consumers. Working capital financing was analyzed on a weekly basis, measures were taken to avoid payment delays and all supplies were made subject to payment guarantees. Special measures were applied to problematic customers in order to receive payments, including court proceedings. These activities helped to ensure a stable and uninterrupted cash inflow from our customers and allowed NLMK to avoid working capital build up.

The global economic recession was accompanied by a material increase in the cost of borrowing and this triggered the growth of the Company's debt servicing costs. As the financial markets recovered, NLMK implemented a number of measures to optimize its debt portfolio. In 2009 NLMK entered the Russian

### Cost Optimization

With the steel price downturn, cost optimization became one of the most urgent issues on the agenda. In 2009 a number of actions were taken to meet this challenge.

Firstly, taking into consideration the reduced demand for steel, and consequently for raw materials, raw material prices were renegotiated.

Secondly, throughout the crisis, NLMK Group tried to limit the use of external raw materials. Existing technologies allowed us to reduce pellet consumption by increasing sinter consumption produced from the Stoilensky concentrate without any quality losses, thus minimizing external iron ore supplies. For BOF production, scrap consumption was reduced due to the use of captive pig iron, bringing down scrap collecting costs. Therefore, we managed to identify and utilize internal resources, maximize the synergy advantages of vertical integration with the Group's raw material assets, as well as increasing utilization rates.

## AN EXTENSIVE ANTI-CRISIS PROGRAM, IMPLEMENTED THROUGHOUT 2009, ALLOWED US TO REMAIN ONE OF THE MOST PROFITABLE COMPANIES IN THE INDUSTRY WITH EBITDA OF USD 1,444 MILLION AND AN EBITDA MARGIN OF 24%.

securities market by placing two 3-year exchange bond issues for a total of RUR15 billion (USD512 million), which allowed it to refinance its short-term debt. At the end of 2009, NLMK closed a number of long-term credit agreements guaranteed by leading export credit agencies (ECA financing) to finance the Technical Upgrade Program.

Thirdly, labor efficiency was boosted by optimizing the distribution of responsibilities and the Group's structure, reducing management and back office headcount.

These measures contributed to a 37% production cost reduction (down to USD3,672 million). The resulting steel production cost at the Lipetsk site amounted to USD220/t (a 37% decline year-on-



year) ensuring the Company's globally competitive performance.

Another cost-cutting activity involved reducing non-production expenses. Implementing strict economy measures resulted in a 19% decrease of management and general business costs (down to USD297 million).

#### Capital Investments

Timely anti-crisis efforts aimed at cost optimization allowed NLMK to adapt swiftly to the changing market conditions and maintain profitability even during the most challenging times.

Moreover, during the most difficult period of 2008-2009 we adjusted our Technical Upgrade Program, rescheduling the launch of some units to a later period. Key projects nonetheless continued on schedule. As a result, in 2009 we managed to limit the cash outflow and reduce CAPEX by 42% to USD1.1 billion without altering our strategic objectives of increasing the Lipetsk site steelmaking capacities to 12.4 million tonnes by 2012, improving self-sufficiency in raw materials and energy and modernizing BF and BOF production.

#### Environment

CAPEX aimed at minimizing the Group's environmental impact is one of our key development priorities. USD137 million was invested in 2009 to launch a number of key facilities, such as the water recycling system at the Lipetsk site. This meant we

#### Personnel and Occupational Safety

Despite significant operating expenditure cuts, we continued to focus on occupational safety throughout 2009. Large-scale activities in this area resulted in an impressive 30% accident rate reduction at NLMK production sites. We are applying maximum effort to provide safe working conditions at our facilities.

In 2009, HR policy was also at the centre of our attention. In a situation where personnel cost cuts appear to be one of the easiest expense saving measures, we not only retained our entire workforce, but also increased the average monthly salary. Labor compensation levels grew concurrently with increasing production efficiency, steel production per worker amounting to 13% in 2009.

#### Improved Management Over Production Assets

Furthermore, in 2009 we optimized the Group's corporate structure. Key Long Product Division production assets (Uralvtorchmet, NSMMZ, UZPS) are now controlled directly by the Parent Company, leading to improved management efficiency.

#### Outlook

We believe that in 2010 global steel production will increase by about 10% to 1.2 billion tonnes driven by continued growth on the emerging markets, as well as restocking in the developed countries. Steel price gains will also be factored by continued growth of global raw material prices.



## FLEXIBLE SALES STRATEGY AND WELL-BALANCED PRODUCT MIX OF NLMK GROUP ENABLED IT TO INCREASE SALES VOLUMES BY 3% YEAR-ON-YEAR.

In 2010 we plan to continue implementing our Technical Upgrade Program, increasing investments by over 50% year-on-year.

#### Summary

In summary, we can say that we had a very intensive year which confirmed once again that NLMK is an extremely efficient and resilient company with an ability to adjust quickly to crisis conditions. We will remain committed to our balanced growth strategy which will allow us to consolidate our competitive advantages and maintain our leading position among global steel makers.

Alexey Lapshin

President

A WELL-BALANCED FINANCIAL POLICY, SUSTAINABLE PROFITABILITY, AS WELL AS EFFICIENT MANAGEMENT IS WHAT MAKES OUR COMPANY STAND OUT IN THE INDUSTRY.

were able to stop discharging waste water into the Voronezh River completely. Upgrading the aspiration system continued, resulting in reduced emission volumes. Environmental protection and production safety are always at the top of our agenda.

In 2010 we expect NLMK Group's steel production to increase by about 10% and reach 11.6 million tonnes. We are relying on improved domestic market conditions to grow our share of Russian sales. In 2010 we expect average sales prices to increase by 15-25% year-on-year. We are also planning on increasing our HVA product sales revenue due to expanded pre-painted steel production and stabilization in demand on the transformer steel market.



**STEELMAKING UPGRADES**

NLMK was the first in the world to combine BOF production and Continuous Casting Machines.

› **INNOVATION  
IN STEEL**



**SEQUENCE CASTING**

NLMK's new steel production method predetermined the emergence of Continuous Casting, a technology applied all over the world today.

The new approach resulted in a huge reduction of waste metal, improved quality characteristics of steel and streamlined processes of slab preparation for rolling.



**NEW STEEL  
FRONTIERS**

The new technology opened the way for the construction of highly efficient steelmaking shops equipped with large-capacity (up to 380 tonnes) BOFs combined with Continuous Casting for the entire steel output.

BOF shops at plants such as Azovstal', CherMK, MMK, etc. were designed and constructed this way.

In 2009, 93% of steel produced in the world was cast using the technology developed by NLMK.

**GROUP'S STRATEGY**

**BOF PRODUCTION  
COMBINED WITH  
CONTINUOUS CASTING**

› **WORLD'S FIRST**

1

9

6

6



# STRATEGY

## WE ARE TARGETING THE FOLLOWING STRATEGIC GOALS:

- To remain among the world's most profitable steel companies. We are committed to enhancing production while maintaining profit margins;
- To strengthen our leadership and expand our product range of high value-added flat steel products for our core markets;
- To become a leading player in the domestic market for long steel products used in construction, through the mini-mill business model;
- To use our competitive advantage in low cost production of crude steel to increase output of finished products at own downstream facilities around the world;
- To pursue external growth initiatives through asset portfolio organization and strategic acquisitions;
- To maintain and enhance good corporate governance and social and environmental standards.

## WE WILL PURSUE THE FOLLOWING STRATEGIC INITIATIVES:

### FURTHER IMPLEMENTATION OF THE TECHNICAL UPGRADE PROGRAM. ITS KEY GOALS ARE TO:

- Increase steel production capacity at the main production site in Lipetsk;
- Increase steel production capacity by developing the Long Products Division based on EAF to satisfy local demand for long steel products used in construction;
- Continue the development of a value-added product portfolio for the developing Russian market;
- Maintain our world leadership in the electrical steel segment.

### MAINTENANCE OF A HIGH LEVEL OF VERTICAL INTEGRATION IN ORDER TO:

- Ensure the continuity of a supply of low cost, high quality raw materials; maintain high level of self-sufficiency in raw materials to satisfy growing requirements from increasing steel capacities;
- Hedge against supply side constraints and fluctuations in the price of raw materials;
- Pursue further efficiency gains through increased energy self-sufficiency and modern technologies.

### DEVELOPMENT OF THE COMPANY INTO A POWERFUL GLOBAL PLAYER BY DEVELOPING EXISTING ASSETS AND ACQUIRING NEW ONES ON THE INTERNATIONAL MARKET. WE WILL ALSO INCREASE THE PROPORTION OF FINISHED HVA PRODUCTS IN TOTAL OUTPUT AT OUR SITES BOTH IN RUSSIA AND ABROAD.

### OUR APPROACH TO M&A OPPORTUNITIES IS BASED ON THREE MAJOR PILLARS:

- Priority is given to acquisitions with 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 OF AN EFFICIENT MANAGEMENT STRUCTURE:

- Ensure high quality and transparency of the decision-making process;
- Enhance management accountability to shareholders.

### ENHANCE STANDARDS FOR EMPLOYEES, AND CONTINUE OUR SOCIAL AND ENVIRONMENTAL IMPROVEMENTS:

- Improve health and safety performance;
- Guarantee social responsibility in all regions where we operate;
- Reduce the Company's environmental footprint.

## OUR MARKETING POLICY IS BASED ON THE FOLLOWING PRINCIPLES:

- Enhanced consumer satisfaction;
- High-quality products and a strong reputation as a reliable supplier;
- Every employee's responsibility for high-quality production;
- Continuous quality management system improvements, and improvement of business processes that enhance product quality.

## NLMK'S SALES STRATEGY IS BASED ON EFFICIENT SALES CHANNELS, A HIGH-PERFORMANCE AND FLEXIBLE MARKETING SYSTEM AND EFFECTIVE HR MANAGEMENT. WE MONITOR AND ANALYZE OUR KEY MARKETS ON A CONSTANT BASIS IN ORDER TO IDENTIFY GROWTH OPPORTUNITIES AND REMOVE MARKETING BOTTLENECKS.

### OUR SALES STRATEGY IS BASED ON THE FOLLOWING PRINCIPLES:

- The manufacture of quality products that comply with international standards and growing consumer requirements;
- The consolidation of our presence on existing markets and entry into new ones with new products and services;
- The development of consumer partnerships and their engagement in an on-going dialogue in order to boost customer satisfaction.

### OUR SALES STRATEGY IS BASED ON CONTINUOUS MONITORING OF CURRENT MARKET CONDITIONS, PRICE AND EVENT ANALYSES. A FLEXIBLE MARKETING SYSTEM ENSURES THE COMPANY'S TIMELY RESPONSE TO MARKET CONDITIONS AND ITS ABILITY TO MOVE BETWEEN PRODUCTS AND GEOGRAPHIC MARKETS.



## FINANCIAL KEY PERFORMANCE INDICATORS (KPI)



THE GROUP USES FINANCIAL AND NON-FINANCIAL KPI'S TO ASSESS THE EFFICIENCY OF ITS STRATEGY. THESE KPI'S ARE ASSESSED BOTH ANNUALLY AND QUARTERLY THROUGHOUT THE YEAR.

Name	Revenue	EBITDA per tonne	Operating costs per tonne of steel	EBITDA margin	Net income per share	Net debt / EBITDA
<b>Definition</b>	Revenue is the funds received by NLMK from the sale of products and services.	EBITDA per tonne is the profit adjusted for non-cash expenses, interest and tax expenses.	Direct cash costs the Company incurred in producing one tonne of crude steel at its main plant in Lipetsk.	EBITDA margin characterizes the Company's profitability adjusted for non-cash expenses, interest and income tax.	This KPI specifies the Company's net income per share.	This KPI specifies the Company's ability to pay off debt with its own funds, as well as funds from operating activities.
2009 value	<b>USD6,140 million</b>	<b>USD136</b>	<b>USD220</b>	<b>24 %</b>	<b>USD0.036</b>	<b>0.55</b>
Y-o-y changes	<b>−48 %</b>	<b>−61 %</b>	<b>−37 %</b>	<b>−15 p.p.</b>	<b>−91 %</b>	<b>+197 %</b>
<b>Comments, reasons behind changes</b>	Deterioration in market conditions during the world financial crisis. Decline in product demand and price reduction.	Sales prices declined significantly in 2009.	NLMK is one of the lowest-cost steel producers in the world. Production costs are reduced due to self-sufficiency in main raw materials and production efficiency of Company's facilities.	NLMK remains one of the global leaders in the iron and steel industry in terms of profitability. NLMK's EBITDA margin has been recovering consistently throughout 2009.	Breakdown of steel market conditions. Substantial impact of non-recurrent factors (e.g. long product sector goodwill impairment, etc.).	EBITDA reduction accompanied by net debt decrease.
<b>Outlook for 2010</b>	Sales revenue is expected to grow with the recovery of our main sales markets. Sales volumes will increase by 15% and average sales prices will grow by 15–25%.	This indicator is expected to improve in 2010.	Average indicator level could be impacted by growing raw material prices.	NLMK's profitability is expected to grow in 2010. Our competitive advantages will allow us to retain the status of one of the most profitable companies in the industry.	This indicator is expected to improve significantly in 2010.	The target level set by NLMK is around 1. NLMK management will try to maintain low debt levels to ensure financial stability.



## NON-FINANCIAL KEY PERFORMANCE INDICATORS (KPI)



TREND ANALYSIS AND INDUSTRY BENCHMARKING ARE USED TO ASSESS KEY PERFORMANCE INDICATORS.

Name	Steel product sales	Productivity per employee	Energy consumption per tonne of steel (BOF production)	Emissions to air	Occupational safety index at the Lipetsk site
Definition	Consolidated steel product sales	Steel production volume per employee	This KPI specifies energy consumption to produce one tonne of steel	Total volume of air emissions*	This KPI specifies the incident rate index adjustment compared to 2000 (Lipetsk site)

2009 value	10.6 million tonnes	169 tonnes/employee for NLMK Group  269 tonnes/employee at the main production site in Lipetsk	6.3 Gcal/tonne	307,000 tonnes	0.36
Y-o-y changes	+ 1 %	+13% for NLMK Group  +8% for the Lipetsk production site	–3% (compared to 2005)	–1%	–20 p.p.

Comments, reasons behind changes	This KPI showed an increase year-on-year largely as a result of highly competitive position of the Company in the steel market despite a slump in global steel consumption	Changes were driven mainly by increased production efficiency, as well as streamlining NLMK Group headcount.	Energy density reduction in 2009 was driven by the decommissioning of four coking batteries, modification of the steel production structure, commissioning of new energy efficient air separation plants, as well as other activities aimed at reducing heat and energy consumption.	This indicator has decreased by 22% since 2000 despite the growth of production.  NLMK is consistently working on reducing the adverse environmental impact of its production.	Labor protection and occupational safety system improvements.
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Outlook for 2010	With production facilities running at full capacity, the 2010 total sales volume is expected to increase y-o-y reaching approx. 11.7 million tonnes.	We expect production efficiency to increase as a result of the equipment upgrades as well as continued headcount streamlining.	Implementation of planned Technical Upgrade Program activities will boost energy efficiency in steel production at the Lipetsk site.	Stable downward dynamics are expected due to increasing steelmaking efficiency on the one hand, and sustainability projects on the other.	Labor protection and occupational safety system will be improved further. NLMK management will apply maximum effort to reduce the number of industrial accidents.
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\* Information on the main production site in Lipetsk



## ADVANCED HOT-ROLLING TECHNOLOGIES

NLMK launches Mill 2000, a hot-rolling mill of unprecedented capacity – 5.8 million tpa.

The most advanced technologies of continuous rolling and coiling available in the world are integrated in the design of the mill.

To this day not a single rolling plant in the world has been able to surpass the 6.1 million tonnes of capacity achieved by NLMK.

› **INNOVATION  
IN STEEL**



## TECHNOLOGICAL INNOVATIONS

The unique construction of the Mill's units enabled previously unattainable roller pressure to be applied to steel, unprecedented rolling speed and a substantial increase in slab mass.

Mill 2000 is used for the coiling of both thin (1.2 mm) and thick (16 mm) strips 1,850 mm wide at high speed and relatively low temperatures.



## INDUSTRIAL DEVELOPMENT

In the 70's the USSR almost entirely resolved the issue of providing the country with the critical wide flat-rolled top-quality steel.

Industries such as structural steel construction, large-diameter pipe manufacturing, automotive and wagon building boomed.

The Volzhsky Automotive Plant was launched on March 01, 1970. In June 1971 it produced 100,000 cars, and in December 1973 – 1 million cars.

From 1970 to 1975, freight and passenger wagon production in the Russian Soviet Federative Socialist Republic (RSFSR) increased by 14%, metro car manufacturing grew by 20%, and tractor manufacturing by 32%.

## GROUP'S STRATEGY (CONTINUED)

## HOT-ROLLING MILL 2000

› **ADVANCED GLOBAL  
TECHNOLOGIES**

1969



## STRATEGY IN ACTION



1

### EXPANSION OF LOW-COST CRUDE STEEL CAPACITY

#### PLAN OF ACTION

- Increase steel output by over 40%
- Upgrade steelmaking facilities
- Improve steel quality and technical characteristics
- ... resulting in increased output of steel for steel consuming industries with strict quality requirements for steel products

#### EXPECTED RESULTS

- Increased profits as a result of using a low-cost production platform in Russia
- Ranking among the lowest-cost steel producers in the world
- ...resulting in a high ROIC

#### KEY TECHNICAL UPGRADE PROGRAM PROJECTS

##### THE LIPETSK SITE

- Construction of a new Blast Furnace with a total capacity of 3.4 million tonnes
- A new BOF converter construction
- Installation of a vacuum degasser and ladle furnaces
- Expanded HRC capacities through modernizing existing equipment and streamlining production processes



INCREASED STEEL OUTPUT AT THE LIPETSK SITE  
COUPLED WITH ENHANCED LONG PRODUCT CAPACITIES  
WILL ALLOW THE COMPANY TO BECOME **THE LARGEST  
STEELMAKER IN RUSSIA**

#### 2009 CASE STUDY



### NEW BLAST FURNACE CONSTRUCTION

The new BF is our key project within the second stage of our Technical Upgrade Program. Completion of BF construction is scheduled for 2011.

At the same time, we are expanding our pig-iron processing facilities, including the construction of a new BOF and ladle furnace.

NLMK Group has provided financing for acquiring and installing the new BF equipment.



## ACHIEVE LEADING POSITIONS ON THE LONG STEEL MARKET



# 2

## DEVELOPMENT OF LONG STEEL DIVISION

### PLAN OF ACTION

- Expand the Division's presence on key sales markets
- Increase long steel output by over 60%

### EXPECTED RESULTS

- Higher profits driven by implementing an attractive project in Central Russia
- Larger share on the Russian long steel market
- Expanding portfolio of high value added products

### KEY TECHNICAL UPGRADE PROGRAM PROJECTS

- Construction of the Kaluga EAF mini-mill with a total capacity of 1.5 million tpa
- Start-up works and hot-testing at the Berezovsky electrical steel plant (BEMZ) with total annual capacity of 1 million tpa

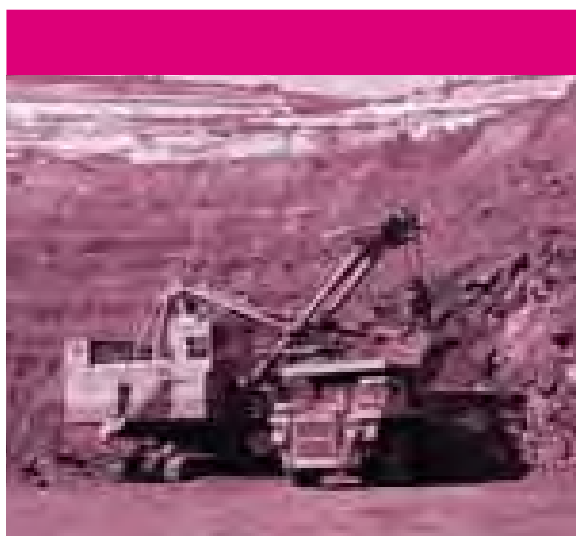
### 2009 CASE STUDY



## CONSTRUCTION OF A MINI-MILL WITH 1.5 MILLION TONNES OF LONG PRODUCT CAPACITY

As part of its Long Product Division development initiative, NLMK is continuing the construction of the Kaluga EAF mini-mill using equipment produced by leading global manufacturers (Siemens, SMS, Demag). Full-scale production launch is expected in 2012. Currently, the project is 20% complete.

## 100% SELF-SUFFICIENCY IN MAIN RAW MATERIALS



## 3

UPSTREAM VERTICAL  
INTEGRATION**PLAN OF ACTION**

- Vertical integration with highly efficient upstream assets
- Maintain 100% self-sufficiency in iron ore concentrate and coke
- Reduce raw material consumption through the continuous implementation of advanced technologies
- Further development of a network of scrap collecting sites
- Search for efficient integration opportunities with coking coal mining assets
- Increase self-sufficiency in electric power at the main site
- Install energy-efficient technologies

**EXPECTED RESULTS**

- 100% self-sufficiency in iron ore concentrate
- 100% self-sufficiency in coke
- Over 40% of electric power consumed at the main plant is generated by our own facilities
- Lowest production cost per tonne of iron ore concentrate in Russia

**KEY TECHNICAL UPGRADE  
PROGRAM PROJECTS**

- Beneficiation line at Stoilensky
- Pulverized coal injection (PCI) technologies for blast furnace production
- The main plant's self-sufficiency in electric power will be increased to 56% after constructing new generating capacities

## 2009 CASE STUDY

**MODERNIZATION OF PRODUCTION  
AT STOILENSKY**

Stage 1 of Iron Ore Beneficiation Section #4 at Stoilensky has been commissioned. Total capacity of the Beneficiation Section #4 will reach 4 million tonnes.



STRENGTHENED POSITION ON THE KEY MARKETS OF GALVANIZED AND COLOR-COATED STEEL. **RETAINED HIGH LEVEL OF TRANSFORMER STEEL SALES PROFITABILITY.**



## 4

EXPANDED VALUE ADDED  
PRODUCT RANGE

## PLAN OF ACTION

- Increase of high value added (HVA) products
- Retain and consolidate our leading position on the HVA product market
- Over 80% revenue on the domestic market from HVA products

## EXPECTED RESULTS

- Strengthened position on the key markets of galvanized and color-coated steel
- Retained high level of transformer steel sales profitability

KEY TECHNICAL UPGRADE  
PROGRAM PROJECTS

- Cold-rolling Reversing Mill with a 350,000 tpa capacity
- Galvanizing Line #4 with 300,000 tpa capacity
- Color-coating Line with 200,000 tpa capacity
- High permeability transformer steel production line
- Reheating furnace revamping as part of HRC production development

## 2009 CASE STUDY



## GALVANIZING LINE #4

Before the commissioning of NLMK's new line, Russian consumers' demand for thin galvanized steel was satisfied mainly by imports.

NLMK has commissioned the fourth Hot-Dip Galvanizing Line (HDGL-4) with an annual capacity of 300,000 tonnes at the main production site in Lipetsk. The thinner galvanized steel (up to 0.22mm) will allow the Company to expand its product mix.

Launching the line allowed NLMK to enter the market with new high value added products that have never been produced in Russia before and increase its galvanized steel production capacity to 1.2 million tonnes.

TRANSFORMER STEEL  
PRODUCTION UPGRADING

In 2009 NLMK upgraded its transformer steel production at the Lipetsk site boosting steel quality characteristics.

The Group is continuing to invest in the revamping of its transformer steel production facilities in order to manufacture new grades of high permeability transformer steel (approx. 60,000 tpa)





**RECORD-SIZE BLAST FURNACE**

Blast Furnace #5, the largest in the USSR at 3,200 cubic meters, was commissioned.

› **INNOVATION  
IN STEEL**



**MORE STEEL FOR  
THE COUNTRY**

The BF-5 launch resulted in an increase of NLMK's pig iron production to 6.2 million tpa.

BF-5's operating experience paved the way for a subsequent improvement in large-volume blast furnace design.

In 1978 using new technologies NLMK built Blast Furnace #6, which remains fully operational today.



**NEW STEEL  
PRODUCTION RATES**

In 1973 131 million tonnes of steel and 91 million tonnes of flats were produced in the USSR. Steel production increased by 4.8% year-on-year, finished product output grew by 4.5% and steel tube production increased by 3.7%.

During 1973, the country's industrial production output increased by 7.3% instead of the planned 5.8%.

Because of the new facilities commissioned in the 70's, by the mid-80's the USSR's steelmaking had achieved stable steel production rates of around 160 million tonnes.

**MARKET REVIEW**

**BLAST FURNACE #5**

› **COUNTRY'S LARGEST**

1973



## MARKET REVIEW

### Macroeconomic Conditions and the Situation on the Global Steel Market

2009 saw a general deterioration of the global economic situation. Real global GDP fell by 0.8% compared to 3% growth in 2008. However, the modest reduction of global GDP was largely due to the growth of the Chinese economy, where GDP increased by around 8.7%. During H1 2009 the global economy was in recession. The peak of the crisis occurred in Q2 2009 and, starting from Q3 2009, owing to the government's anti-crisis programs in various regions of the world, the economy started to recover gradually. The hardest hit economies included the developed countries (in Japan the GDP fall is estimated at 5.3%, in Germany at 4.8%, in the US at 2.5%) and the CIS countries (-7.5%).

According to preliminary estimates, global industrial production contracted by 7%. Processing industries suffered the most.

### Global Steel Production and Consumption

The downturn in key metal consuming industries had a major impact on world ferrous metal consumption, which is estimated to have reduced by 6.5%. The global steel consumption structure changed radically in 2009. According to preliminary data, China accounted for slightly less than 50% of the apparent steel consumption in the world (compared to 36% in 2008). The share of developed countries contracted substantially. Some regions of the world experienced an intensification of protectionist measures which complicated exports to these regions.

The global steel industry responded to the slump in demand by implementing an 8% reduction (to 1.2 billion tonnes) of the annual steel production volume.

### 2005-2009 WORLD STEEL PRODUCTION MILLION TONNES



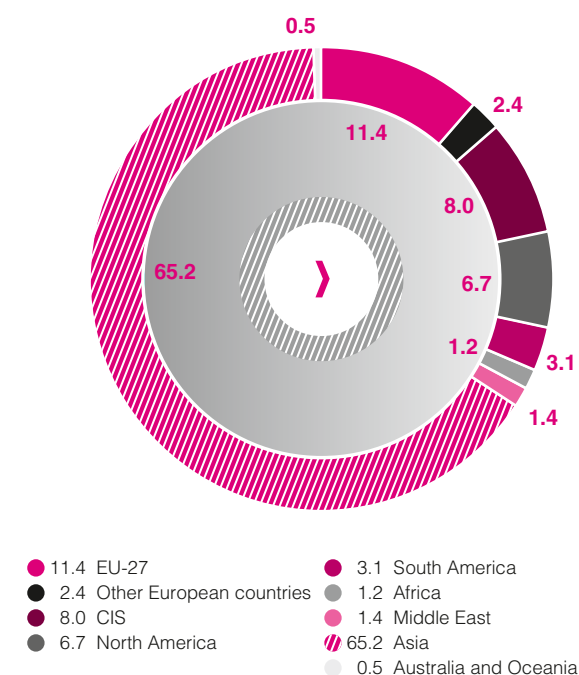
Source: World Steel Association

Asia accounts for the largest share of global steel production and China remains the dominant global steel producer with a 46% share (compared to 37% in 2008) and a 13.5% growth year-on-year.

In 2009 the EU's share of global steel output was 11.4% (compared to 14.9% in 2008), the CIS accounted for 8.0% (8.6%) and North America for 6.7% (9.4%).

GLOBAL STEEL CONSUMPTION IN 2009 DECREASED BY 6.5%. THE GLOBAL STEEL INDUSTRY REACTED TO FALLING DEMAND BY REDUCING STEEL PRODUCTION BY 8% TO 1.2 BILLION TONNES.

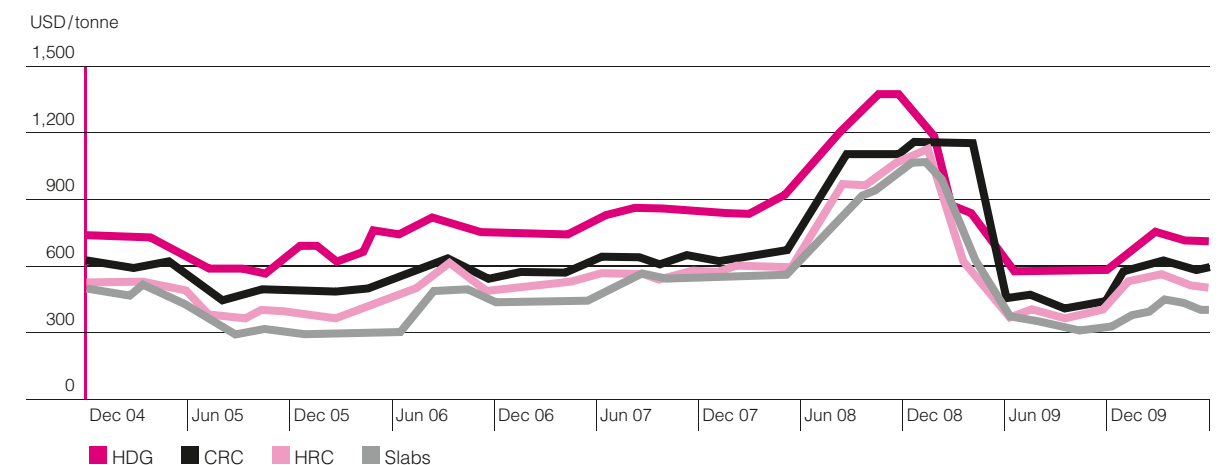
### 2009 WORLD STEEL PRODUCTION BY REGION PERCENT



Source: World Steel Association

By mid-Q2 2009 the destocking phase was over for most manufacturers and consumers on the global markets. Procurement activities picked up from the beginning of the summer, allowing manufacturers to increase production. In autumn this support faded, leading to a short-term downturn. By the end of the year the conditions for stabilization developed in some markets and a subsequent price boost followed at the beginning of 2010.

