



## P. 10



We offer high quality products that are both visibly and invisibly omnipresent in our everyday lives. See pages 10–15 for details.

## P. 20



2010 has been a successful year for the Company with record steel outputs translating into a 36% boost in revenue. See pages 20–21 for details.

### VISIT US ONLINE

Our online report is available at [www.ara2010.nlmk.com](http://www.ara2010.nlmk.com). For more detailed information please visit our corporate website at [www.nlmk.com](http://www.nlmk.com)



### Understanding NLMK

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# NLMK IS ONE OF THE LEADERS OF THE GLOBAL STEEL INDUSTRY AND ONE OF RUSSIA'S LARGEST STEEL MANUFACTURERS. COMPANY PRODUCTION ASSETS ARE LOCATED IN RUSSIA, THE UNITED STATES AND THE EUROPEAN UNION.

## Business philosophy

NLMK transforms ideas and resources into steel products. We source ideas from our employees, customers and business partners. We aim to control the resources that we need, utilizing and reusing them safely and responsibly. We produce clean and durable steel that is used in thousands of applications that improve our everyday lives.

## Company overview

The Group's core business is the manufacturing and sale of steel and steel products. In 2010 we exported our products to about 70 countries around the world. The bulk of our products (68%) were shipped to overseas destinations.

In addition to steelmaking and rolling companies, the Group comprises raw materials assets (mining, coke-chemical and scrap collecting businesses), as well as businesses that support the Group's marketing operations.

NLMK is a vertically integrated group overseeing the complete production and marketing cycle, from mining of raw materials to delivery of products to final consumers. NLMK enjoys an advantageous geographical position, with production sites located in regions with extensive transportation infrastructure: we have convenient access to the Black Sea and Baltic Sea ports, from where our products are shipped overseas. In addition, iron ore deposits are situated in close proximity to our main production site. Most of our domestic customers are located within 1,000 kilometers of our main production site in Lipetsk, helping to streamline company logistics.

# A YEAR OF STRONG RESULTS

We have delivered another strong set of results in the face of significant challenges, providing clear evidence of the strength of the business and its ability to react quickly to the volatile market environment.

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## OPERATING HIGHLIGHTS

- Our EBITDA margin reached 28%
- Consolidated revenues amounted to USD8.4 billion
- During the five-year cycle the average EBITDA margin was around 36%

11.7mt  
+11%  
STEEL PRODUCT SALES

## A YEAR OF RECORD PRODUCTION RESULTS

- 11.5 mt – (+9%) – a record crude steel output
- USD318/t – one of the lowest cash costs for crude steel production globally
- NLMK continues implementing its large-scale investment programme
- Sustainable financial standing supported by excellent operational performance