### 2005-2009 CIS EXPORT PRICE, FOB



Source: Metal Bulletin, Coated Steels Monthly

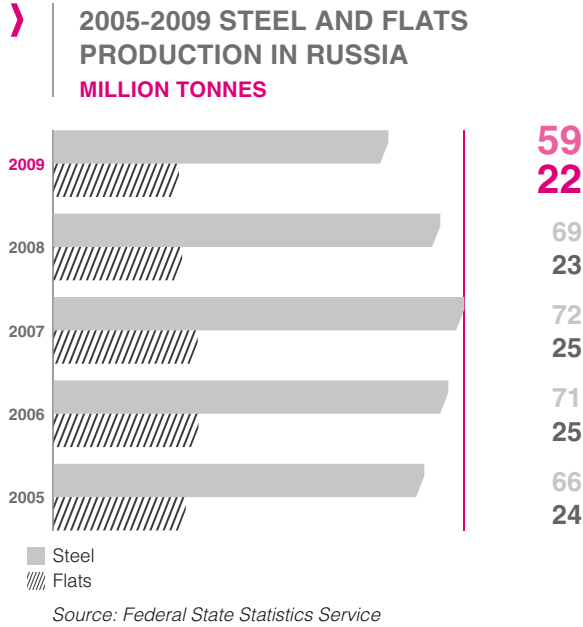
APPARENT CONSUMPTION ON THE DOMESTIC MARKET IN 2009 IN THE FLAT STEEL SEGMENT IS ESTIMATED TO HAVE CONTRACTED BY 23% AND IN THE LONG PRODUCT SEGMENT BY 34%.

Domestic Market

The Russian economy was severely impacted by the crisis with GDP dropping by 7.9%. Contracting industrial production (-11%) and collapsing investments (-17%) had a very negative impact on the domestic ferrous metal market. Construction and machine building, our key consumers, were suffering a serious recession. The amount of commissioned housing fell by 7%. Indicators indirectly related to new construction volumes also dropped: the amount of construction activity contracted by 16% and the production of some construction materials fell by over 30%.

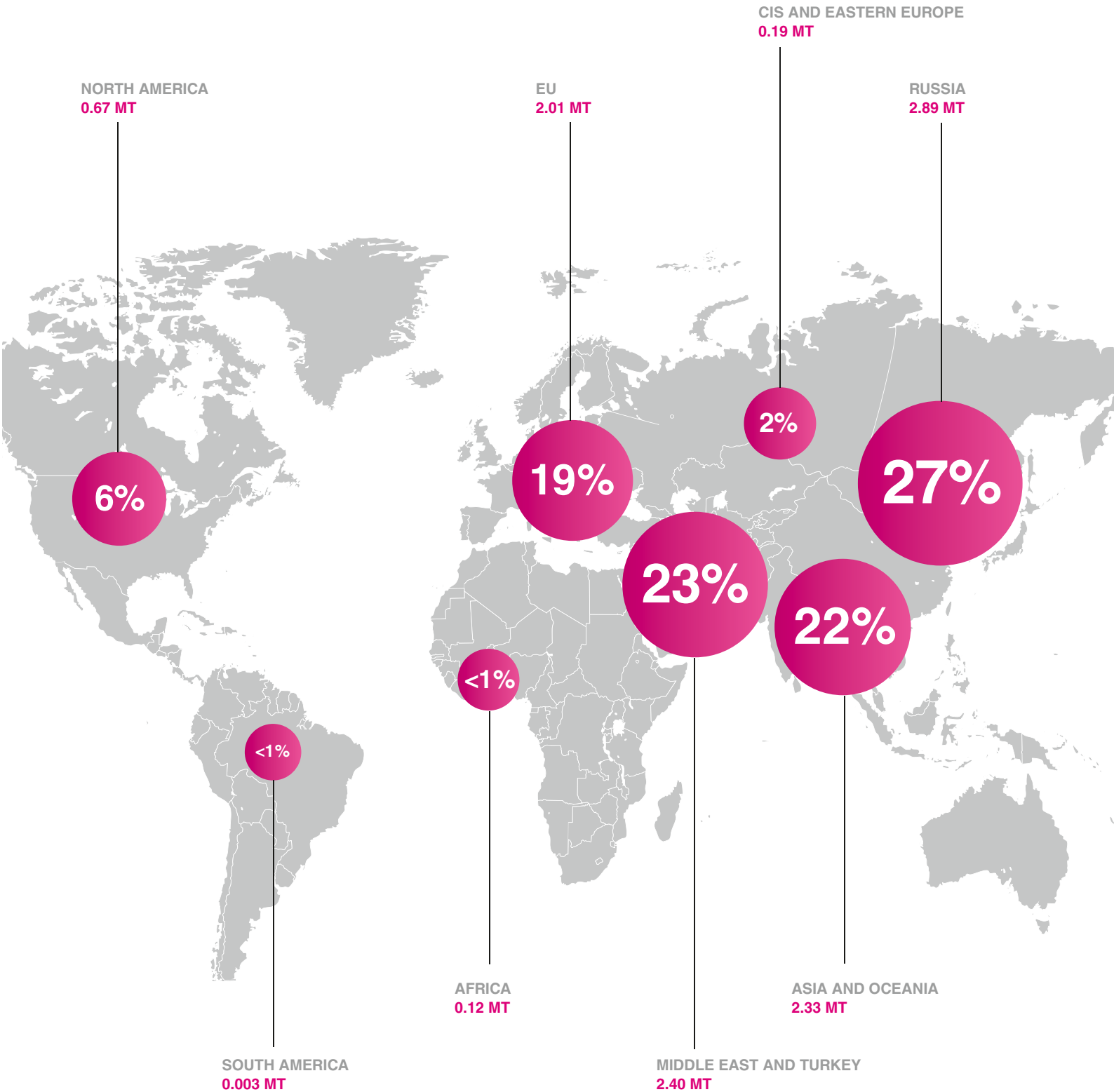
As a result, apparent consumption in 2009 in the flat steel segment is estimated to have contracted by 23% and in the long product segment by 34%.

Steel production in Russia reduced by 13% to nearly 60 million tonnes, 22.1 million tonnes (-4%) of flats and 28.4 million tonnes (-14%) of long product.



Price growth on the domestic market largely coincided with the easing of recessionary trends and continued until mid-autumn. In November, the down trend became dominant due to seasonal factors and the lack of stable positive dynamics in key industries.

2009 NLMK GROUP STEEL SALES BY REGION  
PERCENT



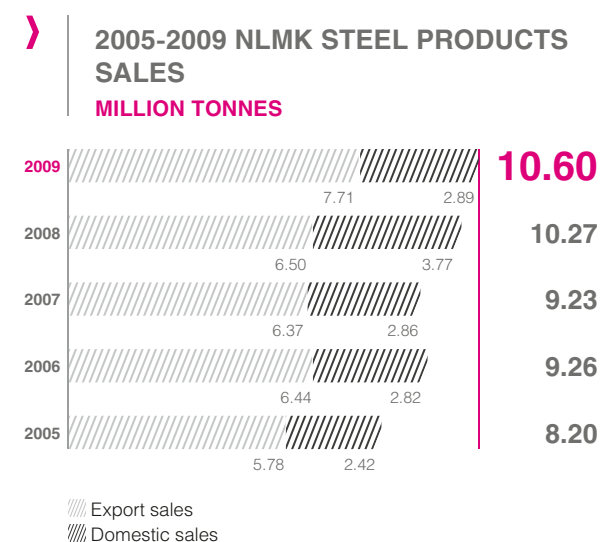


## GROUP SALES

Our sales strategy is based on efficient sales channels, a proactive and flexible marketing system and efficient talent management. We constantly monitor and analyse key market events to identify sales development prospects.

Having export traders within the Group makes it very flexible in terms of redirecting sales to more favorable markets. This is one of the main reason behind NLMK's ability to maintain sales volumes at 2008 levels in the context of slumping global steel consumption.

In 2009 NLMK Group steel sales amounted to 10.6 million tonnes. Due to reduced steel consumption in Russia, the share of export sales increased to 73% (in volume terms).



In 2009 NLMK continued to implement its strategy aimed at diversifying product supply sources which resulted in substantially increased flexibility of our sales. Over the past 5 years, the share of Lipetsk site sales reduced from 100% to 77% (including export trader sales).

### NLMK Export Sales

In 2009 NLMK sold 7.7 million tonnes of its products on the export market, a 19% increase year-on-year. Products were supplied to 75 countries worldwide.

Slabs prevailed in the export sales structure (45%). A significant share of slabs sales (35%) was supplied to our JV with Duferco Group (SIF S.A.) where steelmaking capacities had been partially idled. This led to increased capacity utilisation rates at our Russian production facilities and confirmed our strategy aimed at rolling slabs in regions close to the consumer.

The share of HRC and CRC in our sales amounted to 23% and 13% respectively.

A slump in global industrial production, and electrical engineering in particular, coupled with growing electrical steel production capacities in China led to reducing the Group's share on the global transformer steel market. In 2009 electrical steel accounted for ca.4% of export sales.

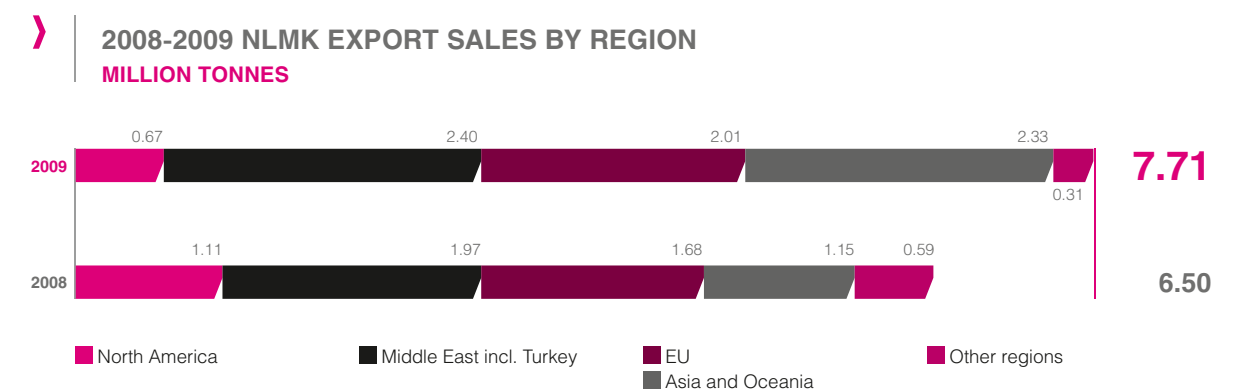
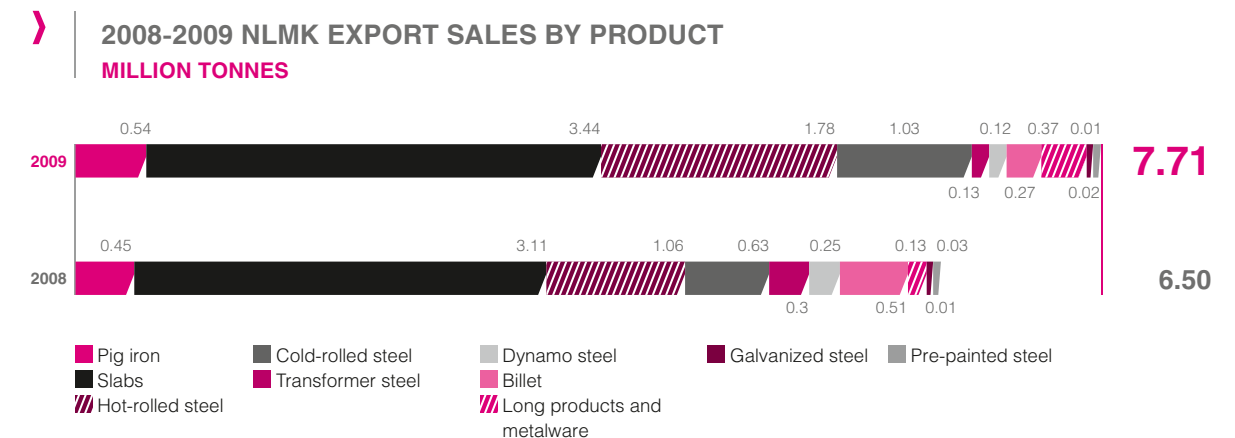
In 2009 the Middle East and South-East Asia were our priority export destinations, accounting for 31% and 30% of deliveries respectively.



IN 2009, NLMK GROUP SOLD 7.7 MILLION TONNES IN THE EXPORT MARKET (+19% YEAR-ON-YEAR).

China, Taiwan and Thailand became the leading importers of our products in Asia, while Turkey and Iran dominated in the Middle East. 26% was exported to the EU, with Belgium, Denmark, Italy and Germany topping the list.

Reduced sales rates on the North American market were partially compensated by Beta Steel sales. In 2009 the Group supplied 9% of its products to this region.





Domestic Sales

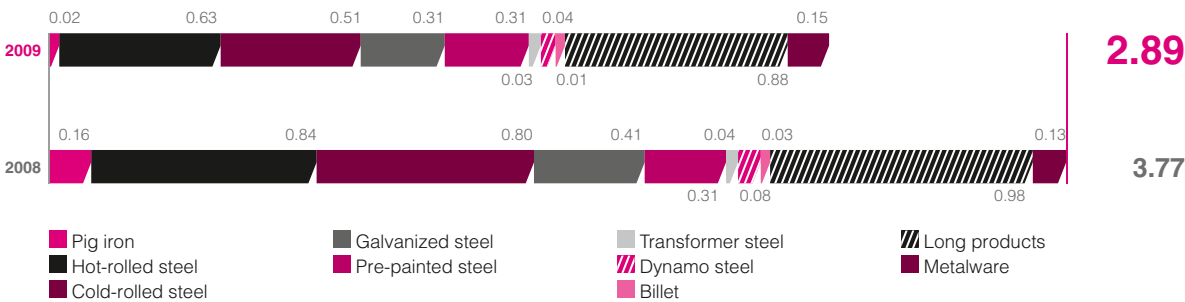
In 2009, NLMK Group sold 2.9 million tonnes on the Russian market (-23% y-o-y). The main reason behind reduced domestic sales is a downfall of

industrial production and construction in the Russian Federation.

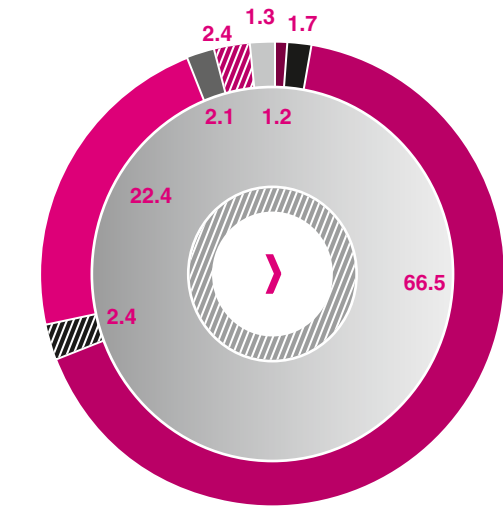


NLMK MANAGED TO INCREASE ITS MARKET SHARE IN THE VALUE ADDED SEGMENT, I.E. PRE-PAINTED AND ELECTRICAL STEEL, AND THE LONG PRODUCTS SEGMENT.

2008-2009 NLMK DOMESTIC SALES BY PRODUCT  
MILLION TONNES



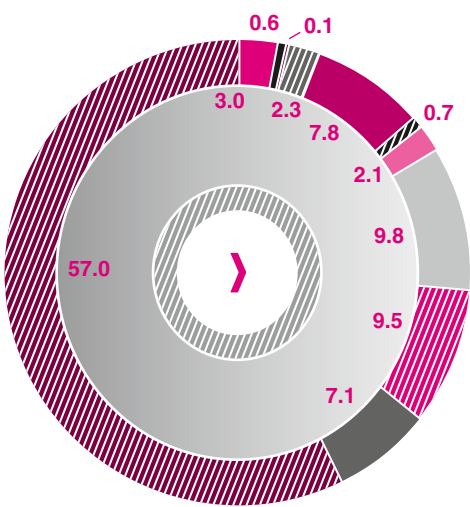
2009 NLMK DOMESTIC SALES BY INDUSTRY  
PERCENT



- 1.2 Automotive industry
- 1.7 "White" goods
- 66.5 Wholesale & retail traders
- 2.4 Machine building
- 22.4 Construction
- 2.1 Pipe making
- 2.4 Electric and instrumental engineering
- 1.3 Other industries

Note: the structure is given in relation to physical UMs

2009 NLMK DOMESTIC SALES BY REGION  
PERCENT



- 3.0 Volgo-Vyatsky
- 0.6 Eastern Siberia
- 0.1 Far East
- 2.3 Western Siberia
- 7.8 Volga
- 0.7 Northern
- 2.1 North-Western
- 9.8 North Caucasian
- 9.5 Urals
- 7.1 Central Black Earth
- 57.0 Central
- 0.01 Kaliningrad

Note: the structure is given in relation to physical UMs

In 2009, the Group's share on the domestic market contracted in the HRC and CRC segment mainly due to reduced consumer demand for these products and forced supply switching to export markets. We managed to increase our market share in the HVA segment, i.e. pre-painted and electrical steel, and the long product segment.

In 2009 NLMK's domestic sales structure remained largely unchanged. Our key consumers are steel processing businesses and steel service centers (67% of sales), as well as the construction sector (22%). The electrical industry and machine building accounted for 2.4%, pipe making for 2.1%, consumer appliance manufacturers for 1.7% and the automotive industry for 1.2%.

NLMK's share of the total apparent flats consumption in the construction sector is estimated at 28%. Our share on the market of flats used for the production of «white» goods amounted to 40%, in the automotive industry to 9%, in pipe making to 1.3%, and in machine building to 6%. Our Long Products Division's share of the Russian long product market also increased: from 15% in 2008 to 22% in 2009 for rebar and from 8% in 2008 to 16.5% in 2009 for wire rod.

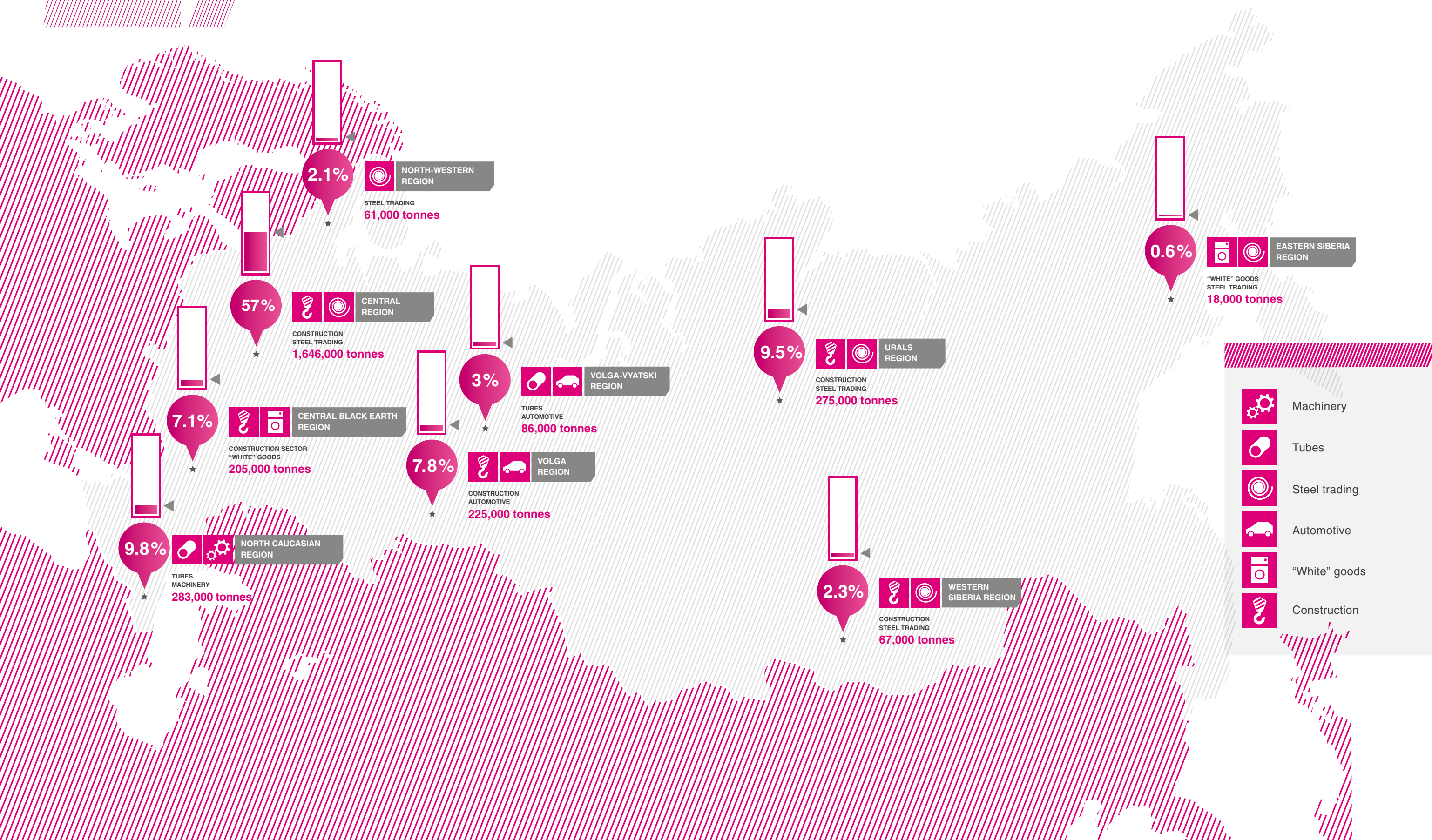
Traditionally, in terms of geography, our key domestic consumers include the Central (57%), Urals and North Caucasian economic regions (~10% each).

Outlook

Demand for our products is expected to continue recovering in 2010. Positive trends for key macroeconomic indicators will lead to a gradual restoration of demand for steel products. Global steel consumption should increase by 9-12% year-on-year.

The domestic market is also expected to pick up. If macroeconomic and industrial indicators forecasted by the Government are achieved, in 2010 we can expect a 5-7% rolled steel consumption increase year-on-year. For flat steel, demand growth can reach 8-11%. Due to insufficient positive trends in the construction sector, the domestic long product market might be limited to a 2-4% growth year-on-year.

## DOMESTIC SALES BY REGIONS IN 2009





## LARGE-SCALE CRC PRODUCTION

NLMK launched the first Carbon Steel Cold-Rolling Shop in the USSR. It had an annual capacity of 2.5 million tonnes with the most efficient Endless Rolling Mill (up to 750 tonnes/hour).

Computer-assisted equipment management and operating practice control resulted in a significant improvement in labor productivity, output growth, and a higher quality of cold-rolled steel to satisfy consumers with the highest demand, for example machine-building companies and household appliance manufacturers.

› INNOVATION  
IN STEEL



## HIGH QUALITY STEEL TO SERVE DOMESTIC INDUSTRY

The new shop was able to provide the domestic industry with top-quality cold-rolled steel that was highly competitive against products from leading foreign manufacturers.

NLMK's rolled steel started to be used in the most complex processes of automobile manufacturing, e.g. extra high draft front body parts, as well as household appliance production.



## AUTOMOBILE CONSTRUCTION GROWTH

NLMK's rolled products allowed the automobile manufacturer AvtoVAZ to discontinue importing sheet steel altogether.

Car manufacturers were looking for ways to reduce the weight and size of vital parts.

Between 1980 and 1985, truck production in Russia increased by 4%, and passenger car production reached 1.16 million ea per year - a record high both for the Soviet and the post-Soviet period. Bus production in 1985 also reached a peak at 60,000 ea per year, up 9% from 1980 levels.

## PERFORMANCE REVIEW

# CARBON STEEL COLD-ROLLING SHOP

› COUNTRY'S FIRST

1980





# FINANCIAL REVIEW

## ECONOMIC DEVELOPMENTS

2009 saw a general deterioration in the global economic situation. Problems that escalated in late 2008 caused a recession in many regions worldwide, especially in developed countries. The crisis peaked in Q2 2009 with the biggest slump in production and demand for our products.

State financial injections into the economy, stimulation of demand for durable goods, capital investment support and other governmental measures in many countries gradually took effect: beginning with an increase in product demand from Q3, growth in steel prices, and a start to recovery in many steel consuming industries. The end of the year is traditionally impacted by seasonal decline. The rates of construction (a key steel consuming sector) fell during the winter period resulting in lower sales volumes and a modest negative adjustment of the pricing environment.

In 2010 we expect the global economy to recover gradually. As consumption starts to grow, we are planning to increase our operating performance and expand value added product output.

## DEBT MANAGEMENT

As of 31 December 2009, the total debt of the Group was USD2,495 million while net debt amounted to USD796 million. During the year the Company successfully reduced weighted average interest rates for its debt obligations.

At the end of 2009, the Group signed a EUR524 million financing facility agreement guaranteed by Export Credit Agencies with a maturity of 7-10 years at EURIBOR+1.57%. This facility will be used to finance the Company's Technical Upgrade Program.

Our short term debt at the end of 2009 amounted to USD557 million, a decline of 48% year-on-year. In 2009 NLMK actively restructured its short term loans. As a result, the Company succeeded in replacing the bulk of its short term debt with proceeds from the 3-year Russian exchange traded bond issues that took place during Q4 2009 totaling RUR15 billion with coupon rates from 10.75% to 9.75%.

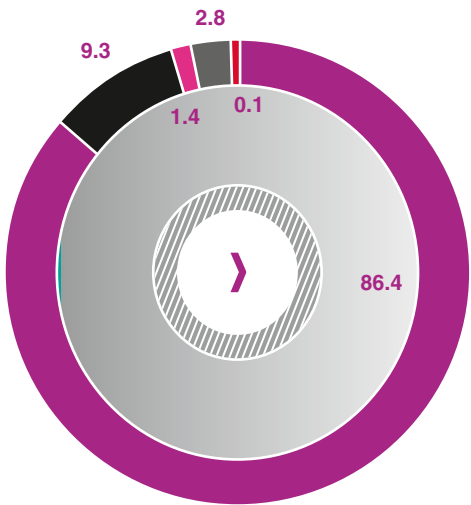
The replacement of short term debt resulted in lower interest payments.

## CONSOLIDATED FINANCIALS

USD million	FY 2009	FY 2008	Changes, %
Sales revenue	6,140	11,699	-48 %
Gross profit	1,990	5,391	-63 %
Operating profit	892	4,061	-78 %
EBITDA	1,444	4,538	-68 %
EBITDA margin (%)	24 %	39 %	
Net profit	215	2,279	-91 %
Operating cash flow	1,394	2,781	-50 %
Net debt	796	842	-5 %
Net debt/EBITDA	0.55	0.19	

A year-on-year increase in sales, which was partially offset by the price falls, in conjunction with a tight control of production costs, enabled NLMK to achieve high profitability.

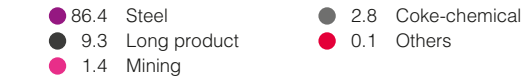
## 2009 NLMK GROUP SALES REVENUE BY SEGMENT PERCENT



## INCOME STATEMENT

In 2009 sales revenue was USD6,140 million (-48% year-on-year). The pricing environment was the key factor behind the Company's revenue decrease: average sales prices in 2009 amounted to USD513, an almost two-fold drop year-on-year. 2009 trends were also determined by falling demand in some regional markets and niche products.

## 2005-2009 NLMK GROUP SALES REVENUE USD MILLION

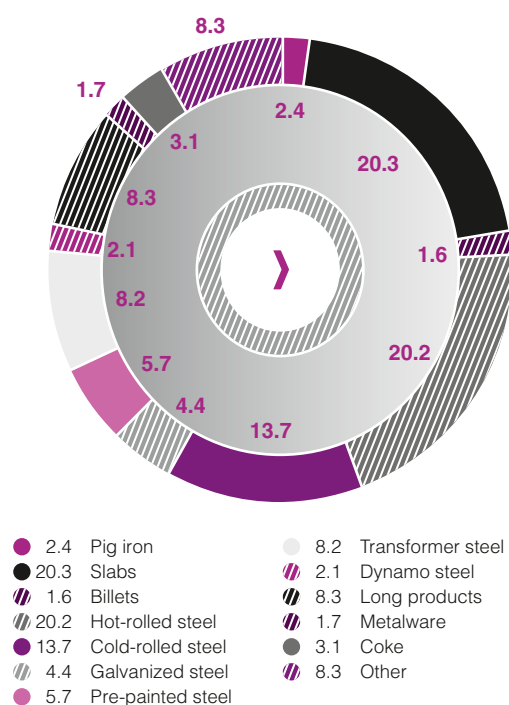


The steel segment has always been the biggest contributor to the Company's consolidated sales. In 2009 its share was 86.4%. This is partly because of its highest product output, as well as the inclusion of export traders within the segment through which other segments' products are sold (long products, iron ore and coke).

NLMK revenue was positively impacted by the consolidation of our US asset, Beta Steel Corp., which began in November 2008.



## 2009 SALES REVENUE BY PRODUCT PERCENT



In 2009, ordinary grades such as slabs and hot-rolled steel accounted for the biggest share in the Company's revenue (20.3% and 20.2% respectively). This was due to increased slab deliveries to SIF assets (JV with Duferco Group) and growing HRC sales, driven in part by consolidating Beta Steel Corp results.

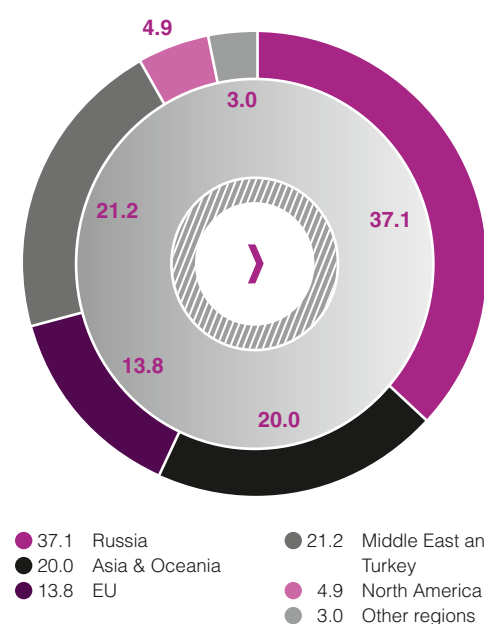
The share of HVA products in 2009 amounted to 36.8%, including 13.7% for CRC, 10.1% for pre-painted steel and 8.2% for transformer steel.

Revenue mix changes are driven by a number of factors. Due to a slump in steel prices and the impossibility of accordingly reducing production costs, steel production in some regions became unprofitable, thus boosting demand for semi-finished products. Besides stimulating demand, governmental anti-crisis measures worldwide included infrastructure projects, which drove demand for basic products, including hot-rolled steel.

In 2009 value added production experienced a decrease in demand, attributable primarily to weakened activity in the automobile, construction and electric industries, particularly apparent on the domestic market.

Despite a small share of domestic sales in total sales volumes (27%), the domestic market share in 2009 revenue changed insignificantly year-on-year (37.1% compared to 39.0% in 2008). This is attributable to the fact that the bulk of high-processing products are sold on the domestic market, and their prices are less volatile compared to other types of products. The domestic market remains our priority and in 2010 we expect to increase the share of domestic sales.

## 2009 SALES REVENUE BY REGION PERCENT



Looking at the breakdown of revenue by region, we note the large share of Middle East and South-East Asia, i.e. the emerging markets, where demand recovery tendencies became apparent earlier in 2009 compared to other regions.

The EU accounted for 13.8% of the Company's revenue, due in part to growing slab deliveries to the Joint venture (SIF) rolling facilities located in Europe.

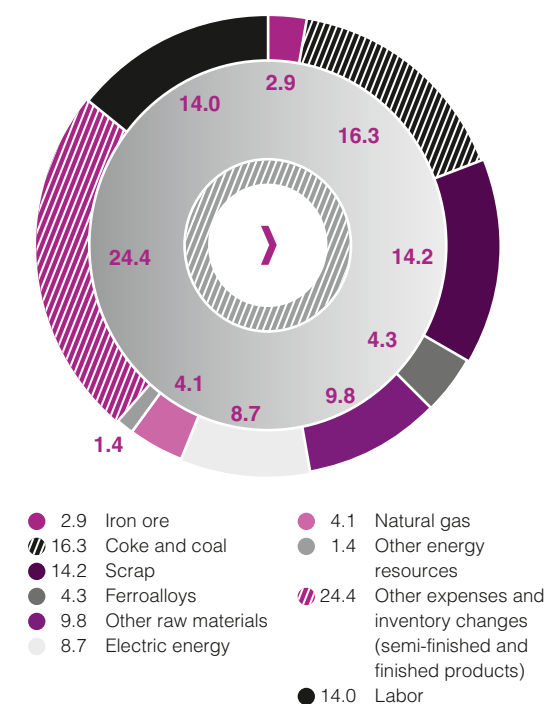
North American sales were accounted for primarily by Beta Steel and semi-finished product deliveries to Farrell, which is part of our JV with Duferco Group (SIF).

Production costs in 2009 totaled USD3.7 billion, a 37% decrease year-on-year. Significant cost cuts were achieved through a series of anti-crisis measures implemented by NLMK management, from renegotiating raw material prices with suppliers to radically reducing non-production expenses. Moreover, cost cuts were factored by a lower ruble exchange rate given the fact that the bulk of our expenses are denominated in rubles.

The slump in steel prices and demand resulted in decreased raw material consumption, opening the way to reduced raw material prices. Average coal prices (including supplies to NLMK) reduced by over 40% year-on-year. Iron ore, scrap and other resource prices also contracted.

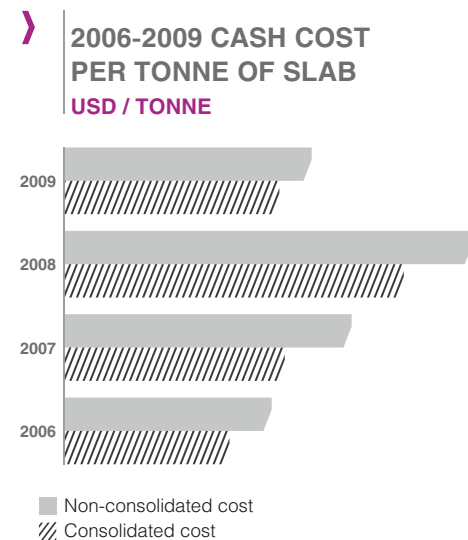
This was the main factor which drove the substantial reduction in the share of raw materials within the consolidated cost structure: from 66.4% in 2008 to 47.4% in 2009.

## 2009 NLMK GROUP PRODUCTION COST STRUCTURE PERCENT



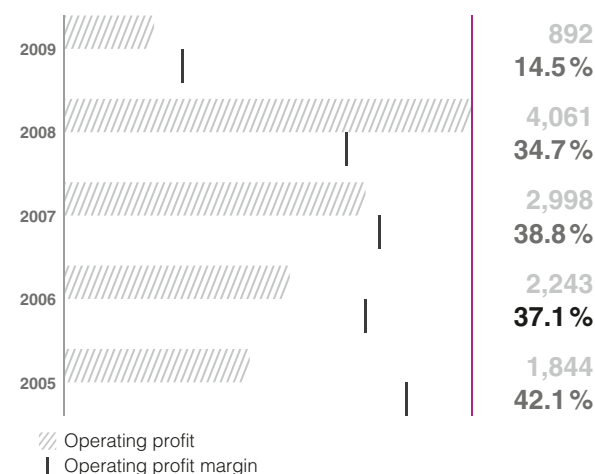
In 2009 the share of *Other expenses* within the production cost breakdown increased significantly. *Other expenses* include maintenance and repair costs, acquisition of spare parts and auxiliary materials and reserves. In 2009, the share of these expenses increased to 24.4% from 10.0% in 2008. Alongside the less substantial reduction of these expenses compared to raw material costs, share growth was impacted by the change of work-in-progress and semi-finished product stock, which were negative in 2008 and positive in 2009. This is related to consumption of highly priced raw material inventories during the reporting period.

Timely and efficient anti-crisis measures allowed NLMK to remain one of the lowest-cost steelmakers in the world. Upstream vertical integration into raw materials ensures 100% self-sufficiency in iron ore concentrate, coke and fluxing materials. The Company is also partially self-sufficient in scrap and electric power. The consolidated cash cost of slabs at the Lipetsk site in 2009 amounted to USD220 per tonne (-37% year-on-year).

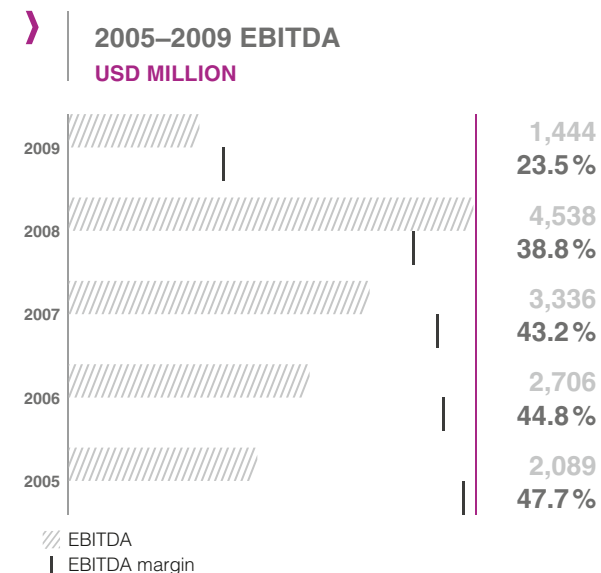


In FY 2009 operating expenses, including SG&A, declined 17% year-on-year to USD1,098 million, mainly driven by weaker domestic currency and also by management initiatives. Operating expenses include the Long Products Segment goodwill impairment totaling USD43.7 million.

**2005–2009 OPERATING PROFIT  
USD MILLION**

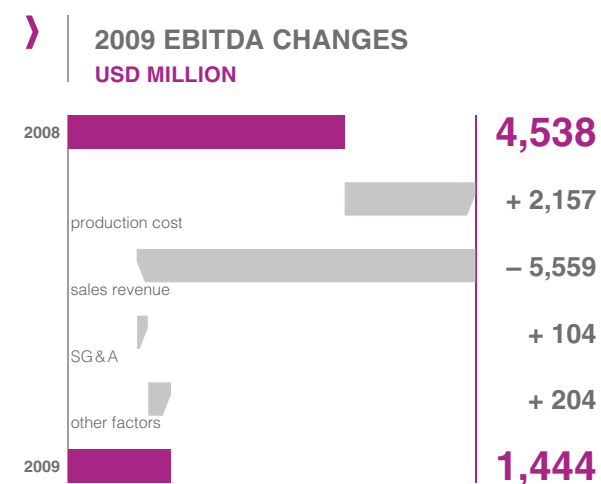


2009 operating profit was USD892 million, down 78% year-on-year. The operating profit margin declined to 15%, a 20 p.p. decrease year-on-year.



FY2009 EBITDA totaled USD1,444 million, a 68% decrease year-on-year and the EBITDA margin was 24%, a 15 p.p. decline year-on-year. The EBITDA margin increased sequentially throughout the year, growing from 15% in Q1 to 29% in Q4 2009.

EBITDA changes were impacted primarily by the decrease in revenue, partially offset by reduced production and operating costs, as well as other factors.



Interest expenses fell by 21% year-on-year to USD171 million. The replacement of expensive debt allowed the Company to reduce interest expenses from USD54 million in Q1 2009 to USD39 million in Q4 2009 (-28%). This reduction in interest expenses is mainly attributable to the refinancing of high cost short term debt in the Long Products Division. The increased share of bonds within the debt structure reduced interest expenses by 31% in H2 2009 compared to H1 2009.

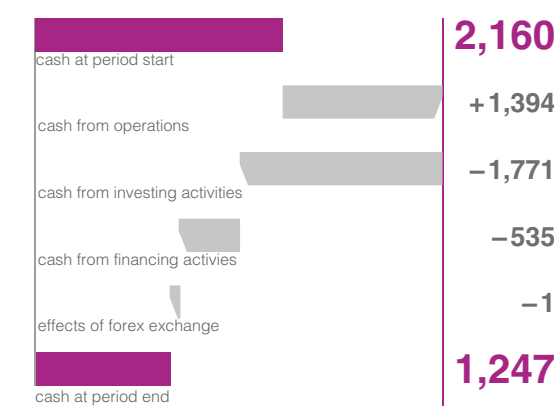
In FY2009, the net FX loss amounted to USD78 million. This is mainly attributable to the results from the executed forward contracts as well as other FX gains received by the Group.

In FY2009 the Company recorded net income (attributable to the NLMK shareholders) of USD215 million. The global market downturn and subsequent recognition of the share of losses of the joint venture company Steel Invest and Finance S.A. (USD315 million, with most losses incurred during H1 2009) were the largest contributors to the overall year-on-year reduction in net income.

## CASH FLOWS

NLMK Group's financial stability is determined by its ability to generate substantial cash flow from operating activities.

**2009 NLMK GROUP CASH DYNAMICS  
USD MILLION**



## Operating Cash Flow

Cash flow from operating activities in FY 2009 amounted to USD1,394 million, down 50% year-on-year, mostly influenced by the reduction in profitability and changes in working capital. Group EBITDA (a good indicator of operating cash flow) reduced by 68% year-on-year while working capital reduction totaled USD859 million comprising the contraction of inventories and trade receivables by USD331 million and USD494 million respectively.

## Cash Flow from Investing Activities

The FY 2009 total cash outflow from investment activities was USD1,771 million. For the acquisition and construction of property, plant and equipment the Group allocated USD1,121 million.

USD234 million was paid by NLMK under the settlement agreement with DBO Holdings Inc. The payment relates to the aborted JMC acquisition.

In FY 2009 NLMK placed short-term deposits in Russian state-owned banks and foreign banks. These transactions were reflected as placement and withdrawal of bank deposits with respective totals of USD536 and USD510 million.

In FY 2009 NLMK granted a USD404 million loan to Steel Invest and Finance S.A. (NLMK-Duferco JV) and its subsidiary. Duferco Group, NLMK's partner in the joint venture, also provides financial support to the joint venture.

## Cash Flow from Financing Activities

Net cash used in financing activities in FY 2009 totaled USD535 million. In the reporting period, the Group actively optimized its debt portfolio. In particular, short term debt bearing high interest rates was refinanced and partially repaid which resulted in a cash outflow of USD462 million allocated for settlements.

The Group's cash position as at 31 December 2009 totaled USD1,247 million and an aggregate of the cash and cash equivalents and short-term investments stood at USD1.7 billion which, coupled with low debt levels, emphasizes the stable financial position of the Company.

## CONSOLIDATED BALANCE SHEET

As of 31 December 2009 the Group's assets totaled USD12.5 billion, an 11% decrease year-on-year. The key factors contributing to this decline were the change in RUR/USD exchange rate, a significant decrease in working capital driven by lower raw material and finished products prices, work in progress and changes in accounts receivable and payable given the crisis.

These factors, along with the reduction of debt, resulted in Shareholder's equity growing to 70% of total assets, an 8 p.p. increase from the beginning of the year.

Net debt as of 31 December 2009 totaled USD796 million (5% decrease year-on year). This change was mostly caused by the solid cash flow from operations and repayment of short term loans during the year.

Net debt /LTM EBITDA ratio reached 0.55 as of the end of FY2009. Long term liabilities make up 78% of the Group's debt.

Current assets fell by 27% from the beginning of the year and amounted to USD3,877 million which is attributable to the lower volume of receivables, inventories, cash and cash equivalents.

The accounts receivable reduced by 39% from the 2008 year end to USD913 million. The decrease was mainly driven by receivables settlements and lower prices.

In 2009 a significant portion of the receivables overdue from major Russian automotive producers which arose in the end of 2008 was settled.

Inventories fell by 27% and totaled USD1,134 million. This decline was largely driven by lower prices for raw materials, as well as a contraction of work-in-progress and finished products.

In FY2009 accounts payable decreased by USD1,038 million and reached USD841 million. This was caused by recognition in *Other creditors* as of 31 December 2008 of the prepayment for the shares of TMTP (Tuapse Sea Port Company) amounting to USD242 million and the settlement amount paid to the DBO Holdings Inc. of USD234 million.



## TIMELY AND EFFICIENT ANTI-CRISIS MEASURES ALLOWED NLMK GROUP TO REMAIN ONE OF THE LOWEST-COST STEELMAKERS IN THE WORLD.

## PERFORMANCE BY SEGMENT

The Group's financial performance is largely defined by the performance of the steel segment, which comprises Novolipetsk Steel, VIZ-Stal (a producer of electrical steel), DanSteel A/S (a thick plates producer), Beta Steel Corp. (since November 2008, a 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 (Logistics Company NTK and Trading House NLMK).

FY 2009 Steel Segment's revenue from external customers amounted to USD5,305 million, which was 45% lower year-on-year. Operating profit was

USD785 million (-76% year-on-year). The decrease in the headline numbers is driven by the plunge in prices and sales volumes for HVA products due to weakening product demand, including on the domestic market where the Company sells the bulk of its HVA products.

Property, plant and equipment acquisition and construction costs for the steel segment totaled USD858 million, or 77% of total investments. The Lipetsk site accounted for the bulk of investments. Projects included the construction of Blast Furnace #7, reconstruction of BOF production, installation of HDG and color-coating lines and others.

### Long Products Segment

USD, million	FY 2009	FY 2008	%
Revenue from external customers	572	1,178	-51
Revenue from intersegmental operations	310	658	-53
Gross profit	52	532	-90
Operating profit	-142	177	-180
Profit/(loss) after income tax	-401	-207	94
Capital expenditures	181	388	-53

The Long Products Division includes the former Maxi-Group companies: NSMMZ, UZPC, Uralvtorchermet, etc. The core activities of these companies are scrap collection and processing, steel-making (EAF-based) and long products and metalware production.

FY 2009 revenue from external customers amounted to USD572 million (a 51% decrease year-on-year), while the operating loss reached USD142 million against the operating profit of USD177 million in FY 2008. The segment's lower FY 2009 financials are attributable to a significant downturn in sales volume and price softening during the period.

The increase in loss over 2009 is partly as a result of the Long Products Division goodwill impairment. This was compounded by interested expenses resulting from the remaining portion of the Division companies debt load.

Property, plant and equipment acquisition and construction costs for the segment totaled USD181 million, or 16% of total investments. Projects included a mini-mill construction in the Kaluga region which we plan to launch in 2012.

### Steel Segment

USD, million	FY 2009	FY 2008	%
Revenue from external customers	5,305	9,643	-45
Revenue from intersegmental operations	99	243	-59
Gross profit	1,587	4,040	-61
Operating profit	785	3,227	-76
Profit/(loss) after income tax	1,240	2,820	-56
Capital expenditures	858	1,380	-38

## Mining Segment

USD, million	FY 2009	FY 2008	%
Revenue from external customers	85	63	35
Revenue from intersegmental operations	430	870	-51
Gross profit	217	612	-65
Operating profit	160	548	-71
Profit/(loss) after income tax	140	485	-71
Capital expenditures	80	122	-35

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

2009 total sales revenue was 35% higher than the previous year primarily due to the fact that large volumes of iron ore were sold to third parties in H1 2009. Revenue from intersegmental operations fell by 51% as a result of reduced iron ore prices.

Significant revenue reduction resulted in a 71% operating profit decrease (down to USD160 million).

Property, plant and equipment acquisition and construction costs for the Mining Segment totaled USD80 million. Most of the investments went towards enhancing iron ore concentrate capacities to cover the growing raw material requirements at the Lipetsk site.

## Coke-Chemical Segment

USD, million	FY 2009	FY 2008	%
Revenue from external customers	172	732	-77
Revenue from intersegmental operations	330	415	-20
Gross profit	100	203	-50
Operating profit	60	88	-32
Profit/(loss) after income tax	40	85	-52
Capital expenditures	2	9	-73

The Coke-Chemical Segment comprises Altai-Koks and its subsidiaries. Altai-Koks is Russia's largest non-integrated coke producer.

FY 2009 revenue from external customers amounted to USD172 million (-77% year-on-year). The revenue decrease was primarily due to lower sales to third parties and reduced coke prices.

Revenue from intersegmental operations contracted by 20%, mostly attributable to the pricing factor. Operating profit totaled USD60 million, a 32% decrease year-on-year.

NLMK'S CREDIT RATINGS ARE THE HIGHEST AMONG ITS RUSSIAN PEERS.

## CREDIT RATINGS AND 2009 RATING DYNAMICS

NLMK is rated by three leading independent rating agencies. NLMK is the only Russian steel company with the investment grade corporate rating.

Rating agency	Standard and Poor's	Moody's	Fitch Ratings
NLMK Credit Rating as of 31.03.2010	BBB- (stable)	Ba1 (stable)	BB+ (stable)

## 2009 Events

In October 2009, Moody's raised NLMK's outlook for its Ba1 corporate family rating and national scale rating Aa1.ru from negative to stable.

The Company has demonstrated resilient financial and operating performance in 2009. Moody's decision has confirmed the Company's high credit quality, as well as low risks related to the leverage of the Group.

In Q4 2009 Standard and Poor's assigned a priority unsecured debt rating to NLMK's ruble bonds totaling RUR15 billion. The bond rating was in line with the Company's credit rating BBB-.

## Subsequent Events

Standard and Poor's improved its credit rating outlook from negative to stable in March 2010. Moreover, in March 2010 Standard and Poor's assigned a debt rating to NLMK's ruble bonds totaling RUR10 billion. The bond rating was in line with the Company's credit rating BBB-.





### NEW COLD-ROLLED STEEL PRODUCTION TECHNOLOGIES

The country's first and only Continuous Annealing Line was put into operation at the Carbon Steel Cold Rolling Shop. Its capacity was 500,000 tpa.

The line had the highest degree of automation of its time and ensured the optimization of thermal processing modes, the homogeneous structure and stable properties of steel.

› INNOVATION  
IN STEEL



### NEW ROLLED STEEL PROPERTIES

The new machine allowed the manufacturing of cold-rolled steel with unique quality characteristics in terms of mechanical properties, purity and flatness from Advanced High Strength Steel (AHSS) grades of carbon, low-alloyed and duplex steel.

This type of steel is used in the automotive industry. Its unique properties allowed to reduce car weight, at the same time enhancing security properties of the vehicle.

The manufactured products are compliant with the highest consumer requirements in terms of surface finish, flatness and stability of mechanical properties.



### “WHITE” GOODS BOOM

In the 80's the manufacture of "white" goods in the USSR boomed. Between 1980 and 1988 the production of refrigerators increased by 17.5 times from 143,000 to 2.5 million.

The production of freezers went even higher (from 7,000 in 1980 to 500,000 in 1988).

### PERFORMANCE REVIEW (CONTINUED)

## NEW CONTINUOUS ANNEALING LINE

› COUNTRY'S FIRST

1

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THE COMPANY IS FOCUSED ON RISK MANAGEMENT TO MITIGATE THE POTENTIAL NEGATIVE IMPACT ON ITS BUSINESS.

PRINCIPAL RISKS

In 2008-2009, NLMK, together with Marsh, a leading risk management consultant, carried out a number of activities on assessing the efficiency of the existing risk management system, developed recommendations on how to improve it, prepared

internal documents regulating the Company's risk management process. In 2010 the Company is planning to complete its first independent annual risk management assesment.

Name	Description	Comments	Mitigation Measures
RAW MATERIALS AND SUPPLIES	<p>Risks related to raw materials and supplies are among the most critical for the Company.</p> <p>Raw material supplies are subject to sector-specific risks.</p>	High degree of self-sufficiency in raw materials.	Supplier diversification, market analysis, long-term contracts, other activities.
PRODUCTS AND SERVICES FROM NATURAL MONOPOLIES	Main energy resources (natural gas, electric energy) are supplied by Russian natural monopolies, giving rise to the risks of regulated tariff in the midterm.	Partial self-sufficiency in electric energy, reduced natural gas consumption.	Increased self-sufficiency in electric energy, installations of new equipment aimed at reducing natural gas consumption (using pulverized coal fuel), mechanisms for buying energy resources on the free market, participation in activities of permanent advisory bodies and NGOs on tariff regulations.
FINISHED PRODUCTS	<p>Cyclicity of the industry.</p> <p>Pricing volatility.</p> <p>Trading barriers on the main export markets.</p> <p>Intensifying competition.</p>	Risks related to sales markets are among the most critical for the Company.	<p>Sales diversification by region and by product.</p> <p>Flexible sales system allowing shifting product flows among markets.</p> <p>Exports done through traders with a wide client base.</p> <p>Improved quality, product certification by leading Russian and international organizations.</p> <p>Low production costs ensure the Company's high pricing flexibility.</p>
WORKING CAPITAL GROWTH	Risks associated with the tie-up of working capital, reduced financial flexibility and stability.	Strict working capital control.	<p>Inventory and WIP management is based on normative standards. A Commission on investigating unproductive expenses controls the deviation of actuals from the normative raw material inventory and WIP on a permanent basis.</p> <p>A permanently acting Commission on payables and receivables purposefully prevents the creation and retirement of overdue receivables and improves the efficiency of performing contractual commitments in terms of partner settlements.</p>
LOGISTICS RISKS	Risks related to the transportation of raw materials and semi-finished products to the production sites and the delivery of finished products to the consumers.	The need to deliver raw materials and ship finished products.	NTK, a transportation unit with its own fleet of railcars, is part of NLMK Group. It ensures a continuous supply of raw materials and finished product shipments. 97% of the Group's shipping operations are performed by NTK.



MANAGEMENT  
IN ACTION

PRE-CRISIS PRODUCTION VOLUMES RESTORED IN 2009

STABLE SALES LEVELS DESPITE REDUCED GLOBAL DEMAND FOR STEEL

PRODUCTION COSTS KEPT LOW

OPERATING CASH FLOW INCREASED BY USD0.9 BILLION DUE TO WORKING CAPITAL OPTIMIZATION

OPERATIONAL RISKS

Name	Description	Comments	Mitigation Measures
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.		<p>NLMK Group takes precautionary measures aimed at preventing accidents and hazardous events. A reasonable stock of work-in-progress and auxiliary supplies is maintained in case of an emergency shutdown. Property is safeguarded, alarm and fire systems are in place at the production facilities.</p> <p>The Group takes out insurance for its property assets 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 programs, which provide for the most favorable pricing terms, as well as guaranteed insurance indemnity paid in case of an insured event.</p> <p>Obsolete coke batteries have been shut down at the Lipetsk site.</p>

MANAGEMENT  
IN ACTION

NO MAJOR ACCIDENTS RESULTING  
IN INTERRUPTED OPERATIONS

INVESTMENT RISKS

PROJECT RISKS	Risks associated with completing the development program projects.	The Technical Upgrade Program projects are thoroughly assessed.	Main measures taken to mitigate this risk included reviewing the Technical Upgrade Program in order to specify the key and most effective projects which would continue to be financed and attracting acceptably low cost financing from international capital markets.
RISKS ASSOCIATED WITH ACQUISITIONS, DISPOSALS	Risks associated with the Company's development through M&A, as well as asset disposals.	The Company is pursuing a balanced policy on acquiring new assets.	Major risks today are related to the failure to achieve the forecasted effect of M&A transactions. In order to mitigate this risk the Company is forming joint (international and Russian) management teams, getting actively involved in integrating the acquired business into the Group structure and using internal resources to optimize the newly acquired assets' business processes.
RISK OF LOW INVESTMENT ATTRACTIVENESS	Risks related to the market's opinion of the Company.	Balanced development and information policies.	A decision-making system ensures a thorough assessment of the economic feasibility of all investment decisions. In order to mitigate this risk, the Company organizes activities aimed at enhancing its information transparency on a regular basis thus allowing the investment community to effectively evaluate the Company's current status. Our management team regularly comments on key decisions made by the Group and shares business-related information.

SOME PROJECTS OF OUR  
DEVELOPMENT PROGRAM WERE  
TEMPORARILY RESCHEDULED FOR  
LATER PERIODS

THE GROUP SUPPLIED SLABS TO  
THE JV WITH DUFERCO ROLLING  
CAPACITIES, WHICH RESULTED IN  
INCREASED UTILIZATION RATES OF  
ITS OWN STEELMAKING CAPACITIES  
AND REDUCED FIXED COSTS PER  
TONNE OF STEEL

TEMPORARILY TRANSFERRING  
TRANSFORMER STEEL ORDERS  
TO VIZ-STAL IN THE FIRST HALF  
OF 2009 RESULTED IN INCREASED  
UTILIZATION RATES AND OPTIMIZED  
TRANSPORTATION COSTS

FINANCIAL RISKS	Name	Description	Comments	Mitigation Measures	<div>MANAGEMENT IN ACTION</div> <div>BENEFITS FROM HEDGING FOREIGN CURRENCY RISKS AMOUNTED TO USD100 MILLION IN 2005–9M 2008.</div> <div>2008–2009 LOSSES DUE TO THE DEPRECIATION OF THE RUSSIAN RUBLE (BEYOND OUR CONTROL)</div>
	CURRENCY RISKS	Risks related to exchange rate fluctuations. The bulk of our revenue is expressed in foreign currency, while a major part of our costs is incurred in rubles.		<p>In order to minimize currency risks, the Company considers the expected exchange rate volatility in export planning. Measures are taken to diversify foreign currency revenue. On concluding export contracts, the Company hedges its foreign currency operations through matching the currencies of cash inflow and outflow.</p> <p>About 60% of our sales revenue comes from exports while a major part of our costs is incurred in rubles. In 2008 NLMK entered into forward contracts on currency sales with maturity in 2009. The rationale for this was based on currency exchange rate forecasts and market expectations in 2008. The Policy on Hedging Financial Risks which would allow to improve the use of derivative instruments is currently being developed.</p>	
	INTEREST RATE RISK	Risks related to possible changes on the capital market.	The Company's low debt load.	We analyze interest rate risks on a regular basis to ensure proper risk management. In order to mitigate this risk, the Company takes measures to balance fixed and floating rate borrowings.	
SOCIAL RISKS	ENVIRONMENTAL RISKS	Risks related to the hazardous environmental impact of steel production.		<p>In order to mitigate environmental risks we conduct regular monitoring of air emissions and effluents. The overall environmental impact is further reduced through commissioning advanced ecologically friendly technologies and upgrading existing equipment.</p> <p>NLMK Group carries third-party liability insurance against accidents during the operation of hazardous production facilities.</p>	<div>REDUCED ENVIRONMENTAL IMPACT:</div> <div>– EMISSIONS TO AIR 1%</div> <div>– WATER POLLUTION 67%</div> <div>– RECYCLING INDEX OVER 100%</div> <div>– WASTE WATER DISCHARGE AT THE LIPETSK SITE 0%</div>
	PERSONNEL RISKS		Headcount of over 60 thousand people.	<p>In order to address this risk the Company has elaborated a set of corporate standards regulating hiring and dismissal, training and professional skills assessment processes, staff awards, the hiring of young trainees, and the implementation of other internal social programs aimed at improving the health, social welfare, etc. of our employees.</p> <p>A well-balanced social policy applied by NLMK during the economic downturn allows the Group to maintain a stable social environment in its companies.</p>	WE MANAGED TO RETAIN OUR QUALIFIED WORKFORCE AND AVOID SOCIAL TENSIONS IN THE REGIONS WHERE WE OPERATE





## THE LARGEST DYNAMO STEEL ROLLING SHOP

NLMK commissioned the largest specialized Dynamo Steel Rolling Shop in Europe and mastered the production of all types of dynamo steel (0–4 alloying groups).