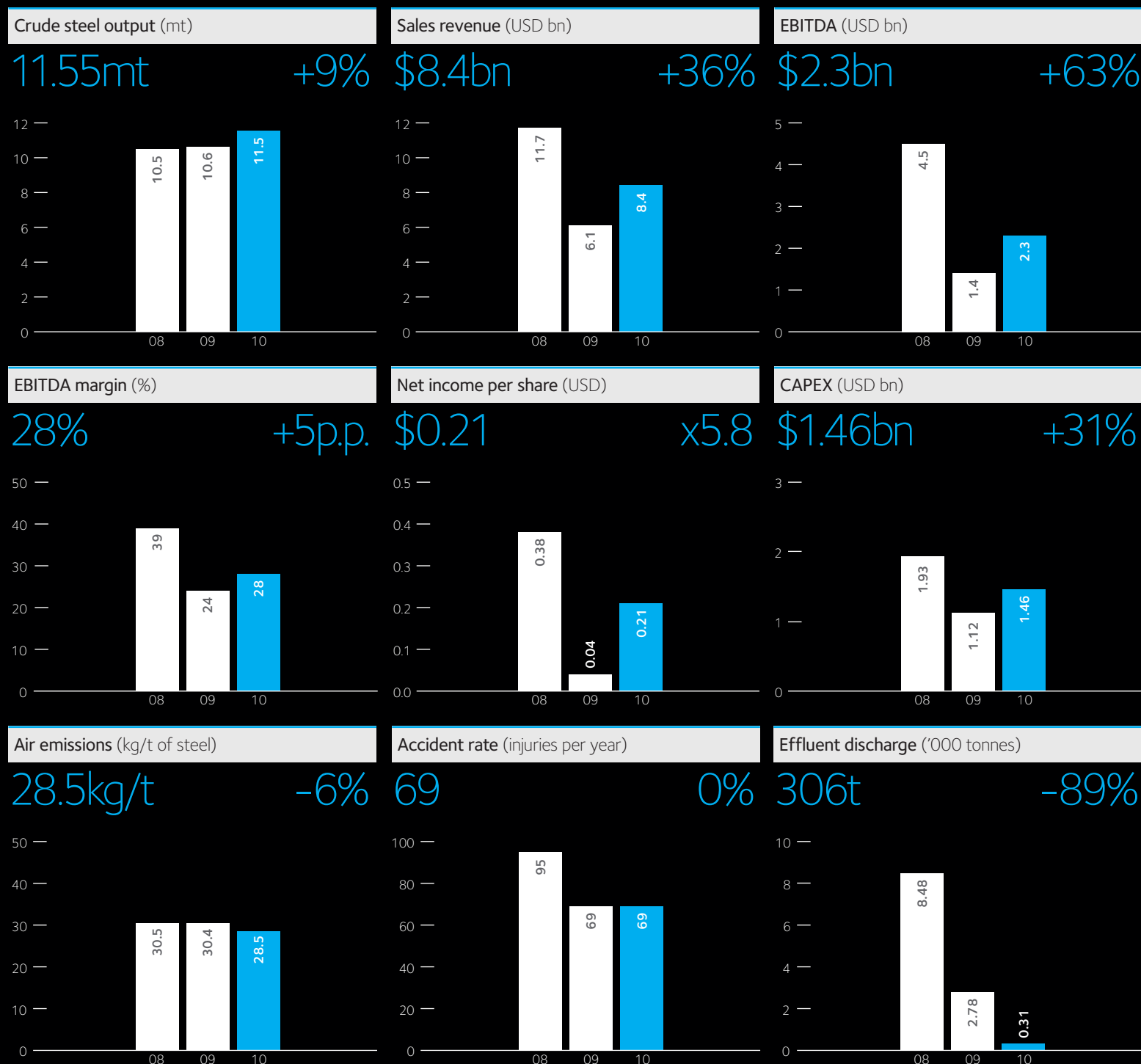
## COMMITTED TO OPERATING RESPONSIBLY

- Growth in productivity resulting from modernization
- Water supply system upgrade to significantly cut effluent discharge
- Continuing decline in air emissions per tonne of steel produced (more on page 59)

\$1.5 bn  
+31%  
CAPEX



## GROUP HIGHLIGHTS



# CREATING VALUE THROUGH VERTICAL INTEGRATION

NLMK is a vertically integrated Group controlling the entire steel production and sales chain, from the mining of raw materials, to delivering finished rolled-steel products to end-users.

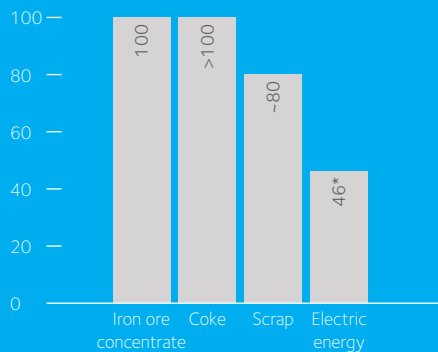
## OVERVIEW

The Group's optimal structure, wide product range, flexible sales policy and modern production facilities help minimize the impact of negative market trends and ensure strong financial performance.