The total length of furnaces in the new shop exceeded 3 kilometers.

› INNOVATION  
IN STEEL



## STEEL FOR ELECTRIC TECHNOLOGY

The new production allowed NLMK to double the country's dynamo steel output, to ensure the electrotechnical industry's 100% sufficiency in Russian-made products, to substantially improve the technical characteristics of dynamo steel, to expand the variety of grades and dimensions, and to reach the top global quality standards of electric steel production.

The achieved steel properties allowed implementing high-velocity forming and automated product assembly technologies resulting in a multifold increase in electrical engineering output.

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## ELECTROTECHNICAL INDUSTRY DEVELOPMENT

Russian electrotechnical industry completely discontinued importing dynamo steel (prior to that over 50% of steel was purchased abroad).

Electric appliances became an integral element in industrial production and everyday life.

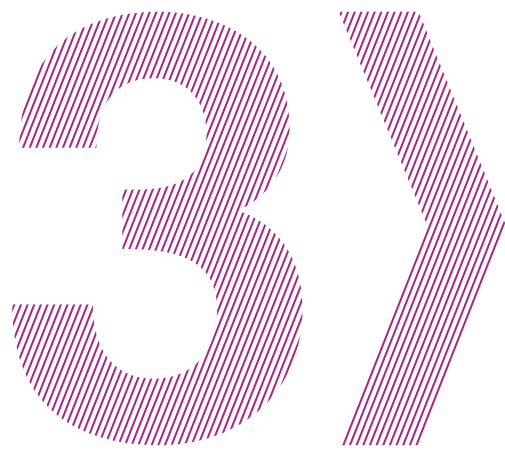
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PERFORMANCE REVIEW  
(CONTINUED)

## DYNAMO STEEL PRODUCTION

› EUROPE'S LARGEST



## OPERATING REVIEW

### CONSOLIDATED RESULTS

A flexible sales system coupled with a diversified product mix allowed us to maintain operating performance at the 2008 level.

In 2009, NLMK Group produced 10.6 million tonnes of steel, a 1% increase year-on-year.

Steel output remained flat year-on-year at 10.6 million tonnes. Rolled products output increased by 23,000 tonnes to 6.4 million tonnes. Production growth was driven by a 2% increase year-on-year in long product output.

Despite a slump in demand for electrical and pre-painted steel, NLMK managed to maintain 2008 flats production volumes at 5.0 million tonnes through the efficient management of operating assets.

A CONTINUAL  
FOCUS ON  
REDUCING COST  
AND IMPROVING  
EFFICIENCY  
SUPPORTS  
OUR SALES  
DEVELOPMENT

### Consolidated Production Results

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / –	%
Steel	10,614	10,500	115	1
Semi-finished products, including:	4,219	4,271	–51	–1
Commercial pig iron	510	636	–126	–20
Slabs	3,440	3,093	348	11
Billets	269	542	–273	–50
Rolled steel products, including:	6,366	6,343	23	0
Flat products:	5,002	5,009	–7	0
Hot-rolled steel (including plates)	2,490	2,026	463	23
Cold-rolled steel	1,535	1,494	41	3
Hot-dip galvanized steel	350	452	–102	–22
Pre-painted steel	333	358	–25	–7
Transformer steel	131	353	–222	–63
Dynamo steel	163	326	–163	–50
Long products and metalware	1,364	1,334	30	2
<b>TOTAL</b>	<b>10,586</b>	<b>10,613</b>	<b>–28</b>	<b>0</b>

Note: SIF S.A. JV production results are not included.

### RUSSIAN STEEL ASSETS

#### Novolipetsk Steel (Parent Company)

Novolipetsk Steel is our key production site located in the city of Lipetsk. It is one of Russia's top four steelmakers and specializes in flat steel products.

Novolipetsk Steel produces pig iron, slabs, hot-rolled flat products, cold-rolled flat products, hot-dip galvanized and pre-painted steel, as well as electrical steel (dynamo and transformer).

Our key consumers include construction, automobile manufacturing, machine-building, ship-building, the manufacturing of electrical equipment, and others.

Advanced production technologies and modern equipment enable NLMK to ensure a high quality of its products whilst remaining one of the lowest-cost steel producers in the world. Our products have been certified by leading Russian and international certification authorities. We have implemented a Quality Assurance Policy formalizing our commitment to ensuring full production quality compliance with our customers' expectations and requirements and fulfilling our obligations vis-a-vis our personnel, shareholders and society.

NLMK is a fully integrated iron and steel maker occupying a plot of approximately 27 square kilometers. Capacity location and structure allow us to minimize operational risks. The concentration of core production operations within one site offers a competitive advantage for the Company and helps

optimize the production process, as well as reduce logistics costs.

In the beginning of 2009, with slumping steel demand, our production program was focused on fulfilling orders in hand. In the context of weakening market conditions at the end of 2008, Novolipetsk shut down three blast furnaces for overhaul. Moreover, given the shrinking coke demand, 4 obsolete coke batteries were decommissioned ahead of schedule at the end of 2008 – beginning of 2009. Following a serious fall in demand for transformer steel in Q2, transformer steel production at the Lipetsk site was temporarily stopped.

Alongside recovering demand, NLMK's utilization rates increased. The idled blast furnaces were re-launched and by Q2 steelmaking capacity utilization rates exceeded 95%. In Q3 steel production surpassed pre-crisis levels. At the year end, NLMK's overall steelmaking capacity utilization rate amounted to 93%. Transformer steel production at the Lipetsk site was restored in September 2009.

### Novolipetsk Steel (main production site in Lipetsk) Production Results

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / –	%
Sinter	13,335	12,836	499	4
Coke of 6% moisture	2,425	3,795	–1,370	–36
Pig iron	8,476	8,408	68	1
Steel	8,507	8,514	–7	0
Commercial products:				
Commercial pig iron	510	636	–126	–20
Slabs	3,598	3,612	–14	0
Flat steel	4,432	4,505	–73	–2
Hot-rolled steel	2,023	1,719	304	18
Cold-rolled steel	1,535	1,494	41	3
Hot-dip galvanized steel	350	452	–102	–22
Pre-painted steel	333	358	–25	–7
Transformer steel	29	164	–135	–83
Dynamo steel	162	318	–156	–49
<b>TOTAL</b>	<b>8,540</b>	<b>8,753</b>	<b>–213</b>	<b>–2</b>

In 2009, Novolipetsk's operating performance remained largely flat year-on-year except in certain product types which witnessed a significant decline in demand.

It is worth noting that Novolipetsk used all of its internal resources to streamline its operational activities. For instance, the raw materials structure within the blast furnace process was altered: the ratio of pellet usage was decreased in favor of NLMK's own iron ore supplies. Scrap consumption was reduced versus increased pig iron consumption. This allowed the Group to minimize raw material costs.

In 2009, pig iron and steel production amounted to 8.5 million tonnes (almost flat year-on-year) and commercial steel product output also equaled 8.5 million tonnes (-2%).

The Lipetsk plant produced 4.4 million tonnes (-2%) of flat steel. Reduced output was mainly caused by lower demand for electrical and pre-painted steel. HRC and CRC production increased by 18% and 3% respectively.

#### VIZ-Stal

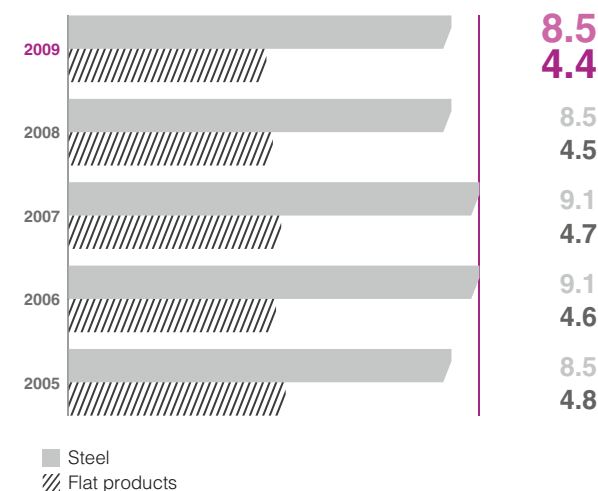
VIZ-Stal produces mainly transformer steel used for manufacturing electrical machinery and equipment. It is a semi-integrated company. VIZ-Stal's production capacities include a number of rolling mills and machines for processing hot-rolled substrate with special chemical properties supplied by NLMK's Lipetsk steel plant.

The beginning of 2009 saw a significant decrease in demand for transformer steel resulting in reduced capacity utilization rates. Given the Group's low utilization rates, in Q2 a decision was made to transfer all transformer steel orders from the Lipetsk site to VIZ-Stal in order to streamline performance and reduce operating expenses. Transformer production at the Lipetsk site was restored in September 2009.

#### VIZ-Stal Production Results

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / -	%
Transformer steel	102.1	189.1	-87.0	-46
Dynamo steel	0.8	7.6	-6.8	-90
<b>TOTAL</b>	<b>102.9</b>	<b>196.7</b>	<b>-93.8</b>	<b>-48</b>

#### 2005-2009 CRUDE STEEL AND FLATS PRODUCTION AT THE LIPETSK PLANT MILLION TONNES



As a result, 103,000 tonnes of electrical steel, including 102,000 tonnes of transformer steel (-46% year-on-year) were produced in 2009. Capacity utilization rates for transformer steel production exceeded 50%.

Market recovery leading to a sales increase of over 50% is expected in 2010.

VIZ-Stal is implementing a program of reducing OPEX and other costs, as well as streamlining its inventory stockpiles and collecting receivables from customers on a timelier basis.

#### Long Products Division

NLMK Group's Long Products Division is a vertically integrated steel business with several assets combined into a single production chain. This involves a number of operations, from collecting and processing ferrous scrap to manufacturing value added products.

Our Long Products Division includes the following production assets: the Nizhneserginsky Steel Plant, the Berezovsky Electrometallurgical Factory (BEMZ) and the Urals Precision Alloys Factory (UZPS). The production chain allows manufacturing of products such as long billets, reinforcement bars in rods and coil, wire rod and metalware (wire, nails, wire screen and fittings).

Long Products Division facilities rely on electric arc furnace route to produce steel, with scrap as the main input material. The Long Products Division scrap collecting facilities fully supply the Division's and the Lipetsk site's scrap needs. The Division includes collecting sites located in a number of regions across Russia ensuring a stable supply of raw materials for the manufacture of steel products.

A substantial slowdown in the construction sector, our key consumer industry, resulted in a slump in demand for our products. However, due to proactive sales and a constant search for new consumers, in 2009 we managed to ensure a high utilization rate of the Division's facilities. At the 2009 year end, the Long Products Division's steelmaking mills were running at approximately 90% capacity considering the changed patterns of raw material consumption<sup>1</sup>.

#### Long Products Division Production Results

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / -	%
Steel	1,715	1,931	-216	-11
Commercial products:				
Billets	269	542	-273	-50
Long products	1,174	1,188	-14	-1
Metalware	190	146	44	30
<b>TOTAL</b>	<b>1,633</b>	<b>1,876</b>	<b>-243</b>	<b>-13</b>

A total of 1.7 million tonnes of steel (-11% year-on-year) was produced in 2009. The year-on-year reduction was accounted for by a decrease in billet production to 0.3 million tonnes. Long product production remained largely flat year-on-year at 1.2

million tonnes, while metalware production increased to 190,000 tonnes (+30% year-on-year).

<sup>1</sup>Changing the charge mix impacts the steelmaking facilities' production capacity. In 2009 we increased the share of metallic waste (including supplies from the Lipetsk site), temporarily reducing the Company's production capacity in accordance with the current demand.

## INTERNATIONAL STEEL ASSETS

### DanSteel A/S

DanSteel A/S, a Dutch plates producer, joined the NLMK Group in 2005.

The Company's main production facilities include plate rolling mill and its own sea port for handling incoming slabs and outgoing finished products.

The Company produces thick plates for use in shipbuilding, as well as in the manufacture of boilers and high-pressure vessels. Moreover, DanSteel A/S has a strong niche position in the market in steel plates for large-scale wind mills installed on continental shelves.

### DanSteel A/S Production Results

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / –	%
Plates	208	483	–275	–57

In 2009, the Company produced around 208,000 tonnes of steel plate.

The bulk of slabs are supplied by the Lipetsk production site.

Steel plate demand from our main consumer industries is expected to grow in 2010. Consequently, we expect to increase the Company's output and sales volumes.

### Beta Steel Corp.

Beta Steel Corporation, a US HRC manufacturer, became part of the NLMK Group in 2008. The Company is equipped with cutting edge technology allowing it to produce a wide range of high quality products used in construction, the pipe industry and other sectors. Beta Steel is located in Portage, Indiana (US). It has an electric arc smelting capacity of 0.7 million tonnes per annum and a rolling capacity of 0.9 million tonnes.

The Company benefits from its geographic location in the US Midwest, close to its key consumers who account for the bulk of Beta Steel sales. The same region accounts for almost 50% of US scrap collecting, which is the Company's main raw material. Close proximity to suppliers of the main raw material,

DanSteel A/S products are supplied mostly to European consumers, where its share on the steel plate market is estimated to be 4.5%.

At the beginning of 2009, the EU steel plate market was characterized by instability as a result of the global financial recession. The Company focused primarily on processing orders under contracts signed in 2008. In Q2 2009, the number of orders dropped due to buyers' lack of funds.

as well as to the customers, helps to minimize the Company's transportation costs.

A flexible operating strategy is one of Beta Steel's key competitive advantages. The Company is capable of quickly adjusting its production program to the changing market environment, which it demonstrated in 2009. Thus, in Q3 2009, with the recovery of demand on the US market, Beta Steel was running at over 90% capacity. Throughout the remaining periods, production was focused on the number of orders at hand.

### Beta Steel Corp. Production Results

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / –	%
Steel	392	510	–118	–23
Hot-rolled steel	372	450	–78	–17

In 2009 Beta Steel produced 392,000 tonnes of crude steel and 372,000 tonnes of hot-rolled steel. On average, it was running at 54% capacity during the year.

### Steel Invest and Finance (SIF)

In order to consolidate its position on the strategically important markets, in late 2006 NLMK acquired a 50% stake in Steel Invest & Finance (SIF), a joint venture with Duferco Group.

The joint venture comprises nine production assets located in Belgium, France, Italy and the US. Its distribution division is represented by service centers in the EU (France, Belgium and the Czech Republic), as well as a trading company.

The JV specializes in the manufacturing of high value-added products used in industries such as automobile, machine-building, construction among others.

The key finished products manufactured by SIF businesses include hot-rolled flat products, steel plate, cold-rolled flat products, pre-painted steel and long products.

The JV's sales markets were severely impacted by the global recession. A significant decline in the Company's key consumer industries, coupled with a weakening price environment called for production program adjustments. In order to reduce potential losses part of the steelmaking capacities were idled and the resulting deficit was offset by increased supplies from NLMK's main production site. Over 2009, NLMK supplied approximately 1.2 million tonnes of slabs to the JV facilities.

Total steel production for SIF companies in 2009 amounted to 0.5 million tonnes and 2.8 million tonnes of finished product shipments.

### Steel invest and Finance (SIF) Sales Volumes

Product Type	2009, '000 tonnes	2008, '000 tonnes	Change	
			+ / –	%
Semi-finished steel	141	465	–324	–70
Plates	410	740	–330	–45
Hot-rolled and pickled steel	1,054	1,547	–493	–32
Cold-rolled and cold-worked steel	354	514	–160	–31
Pre-painted steel	582	579	–297	–34
Long products	85	195	–110	–56
Third-party products shipped by DTE	180	255	–75	–29
<b>TOTAL</b>	<b>2,806</b>	<b>4,595</b>	<b>–1,789</b>	<b>–39</b>





## RAW MATERIALS

NLMK Group's mining assets ensure our main production site's complete self-sufficiency in high-quality iron ore concentrate and fluxing materials.

The core business within the Mining Division is Stoilensky, an iron ore producer, which became part of NLMK Group in 2004.

Stoilensky fully satisfies Novolipetsk Steel's iron ore concentrate needs.

The two other mining assets, Stagdok and Dolomit, supply fluxing materials to our main production site in Lipetsk.

### IRON ORE AND FLUX RESERVES AS OF 01.01.2010

Product Type		Reserves, million tonnes	Years of reserves
Stoilensky*	Rich iron ore	52	ca. 20
	Magnetic quartzite reserves	2,365	ca. 90
Stagdok	Limestone	158	ca. 32
Dolomit	Dolomite	239	ca. 124

\*within the current pit boundary

#### Stoilensky

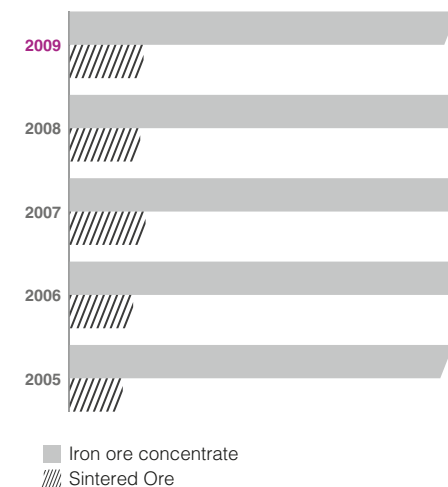
Stoilensky is one of Russia's largest mining companies, specializing in mining and processing iron ore. It is located in the Belgorod region (Central Russia), 350 kilometres from the Group's Parent Company and is currently developing a part of the Kursk Magnetic Anomaly, the country's largest iron ore deposit. Ore is mined in an open pit using modern technology, providing steelmaking with low-cost iron ore.

Stoilensky produces iron ore concentrate (66.5% average Fe content) and sintered ore (52% average Fe content), that are used as key raw materials in the steel-making industry.

Following a significant drop in demand for steel products at the end of 2008 and in Q1 2009, the Parent Company's iron ore consumption declined and sales to third party customers were not possible during the period. However, already by Q2 normal production volumes were restored.

In 2009, iron ore concentrate production declined by 5% year-on-year to 10.9 million tonnes. Sintered ore production increased by 4% to 1.7 million tonnes. 99% of iron ore concentrate and 29% of sintered ore was shipped to our main production site in Lipetsk. Other Stoilensky's consumers in 2009 included steelmakers in Russia, Ukraine, China and Eastern Europe.

### 2005-2009 STOILENSKY PRODUCTION DYNAMICS MILLION TONNES



Crisis management measures adopted by the Company involve curtailing production costs, streamlining cash flows, pursuing a more flexible sales policy.

## FLUX PRODUCTION

Other assets in the Mining Division include 2 fluxing materials businesses, Stagdok and Dolomit.

#### Stagdok

Stagdok produces fluxing limestone used in steelmaking. It also produces construction, road-building and other materials.

Stagdok meets NLMK Group's steelmaking demand for fluxing limestone fully. It became part of NLMK Group in 1999.

Stagdok production facilities are located within 20 kilometers of NLMK's main production site.

In 2009, the Company's output increased by 3%. Its sales structure changed towards the increase of supplies to the Parent Company to 2.3 million tonnes (85%), with a total shipment volume of 2.7 million tonnes.

Stagdok's key crisis management measures aimed at enhancing operations include streamlining the Company's cash flows, delaying the Technical Upgrade Program implementation, as well as reducing production costs and optimizing headcount.

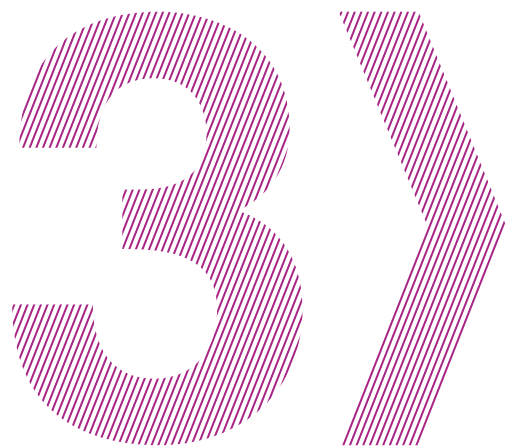
#### Dolomit

Dolomit produces dolomite used as a flux for steelmaking, ensuring the Group's 100% self-sufficiency in dolomite. Dolomite production facilities are located within ~90 kilometers of NLMK's main production site. It became part of NLMK Group in 1997.

In 2009 production contracted by 25% year-on-year due to reduced demand. 1.65 million tonnes of dolomite were sold in 2009, of which Novolipetsk Steel accounted for 54%.

In 2009 the Company also implemented a number of anti-crisis measures, for example cutting production costs and optimizing headcount.

NLMK HAS A WORLD CLASS UPSTREAM ASSET PORTFOLIO  
WITH AN EXTENSIVE RESOURCE BASE SUFFICIENT  
TO SUPPORT PRODUCTION FOR SEVERAL DECADES



## COKE

Coke is one of the key raw materials for steelmaking. NLMK's coke production facilities are concentrated at Altai-Koks (5.0 million tonnes capacity) and at the Group's main production site in Lipetsk (2.7 million tonnes of capacity). NLMK Group is more than 100% self-sufficient in coke.

### COKE PRODUCTION

Due to reduced demand for coke and the heavy wear of equipment in Q4 2008 and Q1 2009, 4 coke batteries were decommissioned at the main production site in Lipetsk. Blast furnace production coke needs were met by increased Altai-Koks supplies.

Altai-Koks is one of Russia's largest non-integrated coke producers, accounting for 11.5% of all coke produced in Russia (NLMK Group's share on the Russian market is 20.3%). The Company is located in the Altai region (Siberian Federal District), in close proximity to the Kuznetsk Coal Basin mining companies which helps to minimize transportation costs.

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

Alongside steelmakers, Altai-Koks's key consumers include nonferrous metal and petrochemical companies.

### 2005-2009 ALTAI-KOKS 6% MOISTURE COKE PRODUCTION DYNAMICS MILLION TONNES



In 2009, the Company's main product output decreased by 10% year-on-year due to reduced production volumes in Q1 2009. Coke output (6% moisture content) was 3.1 million tonnes, an 11% decrease year-on-year. The bulk of Altai-Koks's products, 67% (2.1 million tonnes), was shipped to NLMK. Other consumers included Russia, CIS, European and Asian companies.

## OTHER BUSINESSES

### TRADING AND LOGISTICS

In addition to production assets, NLMK Group also includes traders and logistic operations allowing it to enhance export efficiency and streamline commodity flows.

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

### TRADING

Novexco Limited (Cyprus) and Novex Trading S.A. (Switzerland) trading companies optimize the Group's commodity flows, develop an effective sales system and improve control over exports. These companies have extensive experience in steel trading, operate with a vast client base and cooperate closely with end-customer agents and representatives.

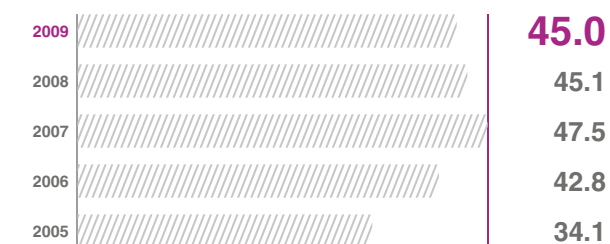
In 2009 our trading companies sold 5.7 million tonnes of steel products produced by our Russian steel assets. Besides steel products, traders are also involved in the export of iron ore, coke and chemical products.

### LOGISTICS

Independent Transportation Company (NTK) is NLMK Group's key logistics asset.

NTK ensures the timely supply of raw materials for steel production processes and the shipment of finished products to both domestic and international customers. The Company provides a wide range of services from transportation and forwarding to accompanying the rolling stock, transporting the client's cargo and optimizing private rolling stock fleet management.

### NTK TRANSPORTATION AND FORWARDING DYNAMICS MILLION TONNES



In addition, NTK services include developing and selecting the best available low-cost transportation arrangements and accompanying the customer's cargo to its point of destination. The Company also provides transshipping and sea transportation services.

From 2005 to 2009, there has been a trend towards an increased use of our own rolling stock to render transportation and forwarding services driven by the growth of our own rolling stock fleet to ~7,000 units and cargo redistribution from Russian Railways and other companies' railcars. NTK Development Program envisions a significant expansion of the rolling stock fleet in 2010-2012 to maintain the Group's logistical flexibility. In 2009, 90% of all NTK shipping operations were associated with NLMK Group (raw materials and finished products) and NTK transported 97% of NLMK Group's overall cargo.



**ULTRA-LOW CARBON STEEL**

NLMK was the first company in Russia to produce CRC from ultra-low carbon Ti- and Nb-alloyed steel (IF type). The carbon and nitrogen content in the new steel is measured in thousandths of one percent.

› **INNOVATION  
IN STEEL**



**THINNER SMALLER AND EVEN  
LIGHTER**

New steel grades can be used to make structure components thinner, smaller and lighter keeping strength levels high.

Using IF steels with excellent forming characteristics reduces the thickness of steel sheets used for face plates from the traditional 0.8 mm to 0.7–0.75 mm. This not only cuts production costs and makes cars lighter but also reduces fuel consumption.



**NEW CAR STANDARDS**

Improved CRC properties achieved in the 90's set the bar for new standards in automobile manufacturing.

Starting from 2000, the leading global car manufacturers began to impose stricter requirements both in terms of steel content in the car body weight and corrosion resistance.

**CORPORATE SOCIAL  
RESPONSIBILITY**

**NEW TYPES  
OF PRODUCTS**

› **RUSSIA'S FIRST**





GOOD ENVIRONMENTAL PRACTICES DESIGNED TO MANAGE IMPACT OF OUR OPERATIONS ARE AN ESSENTIAL COMPONENT OF OUR STRATEGY.

CORPORATE SOCIAL RESPONSIBILITY

This section provides an overview of our key social activities. For more detailed information on the subject please refer to our corporate website at <http://www.nlmk.com>.

ENVIRONMENT

The Group's environmental policy is a long-term commitment which determines our production sustainability strategy aimed at protecting the ecology of the regions where we operate.

Consistent implementation of our corporate environmental policies ensures the Group's environmental performance.

2009 NLMK ENVIRONMENTAL PERFORMANCE

NLMK Group's Total Air Emissions	- 1 %	307,200 tonnes
NLMK Group's Effluent Discharge	- 67 %	2,800 tonnes
NLMK Group's Water Consumption	- 31 %	83.3 million m³
NLMK Group's Environmental Investments	+ 6 %	USD 137 million

Environmental Guidelines:

- Ensure corporate accountability to the public for the state of the environment;
- Comply with environmental protection laws and regulations;
- Rely on best available technology when installing and upgrading facilities, de-commission old and obsolete facilities;

- Improve production processes, environmental protection equipment and methods in order to limit the negative impact on the environment;
- Ensure rational use of natural resources;
- Develop and implement waste recycling solutions.

Based on the Corporate Environmental Principles, the Group sets the following objectives:

- Ensure timely implementation of environmental projects to attain targets set by the Technical Upgrade Program;
- Eliminate violations of the environmental protection laws and regulations (on exceeding the admissible environmental impact);
- Reduce the negative environmental impact whilst increasing production – calculated per tonne of output;
- Attain air quality standards along the buffer zone borders;
- Attain standards for the content of waste water discharged into surface water bodies.

To optimize resource use, NLMK is currently pursuing a Resource Efficiency Policy, according to which its mission is to provide the required amount and quality of products at minimum costs, whilst using resource-saving methods, equipment and technologies.

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

NLMK Group's businesses comply with international standards on environmental protection management.



The Group's consistent efforts resulted in reduced environmental impact. Investments into environmental technical upgrade projects, as well as into ensuring safe and stable ecologically-friendly operations, grew to USD 137 million (compared to USD 129 million in 2008), and have been growing steadily over the past few years.

IN ORDER TO BE AT THE FOREFRONT OF SUSTAINABLE DEVELOPMENT WE ARE ENDEAVOURING TO APPLY WORLD CLASS STANDARDS.



## NLMK AIMS TO DELIVER VALUE IN STEEL IN A SAFE AND SUSTAINABLE ENVIRONMENT

### 2005-2009 TOTAL AIR EMISSIONS\* '000 TONNES



\*NLMK Parent Company results

These significant capital expenditures helped achieve tangible results. Thus, for key NLMK Group assets gross air emissions declined by 1%, while emissions per tonne were reduced by 4%.

### 2005-2009 WATER BODY IMPACT\*



Water discharge ('000 tonnes) River water intake (million cubic meters)

\*NLMK Parent Company results

## THE LIPETSK PLANT COMPLETELY STOPPED WASTE WATER DISCHARGE INTO THE VORONEZH RIVER.

Having completed a large-scale water supply system upgrade and implemented a new process flow, starting from September the Lipetsk plant was able to completely stop waste water discharge into the Voronezh River, resulting in a three-fold reduction of river water consumption. At year end, NLMK Group was able to reduce its pollutant discharge by 67% and its water consumption by 31%.

All waste generated by NLMK Group businesses 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 advantages and encourage sustained development of the Company as a business which fully complies with international environmental standards.

NLMK GROUP'S BUSINESSES COMPLY WITH INTERNATIONAL STANDARDS ON ENVIRONMENTAL PROTECTION MANAGEMENT.



## SOCIAL POLICY

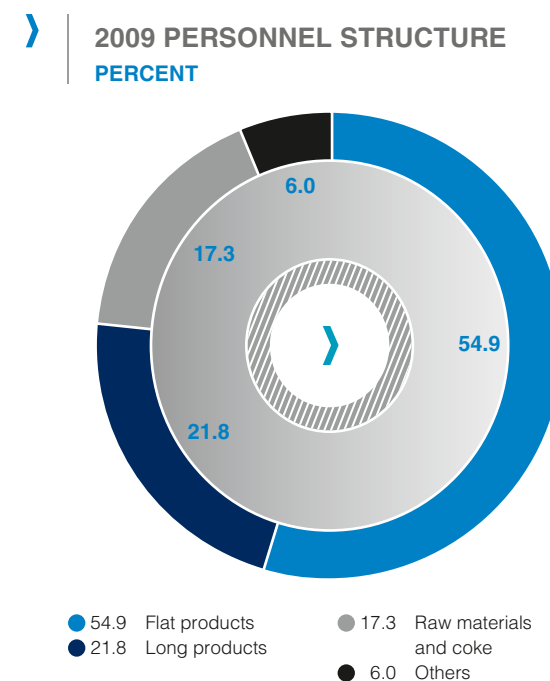
### OUR PEOPLE

Qualified motivated personnel are a key factor behind NLMK's leading status in the global steel industry.