### MAINTAINING A HIGH LEVEL OF VERTICAL INTEGRATION ALLOWS US TO:

- Ensure the ongoing supply of high-quality, low-cost raw materials, which allows us to maintain high levels of self-sufficiency and satisfy growing internal demands driven by increasing steel production capacities;
- Cushion our production plants from the excesses of raw material price fluctuations;
- Pursue energy efficiency gains through increased self-sufficiency and modern technologies;
- Enjoy high levels of diversification in our products and markets increasing the share of high value-added products; and
- Exploit the benefits (including reduced transport costs) of locating steel-processing facilities near our key markets.

2010 raw materials self-sufficiency (%)



\* Data for the parent company – Novolipetsk.

### NLMK today

Our business model exploits high levels of self-sufficiency in all areas of the steel production process from mining to the finished rolled steel products. This gives us control over the supply of high-quality, low-cost raw materials, as well as a degree of energy self-sufficiency, which provides some protection against volatility in energy market costs and supply.

### Potential for growth

NLMK has licenses to develop coking coal deposits at Zhernovskoe-1, Zhernovski Gluboki in the Kemerovo region, Western Siberia, and Usinsky-3 in the Komi Republic, North-West Russia. Total reserves are estimated at 463 million tonnes. Development of the two plots – Zhernovski Gluboki and Zhernovski-1 – is planned in a single scheme. Design activities are currently under way. As soon as they are completed, construction will begin. The Group anticipates projects to be finalized in 2016-2018.

-40%

ON-SITE ENERGY GENERATION COSTS ARE 40% LOWER COMPARED TO ENERGY BOUGHT IN THE MARKET (LIPETSK PRODUCTION SITE)

100%

SELF-SUFFICIENCY IN RELEVANT GRADES OF COAL (Zh, 2Zh, GZh AND KZH GRADES ACCORDING TO RUSSIAN STANDARDS) WILL BE ATTAINED IN 2018

## VERTICAL INTEGRATION – UPSTREAM

Iron ore raw materials (comprising concentrate and pellets), coke (used in the blast furnaces) and ferrous scrap metal, and energy are upstream essentials.

### MINING

#### Iron ore:

- The Group is fully self-sufficient in iron ore concentrate and sinter ore produced in Stoilensky.
- Current expansion to mining and ore dressing capacities will increase overall self-sufficiency from 86% to 100%.

#### Coke and coking coal:

- Altai-Koks and the coke batteries at the Lipetsk site cover more than 100% of the Group's requirement in metallurgical coke.
- Development of green-field deposits to increase self-sufficiency in coking coal.

#### Scrap metal:

- Scrap processing businesses, which are part of our Long Products Division, provide about 80% of the ferrous scrap required by our Russian steelmaking assets.
- More than 200 scrap collecting sites across Russia ensure a stable supply to the steel production facilities at NSMMZ and Novolipetsk.

### FREIGHT

- Our main steel production site is close to part of our mining operation, allowing us to minimize transportation costs.

### ENERGY

- Altai-Koks operates an on-site electricity generation station, powered by coke gas released during the production of coke.
- Excess electricity from Altai-Koks is sold to third-party consumers.

#### Electric energy

- In-house generation capacity at Novolipetsk provides 46% of the plant's electricity needs.
- An electricity generation station currently under construction at Lipetsk will be powered by waste gas and will provide 55% of the site's energy needs.

This is the process of mining and producing the raw materials needed for production of crude steel.



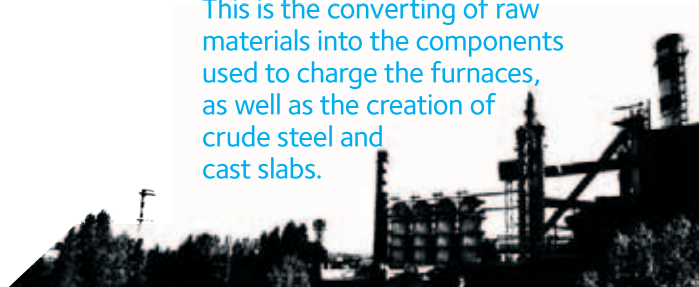
## MIDSTREAM

The bulk of the Group's steelmaking capacity is concentrated in Russia, owing to low production costs, the raw material base and relatively low cost of energy and labor. Other assets are located in the US.