NLMK's HR policies are based on the principles of social partnership between employees and their employer; their mutual accountability for the results; 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.

NLMK aims to provide an environment which will attract, retain and motivate the best people, to ensure they can maximize their potential and share the company's values.

We view leadership development and succession planning as essential for the sustainability of our business.



NLMK AIMS TO PROVIDE AN ENVIRONMENT WHICH WILL ATTRACT, RETAIN AND MOTIVATE THE BEST PEOPLE, TO ENSURE THEY CAN MAXIMIZE THEIR POTENTIAL AND SHARE THE COMPANY'S VALUES.

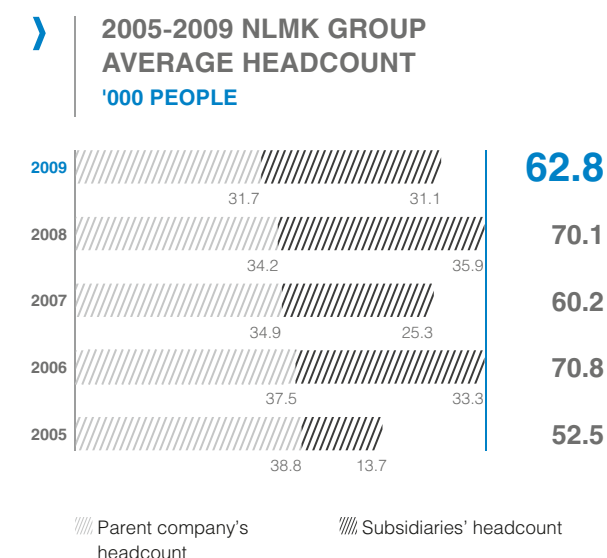
At present NLMK Group comprises businesses in Russia, the EU and the US. The Group's average headcount in 2009 stood at 62,800 employees, with 31,700 people working at the Lipetsk plant. Headcount reduction compared to the previous year was attributed to implementing NLMK Group's long-term employment streamlining program. As a result, the Parent Company's headcount has been reduced by over 30% since 2000.

It is worth noting that during the crisis, workforce retention emerged as a key issue. We have developed a series of personnel-oriented anti-crisis measures to address it:

- Streamlining management structures and headcount;
- Organizing temporary jobs and anticipatory training to delay personnel displacement;
- Using own personnel for activities which previously involved contractors;
- Further encouragement for timely retirement.

In spite of global trends to reduce personnel costs, NLMK management made every effort to prevent employee wage cuts despite the challenging market conditions. As a result, the average wage increased to RUR26,100.

The key priority of the Group's HR policy is to create a favorable environment for high labor productivity where our employees recognize the importance of continuous improvement of their professional skills.



THE GROUP'S AVERAGE HEADCOUNT IN 2009 STOOD AT 62,800 EMPLOYEES, WITH 31,700 PEOPLE WORKING AT THE LIPETSK PLANT.

MANAGEMENT EFFORTS AIMED AT ENSURING OCCUPATIONAL SAFETY HELPED REDUCE INDUSTRIAL ACCIDENTS AT THE GROUP'S MAIN PRODUCTION FACILITIES BY OVER 30%.

NLMK 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 VALUE OF THE COMPANY.

#### 2005-2009 NLMK GROUP AVERAGE MONTHLY WAGE RUR '000



More than a half of all NLMK Group employees have high levels of professional qualifications, making this a major competitive advantage for the Company and creating the opportunity to implement a large-scale Technical Upgrade and Development Program.

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 value of the Company. Proper professional training not only provides skill levels required to handle production challenges, but also 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.

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's 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 labor discipline.

Management efforts aimed at ensuring occupational safety helped reduce industrial accidents at the Group's main production facilities by over 30% to 66 incidents, including the fatality rate (down threefold to a total of 3 incidents).

SUSTAINABLE DEVELOPMENT GOALS LIE AT THE HEART OF OUR SOCIAL MISSION.

#### SOCIAL PROGRAMS

Sustainable development goals aligned with the long-term economic interests of the business, contribution to community social welfare, the protection of the environment and the encouragement of the observance of human rights in areas where we operate lay in the heart of our social mission.

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

NLMK Group's social programs include: mandatory and voluntary medical insurance policies for the employees, participation in a private pension benefit program, housing construction, etc.

NLMK Group businesses are actively involved in charity work. They promote fitness and sports, science, culture, arts and health, and encourage the spiritual development of their local communities. NLMK 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.

All of this contributes to the Group's status as a socially responsible business.

WE PROMOTE  
AND ENCOURAGE  
ECONOMIC,  
ENVIRONMENTAL,  
SOCIAL AND  
EDUCATIONAL  
DEVELOPMENT  
WHERE POSSIBLE.



**NEW GALVANIZING LINE**

NLMK launched the first Galvanizing Line in Russia that was capable of producing steel sheets up to 4.0 mm thick – a thickness widely used in construction.

› **INNOVATION  
IN STEEL**



**GLOBAL QUALITY  
STANDARDS**

The launch of Continuous Galvanizing Line #3 enabled the production of hot-rolled galvanized steel 1.45-4.00 mm thick that is compliant with global quality standards.

The method of continuous application of zinc coating to the strip used on the Line ensures a 4-5-fold performance improvement and a 3-4-fold decrease of zinc consumption compared to galvanizing flat articles by dipping into the smelt.



**COVERING DEMAND  
FROM  
CONSTRUCTION  
INDUSTRY**

The launch of the new line allowed to fully cover the Russian consumers' demand for this unique product and eliminated the necessity of buying galvanized steel up to 4.0 mm thick abroad.

NLMK became a leader on the Russian market for galvanized steel used in construction.

**GOVERNANCE**

**GALVANIZED STEEL  
FOR CONSTRUCTION**

› **RUSSIA'S FIRST**

2017



# BOARD OF DIRECTORS

THE BOARD OF DIRECTORS AIMS  
TO ENSURE NLMK'S  
COMPLIANCE WITH THE BEST  
CORPORATE GOVERNANCE STANDARDS.

**IGOR  
FYODOROV**

Board member  
since 2002

**NIKOLAI  
GAGARIN**

Board member  
since 2001

**OLEG  
BAGRIN**

Board member  
since 2004

**BRUNO  
BOLFO**

Board member  
since 2007

**VLADIMIR  
LISIN**

Chairman of the Board  
since 1998  
Board member  
since 1996

**VLADIMIR  
SKOROKHOV**

Deputy Chairman  
of the Board  
Board member  
since 1996

**DMITRIY  
GINDIN**

Board member  
since 2004

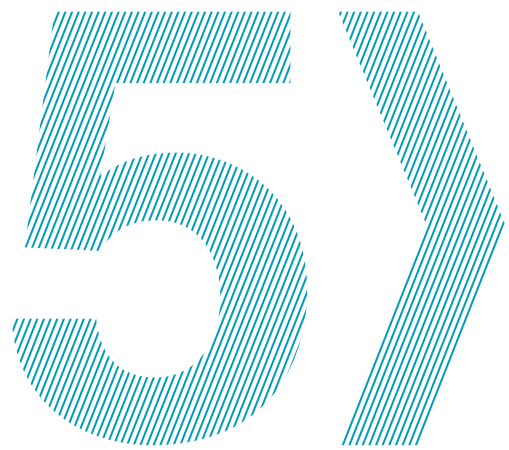
**RANDOLPH  
REYNOLDS**

Board member  
since 2005

**KARL  
DOERING**

Board member  
since 2006





## GOVERNANCE

### VLADIMIR LISIN

Born in 1956

Graduate of 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 Honor.

#### Professional experience

Started career in 1975 as electrical fitter. Worked in 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.

#### Membership in other companies' Boards of Directors (31.12.09)

1. Chairman of the Board of Directors: Rumelco LLC
2. Member of the Board of Directors: Chernomorneftegaz CJSC
3. Member of the Board of Directors: United Shipbuilding Corporation OJSC
4. Member of the Federal Council Presidium, Member of the Administrative Office, Member of the Management Board, Chairman of Budgeting and Tax Committee, Chairman of Metallurgical and Mining Complex Committee:

- All Russia Public Organization "Russian Union of Industrialists and Entrepreneurs"
5. President, Chairman of the Management Board: Regional Employers' Association (Non-Commercial Organization) "Union of Industrialists and Entrepreneurs of the Lipetsk Region"
  6. Member of the Board of Directors: World Steel Association
  7. President, Member of the Supervisory Board: Non-Commercial Partnership "Consortium Russian Steel"
  8. Chairman of the Guardian Council: Charitable Fund Institute for Social Development
  9. President - Executive Member: All Russia Sports Public Organization "Russian Shooting Union"
  10. Chairman of the Management Board (President): Non-Commercial Partnership "National Federation of Sporting"
  11. President: European Shooting Confederation
  12. Member of the Commission for Culture and Olympic Education, International Olympic Committee
  13. Member of the Presidential Council for the Development of Physical Culture and Sport, Excellence in Sports, Preparation and Organization of the 2014 Sochi XXII Winter Olympics and XI Paralympics and the XXVII World University Games in 2013 in Kazan
  14. President, Member of the Founders' Council: Autonomous Non-Commercial Health and Fitness Organization "Sports Club Lipetsky Metallurg"

### VLADIMIR SKOROKHODOV

Born in 1951

Graduated from the Moscow Institute of Steel and Alloys 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 in the Moscow Institute of Steel and Alloys), professor. Holder of the 1982 National Prize for Science and Technology. 281 academic research papers: 117 academic publications, 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 in the Ministry of Industry and the Ministry of Economy of the Russian Federation. Has been with Rumelco since 1999.

### OLEG BAGRIN

Born in 1974

Graduate of State University of Management, Ph.D.; MBA, University of Cambridge.

#### Professional experience

Between 2000 and 2002 was Director of Treasury and then, between 2002 and 2003, Deputy Chairman of AKB Avtobank. From 2003 until 2005 worked as Director for Financial Assets Management Rumelco. CEO of Libra Capital Investment Company since 2005.

#### Membership in other companies' Boards of Directors (31.12.09)

1. Director: Libra Capital Investment Company
2. Member of the Fund Council: Private Pension Fund "Social Development"
3. Member of the Board of Directors: Steel Invest & Finance (Luxembourg) S.A.
4. Member of the Board of Directors: Duferco U.S. Investment Corp.
5. Member of the Board of Directors: Duferco Farrell Corp.
6. Manager: Sharon Coating LLC
7. Member of the Board of Directors, Collective Executive Body Member: Beta Steel Corp.
8. Member of the Board of Directors, Collective Executive Body Member: Shore Services Inc.

### NIKOLAI GAGARIN

Born in 1950

Graduate of Moscow State University, majored in Law.

#### Professional experience

In 2003, whilst managing partner, he was appointed Chairman of the Board of Non-profit Group Reznik, Gagarin, Abushakhmin and Partners Law Offices, renamed in 2009 into Reznik, Gagarin and Partners Law Office.

#### Membership in other companies' Boards of Directors (31.12.09)

1. Chairman of the Board of Directors: Chernomorneftegaz
2. Chairman of the Board, Managing Partner: Reznik, Gagarin and Partners Law Office, Moscow
3. Member of the Board of Directors: Tuapse Sea Trade Port
4. Director, Member of the Board of Directors: Fletcher Group Holdings Limited
5. Member of the Board of Directors: Severneftegaz

### DMITRIY GINDIN

Born in 1946

Graduated from Moscow Institute of Steel and Alloys, Engineer of Metallurgy.

#### Professional experience

CEO of Moscow Factory Sapphire since 1997.

#### Membership in other companies' Boards of Directors (31.12.09)

1. CEO, Member of the Board of Directors: Moscow Factory Sapphire
2. Chairman of the Board of Directors: Tsvetmetobrabotka (Order of the Red Banner of Labor Research Development and Engineering Institute of Alloys and Non-Ferrous Metals)

**KARL DOERING**

Born in 1937

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

[Professional experience](#)

Heads Project Consulting, a consultancy Company. Represented the French USINOR in Central and Eastern Europe.

Between 1967 and 2000 held senior positions in metallurgical companies in Eastern Germany. From 1979 to 1985 was Deputy Minister, Mining, Metals and Potassium Industry Ministry, GDR, supervised technology development and capital expenditures.

[Membership in other companies' Boards of Directors \(31.12.09\)](#)

1. Managing Director: Project Consulting

**RANDOLPH REYNOLDS**

Born in 1941

Graduate of the Bellarmine College.

[Professional experience](#)

Currently the President of Industrial Advisors Services, Inc. Between 1969 and 2000 was employed by the Reynolds Metals Company. 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 Board of the Greater Richmond Chapter of the American Red Cross and the Carpenter Company's Advisory Committee.

[Membership in other companies' Boards of Directors \(31.12.09\)](#)

1. Director: Industrial Advisors Services, Inc.
2. Member of the Management Board: American Red Cross, Greater Richmond Chapter unit and Carpenter Company's Advisory Council
3. Retired Director: Reynolds Metals Company
4. Member of the Advisory Council: Russian Aluminium (RUSAL)
5. Member of the Board of Directors, Vice-President/Treasurer: Richard S. Reynolds Foundation
6. Member of the Leader Council: Mayo Clinic
7. Member of the Management Board: Bellarmine University in Louisville, KY

**IGOR FYODOROV**

Born in 1966

Graduate of the School of Law, Moscow State University.

[Professional experience](#)

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

[Membership in other companies' Boards of Directors \(31.12.09\)](#)

1. Chairman of the Board of Directors: Sea Port of Saint Petersburg
2. Chairman of the Board of Directors: Tuapse Sea Trade Port
3. Chairman of the Board of Directors: Taganrog Sea Trade Port
4. Member of the Board of Directors: Volga Shipping
5. Chairman of the Board of Directors: Volga Baltic Company
6. Member of the Board of Directors: Universal Cargo Logistics Holding B.V.
7. Member of the Board of Directors: Western Shipping Company
8. Member of the Board of Directors: North-Western Shipping Company

**BRUNO BOLFO**

Born in 1941

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 specializing in the trade, production and logistics of steel products.

[Membership in other companies' Boards of Directors \(31.12.09\)](#)

1. President: Duferco S.A.
2. Chairman of the Management Board: Duferco Participations Holding
3. Member of the Management Board: Duferco U.S. Investment Corp.
4. Member of the Management Board: Duferco Farrell Corp.
5. Member of the Management Board: Duferco International Trading Limited (Guernsey)
6. Member of the Management Board: Duferco International Trading Holding Limited (Guernsey)
7. Member of the Management Board: Duferco Industrial Investment SA (Luxembourg)
8. Member of the Management Board: Duferco Logistic SA
9. Member of the Management Board: Duferco Vanadium Investment Holding SA (Luxembourg)
10. Member of the Management Board: Ultima Partners Limited (Gibraltar)
11. Member of the Management Board: Ultima Holding SA (Luxembourg)
12. Member of the Management Board: Nina Finance SA (Luxembourg)

## MANAGEMENT BOARD

THE MANAGEMENT BOARD IS RESPONSIBLE FOR MANAGING THE COMPANY'S OPERATING ACTIVITIES.

**STANISLAV  
TSYRLIN**

Vice-President,  
HR and Management System

**GALINA  
AGLYAMOVA**

Vice-President,  
CFO

**YURY  
LARIN**

Vice-President, Development  
and Environment

**ALEXEY  
LAPSHIN**

President (Chairman of the  
Management Board)

**ALEXANDER  
GORSHKOV**

Vice-President,  
Head of Iron Ore Division

**IGOR  
ANISIMOV**

Vice-President,  
Technical Upgrade  
and Development

**ALEXANDER  
SAPRYKIN**

Vice-President,  
Head of Coal Division

**DMITRY  
BARANOV**

Vice-President,  
Sales

**VLADIMIR  
NASTICH**

Senior Vice-President,  
Head of Steel Division







## MEMBERS OF THE MANAGEMENT BOARD

### ALEXEY LAPSHIN

Born in 1947

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 prior to that. Head of Department at Rumelco from 1999 to 2002, being at the same time on the Board of NLMK. From 1994 to 1999, held positions in various companies, and managed the development of the Stinol refrigerator manufacturing plant in Lipetsk as a consultant. Started his career at Gaiskiy 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.

### VLADIMIR NASTICH

Born in 1953

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 served as Metallurgy Director, prior to which he was Production Director (from 1996 to 1998). Began his career at NLMK in 1975 as a rolling-mill worker.

### GALINA AGLYAMOVA

Born in 1961

Graduated from the Moscow Institute of Steel and Alloys.

Ph.D., Ec. Honorary economist of Russia.

#### Professional Experience

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. Joined NLMK as a planning economist in 1985.

### IGOR ANISIMOV

Born in 1965

Graduated from the Karaganda State University and the All-Russian Distance-Learning Institute of Finance and Economics. Ph.D., Ec.

#### Professional Experience

Served as Vice-President, Purchasing, between 2006 and 2007. Worked 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 (from 1997 to 2001). He started his career with NLMK in 1995 as an engineer.

### DMITRY BARANOV

Born in 1968

Graduated from the Moscow Aviation Institute and the Finance Academy under the Government of the Russian Federation.

#### Professional Experience

Served as Sales Director at NLMK Trading House from 2004 to 2006. Between 2000 and 2004 worked as an expert in the Domestic Market Analysis Division at Rumelco, and later became head of the same division. Prior to that he served as a sales manager for a group of trading companies (from 1999 to 2000).

### ALEXANDER GORSHKOV

Born in 1961

Graduated from the Novosibirsk Electro-Technical Institute.

#### Professional Experience

Worked as General Director of Stoilensky since 2004. From 2003 to 2004 worked as Deputy Director of the Lipetsk branch of Rumelco. From 1999 to December 2003 served as General Director of Dolomit.

### YURY LARIN

Born in 1952

Graduate of the Voronezh Polytechnic Institute.

Ph. D., Tech.

#### Professional Experience

VP for Technology and Environment from 2006 to 2007. Prior to that he was Director of the NLMK Engineering Centre (from 1999 to 2006) and from 1996 to 1999 he worked as Deputy Director of NLMK's Central Lab and was responsible for technology.

### ALEXANDER SAPRYKIN

Born in 1967

Graduated from the Moscow State Mining University.

#### Professional Experience

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

### STANISLAV TSYRLIN

Born in 1968

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 at NLMK, having previously worked for Rumelco (from 2003 to 2004). Prior to that he worked for the Boston Consulting Group from 1996 to 2003, serving initially as a consultant, then as a project manager before being appointed Deputy Director.



### TRANSFORMER STEEL LASER PROCESSING

NLMK is the first company in Russia that applies transformer steel laser processing technology allowing specific losses to be achieved at the level of  $P1.7/50 \pm 1.00$  W/kg.

› INNOVATION  
IN STEEL



### ENERGY-EFFICIENT

Using more energy-efficient steel for power transformers can lower their operational energy costs by 8-10% and provide a competitive edge for the Company's products.



### OPPORTUNITIES FOR UTILITIES

Large-scale implementation of energy-efficient technologies and equipment related to using high-quality transformer steel means that energy losses in the electricity grid can be reduced to 10% of the installed generating capacity and up to 0.3% in power transformers (0.6 GW, 3 billion kWh/year).

GOVERNANCE  
(CONTINUED)

## TRANSFORMER STEEL LASER PROCESSING

› RUSSIA'S FIRST

2008



## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE PRINCIPLES

We are convinced that a commitment to the highest standards forms the groundwork for long-term value creation and this is the underlying principle of our Corporate Governance. The NLMK Code of Corporate Governance published in 2006 is consistent with the guiding principles advised by the Organization for Economic Cooperation and Development (Principles of Corporate Governance, 1999), and the provisions of the Code of Corporate Conduct approved by the Russian regulatory authorities.

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

- Seek to ensure effective and transparent arrangements to guarantee the rights and interests of shareholders;
- Provide equal treatment of all shareholders;
- Seek to provide shareholders with the opportunity to exercise their right to participate in the management of the Company;
- Observe the rights of third parties;
- Pursue a common corporate policy in respect of subsidiary companies, affiliates and other legal entities in which the Company is the founder, a participant or a member;
- Policy of open and transparent communications;
- Policy of complying with business ethics in conducting its operations;
- Seek to comply with the applicable legislation and international corporate governance 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 Shareholders' Meeting Regulations, Board of Directors Regulations, Management Board Regulations and Internal Audit Commission Regulations. All the principles and rules presented in the Group's documents are largely compliant with the British Combined Code of Corporate Governance. Please visit <http://www.nlmk.com> (About NLMK > Corporate documents) for more information.

NLMK recognizes the importance of Corporate Governance for building an attractive investment case for the Company, and continues to improve its system.

Policies determining business strategies, guiding principles and objectives regulate the Company's activities in all socially significant and operationally critical areas. NLMK is currently implementing Occupational Health & Safety, Resource Efficiency, Environment and Quality Policies. Our Information Policy ensures the Company's information transparency.

### COMPANY GOVERNANCE STRUCTURE AND SUPERVISORY BODIES

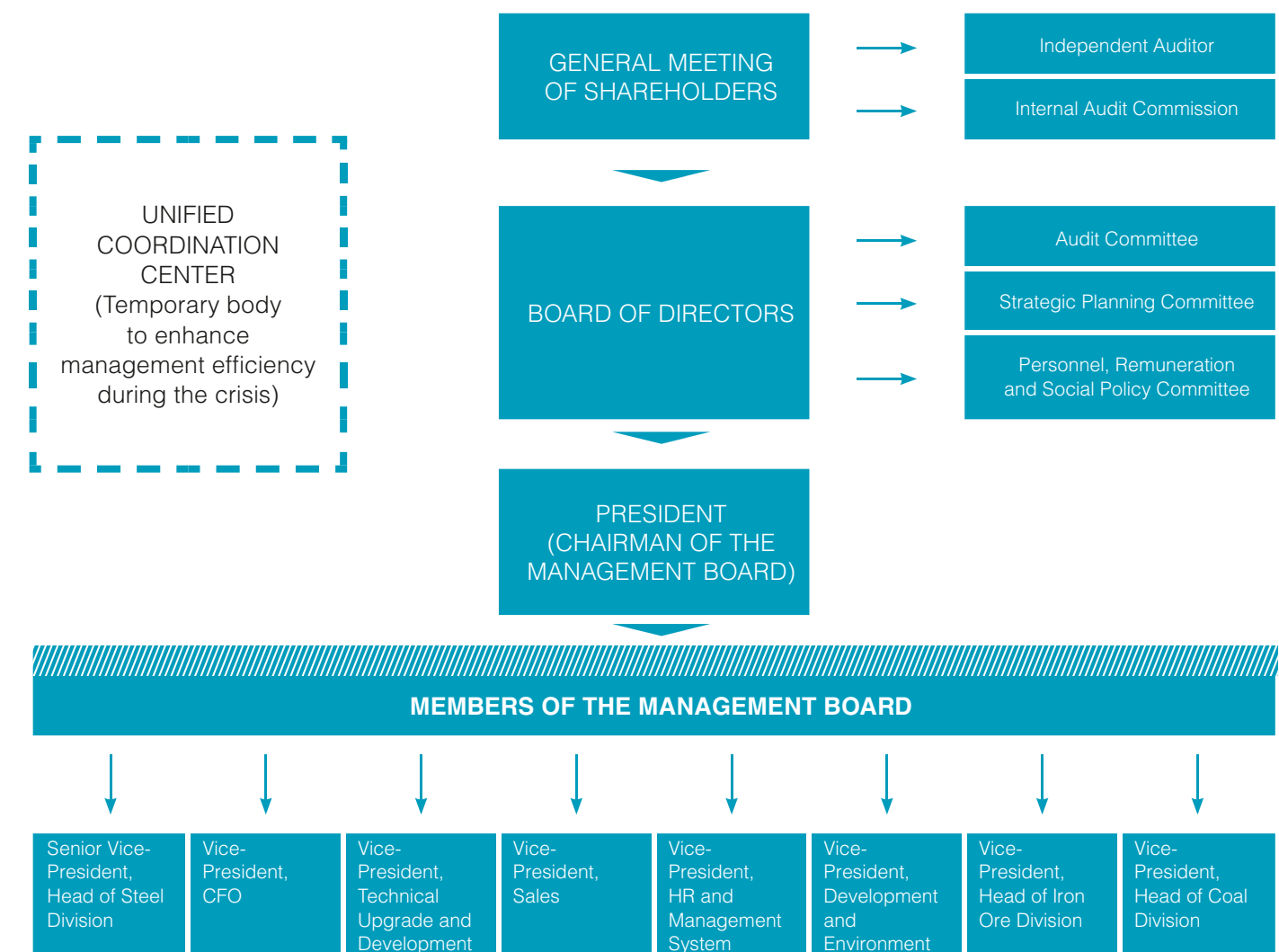
The governing authority of NLMK is the General Meeting of Shareholders. The Board of Directors takes responsibility for the overall operations of the Company and its long-term development strategy. The executive bodies, the President (Chairman of the Management Board) and the Management Board manage the Company's day-to-day activities.

An Independent Auditor and the Internal Audit Commission supervise the financial and business activities of the Company. Financial statements are subject to mandatory audits in accordance with Russian law and the US Generally Accepted Auditing Standards.

In order to enhance the Group's efficiency during the crisis, in January 2009 NLMK formed a Unified Coordination Center to manage the streamlining of activities. Members of the Board of Directors, members of the Management Board and NLMK Group managers participate in the Center's activities. The Unified Coordination Center holds meetings on a weekly basis to discuss and make decisions on cost cutting, sales stimulation, increasing of

profitability, monitoring the use of operating assets and other critical issues. It is worth noting that this body has been created only for the duration of the Crisis Management Program - its activities are not defined by corporate documents. It has been set up in response to the sudden changes in the market conditions.

The Group's existing governance structure is presented below:



GENERAL MEETING OF  
SHAREHOLDERS

The Group's shareholders participate in the management of the Company by making decisions at the General Meeting of Shareholders. Through voting, they have a significant influence on the business. Some of Shareholder Meeting's powers include electing the Group's key managing and supervisory authorities, approving large-scale deals, declaring dividends and a wide range of other issues.

The following issues were included in the agenda of the Annual Meeting of Shareholders, which was held on June 5, 2009:

- Election of the Company's managing and supervisory authorities;
- Approval of the revised charter documents;
- Approval of the 2008 NLMK Annual Report;
- Declaration of dividends for 2008;
- Approval of NLMK's auditor, PricewaterhouseCoopers Audit;
- Payment of compensation to members of the NLMK Board of Directors;
- And other issues, including the approval of related party transactions.

In terms of redrafting the charter documents, the new revision of the Charter presupposes a delineation of responsibilities between the Board of Directors and the Management Board with regards to decisions about the Company's membership (termination of membership) in other businesses.

Moreover, in order to improve corporate governance and decision-making efficiency, the item on restricting the Board of Director's decisions on certain issues in the form of absentee voting was removed from the Charter and the Board of Directors regulations.

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 represents the interests of the shareholders and is responsible for increasing the value of the business through efficient management.

According to the corporate documents, the Board of Directors:

- exercises overall control of company operations, defines its long-term development strategy and uses it to make decisions;
- assesses the performance of the Company and its bodies;
- monitors the Company's executive bodies;
- assesses political, financial and other risks impacting company operations;
- develops remuneration incentive methods and systems for company employees.

Members of the Board of Directors are elected at the General Meeting of Shareholders until the next Annual Meeting. 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. Prior to the Meeting, the participants receive all the agenda materials.

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 Commission or Auditor of the Company, its executive authority, as well as shareholders owning in aggregate more than 5% of voting stock.

Chairman of the Board of Directors

The Chairman of the Board of Directors is elected from among its members by a majority of votes. The Chairman of the Board supervises the consideration of key issues, including strategic plans and priority areas of development, approval of transactions involving the acquisition of strategically important assets for the Group's development, disposal of non-core assets, etc.

The Chairman convenes the Board Meetings, arranges keeping minutes, presides at the General Meetings of Shareholders or delegates the responsibility of his presidency to one of the members of the Board of Directors.

Mr. Vladimir Lisin, Chairman of the Board of Directors of NLMK, has been a Member of the Board for 13 years, and has served as Chairman for 11 years.

Members of the Board of Directors

The Board of Directors of NLMK is made up of 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 3 non-executive directors. Independent Directors ensure a fair balance of interests between all stakeholders: the Company, its shareholders and other parties involved in the business process.

As of December 31, 2009 the NLMK Board of Directors included the following Directors:

Name	Position	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	13	No			Chairman
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	13	No		+	
Oleg Bagrin	Member of the Board	5	No	+	+	
Bruno Bolfo	Member of the Board	2	Yes		+	
Nikolai Gagarin	Member of the Board	8	No		+	
Dmitriy Gindin	Member of the Board	5	No			Chairman
Karl Doering	Member of the Board	3	Yes		+	
Randolph Reynolds	Member of the Board	4	Yes	Chairman		
Igor Fyodorov	Member of the Board	7	No	+	+	

Board Activities in 2009

In 2009 the NLMK Group Board of Directors held 8 meetings (3 meetings were held in the form of absentee voting). The following issues were reviewed during the Board Meetings:

- Holding of the 2008 Annual General Meeting of Shareholders of NLMK;
- Election of the Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, approval of NLMK Board of Directors committee members;
- Consideration of NLMK participation in the charter capital of other companies;
- Approval of Russian bond placement to refinance recurring debts;
- Approval of the NLMK Group and NLMK budgets;
- Approval of related party transactions.

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

	Participation in the meetings of the Board of Directors <sup>1</sup>
Vladimir Lisin	8 (8)
Vladimir Skorokhodov	8 (8)
Oleg Bagrin	8 (8)
Bruno Bolfo	7 (8)
Nikolai Gagarin	8 (8)
Dmitriy Gindin	8 (8)
Karl Doering	8 (8)
Randolph Reynolds	8 (8)
Igor Fyodorov	8 (8)

<sup>1</sup> The number in parenthesis indicates the total number of meetings held.

Board of Directors' Involvement in Risk Management

An important function of the Board of Directors is to design an effective risk assessment and risk management system, one that allows 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.

BOARD COMMITTEES

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

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

Strategic Planning Committee

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

- The Committee is made up of nine members. It comprises the following members of the Board of Directors:
- Vladimir Lisin (Chairman of the Board of Directors)
  - Vladimir Skorokhodov (Deputy Chairman of the Board of Directors)
  - Oleg Bagrin (Member of the Board of Directors)
  - Bruno Bolfo (Member of the Board of Directors)
  - Nikolai Gagarin (Member of the Board of Directors)
  - Karl Doering (Member of the Board of Directors)
  - Igor Fyodorov (Member of the Board of Directors)

In addition, the Committee includes two members of the NLMK Group Management Board: Alexey Lapshin, President (Chairman of the Management Board) and Vladimir Nastich, Senior Vice-President and CEO.

- In 2009 the Strategic Planning Committee held 6 meetings to discuss the following key issues:
- Review of the NLMK Group Technical Upgrade and Development Program;
  - Development of recommendations to the Board regarding the size of dividends payable on shares and procedures for their payment, as well as profit (loss) distribution procedures for FY 2008.

Audit Committee

The Audit Committee, chaired by an Independent Director, drafts and submits to the Board recommendations regarding the efficient supervision of the financial and business activities of the company, including annual independent audits of financial statements, the quality of services provided by the auditor and compliance with the requirements for auditor independence. The Committee comprises three Directors: Randolph Reynolds (Chairman), Oleg Bagrin and Igor Fyodorov.

- In 2009 the Audit Committee held 7 meetings (one in the form of absentee voting) with all members present. The following key issues were discussed:
- Development and submission to the Board of Directors of a recommendation/proposal for the Annual General Meeting of Shareholders to approve NLMK Group's and its main subsidiaries' RAS financial (accounting) statements NLMK Group's and US GAAP consolidated financial statements for 2008;
  - Review of the draft auditor's report by the NLMK Group Auditor with respect to NLMK Group's RAS financial (accounting) statements for 2008;
  - Review of NLMK Group's US GAAP consolidated interim financial statements for Q1, H1 and 9M 2009;
  - 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 Dmitriy Gindin, Director. The other two members of the Committee are Stanislav Tsyrlin, Vice-President for Human Resources and Management Systems, and Sergey Melnik, Personnel and General Issues Director Manager at NLMK.

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.

NLMK Director Remuneration Policy, approved by the General Meeting of Shareholders, defines the criteria for remunerating directors and providing reimbursement of their expenses.

According the Group's policy, 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 2009, USD million:

Item		2009
Payments to Board Members		1.8
Incl.	Remuneration	1.7
	Compensation	0.1

Note: paid in the calendar year.

These payments are mostly related to remuneration based on 2008 results approved at the General Meeting of Shareholders in June 2009, amounting to 0.08% of the Company's net in 2008 profit.

According to the Director Remuneration Policy, the Company reimburses Directors for any expenses incurred in connection with soliciting the professional advice of experts on 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.

MANAGEMENT BOARD

The implementation of the approved strategy and specific decisions of the Board of Directors is delegated to the President (sole executive authority) and Management Board (plural executive authority). They are responsible for executing Board decisions within the scope of their competencies.

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 Regulations, as approved by decisions made at the General Meeting of Shareholders.

- In order to reach its objective, the Management Board is guided by the following principles:
- prompt and most objective decision-making in the interests of the Company and its shareholders;
  - fair, prompt and effective performance of resolutions passed by the General Meeting of Shareholders and the Board of Directors of the Company;
  - co-operation with trade union organizations of the Company's employees in order to account for the interests of employees;
  - co-operation with governmental bodies and local authorities for the most socially significant issues.

The President (Chairman of the Management Board) is elected at the General Meeting of Shareholders and serves until the next Annual General Meeting. Alexey Lapshin has been President (Chairman of the Management Board) of NLMK Group since 2006. He was re-elected for a new term on June 5, 2009.

The composition and number of members of the Management Board are approved by the Board of Directors of NLMK Group from among the nominations submitted by the President (Chairman of the Management Board).

## Members of the Management Board

Currently the Management Board of NLMK Group includes nine members.

Management Board as of December 31, 2009:

Management Board Member	Position	Participation in the Meetings <sup>1</sup>
Alexey Lapshin	President (Chairman of the Management Board)	36 (36)
Vladimir Nastich	Senior Vice-President, Head of Steel Division	31 (36)
Galina Aglyamova	Vice-President, CFO	35 (36)
Igor Anisimov	Vice-President, Technical Upgrade and Development	31 (36)
Dmitry Baranov	Vice-President, Sales	32 (36)
Alexander Gorshkov	Vice-President, Head of Iron Ore Division	33 (36)
Yury Larin	Vice-President, Development and Environment	33 (36)
Alexander Saprykin	Vice-President, Head of Coal Division	32 (36)
Stanislav Tsyrlin	Vice-President, HR and Management System	36 (36)

<sup>1</sup> The number in parenthesis indicates the total number of meetings held in 2009.

## Management Board Activities in 2009

The Management Board has considered the following key issues in its meetings in 2009 (9 meetings were held in the form of absentee voting):

- Review of NLMK Group consolidated financial results and the execution of the consolidated budget for NLMK Group;
- Appointment of NLMK representatives to Shareholder Meetings of its subsidiaries and affiliates;
- Company's membership and termination of membership in other companies;
- Adoption of recommendations on the subsidiaries' and affiliates' development programs;
- Approval of major transactions (amount exceeding 10% but not more than 25% of net asset value as at the last accounting date);
- Review of the Technical Upgrade Program for NLMK Group.

## 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 incurred 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 labor contracts executed in accordance with the regulations for Management Board member remuneration as approved by the Board of Directors based on the advice of the Personnel and Remuneration Committee.

## Management Board Remuneration in 2009, USD million

Item	2009
Payments to Management Board members	5.6
Incl. Bonuses and salary	5.5
Other payments	0.1

Note: paid in the calendar year.

Members of the Management Board are remunerated in monetary form.

## Management Board Member Share Ownership

Management Board Member	Share in Company's Stock Capital as of Dec. 31, 2009
Alexey Lapshin	No share
Vladimir Nastich	0.00018%
Galina Aglyamova	0.00017%
Igor Anisimov	0.0017%
Dmitry Baranov	No share
Alexander Gorshkov	No share
Yury Larin	0.00083%
Alexander Saprykin	No share
Stanislav Tsyrlin	No share

## Company Policy on Related Party Transactions

This policy is aimed at mitigating the risks related to asset misuse by the Company's top management.

Related party transactions of NLMK are 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 monitors the compliance with the requirements applied to the settlement of related party transactions of NLMK and the procedures by which they are approved. The mandate of the Management Board includes issuing advice to the Board of Directors of NLMK Group regarding the 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 2009 is reported in the appropriate sections of the Group's consolidated (US GAAP) statements and NLMK non-consolidated (RAS) statements.

## Shareholder Relations / Information Disclosure

The Company's external relations are guided by the NLMK Information Policy in accordance with which it strives for maximum satisfaction of the shareholders' and potential investors' demand for reliable information on the Company and its activities.

The main principles of the Company's Information Policy are regularity, efficiency, availability, reliability, completeness, balance, equality and safety of information resources.

To secure shareholders' rights and interests, including the creation of efficient and transparent mechanisms for securing such rights, the Company has a Corporate Secretary.

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

NLMK has also developed an Investor and Shareholder Relations Program, headed by the Director of Communications. Members of the Board of Directors and top managers participate in regular

meetings with our current and potential investors in the course of which NLMK representatives announce the Company's strategic areas of development, as well as consider the shareholders' opinion on key strategic matters when making important decisions.

The IR Department interacts with the investor community on a regular basis, reporting on the most important matters to NLMK's top management. The IR team is in constant dialogue with the investor community through the organization of teleconferences regarding the Company's financial performance, one-on-one meetings and participation in international conferences. The Company also organizes regular visits to its production facilities thus providing the investors an opportunity to see the Company's production assets and to meet top management.

## SUPERVISORY AUTHORITIES: INTERNAL AUDIT COMMISSION AND EXTERNAL AUDITORS

### Internal Audit Commission

The Internal Audit Commission is a full-time internal control authority exercising continuous supervision over the financial and business activities of the Company.

The Internal Audit Commission operates under the Charter and the Internal Audit Commission Regulations. It audits the financial and business activities of NLMK Group in order to obtain adequate assurance that the activities of NLMK Group comply with applicable Russian Federation laws and do not infringe upon the rights of Company shareholders, and that the Company reports and accounts contain no material misstatements.

The Internal Audit Commission acts in the interests of the shareholders and is elected by the General Meeting of Shareholders for a term of one 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 2009 elected the following members of the Internal Audit Commission:

Names of Internal Audit Commission Members	
Names of Internal Audit	Position
Valeriy Kulikov	Chairman
Tatyana Gorbunova	Member
Lyudmila Kladienko	Member
Larissa Ovsyannikova	Member
Galina Shipilova	Member

In 2009 the Internal Audit Commission held two meetings where it approved the Internal Audit Commission Report and the Internal Audit Commission Opinion for 2008, as well as elected the Internal Audit Commission Chairman for 2009 and approved the Commission audit of NLMK Group's financial and business activities for 2009.

External Auditors

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 recognized 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 2009 ZAO PricewaterhouseCoopers Audit was approved as the Auditor of NLMK by the Annual General Meeting of Shareholders, acting on the advice of the Audit Committee. It performs audits of both RAS and US GAAP-based financial statements.

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)

As part of the GDS Program, one depository share includes 10 ordinary shares. As of December 31, 2009 the Global Depository Shares issued by NLMK Group and traded at the London Stock Exchange account for 8.9995% of share capital. As of December 31, 2009 GDSs were trading at USD30.7.

The Depository bank for the Company is Deutsche Bank Trust Company Americas.

MARKET CAPITALIZATION

Throughout 2009, NLMK Group showed stable upward trends in capitalization, reflecting the Company's efforts which were directed towards overcoming the global recession. In late 2009, NLMK shares were quoted at the LSE at USD3.07 per share (USD30.7 per GDS), corresponding to a capitalization of USD18.3 billion, a three-fold increase year-on-year. High operating and financial efficiency, low debt level and good business diversification allowed NLMK to maintain its status as the largest Russian steelmaker in terms of capitalization.

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).

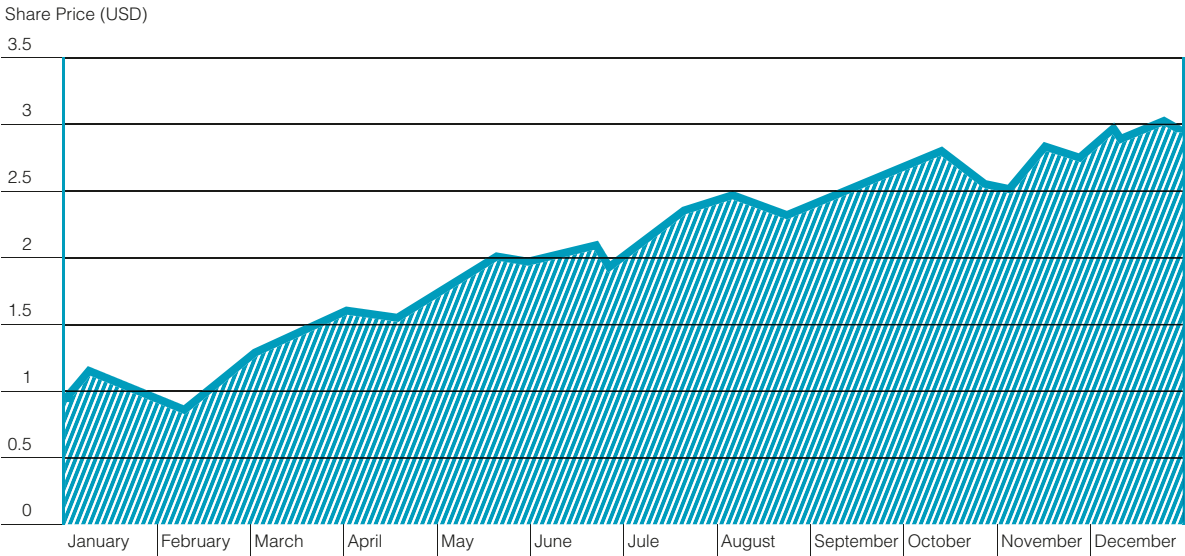
DIVIDENDS

Dividend Policy

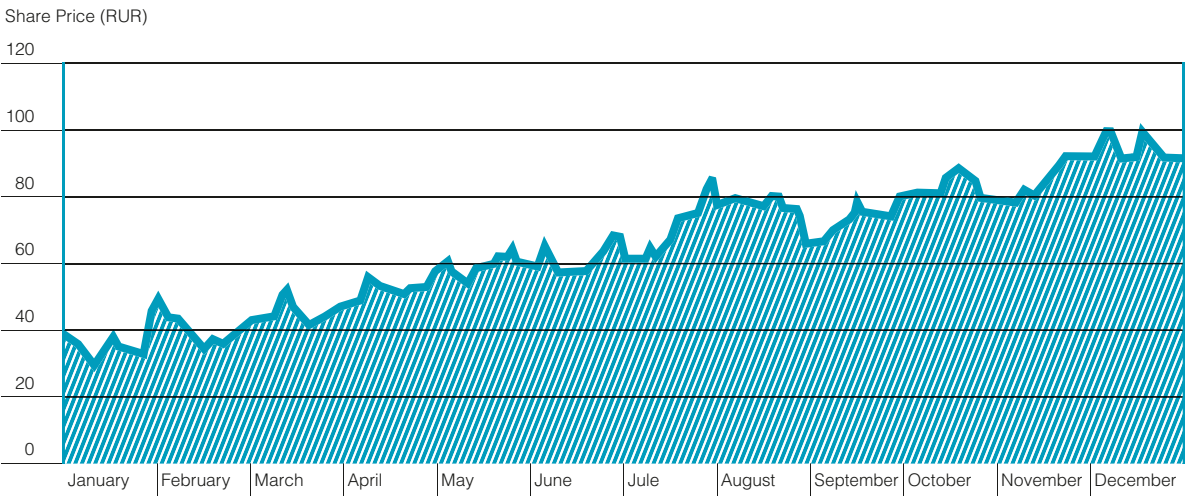
The Company's dividend policy was approved in June 2006 and aims to offer clear guidance to shareholders and all parties concerned about the



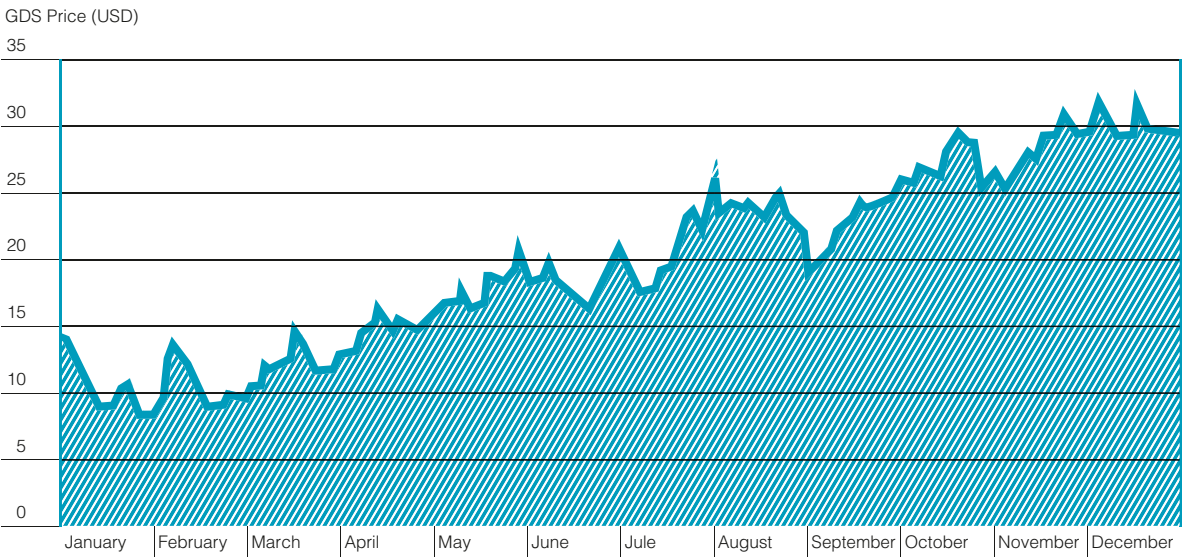
Share Price at RTS in 2009 (USD)



Share Price at MICEX in 2009



GDS Price Performance at LSE in 2009



SHARE PRICE

NLMK Ordinary Shares at RTS

	2009	2008
Maximum (USD)	3.1	5.65
Minimum (USD)	0.90	0.63
At end of year (USD)	3.02	1.15
Number of Trades	714	234
Trading Volume (USD, million)	84.51	23.3

NLMK Ordinary Shares at MICEX

	2009	2008
Maximum (RUR)	99.91	131.96
Minimum (RUR)	30.40	16.41
At end of year (RUR)	91.84	23.086
Number of Trades	375,595	167,646
Trading Volume (RUR, million)	17,039	45,102

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

NLMK Global Depositary Shares at the London Stock Exchange

	2009	2008
Maximum (USD)	33.3	57.00
Minimum (USD)	8.5	5.20
At end of year (USD)	30.7	10.20
Trading Volume (USD, million)	2,794	4,318

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

Company's strategy with respect to the distribution and use of NLMK net profits. The Dividend Policy states that dividends 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.

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 Payable to GDS Holders

Any dividends payable on share ownership which is certified by Global Depositary 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 Depository Bank fees and expenses.



### Proposals Regarding Distribution of Profits

The Board of Directors has recommended that the General Shareholders' Meeting approve a decision to pay dividends for 2009 in the amount of RUR0.22 in cash per ordinary share.

The Board of Directors recommended to allocate the profit that remained after dividend payments for the realization of CAPEX programs and dividend payments in the subsequent periods.

Shares Issued	5,993,227,240
Dividends per 1 ordinary share with par value of RUR1, rubles (projected)	RUR0.22
Total dividends payable for 2009 (projected)	RUR 1,318,509,993

### Dividend History

Year		Dividend per Share	Declaration Date	Total Amount of Dividend Declared	Dividend / Net Income
2002	Full Year	RUR312.5 (USD10.3010)*	27.06.03	RUR1,871,012,500 61.675 USD million	18 %
2003	Full Year	RUR0.6045** (USD0.0208)	25.06.04	RUR3,622,905,867 124.834 USD million	19 %
2004	Full Year	RUR1.8 (USD0.0643)	20.05.05	RUR10,787,809,032 385.556 USD million	22 %
	of which 9 months interim	RUR1 (USD0.0357)	03.12.04	RUR5,993,227,240 214.081 USD million	
2005	Full Year	RUR3 (USD0.1101)	06.06.06	RUR17,979,681,720 659.573 USD million	48 %
	of which 6 months interim	RUR1 (USD0.0352)	26.09.05	RUR5,993,227,240 210.792 USD million	
2006	Full Year	RUR3 (USD0.1140)	05.06.07	RUR17,979,681,720 683.267 USD million	33 %
	of which 6 months interim	RUR1.5 (USD0.0561)	29.09.06	RUR8,989,840,860 336.071 USD million	
2007	Full Year	RUR3 (USD0.1231)	06.06.08	RUR17,979,681,720 737.682 USD million	33 %
	of which 6 months interim	RUR1.5 (USD0.0601)	28.09.07	RUR8,989,840,860 360.142 USD million	
2008	Full Year	RUR2 (USD0.0786)	05.06.09	RUR11,986,454,480 471.338 USD million	21 %
	of which 6 months interim	RUR2 (USD0.0786)	19.09.08	RUR11,986,454,480 471.338 USD million	
2009	Full Year (project)	RUR0.22 (USD0.0075)		RUR1,318,509,993 44.695 USD million	20.8 %
Project					

\* The dividends were declared in Russian rubles (RUR). The amount of dividends per share indicated in US dollars are based on the RUR / USD Central Bank exchange rate as at the date of dividends approval, for 2009 (project) the exchange rate is 29.5RUR/USD.

\*\* In May 2004, following a revaluation of fixed assets, NLMK issued 5,987,240,000 additional common shares with a par value of 1 ruble each. Prior to this issue, NLMK's share capital comprised 5,987,240 common shares. These additional common shares were distributed to all existing shareholders of NLMK in proportion to their shareholding at the date of distribution such that each eligible shareholder received 1,000 additional shares for each share held.

### Share Capital Structure as of December 31, 2009

Shareholders	Share, %
Fletcher Group Holdings Limited	79.24
Investment Company LKB-INVEST	7.52
Global depository shares traded on the London Stock Exchange (nominee shareholder: Deutsche Bank Trust Company Americas)	9.00
Other shareholders	4.24

<sup>1</sup> In January 2010 LKB-INVEST's shareholdings were transferred into the ownership of Fletcher Group Holdings Limited

### Corporate Documents

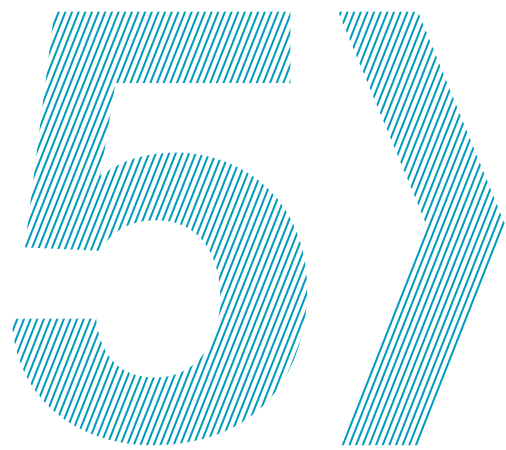
The Company's corporate documents, including its Charter, can be found on the Company website: [www.nlmk.com](http://www.nlmk.com).

### Financial Reporting

The Company posts its notices of results on the LSE website via the 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.nlmk.com](http://www.nlmk.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.



## APPENDIX

### LIST OF NLMK SUBSIDIARIES AND AFFILIATES AS OF DECEMBER 31, 2009

Item #	Company Name	Location	Activity	NLMK's Share in Charter Capital (%)
<b>Subsidiaries</b>				
1	Novolipetsky Metallurg Resort	25 Chekhova St., Morskoye Village, Sudak, Crimea Autonomous Republic, 334886 Ukraine	Rest and recreation services, health and rehabilitation facility	100
2	VIZ-Stal LLC	28 Kirova St., Yekaterinburg, 620219 Russia	Production and marketing of electrical steel	100
3	Vtormetsnab NLMK LLC	2 Metallurgov Sq., Lipetsk, 398040 Russia	Collection, processing and sales of ferrous scrap	100
4	Vtorchermet NLMK LLC	43 Toledova St., Yekaterinburg, 620034 Russia	Collection, processing and sales of ferrous and non-ferrous scrap	100
5	Karamyshevskoye LLC	1 Tsentralnaya Sq., Karamyshevo Village, Gryazinsky District, Lipetsk Region, 399077 Russia	Production and processing of agricultural produce	100
6	Lipetsk Insurance Company Chance LLC	30 Nedelina St., Lipetsk, 398059 Russia	Insurance underwriting	100
7	Independent Transport Company LLC	32A Leninsky Prospekt, Moscow, 119991 Russia	Cargo transportation and other transportation and forwarding services	100
8	NLMK-Long Products LLC	43 Toledova St., Yekaterinburg, 620034 Russia	Managing company, trading and procurement activities	100
9	Novolipetskaya Metallobaza LLC	8 Almaznaya St., Lipetsk, Russia	Manufacturing of plastics and steel products	100
10	Steel LLC	1 Lenina St., Uglich, Yaroslavl Region, 152620 Russia	Raw materials, supplies, scrap for steel-making	100
11	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

Item #	Company Name	Location	Activity	NLMK's Share in Charter Capital (%)
12	NLMK Trading House LLC	10 Bakhrushina St., Bld. 1, Moscow, 115054 Russia	Consolidated purchases of raw materials and inputs, sales of NLMK Group by-products	100
13	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
14	Dolomit OJSC	1 Sverdlova St., Dankov, Lipetsk Region, 399854 Russia	Dolomite mining and processing	100
15	Stoilensky OJSC	Fabrichnaya Site, South-Western Industrial District, Passage 4, Stary Oskol, Belgorod region, Russia	Mining and processing of iron ore and other minerals	100
16	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
17	Uraltorgchermet OJSC	3 Novinskaya St., Room 501, Yekaterinburg, Sverdlovsk Region, 620024 Russia	Consulting on issues related to commercial and management activities, investments into securities, leasing	100
18	NLMK International B.V.	World Trade Center Amsterdam Strawinskylaan 1331, Tower B, 1077 XX Amsterdam, The Netherlands	Holding company, holds shares in subsidiary production and trading companies, manages subsidiaries, provides financing	100
19	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
20	Larmet LLC	44/28 Studencheskaya St., Moscow, 121165 Russia	Wholesale steel and steel products trade	99.98
21	Vimet LLC	2 Metallurgov Sq., Lipetsk, 398040 Russia	Wholesale supply of raw materials for steel-making, wholesale supply of steel products	99.97
22	Lipetsky Gipromet OJSC	1 Kalinina St., Lipetsk, 398059 Russia	Design and survey operations	57.57
23	Nizhneserginsky Metizno-Metallurgicheskiy Zavod (NSMMZ) OJSC	3 Karla Libknekhta St., Revda, Sverdlovsk Region, 623280 Russia	Long steel, hot-rolled and forged steel production	57
24	North Oil and Gas Company OJSC	18 3rd Yamskogo Polya St., Floor 7, Moscow, 125040 Russia	Prospecting and exploration of oil and gas fields	51
25	Maxi-Group OJSC	18 3rd Yamskogo Polya St., Moscow, 125040 Russia	Consulting services, corporate financial management	50,00005
<b>Affiliates</b>				
26	Uralskiy Zavod Pretsizionnyh Splavov (UZPS) CJSC	5 Koltsevaya St., Berezovsky, Sverdlovsk Region, 623704 Russia	Pig iron, ferroalloys, steel, hot- and cold-rolled steel production	47.99
27	Neptune LLC	Office 35, 1C Adm. Makarova St., Lipetsk, 398005 Russia	Wellness services	25



**EFFICIENT WATER  
MANAGEMENT**

NLMK is the first of the leading Russian steelmakers to stop discharges of industrial waste water completely.

› **INNOVATION  
IN STEEL**



**RESOURCE SAVING**

Following the modernization of the technical water supply and the implementation of the new process flow, the quality of water for production purposes has improved to the level at which it can be re-used. At the same time, the amount of river water consumed for production decreased three-fold.



**EXEMPLAR ECOPOLICY**

NLMK has been implementing its environmental policy for many years and today it is fully compliant with the highest global standards and is the best environmental protector across all Russian industry.

**US GAAP CONSOLIDATED  
FINANCIAL STATEMENTS**

**CLOSED WATER SUPPLY  
CYCLE**

› **RUSSIA'S FIRST**

2009



ZAO PricewaterhouseCoopers Audit  
White Square Office Center  
10 Butyrsky Val  
Moscow, Russia, 125047  
Telephone +7 (495) 967 6000  
Fax +7 (495) 967 6001  
[www.pwc.ru](http://www.pwc.ru)

## 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, 2009, 2008 and 2007 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)

Lapshin A.A.

Chief Accountant

Sokolov A.A.

## 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, 2009, 2008 and 2007, 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, 2009, 2008 and 2007 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.

As discussed in Note 3 to the consolidated financial statements, the Group changed the manner in which it accounts for non-controlling interests and business combinations in 2009 as required by changes in the respective accounting standards.

Moscow, Russian Federation  
March 31, 2010



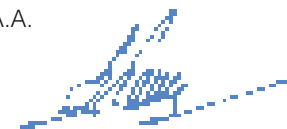
## RESPONSIBILITY STATEMENT

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

Lapshin A.A.



	Note	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	4	1,247,048	2,159,989	1,154,641
Short-term investments	5	451,910	8,089	153,462
Accounts receivable and advances given, net	6	913,192	1,487,847	1,696,451
Inventories, net	7	1,134,095	1,555,762	1,236,433
Other current assets		58,034	99,960	147,191
Deferred income tax assets	18	72,467	–	–
Current assets held for sale	16 (a)	–	34,432	–
		<b>3,876,746</b>	<b>5,346,079</b>	<b>4,388,178</b>
<b>Non-current assets</b>				
Long-term investments	5	468,236	815,527	818,590
Property, plant and equipment, net	8	7,316,180	6,826,139	6,449,877
Intangible assets, net	9 (b)	203,490	235,283	189,084
Goodwill	9 (a)	556,636	613,668	1,189,459
Deferred income tax assets	18	12,199	–	–
Other non-current assets		68,457	33,546	40,754
Non-current assets held for sale	16 (a)	–	194,286	–
		<b>8,625,198</b>	<b>8,718,449</b>	<b>8,687,764</b>
<b>Total assets</b>		<b>12,501,944</b>	<b>14,064,528</b>	<b>13,075,942</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and other liabilities	10	841,230	1,879,213	1,394,934
Short-term borrowings	11	556,563	1,079,806	1,536,570
Current income tax liability	18	19,419	10,497	70,686
Current liabilities held for sale	16 (a)	–	10,959	–
		<b>1,417,212</b>	<b>2,980,475</b>	<b>3,002,190</b>
<b>Non-current liabilities</b>				
Deferred income tax liability	18	396,306	296,875	585,567
Long-term borrowings	11	1,938,652	1,929,772	73,225
Other long-term liabilities	12	139,906	128,944	316,616
Non-current liabilities held for sale	16 (a)	–	5,393	–
		<b>2,474,864</b>	<b>2,360,984</b>	<b>975,408</b>
<b>Total liabilities</b>		<b>3,892,076</b>	<b>5,341,459</b>	<b>3,977,598</b>
<b>Commitments and contingencies</b>				
		–	–	–
<b>Stockholders' equity</b>				
<b>NLMK stockholders' equity</b>				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2009, 2008 and 2007	15 (a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		112,450	52,395	52,395
Accumulated other comprehensive (loss) / income		(796,756)	(549,879)	1,181,546
Retained earnings		9,171,068	8,956,013	7,526,150
		<b>8,718,202</b>	<b>8,689,969</b>	<b>8,991,531</b>
<b>Non-controlling interest</b>	14	<b>(108,334)</b>	<b>33,100</b>	<b>106,813</b>
<b>Total stockholders' equity</b>		<b>8,609,868</b>	<b>8,723,069</b>	<b>9,098,344</b>
<b>Total liabilities and stockholders' equity</b>		<b>12,501,944</b>	<b>14,064,528</b>	<b>13,075,942</b>

The consolidated financial statements as set out on pages 134 to 180 were approved on March 31, 2010.

President (Chairman of the Management Board)  
Lapshin A.A.



Chief Accountant  
Sokolov A.A.



	Note	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
<b>Sales revenue</b>	23	6,139,895	11,698,661	7,719,061
<b>Cost of sales</b>				
Production cost		(3,672,245)	(5,808,780)	(3,569,331)
Depreciation and amortization		(478,117)	(498,994)	(407,699)
		<b>(4,150,362)</b>	<b>(6,307,774)</b>	<b>(3,977,030)</b>
<b>Gross profit</b>		<b>1,989,533</b>	<b>5,390,887</b>	<b>3,742,031</b>
General and administrative expenses		(297,246)	(366,664)	(214,836)
Selling expenses		(654,628)	(734,489)	(442,657)
Taxes other than income tax		(102,076)	(100,025)	(79,977)
Impairment losses	9 (a)	(43,662)	(128,389)	–
Accretion expense on asset retirement obligations		–	–	(6,190)
<b>Operating income</b>		<b>891,921</b>	<b>4,061,320</b>	<b>2,998,371</b>
Loss on disposals of property, plant and equipment		(4,420)	(9,594)	(27,285)
Losses on investments, net		(10,903)	(21,319)	(23,522)
Interest income		59,733	100,238	99,751
Interest expense		(170,905)	(217,270)	(31,417)
Foreign currency exchange (loss) / gain, net		(78,026)	(366,984)	80,495
Gain from disposal of subsidiaries	16	–	–	83,122
Other expenses, net	26 (b)	(92,661)	(414,694)	(22,688)
<b>Income from continuing operations before income tax</b>		<b>594,739</b>	<b>3,131,697</b>	<b>3,156,827</b>
Income tax expense	18	(181,784)	(703,474)	(837,003)
<b>Income from continuing operations, net of income tax</b>		<b>412,955</b>	<b>2,428,223</b>	<b>2,319,824</b>
Equity in net losses of associates		(314,859)	(151,212)	(50,312)
<b>Income from continuing operations</b>		<b>98,096</b>	<b>2,277,011</b>	<b>2,269,512</b>
<b>Discontinued operations</b>				
Gain from operations of discontinued subsidiary	16 (d)	–	–	1,261
<b>Net income</b>		<b>98,096</b>	<b>2,277,011</b>	<b>2,270,773</b>
<b>Less: Net loss / (income) attributable to the non-controlling interest</b>	14	<b>116,959</b>	<b>1,730</b>	<b>(23,490)</b>
<b>Net income attributable to NLMK stockholders</b>		<b>215,055</b>	<b>2,278,741</b>	<b>2,247,283</b>
<b>Income per share – basic and diluted:</b>				
Income from continuing operations attributable to NLMK stockholders per share (US dollars)		0.0359	0.3802	0.3748
Income from discontinued operations attributable to NLMK stockholders per share (US dollars)		–	–	0.0002
Net income attributable to NLMK stockholders per share (US dollars)		0.0359	0.3802	0.3750
Weighted-average shares outstanding, basic and diluted (in thousands)	17	5,993,227	5,993,227	5,993,227

	Note	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Net income</b>		<b>98,096</b>	<b>2,277,011</b>	<b>2,270,773</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>				
Depreciation and amortization		478,117	498,994	407,699
Loss on disposals of property, plant and equipment		4,420	9,594	27,285
Losses on investments, net		10,903	21,319	23,522
Equity in net losses of associates		314,859	151,212	50,312
Deferred income tax expense / (benefit)	18	34,443	(259,446)	37,925
(Gains) / losses on unrealized forward contracts	13	(470,930)	653,297	(58,708)
Impairment losses	9 (a)	43,662	128,389	–
Settlement agreement on the dispute	26 (b)	–	234,000	–
Cash in assets held for sale		–	(11,431)	–
Gain from disposal of subsidiaries		–	–	(83,122)
Gain from operations of discontinued subsidiary		–	–	(1,261)
Accretion expense on asset retirement obligations		–	–	6,190
Other		21,825	68,285	17,450
<b>Changes in operating assets and liabilities</b>				
Decrease / (increase) in accounts receivable		493,751	(698,002)	(33,325)
Decrease / (increase) in inventories		331,396	(364,316)	(200,074)
Decrease / (increase) in other current assets		17,193	45,690	(43,633)
Increase in loans provided by the subsidiary bank		–	–	(106,260)
Increase in accounts payable and other liabilities		10,534	89,776	242,830
Increase / (decrease) in current income tax payable		5,990	(63,610)	(33,700)
<b>Net cash provided by operating activities</b>		<b>1,394,259</b>	<b>2,780,762</b>	<b>2,523,903</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases and construction of property, plant and equipment		(1,120,777)	(1,934,274)	(957,719)
Proceeds from sale of property, plant and equipment		12,719	9,789	12,278
Placement of bank deposits and purchases of other investments		(536,098)	(33,386)	(199,469)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		510,336	95,803	11,606
Loans issued		(403,592)	(12,839)	(134,300)
Settlement of abandoned acquisition	26 (b)	(234,000)	–	–
Acquisitions of subsidiaries, net of cash acquired of \$422,841 in 2008 and \$25,047 in 2007	22 (a) 22 (d)	–	(514,156)	–
Purchases of equity investments	5 (a)	–	(6,488)	–
Payment for acquisition of interests in new subsidiaries	22 (c)	–	(299,928)	–
Net cash received in acquisition of interests in new subsidiaries	22 (b)	–	297,905	24,038
Movement of restricted cash		–	(1,006)	(1,020)
Proceeds from adjustment of the original purchase price of subsidiaries		–	–	37,089
Disposal of subsidiaries		–	–	(60,063)
<b>Net cash used in investing activities</b>		<b>(1,771,412)</b>	<b>(2,398,580)</b>	<b>(1,267,560)</b>

OJSC Novolipetsk Steel

Consolidated Statements of Cash Flows

As at December 31, 2009, 2008 and 2007

(Thousands of US Dollars)

2009 Annual Report

NLMK

	Note	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings and notes payable		1,076,756	3,735,078	268,844
Repayment of borrowings and notes payable		(1,540,242)	(2,248,720)	(451,802)
Capital lease payments		(69,094)	(90,675)	(3,066)
Dividends to shareholders		(1,981)	(842,792)	(702,983)
Dividends to non-controlling shareholders of existing subsidiaries		(127)	(12,324)	(19,146)
Prepayment for disposal of assets to a company under common control	16 (a)	–	258,182	–
Proceeds from disposal of assets to the company under common control	16 (d)	–	–	78,469
<b>Net cash (used in) / provided by financing activities</b>		<b>(534,688)</b>	<b>798,749</b>	<b>(829,684)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(911,841)</b>	<b>1,180,931</b>	<b>426,659</b>
Effect of exchange rate changes on cash and cash equivalents		(1,100)	(175,583)	62,769
Cash and cash equivalents at the beginning of the year	4	2,159,989	1,154,641	665,213
<b>Cash and cash equivalents at the end of the year</b>	4	<b>1,247,048</b>	<b>2,159,989</b>	<b>1,154,641</b>
<b>Supplemental disclosures of cash flow information:</b>				
<b>Cash paid during the year for:</b>				
Income tax		136,378	1,020,320	702,688
Interest		170,702	201,635	26,318
<b>Non cash investing activities:</b>				
Capital lease liabilities incurred	20	83,186	107,793	448,731
Elimination of intercompany loan in business combination	22 (a)	–	161,023	–
<b>Non cash investing and financing activities as a result of:</b>				
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	22	–	514,156	533,468

OJSC Novolipetsk Steel

Consolidated statement of stockholders' equity and comprehensive income

for the Years Ended December 31, 2009, 2008 and 2007

(Thousands of US Dollars)

Financial statements

	Note	NLMK stockholders							Total stockholders' equity
		Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income / (loss)	Retained earnings	Non-controlling interest	Comprehensive income / (loss)	
<b>Balance at December 31, 2006</b>		<b>221,173</b>	<b>10,267</b>	<b>1,812</b>	<b>589,986</b>	<b>5,986,204</b>	<b>133,425</b>	<b>–</b>	<b>6,942,867</b>
<b>Comprehensive income:</b>									
Net income		–	–	–	–	2,247,283	23,490	2,270,773	2,270,773
Other comprehensive income:									
Dividends to non-controlling shareholders of existing subsidiaries		–	–	–	–	–	(12,906)	(12,906)	(12,906)
Cumulative translation adjustment	2 (b)	–	–	–	591,560	–	9,058	600,618	600,618
<b>Comprehensive income</b>								<b>2,858,485</b>	<b>2,858,485</b>
Acquisitions of new subsidiaries	22 (c)	–	–	–	–	–	(17,144)	–	(17,144)
Purchase of subsidiaries' shares from non-controlling interest		–	–	–	–	–	(2,686)	–	(2,686)
Disposal of a stake in non-wholly owned subsidiaries	16 (b), (d)	–	–	–	–	–	(26,424)	–	(26,424)
Dividends to shareholders	15 (b)	–	–	–	–	(707,337)	–	–	(707,337)
Earnings from disposal of assets to the company under common control	16 (d) 25 (c)	–	–	50,583	–	–	–	–	50,583
<b>Balance at December 31, 2007</b>		<b>221,173</b>	<b>10,267</b>	<b>52,395</b>	<b>1,181,546</b>	<b>7,526,150</b>	<b>106,813</b>	<b>–</b>	<b>9,098,344</b>
<b>Comprehensive income:</b>									
Net income / (loss)		–	–	–	–	2,278,741	(1,730)	2,277,011	2,277,011
Other comprehensive loss:									
Dividends to non-controlling shareholders of existing subsidiaries		–	–	–	–	–	(12,383)	(12,383)	(12,383)
Cumulative translation adjustment	2 (b)	–	–	–	(1,731,425)	–	(2,081)	(1,733,506)	(1,733,506)
<b>Comprehensive income</b>								<b>531,122</b>	<b>531,122</b>
Acquisitions of new subsidiaries	22 (d)	–	–	–	–	–	2,146	–	2,146
Purchase of subsidiaries' shares from non-controlling interest	22 (d)	–	–	–	–	–	(84,913)	–	(84,913)
Change of non-controlling interest associated with purchase price adjustment	22 (c)	–	–	–	–	–	24,942	–	24,942
Disposal of non-controlling interest in existing subsidiaries		–	–	–	–	–	306	–	306
Dividends to shareholders	15 (b)	–	–	–	–	(848,878)	–	–	(848,878)
<b>Balance at December 31, 2008</b>		<b>221,173</b>	<b>10,267</b>	<b>52,395</b>	<b>(549,879)</b>	<b>8,956,013</b>	<b>33,100</b>	<b>–</b>	<b>8,723,069</b>
<b>Comprehensive loss:</b>									
Net income / (loss)		–	–	–	–	215,055	(116,959)	98,096	98,096
Other comprehensive loss:									
Cumulative translation adjustment	2 (b)	–	–	–	(246,877)	–	(9,583)	(256,460)	(256,460)
<b>Comprehensive loss</b>								<b>(158,364)</b>	<b>(158,364)</b>
Disposal of assets to an entity under common control	16 (a) 25(c)	–	–	85,345	–	–	(40,182)	–	45,163
Change in non-controlling interest	14	–	–	(25,290)	–	–	25,290	–	–
<b>Balance at December 31, 2009</b>		<b>221,173</b>	<b>10,267</b>	<b>112,450</b>	<b>(796,756)</b>	<b>9,171,068</b>	<b>(108,334)</b>	<b>–</b>	<b>8,609,868</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

### 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 had a less significant seaport operating segment (Note 23).

The Group's main operations are in 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, 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. 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-Stahl. 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 centers (Note 5(a)).

- Danish steel rolling company DanSteel A/S. The principal business activity of this company is production of hot rolled plates.
- Trading companies Novexco Ltd. (Cyprus) and Novex Trading S.A. (Swiss) (acquired in 2008). The principal business activity of these companies is sales of the Group's products outside the Russian Federation.
- American hot rolled coils producer Beta Steel Corp. (acquired in 2008). The principal business activity of this company is the 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 companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America («US GAAP»).

### 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, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for consolidated statement of income accounts for the year ended December 31, 2009 (weighted average exchange rate for consolidated statement of income accounts for the years ended December 31, 2008 and 2007) and historic rates for equity accounts in accordance with the relevant provisions of ASC No. 830, *Foreign currency matters*. As a result of these translation procedures, a cumulative translation adjustment of \$(256,460), \$(1,733,506) and \$600,618 was recorded directly in stockholders' equity in the years ended December 31, 2009, 2008 and 2007, respectively.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2009, 2008 and 2007 were 1 US dollar to 30.2442, 29.3804 and 24.5462 Russian rubles, respectively. The period weighted average exchange rates for the 1 quarter 2009, 2 quarter 2009, 3 quarter 2009 and 4 quarter 2009 were 33.9308, 32.2145, 31.3276 and 29.4729 Russian rubles to 1 US dollar, respectively. The Group calculated 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. The annual weighted average exchange rate for the year ended December 31, 2007 was 25.5770 Russian rubles to 1 US dollar.



### C. CONSOLIDATION PRINCIPLES

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### A. USE OF ESTIMATES

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

### B. CASH AND CASH EQUIVALENTS

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

### C. RESTRICTED CASH

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

### D. ACCOUNTS RECEIVABLE AND LOANS ISSUED

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

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

### 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 amortized cost.

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

#### Available-for-sale securities

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

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

### 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 recognized gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

#### Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial

difficulties for which recovery is not expected within a reasonable period in the future, or under bankruptcy proceedings.

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(I)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate portion of production overheads directly related to construction of assets.

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

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

Subsequent expenditures

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

Capitalized interest

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

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

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

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

Mineral rights

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

Depreciation and amortization

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated remaining useful 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 amortized 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 recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

K. GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Under ASC No. 350, *Intangibles - Goodwill and Other*, («ASC No. 350») 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 ASC No. 350, goodwill is assessed for impairment by using the fair value based method. The impairment test required by ASC No. 350 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 recognized and unrecognized) 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 amortized 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 recognized 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 13) 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 recognized 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 ASC No. 410, *Asset Retirement and Environmental Obligations*. This ASC addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation (ARO) liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

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

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

**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 unamortized 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 recognized 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 recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit 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 recognized in income in the period when a different tax rate is enacted.

Pursuant to the provisions of ASC No. 740, *Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

**S. DIVIDENDS**

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

**T. REVENUE RECOGNITION**

**Goods sold**

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

**Interest income**

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

**U. SHIPPING AND HANDLING**

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 2007-2009 varied from 84% to 86%.

## V. EXPENSES

### 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 recognized as non-cash transactions.

## X. SEGMENT REPORTING

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

- steel segment, comprising production and sales of 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.

## Y. GUARANTEES

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

## Z. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 160, *Non-controlling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* («SFAS No. 160») (codified within ASC 810, Consolidation). This Statement provides new standards to govern the accounting and reporting for non-controlling (formerly known as minority) interests in partially owned consolidated subsidiaries and for the loss of control of subsidiaries. The Statement establishes that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 was effective as of January 1, 2009. As a result of the adoption of this Statement, the Group prospectively attributed the non-controlling interest its share of losses of \$116,959 which resulted in a deficit in the non-controlling interest balance. The presentation and disclosure requirements of SFAS No. 160 were applied retrospectively.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* («SFAS No. 141(R)») (codified within ASC 805, *Business Combinations*), which replaces SFAS No. 141. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize 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 recognizes any non-controlling 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. Management has determined that the adoption of SFAS No. 141(R) had no material impact on the Group's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (SFAS No. 168) (codified within ASC 105, *Generally Accepted Accounting Principles*), which became effective for the Group from the interim period ended September 30, 2009. The Codification is the sole source of authoritative US GAAP to be applied by non-governmental entities and supersedes all non-SEC accounting and reporting standards existing on September 15, 2009. The issuance of SFAS No. 168 and the Codification does not change GAAP. All references to accounting standards in these financial statements were updated to corresponding ASC references. Management has determined that the adoption of SFAS No. 168 had no impact on the Group's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No.46(R)*. SFAS No. 167 amends FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable interest entities – an interpretation of ARB No.51* (not yet included into Codification), which will become effective for the Group on January 1, 2010. This Standard requires the Group to perform an analysis to determine whether the Group's variable interest or interests give it a controlling financial interest in a variable interest entity. The Group is also required to assess whether it has an implicit financial responsibility to ensure that the variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. Management is currently evaluating its impact on the Group's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*. This update provides amendments to ASC No. 810-10, *Consolidation – Overall* (formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*) to clarify the scope of the decrease in ownership provisions of ASC 810-10 and related guidance. ASU No. 2010-02 also clarifies that the decrease in ownership guidance does not apply to certain transactions even if they involve businesses. ASU 2010-02 expands the disclosures required for a business combinations achieved in stages



and deconsolidation activity within the scope of ASC 810-10. ASU 2010-02 is effective for both interim and annual periods ending on or after December 15, 2009. The amendments are to be applied retrospectively to the first period that an entity adopted ASU No. 810-10. The adoption of this statement did not have an impact on the Group's financial position, results of operations and disclosures related to non-controlling interests.

## 4. CASH AND CASH EQUIVALENTS

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Cash – Russian rubles	79,793	75,561	124,773
Cash – US dollars	125,917	48,195	10,049
Cash – other currencies	64,197	31,493	13,116
Deposits – Russian rubles	208,514	317,772	947,322
Deposits – US dollars	729,092	1,591,632	20,486
Deposits – Euros	25,778	89,683	38,656
Deposits – other currencies	11,474	4,832	–
Other cash equivalents	2,283	821	239
	<b>1,247,048</b>	<b>2,159,989</b>	<b>1,154,641</b>

## 5. INVESTMENTS

### Balance sheet classification of investments:

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Short-term investments and current portion of long-term investments	451,910	8,089	153,462
Long-term investments	<u>468,236</u>	<u>815,527</u>	<u>818,590</u>
<b>Total investments</b>	<b>920,146</b>	<b>823,616</b>	<b>972,052</b>

As at December 31, 2009 the major part of short-term investments are represented by loans issued.

Long-term and short-term investments include loans issued to SIF S.A. (Note 25(b)).

### A. INVESTMENTS IN ASSOCIATES

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Ownership	Ownership	Ownership				
Steel Invest & Finance (Luxembourg) S.A.	50,00%	50,00%	50,00%	305,284	654,134	817,942
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50,00%	50,00%	–	6,230	6,488	–
				<b>311,514</b>	<b>660,622</b>	<b>817,942</b>

#### 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, 2009, 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. between December 2006 and the exercise date.

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

	As at December 31, 2009	As at December 31, 2008
Current assets	1,580,750	2,289,830
Non-current assets	1,316,182	1,276,334
<b>Total assets</b>	<b>2,896,932</b>	<b>3,566,164</b>
Current liabilities	(1,086,909)	(2,393,931)
Non-current liabilities	(1,805,213)	(529,535)
<b>Total liabilities</b>	<b>(2,892,122)</b>	<b>(2,923,466)</b>
Equity	<b>4,810</b>	<b>642,698</b>

The revenues and net loss of SIF S.A. for the twelve months, ended December 31, 2009 amounted to \$2,047,806 and \$(619,557), respectively.

The Group's losses related to SIF S.A. amounted to \$(314,859), \$(151,212) and \$(50,312) for the years ended December 31, 2009, 2008 and 2007, respectively.

Information about the Group's operations with SIF S.A. and its subsidiary is disclosed in Note 25.

### B. NON-MARKETABLE SECURITIES

Non-marketable securities amounted to \$237, \$390 and \$648 as at December 31, 2009, 2008 and 2007, respectively.

## 6. ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Trade accounts receivable	619,722	964,257	996,669
Advances given to suppliers	91,858	123,588	313,550
Taxes receivable	365,466	489,352	416,696
Accounts receivable from employees	3,407	2,709	5,968
Other accounts receivable	<u>148,261</u>	<u>178,996</u>	<u>207,181</u>
	1,228,714	1,758,902	1,940,064
Allowance for doubtful debts	<u>(315,522)</u>	<u>(271,055)</u>	<u>(243,613)</u>
	<b>913,192</b>	<b>1,487,847</b>	<b>1,696,451</b>

As at December 31, 2007, 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 totaled \$194,648 and \$473,841 as at December 31, 2007.

As at December 31, 2009, 2008 and 2007, the Group had other accounts receivable of \$126,705, \$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 22(c)).

## 7. INVENTORIES

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Raw materials	613,940	833,236	756,983
Work in process	219,455	326,168	310,832
Finished goods and goods for resale	<u>351,879</u>	<u>480,135</u>	<u>209,878</u>
	1,185,274	1,639,539	1,277,693
Provision for obsolescence	<u>(51,179)</u>	<u>(83,777)</u>	<u>(41,260)</u>
	<u><b>1,134,095</b></u>	<u><b>1,555,762</b></u>	<u><b>1,236,433</b></u>

As at December 31, 2009, 2008 and 2007, inventories of nil, \$35,900 and \$82,920, respectively, served as collateral for certain borrowings (Note 11).

## 8. PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Land	136,596	91,553	88,353
Mineral rights	512,106	527,162	616,620
Buildings	1,400,208	1,385,103	1,428,223
Land and buildings improvements	1,221,530	1,213,582	1,339,274
Machinery and equipment	5,850,662	5,699,662	5,841,034
Vehicles	345,213	333,351	333,209
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,817,937	2,355,259	2,197,131
Leased assets	328,204	310,534	457,191
Other	<u>68,398</u>	<u>72,169</u>	<u>79,393</u>
	12,680,854	11,988,375	12,380,428
Accumulated depreciation	<u>(5,364,674)</u>	<u>(5,162,236)</u>	<u>(5,930,551)</u>
	<u><b>7,316,180</b></u>	<u><b>6,826,139</b></u>	<u><b>6,449,877</b></u>

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, 2009 is \$28,529.

The other mineral rights relate to mining segment, and were acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at December 31, 2009 is \$242,903. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2009, 2008 and 2007, property, plant and equipment of \$45,647, \$272,678 and \$390,816 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amount of interest capitalized is \$29,693 for the year ended December 31, 2009. These amounts were insignificant for the years ended December 31, 2008 and 2007.

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

### A. GOODWILL

<b>Balance as at December 31, 2006</b>	<b><u>559,703</u></b>
Acquired in new subsidiaries (Note 22)	592,171
Cumulative translation adjustment	<u>37,585</u>
<b>Balance as at December 31, 2007</b>	<b><u>1,189,459</u></b>
Acquired in new subsidiaries	54,772
Acquired in existing subsidiaries	43,188
Change associated with purchase price adjustment (Note 22(c))	(310,988)
Goodwill associated with disposal assets held for sale (Note 16(a))	(77,238)
Goodwill impairment	(128,389)
Cumulative translation adjustment	<u>(157,136)</u>
<b>Balance as at December 31, 2008</b>	<b><u>613,668</u></b>
Goodwill impairment	(43,662)
Cumulative translation adjustment	<u>(13,370)</u>
<b>Balance as at December 31, 2009</b>	<b><u>556,636</u></b>

Goodwill arising from 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 Ltd. (Cyprus) and Novex Trading S.A. (Swiss) amounted to \$2,055 and was allocated to the steel segment. Resulting 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 22(d)) 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, was allocated to the long products segment (Note 22(c)) and was subsequently partially impaired.

#### Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2009 and 2008 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result the Group determined that the goodwill associated with the Long product segment was partially impaired, recording an estimated charge of \$43,662 and \$128,389 in «Impairment losses» line in the consolidated statement of income for the years ended December 31, 2009 and 2008, respectively. 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 as at December 31, 2007 which indicated no impairment.

B. OTHER INTANGIBLE ASSETS

		Total useful life, months	Gross book value as at December 31, 2009	Gross book value as at December 31, 2008	Gross book value as at December 31, 2007
	Subsidiary				
	Note 22				
Industrial intellectual property	LLC VIZ-Stahl	149	56,499	58,160	69,614
Customer base	LLC VIZ-Stahl	125	107,299	110,456	132,207
Customers relationships (oil)	OJSC TMTP	66	-	-	12,740
Customers relationships (dry cargo)	OJSC TMTP	66	-	-	14,113
Customers relationships	DanSteel A/S	72	4,344	4,470	5,352
Beneficial lease interest	Beta Steel Corp.	38	8,700	8,700	-
Customers relationships (electricity)	Beta Steel Corp.	18	7,200	7,200	-
	Novexco (Cyprus) Ltd. Novex Trading (Swiss) S.A.	180	89,910	89,910	-
Customer base			273,952	278,896	234,026
Accumulated amortization			(70,462)	(43,613)	(44,942)
			<b>203,490</b>	<b>235,283</b>	<b>189,084</b>

The intangible assets were acquired in business combinations (Note 22) and met the criteria for separate recognition outlined in ASC No. 805. They were recorded under the provisions of ASC No. 805 at fair values at the date of acquisition, based on their appraised value. Aggregate amortization expense amounted to \$23,102, \$16,276 and \$25,481 for the years ended December 31, 2009, 2008 and 2007, respectively.

Estimated amortization expense in subsequent annual periods

2010	(21,500)
2011	(21,374)
2012	(20,776)
2013	(20,776)
2014 and later	(116,667)

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Trade accounts payable	400,236	489,486	266,640
Advances received	114,472	54,127	165,624
Taxes payable other than income tax	87,402	81,966	65,322
Accounts payable and accrued liabilities to employees	130,813	129,724	159,578
Dividends payable	2,574	4,859	4,877
Short-term capital lease liability	30,383	35,722	32,273
Negative fair values of unrealized forward contracts (Note 13)	290	495,540	-
Other accounts payable	75,060	587,789	700,620
	<b>841,230</b>	<b>1,879,213</b>	<b>1,394,934</b>

Other accounts payable as at December 31, 2008 include payables to the company under common control for OJSC TMTP shares of \$241,833 (Note 16(a)) and amount of settlement with respect to dispute with DBO Holdings Inc. totaled \$234,000 (Note 26(b)).

As at December 31, 2007, the Group had accounts payable of \$555,578 to Mr. Maximov (non-controlling 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 22(c)).

## 11. SHORT-TERM AND LONG-TERM BORROWINGS

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
<b>Parent Company</b>			
Loan, RUR denominated, with interest rate 9.6% per annum	–	–	203,933
Bonds, RUR denominated, with interest rate from 9.75% to 10.75% per annum	502,627	–	–
Loans, US\$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2010-2013	<u>1,506,580</u>	<u>1,657,105</u>	<u>–</u>
<b>Maxi-Group</b>			
<b>Russian rubles</b>			
Loans with interest rates from MosPrime3M+2.25% to 16% per annum, mature 2010-2013	317,086	908,002	602,456
Bonds with interest rates from 10% to 12% per annum	227	980	93,656
Other borrowings	<u>59,315</u>	<u>56,065</u>	<u>92,551</u>
<b>US dollars</b>			
Loans with interest rate LIBOR (1 m) +3.75% per annum, mature 2010	19,355	119,431	282,394
Other borrowings	–	–	10,250
<b>Euros</b>			
Loans with interest rates from EURIBOR (6 m) +1.3% to EURIBOR (6 m) +4% per annum, mature 2010-2017	52,209	122,559	256,700
Other borrowings	<u>11,277</u>	<u>19,631</u>	<u>33,902</u>
	<u><b>2,468,676</b></u>	<u><b>2,883,773</b></u>	<u><b>1,575,842</b></u>
<b>Other companies</b>			
Loan, RUR denominated, with interest rate 10% per annum	26,538	81,825	14,124
Loan, US\$ denominated, with interest rate 5% per annum	–	–	19,677
Loan, EURO denominated, with interest rate 5.38% per annum	–	43,711	–
Other borrowings	<u>1</u>	<u>269</u>	<u>152</u>
	<u><b>2,495,215</b></u>	<u><b>3,009,578</b></u>	<u><b>1,609,795</b></u>
Less: short-term loans and current maturities of long-term loans	<u>(556,563)</u>	<u>(1,079,806)</u>	<u>(1,536,570)</u>
<b>Long-term borrowings</b>	<u><b>1,938,652</b></u>	<u><b>1,929,772</b></u>	<u><b>73,225</b></u>

The Group's long-term borrowings as at December 31, 2009 mature between 2 to 8 years.

As at December 31, 2009, 2008 and 2007, more than 18%, 40% and 85%, respectively, of total short-term and long-term borrowings of the Group are payable by Maxi-Group.

As at December 31, 2009, 2008 and 2007, loans of nil, \$50,204 and \$339,469, respectively, were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of Maxi-Group (Note 25(e)). As at December 31, 2009, 2008 and 2007, loans of nil, \$78,563 and \$281,081, respectively, were collateralized with the shares of Maxi-Group companies.

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

2010	515,855
2011	577,555
2012	601,386
2013	238,041
Remainder	<u>5,815</u>
	<u><b>1,938,652</b></u>

### New borrowings

The total value of loans and bonds, received by the Group under the new loan agreements concluded in the year ended December 31, 2009, and outstanding as at December 31, 2009, is \$523,797.

In November 2009, the Parent Company issued bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 10 billion Russian rubles which are \$330,642 as at December 31, 2009), with a maturity period of 1092 days and a coupon rate of 10.75% per annum.

In December 2009, the Parent Company issued bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 5 billion Russian rubles which are \$165,321 as at December 31, 2009), with a maturity period of 1092 days and a coupon rate of 9.75% per annum.

### Major terms of loan agreements

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

## 12. OTHER LONG-TERM LIABILITIES

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Long-term capital lease liability (Note 19)	137,592	128,712	316,558
Other long-term liabilities	<u>2,314</u>	<u>232</u>	<u>58</u>
	<u><b>139,906</b></u>	<u><b>128,944</b></u>	<u><b>316,616</b></u>



13. FORWARD CONTRACTS

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk.

Positive fair values of unrealized forward exchange contracts, amounting to \$209, nil and \$68,392 respectively, are included in other current assets as at December 31, 2009, 2008 and 2007.

Negative fair values of unrealized forward exchange contracts, amounting to \$(290) and \$(495,540) are included in the line «Accounts payable and other liabilities» in the consolidated balance sheets as at December 31, 2009 and 2008, respectively (the corresponding amount was immaterial as at December 31, 2007) (Note 10).

In accordance with ASC No. 820, the fair value of foreign currency derivatives is determined using Level 2 inputs. The inputs used include quoted prices for similar assets or liabilities in an active market. Fair value is determined as the sum of the differences between the discounted market forward rate in the settlement month prevailing at December 31, 2009 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 (no commitments to purchase foreign currencies as at December 31, 2007). The table below summarizes by major currency the contractual amounts and positive fair values of the Group's unrealized forward exchange and option contracts in US dollars.

	As at December 31, 2009		As at December 31, 2008		As at December 31, 2007	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	48,059	209	–	–	1,767,295	63,247
Euro	–	–	–	–	707,389	5,145
	<b>48,059</b>	<b>209</b>	<b>–</b>	<b>–</b>	<b>2,474,684</b>	<b>68,392</b>

The table below summarizes by major currency the contractual amounts and negative fair values of the Group's unrealized forward exchange and option contracts in US dollars.

	As at December 31, 2009		As at December 31, 2008		As at December 31, 2007	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	59,826	(290)	1,411,825	(353,169)	–	–
Euro	–	–	915,723	(142,371)	–	–
	<b>59,826</b>	<b>(290)</b>	<b>2,327,548</b>	<b>(495,540)</b>	<b>–</b>	<b>–</b>

During 2009, 2008 and 2007 gains / (losses) from forward exchange contracts amounted to \$(95,033), \$(641,159) and \$96,619, respectively. These gains and losses were included in «Foreign currency exchange, net» line in consolidated statements of income.

14. NON-CONTROLLING INTEREST

Change in non-controlling interest of Maxi-Group companies

In June 2009, the Parent Company acquired through a public auction for \$44,572 interests of between 32% and 100% in three companies controlled by Maxi-Group.

In accordance with the Russian legislation concerning pledges and pledge contracts terms, the auction was conducted by an independent organizer in order to discharge Maxi-Group subsidiaries' pledge obligations under its loans taken prior to the date of acquisition (Note 22(c)). The auction's starting price was determined by an independent appraiser.

In July 2009, the Parent Company acquired for \$7,185 an additional interest of 25% in one of the abovementioned Maxi-Group companies and as a result increased its direct interest in this subsidiary to a controlling stake.

As a result of these transactions between Group companies, there was an increase of non-controlling interest by \$25,290 with a corresponding decrease in the additional paid-in capital.

The above acquisitions were carried out for the purpose of more efficient management of the assets.

In July 2009, a non-controlling shareholder of Maxi-Group initiated legal proceedings to contest the results of the public auction, for which a court has subsequently made a judgment to refuse the stated claims (Note 26(b)).

Following the adoption of ASC No. 810 the non-controlling interest in consolidated subsidiaries was attributed its share of losses which resulted in a deficit in the non-controlling interest position (i.e., the net assets of partially owned subsidiaries attributed to the non-controlling interest stake were in a deficit position). The Group evaluated that, for the year ended December 31, 2009, consolidated net income attributable to the Parent Company would have been \$111,078 and basic net income per share of common stock would have been \$0.0185 dollars had the requirements prior to the adoption of ASC No. 810 been applied.

15. STOCKHOLDERS' EQUITY

A. STOCK

As at December 31, 2009, 2008 and 2007, 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. As at December 31, 2009, 2008 and 2007, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$8,154,649, \$7,551,800 and \$6,972,850, converted into US dollars using exchange rates at December 31, 2009, 2008 and 2007, 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.

No dividends were declared by the Parent Company for the year ended December 31, 2009.

In June 2009, the Parent Company declared dividends for the year ended December 31, 2008 of 2 Russian rubles per share for the total of \$471,338 (at the historical rate), including interim dividends for the six months ended June 30, 2008 of 2 Russian rubles per share, declared in September 2008. Dividends payable amounted to \$2,574 at December 31, 2009 (Note 10).

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. Dividends payable amounted to \$4,859 at December 31, 2008 (Note 10).

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 amounted to \$4,877 at December 31, 2007 (Note 10).

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.

## 16. DISPOSALS OF ASSETS

### A. DISPOSAL OF TMTP GROUP

In December 2008, the Parent Company reached an agreement to sell, to an entity under common control, its full controlling share (69.41%) in OJSC TMTP and its subsidiaries (TMTP) for a total consideration of \$258,182 (as at the date of payment). The transaction was closed in January 2009. An after-tax gain on this transaction of \$85,345 was recognized by the Group, and included within the «Disposal of assets to an entity under common control» line in the consolidated statements of stockholders' equity and comprehensive income for the year ended December 31, 2009.

Management of the Group plans to continue to use the shipping services provided by TMTP. Accordingly, operations of TMTP until the date of disposal in these consolidated financial statements are reflected within continuing operations of the Group within other segments.

The carrying amounts of the major classes of assets and liabilities of TMTP as at the date of disposal are as follows (in relation to the 100% stake):

Current assets	37,329
Non-current assets, including goodwill	<u>182,558</u>
<b>Total assets</b>	<b><u>219,887</u></b>
Current liabilities	(12,676)
Non-current liabilities	<u>(5,254)</u>
<b>Total liabilities</b>	<b><u>(17,930)</u></b>
<b>Net assets</b>	<b><u>201,957</u></b>

Information on TMTP's transactions for January 2009 is as follows:

Sales revenue	6,006
Net income	<u>2,976</u>

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors in February 2006, the interest in OJSC TMTP and its subsidiaries was classified as a non-core asset.

### B. DISPOSAL OF A SUBSIDIARY BANK

In June 2007, the Group completed the sale, to a related party (OJSC Bank Zenit) (Note 25(c)), 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 recognized 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):

Current assets	509,508
Non-current assets	<u>86,031</u>
<b>Total assets</b>	<b><u>595,539</u></b>
Current liabilities	(507,642)
Non-current liabilities	<u>(44,759)</u>
<b>Total liabilities</b>	<b><u>(552,401)</u></b>
<b>Net assets</b>	<b><u>43,138</u></b>

Information on OJSC Lipetskcombank transactions, for the period from January 1, 2007 to June 29, 2007 is as follows:

Income	33,823
Net loss	<u>(237)</u>

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 PROKOPYEVSKUGOL 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 Prokopyevskugol group, for one US dollar. A pre-tax gain on this transaction of \$57,577 was recognized 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 Prokopyevskugol 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 Prokopyevskugol 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 Prokopyevskugol 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 recognized by the Group, and included within the «Other expenses, net» line.

The carrying amounts of the major classes of assets and liabilities of Prokopyevskugol group companies at April 2, 2007 were as follows (in relation to 100% stake):

Current assets	44,364
Non-current assets	114,401
<b>Total assets</b>	<b>158,765</b>
Current liabilities	(40,947)
Non-current liabilities	(175,395)
<b>Total liabilities</b>	<b>(216,342)</b>
<b>Negative net assets</b>	<b>(57,577)</b>

Information on the Prokopyevskugol group companies' transactions, before intercompany eliminations, for the period from January 1, 2007 to April 2, 2007 is as follows:

Sales revenue	37,865
Net income (including gain, less tax, on entire waiving by a third party of the right to claim the loan totaled \$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 non-controlling 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):

Current assets	22,663
Non-current assets	7,067
<b>Total assets</b>	<b>29,730</b>
Current liabilities	(18,058)
<b>Total liabilities</b>	<b>(18,058)</b>
<b>Net assets</b>	<b>11,672</b>

Information on LLC Lipetskaya municipal energy company and its subsidiary transactions, for the two months ended February 28, 2007 is as follows:

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.

## 17. EARNINGS PER SHARE

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	215,055	2,278,741	2,247,283
<b>Basic and diluted net income per share (US dollars)</b>	<b>0.0359</b>	<b>0.3802</b>	<b>0.3750</b>

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, 2009, 2008 and 2007.

The Parent Company does not have potentially dilutive shares outstanding.

## 18. INCOME TAX

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Current income tax expense	147,341	962,920	799,078
Deferred income tax expense / (benefit): origination and reversal of temporary differences	34,443	(259,446)	37,925
<b>Total income tax expense</b>	<b>181,784</b>	<b>703,474</b>	<b>837,003</b>

The corporate income tax rate applicable to the Group is predominantly 20%, prior to January 1, 2009 it was 24%.

In 2009, the Group recognized a net consolidated income tax expense of \$181,784. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current taxable profits and tax liabilities of other Group companies and, accordingly, net taxes may accrue even where there is a consolidated tax loss. Included in the income tax expense in 2009, is \$127,950 of income tax benefits related to the tax losses of certain subsidiaries of the Group. The Group's management believes there is positive evidence to support the realizability of the deferred income tax assets.

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

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Income from continuing operations before income tax	594,739	3,131,697	3,156,827
Income tax at applicable tax rate	118,948	751,607	757,638
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 unrecognized tax assets	62,836	94,114	79,365
<b>Total income tax expense</b>	<b>181,784</b>	<b>703,474</b>	<b>837,003</b>

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

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
<i>Deferred tax assets</i>			
Accounts payable and other liabilities	75,296	108,433	23,160
Non-current liabilities	33,940	30,615	64,367
Accounts receivable	11,334	17,254	5,349
Net operating loss and credit carryforwards (expiring in 2011-2029)	171,183	–	–
Other	–	11,439	2,881
Less: valuation allowance	(41,566)	–	–
	<u>250,187</u>	<u>167,741</u>	<u>95,757</u>
<i>Deferred tax liabilities</i>			
Property, plant and equipment	(514,911)	(399,681)	(507,459)
Intangible assets	(26,375)	(28,099)	(46,788)
Inventories	(6,777)	(27,016)	(21,338)
Other	(16,467)	(9,820)	(105,739)
	<u>(564,530)</u>	<u>(464,616)</u>	<u>(681,324)</u>
<b>Total deferred tax liability</b>	<b><u>(314,343)</u></b>	<b><u>(296,875)</u></b>	<b><u>(585,567)</u></b>

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group established a valuation allowance against certain deferred tax assets. The Group regularly reevaluates assumptions underlying its assessment of the realizability of its deferred tax assets and makes adjustments to the extent necessary.

19. CAPITAL AND OPERATIONAL LEASES

	Capital leases
<i>Future minimum lease payments</i>	
2010	74,362
2011	59,524
2012	53,814
2013	42,339
2014	37,179
Remainder	45,745
<b>Total minimum lease payments</b>	<b><u>312,963</u></b>
Less: amount representing estimated executory costs (including taxes payable by the lessor) and profit thereon, included in total minimum lease payments	(16,540)
<b>Net lease payments</b>	<b><u>296,423</u></b>
Less: amount representing interest	(77,086)
<b>Present value of minimum lease payments</b>	<b><u>219,337</u></b>
Short-term capital lease liability, including advances given	(47,907)
Less: advances given	17,524
Short-term capital lease liability	<u>(30,383)</u>
Long-term capital lease liability, including advances given	171,430
Less: advances given	(33,838)
<b>Long-term capital lease liability</b>	<b><u>137,592</u></b>

The average capital lease contracts term is 6 years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2009, 2008 and 2007 varied from 10.5% to 13.5%.

Capital lease charges of \$23,179, \$12,867 and \$6,333 were recorded in the consolidated statement of income for the years ended December 31, 2009, 2008 and 2007, respectively.

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2009 were acquired by the Group through a business combination (Note 22(c)) or are owned by the Group company providing the transportation services.

At December 31, 2009, 2008 and 2007, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Machinery and equipment	120,004	139,643	323,126
Vehicles	<u>208,200</u>	<u>170,891</u>	<u>134,065</u>
	328,204	310,534	457,191
Accumulated depreciation	(57,282)	(44,501)	(39,432)
<b>Net book value of property, plant and equipment obtained under capital lease arrangements</b>	<b><u>270,922</u></b>	<b><u>266,033</u></b>	<b><u>417,759</u></b>

The Group incurred expenses in respect of operational leases of \$3,408, \$2,582 and \$11,251 in 2009, 2008 and 2007, respectively.



20. NON-CASH TRANSACTIONS

Approximately \$57,500, \$86,800 and \$74,000 of the Group’s 2009, 2008 and 2007 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 2009, 2008 and 2007 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, 2009, 2008 and 2007, were \$83,186, \$107,793 and \$448,731, respectively.

21. 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 13), 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.

22. 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 was \$190,442. The remaining amount of the purchase price totaled \$161,023 was paid to certain banks as repayments of Beta Steel Corp.’s loans in accordance with the 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 following table summarizes 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:

Current assets	60,356
Intangible assets	15,900
Property, plant and equipment	301,591
Other non-current assets	36
Goodwill	35,727
<b>Total assets acquired</b>	<b>413,610</b>
Current liabilities	(52,075)
Non-current liabilities	(269)
Deferred income tax liability	(9,801)
<b>Total liabilities assumed</b>	<b>(62,145)</b>
<b>Net assets acquired</b>	<b>351,465</b>
Less: cash acquired	(3,308)
<b>Net assets acquired, net of cash acquired</b>	<b>348,157</b>

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 Ltd. (Cyprus) 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 24(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, the 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 summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with ASC No. 805. Property, plant and equipment and intangible assets were recorded at fair values:

Current assets	866,137
Intangible assets	89,910
Other non-current assets	109
Goodwill	2,055
<b>Total assets acquired</b>	<b>958,211</b>
Current liabilities	(838,276)
<b>Total liabilities assumed</b>	<b>(838,276)</b>
<b>Net assets acquired</b>	<b>119,935</b>
Less: cash acquired	(417,840)
<b>Net assets acquired, net of cash acquired</b>	<b>(297,905)</b>

The revenues and net income of Novex Trading (Swiss) S.A. and Novexco Ltd. (Cyprus) 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 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 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 10). 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 finalization of the corresponding price adjustment.

Considering that the one-year deadline to settle the purchase price allocation passed in December 2008, the Group's management prepared its best estimate of the Maxi-Group shares purchase price as at this date of \$299,088 (as at the date of transfer of the ownership). Thereafter, as stipulated by the binding agreement, the Parent company carried out due diligence of Maxi-Group, based on which it calculated a downward adjustment to the purchase price and in December 2009 requested the seller to return the overpaid amount.

The purchase price negotiation has not been finalized and as the parties failed to reach an agreement, they applied to the International Commercial Arbitration Court by the Chamber of Commerce and Industry of the Russian Federation (hereinafter, ICA Court), which under the terms of the binding agreement was determined as the party to be applied to for the purpose of settlement of any differences regarding the purchase price (Note 26(b)).

The acquired companies were consolidated for the first time as at the transfer of the ownership date of 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.

The Group completed the best estimated purchase price allocation determined as at the date of one-year deadline to finalise the 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 summarizes 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:

Current assets	561,301
Property, plant and equipment	1,936,953
Other non-current assets	531
Goodwill	281,183
<b>Total assets acquired</b>	<b>2,779,968</b>
Current liabilities	(1,154,228)
Non-current liabilities	(1,277,623)
Deferred income tax liability	(29,729)
<b>Total liabilities assumed</b>	<b>(2,461,580)</b>
Non-controlling interest	(19,300)
<b>Net assets acquired</b>	<b>299,088</b>
Less: cash acquired	(25,047)
<b>Net assets acquired, net of cash acquired</b>	<b>274,041</b>

D. 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 9(a)).

23. SEGMENTAL INFORMATION

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 (Note 16(a)), insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The amount of investments in equity method investee and equity in net losses of associates are included in steel segment (Note 5(a)). Rendering banking services and operations on coal mining and refining were ceased in the first half of 2007.

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

Segmental information for the year ended December 31, 2009 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	5,305,187	572,476	84,997	171,963	5,272	6,139,895	–	6,139,895
Intersegment revenue	98,911	309,984	430,457	330,286	41	1,169,679	(1,169,679)	–
Depreciation and amortization	(293,106)	(72,504)	(81,232)	(30,475)	(800)	(478,117)	–	(478,117)
<b>Gross profit</b>	<b>1,587,058</b>	<b>51,844</b>	<b>216,904</b>	<b>100,362</b>	<b>2,330</b>	<b>1,958,498</b>	<b>31,035</b>	<b>1,989,533</b>
<b>Operating income / (loss)</b>	<b>785,032</b>	<b>(141,753)</b>	<b>159,780</b>	<b>60,394</b>	<b>1,410</b>	<b>864,863</b>	<b>27,058</b>	<b>891,921</b>
Interest income	183,933	2,797	11,802	329	1,196	200,057	(140,324)	59,733
Interest expense	(83,621)	(226,598)	(33)	(973)	(4)	(311,229)	140,324	(170,905)
Income tax	(148,326)	21,612	(27,346)	(18,021)	(806)	(172,887)	(8,897)	(181,784)
<b>Income / (loss) from continuing operations, net of income tax</b>	<b>1,239,668</b>	<b>(400,638)</b>	<b>140,376</b>	<b>40,361</b>	<b>2,454</b>	<b>1,022,221</b>	<b>(609,266)</b>	<b>412,955</b>
Segment assets, including goodwill	10,543,461	2,104,795	1,000,955	752,724	41,729	14,443,664	(1,941,720)	12,501,944
Capital expenditures	(857,859)	(180,828)	(79,718)	(2,322)	(50)	(1,120,777)	–	(1,120,777)

Segmental information for the year ended December 31, 2008 is as follows:

	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 amortization	(285,171)	(81,279)	(77,494)	(40,353)	(14,697)	(498,994)	–	(498,994)
<b>Gross profit</b>	<b>4,039,891</b>	<b>532,428</b>	<b>611,798</b>	<b>202,639</b>	<b>41,551</b>	<b>5,428,307</b>	<b>(37,420)</b>	<b>5,390,887</b>
<b>Operating income</b>	<b>3,227,065</b>	<b>177,421</b>	<b>548,473</b>	<b>88,364</b>	<b>31,278</b>	<b>4,072,601</b>	<b>(11,281)</b>	<b>4,061,320</b>
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)
<b>Income / (loss) from continuing operations, net of income tax</b>	<b>2,820,445</b>	<b>(206,813)</b>	<b>485,025</b>	<b>84,965</b>	<b>21,793</b>	<b>3,205,415</b>	<b>(777,192)</b>	<b>2,428,223</b>
Segment assets, including goodwill	10,319,824	2,253,124	1,400,030	1,022,413	187,861	15,183,252	(1,118,724)	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:

	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 amortization	(265,335)	(4,177)	(80,306)	(40,460)	(17,421)	(407,699)	–	(407,699)
<b>Gross profit</b>	<b>2,891,787</b>	<b>8,792</b>	<b>588,204</b>	<b>205,744</b>	<b>48,583</b>	<b>3,743,110</b>	<b>(1,079)</b>	<b>3,742,031</b>
<b>Operating income</b>	<b>2,362,820</b>	<b>1,555</b>	<b>523,245</b>	<b>113,563</b>	<b>4,744</b>	<b>3,005,927</b>	<b>(7,556)</b>	<b>2,998,371</b>
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)
<b>Income / (loss) from continuing operations, net of income tax</b>	<b>1,772,543</b>	<b>(31,752)</b>	<b>443,108</b>	<b>78,769</b>	<b>155,582</b>	<b>2,418,250</b>	<b>(98,426)</b>	<b>2,319,824</b>
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)

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 24(c)) and the Group, for goods sold, and also based on the country of the customers' registration for services provided. The Group's total revenue from external customers by geographical area for the years ended December 31, 2009, 2008 and 2007, is as follows:

	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Russia	2,280,492	4,560,896	2,903,267
European Union	847,098	2,045,622	1,542,051
Middle East, including Turkey	1,301,566	1,952,551	1,122,438
North America	300,536	714,511	304,871
Asia and Oceania	1,225,460	1,785,518	995,709
Other regions	184,743	639,563	850,725
	<b>6,139,895</b>	<b>11,698,661</b>	<b>7,719,061</b>

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

## 24. 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 had been a significant decline in the Russian Federation stock market since mid-2008, which has only partially been recovered.

The effects of the global financial crisis continued to have a severe effect on the Russian economy in 2009, including lower income from exports, lower domestic demand and steep increase in financing costs.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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, the 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.

The lower liquidity situation led to a reduction in demand for steel from ultimate customers and had a negative impact on debtors' ability to repay their debts on a timely basis.

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 realize profitably 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. Commencing in September 2008, the volatility in currency markets increased and in the fourth quarter of 2008 and the first quarter of 2009 the exchange rate of the Russian ruble to the US dollar substantially decreased. Subsequently, there has been a substantial recovery in the value of the Russian ruble.

B. COMMERCIAL RISKS

The Group minimizes 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.

The Group's sales outside the Russian Federation in monetary terms for the years ended December 31, 2009, 2008 and 2007 were 63%, 61% and 62% 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.

Before May 2008 the Group used to sell to three international traders that accounted for the majority of its sales outside Russia (Note 22(b)). 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. 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 1.02% of the share capital of the Parent Company was held by a company beneficially owned by the shareholders of these traders.

In 2007, Novexco Ltd. (Cyprus) 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 abovementioned companies were transferred to the acquirers. In May 2008, the Group acquired 100% of the shares in trading companies Novexco Ltd. (Cyprus) and Novex Trading (Swiss) S.A. and consolidated them (Note 22(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 minimize earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2009 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	853,556	88,414	16,640
Accounts receivable and advances given	159,816	439,983	5,744
Investments	50,000	371,820	-
Accounts payable and other liabilities	(185,321)	(101,034)	(3,781)
Short-term borrowings	(419,355)	(3,986)	-
Long-term borrowings	(1,106,580)	(59,500)	-



25. RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at December 31, 2009, 2008 and 2007 and transactions for the years ended December 31, 2009, 2008 and 2007 with related parties of the Group consist of the following:

A. SALES TO AND PURCHASES FROM RELATED PARTIES

Sales

Sales to an associate (SIF S.A.) and one of its subsidiaries were \$483,546, \$543,682 and \$185,009 for the years ended December 31, 2009, 2008 and 2007, respectively. Sales to other related parties were \$6,802, \$24,074 and \$7,358 for the years ended December 31, 2009, 2008 and 2007, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled \$145,243, \$193,875 and \$18,953 as at December 31, 2009, 2008 and 2007, respectively. Accounts receivable from other related parties equaled \$690, \$4,390 and \$1,993 as at December 31, 2009, 2008 and 2007, respectively.

Purchases and services

Purchases from subsidiary of an associate (SIF S.A.) were \$74,193 for the year ended December 31, 2008. There were no such purchases for the years ended December 31, 2009 and 2007. Purchases from the companies under common control, were \$6,683, \$8,063 and \$7,151 for the years ended December 31, 2009, 2008 and 2007, respectively.

Accounts payable to subsidiary of an associate (SIF S.A.) were nil and \$62,990 as at December 31, 2009 and 2008, respectively. Accounts payable to the related parties were \$117, \$18,154 and \$27,958 as at December 31, 2009, 2008 and 2007, 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. In 2009 this loan was prolonged untill December 2018. In 2009, the Parent Company issued additional loans of 259 million Euro and 50 million US dollars to SIF S.A. and its subsidiary, maturing in 2010. The carrying amount of these loans, including interest accrued, is \$589,542, \$155,648 and \$151,473 as at December 31, 2009, 2008 and 2007, respectively.

As at December 31, 2009, 2008 and 2007, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to \$201,942, \$55,693 and nil, respectively. These guarantees are mostly issued in favor of banks.

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 \$108,722, \$69,515 and \$257,615 as at December 31, 2009, 2008 and 2007, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2009, 2008 and 2007 amounted to \$1,899, \$388 and \$9,341, respectively.

The Group granted interest free loans to management in the total amount of nil, \$250 and nil for the years ended December 31, 2009, 2008 and 2007, respectively. The aggregate amount of interest free loans granted to management outstanding as at December 31, 2009, 2008 and 2007 was \$132, \$204 and \$151, 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, 2009, 2008 and 2007 amounted to nil, \$2,746 and \$42, respectively (Note 22).

C. 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 16(a)) and completed the disposal in January 2009.

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 16(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.

D. CONTRIBUTIONS TO NON-GOVERNMENTAL PENSION FUND AND CHARITY FUND

Total contributions to a non-governmental pension fund and charity fund amounted to \$3,349, \$4,786 and \$12,363 in 2009, 2008 and 2007, respectively. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

E. 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, equaled \$1,811, \$7,397 and \$37,116 as at December 31, 2009, 2008 and 2007, respectively.

Accounts payable

Accounts payable, including accounts payable from the related parties of OJSC Maxi-Group acquired in a business combination, were \$32,897, \$35,959 and \$64,808 as at December 31, 2009, 2008 and 2007, respectively.

Financial settlements

Short-term loans issued amounted to \$139, \$2,715 and \$4,093 as at December 31, 2009, 2008 and 2007, respectively.

As at December 31, 2009, 2008 and 2007, loans of nil, \$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 amounted to \$86, \$446 and \$23,406 as at December 31, 2009, 2008 and 2007, respectively.

## F. OUTSTANDING BALANCES WITH NON-CONTROLLING SHAREHOLDER OF MAXI-GROUP

Short-term loans received from the non-controlling shareholder of Maxi-Group amounted to \$53,529 and \$48,463 as at December 31, 2009 and 2008, respectively.

As at December 31, 2007, the Group had preliminary estimated accounts payable of \$555,578, to non-controlling 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 10).

## 26. 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

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

In July 2009 the Parent Company and OJSC Maxi-Group received a claim filed in a court in Russia from the Maxi-Group's non-controlling shareholder to invalidate and reverse the results of the public auction through which NLMK acquired shares in companies, controlled by Maxi-Group (Note 14). Subsequently in November 2009 a Russian court of the first instance adjudicated against the claim from the Maxi-Group's non-controlling shareholder and an appellate court upheld this decision. Accordingly, no adjustments in relation to this claim were made in these consolidated financial statements.

In January 2010 the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group filed with the ICA Court to enforce the additional payment by the Parent Company for the shares of OJSC Maxi-Group in accordance with the binding agreement. This claim is based on the non-controlling shareholder's interpretation of the binding agreement. In February 2010, as a result of due diligence of Maxi-Group entities, the Parent Company filed a counter-claim to ICA Court seeking collection from the non-controlling shareholder of OJSC Maxi-Group of excessively paid amounts for the acquired shares. Management of the Group believes that the probability of an unfavourable outcome for the Group in relation to the non-controlling shareholder's claim is remote. No adjustments related to these claims were made in these consolidated financial statements.

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 alleged that NLMK breached the terms of the Merger Agreement and sought 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.

In March 2009, NLMK and DBO Holdings Inc. signed a settlement agreement with respect to their dispute concerning NLMK's abandoned acquisition of John Maneely Company, which provided for the full mutual release and discharge by the parties arising from the potential transaction and payment to DBO Holdings Inc. an amount of \$234 million. This amount was fully paid to DBO Holdings Inc. in March 2009.

### C. ENVIRONMENTAL MATTERS

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be 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 minimize 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 \$1,678,660, \$1,510,813 and \$1,635,623 as at December 31, 2009, 2008 and 2007, respectively.

### F. SOCIAL COMMITMENTS

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

### 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, 2009, 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.

**H. FINANCIAL GUARANTEES ISSUED**

As at December 31, 2009, 2008 and 2007, the Group has issued guarantees amounting to \$214,148, \$67,058 and \$118,619, respectively, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 25(b)). No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

**27. SUBSEQUENT EVENTS**

In January 2010 the Parent Company received a copy of a claim filed by the Maxi-Group's non-controlling shareholder (Note 26(b)).

In March 2010 the Parent Company issued bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 10 billion Russian rubles), with a maturity period of 1092 days and a coupon rate of 7.75% per annum.

In March 2010 Board of Directors of the Parent Company approved a decision to issue bonds with a total value of 50 billion Russian rubles and a maturity period of 10 years.

The Group has performed an evaluation of subsequent events through the date of approval of the consolidated financial statements which is also the date that they are available to be issued.



### THIN AS HAIR

NLMK launched a Hot-Dip Galvanizing Line that is the first in Russia to produce ultra-thin HDG sheets 0.22–0.80 mm thick — only 4 times thicker than a human hair!

› INNOVATION  
IN STEEL



### ULTRA HIGH QUALITY

The new steel is compliant with all the modern global quality requirements in construction and the manufacture of white goods.



### NEW TRENDS IN CONSTRUCTION

The construction industry is becoming less metal-intensive through the use of stronger and thinner steel grades. For instance, replacing HDG sheets 0.30 mm thick by NLMK's new steel 0.25 mm thick for wire winding reduces the product's metal-intensity by 16%.

## ULTRA THIN STEEL

› RUSSIA'S FIRST

2010





INNOVATION IN STEEL

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