### PRODUCTION

- The Group employs a variety of steelmaking methods: EAF at NLMK Long Products and NLMK Indiana; and BOF at Novolipetsk.
- Variety enables us to benefit from significant flexibility in the production process and allows us to respond quickly to market volatility, as was demonstrated during the market crisis of 2008–2009.

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



## DOWNSTREAM

Geographical and product mix diversification reduces the risks associated with dependency on any one market, and helps us to streamline our logistics operations. The bulk of the Group's rolling capacity is currently located in Russia, where most of the rolled products are marketed.

### PRODUCTION

#### Steel-rolling facilities: Russia

- Novolipetsk (4.8 million tonnes rolled in 2010).
- VIZ-Stal (0.2 million tonnes rolled in 2010).
- Long Products Division (1.2 million tonnes rolled in 2010).

#### Steel-rolling facilities: EU

- DanSteel (0.4 million tonnes rolled in 2010).

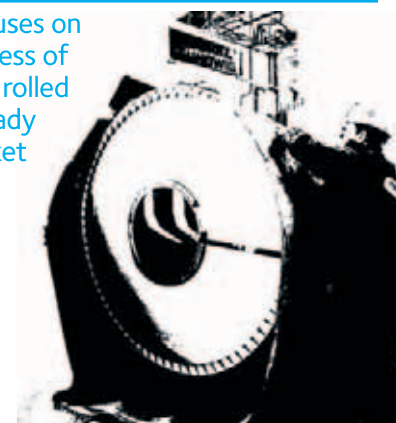
#### Steel-rolling facilities: USA

- NLMK Indiana (0.6 million tonnes rolled in 2010).

#### SIF re-rolling capacity

- Slabs from our main site are re-rolled at Steel Invest and Finance, a joint venture with Duferco (facilities are also located in the European Union and the US).
- The re-rolling of semi-finished products makes us less dependent on developments in the slab and billet markets and mitigates against prices which can be more volatile for semi-finished than finished products.

This focuses on the process of creating rolled steel, ready for market sale.



# SEGMENTS SPANNING VIRTUALLY ALL OF OUR VALUE CHAIN

With operations spanning mining, steelmaking and rolling which are all favourably located, NLMK is one of the most profitable steel producers globally.

## FLAT STEEL

The main production site for BOF steel and flat steel is located in Lipetsk. NLMK Indiana is the overseas asset for steel and flat steel manufacturing. Other businesses within this segment produce only flat steel, with the bulk of re-rolling stock supplied by NLMK Group businesses.

### CORE BUSINESSES

<b>NOVOLIPETSK</b> Crude steel and flats production	<b>NLMK INDIANA (USA)</b> Steel and hot-rolled production
<b>VIZ-STAL</b> Electrical steel production	<b>STEEL INVEST AND FINANCE*</b> Flats production (incl. thick plates)
<b>DANSTEEL A/S (Denmark)</b> Plates production	

### MARKETS

<b>21%</b> of the Russian cold-rolled steel market	<b>14%</b> of the global slab market	<b>21%</b> of the Russian pre-painted steel market and 23% of the galvanized steel market
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### KEY PRODUCTS

Slabs	Pre-painted steel
HR steel	Dynamo steel
CR steel	Transformer steel
Galvanized steel	

### PRODUCTION HIGHLIGHTS

<b>9.8 million</b> tonnes of crude steel produced by Novolipetsk + NLMK Indiana (+11% year-on-year)	<b>5.7 million</b> tonnes of flats (+14% year-on-year)
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### CASH COST

Consolidated cash cost per tonne of steel produced at Novolipetsk – USD318 per tonne

### PERSONNEL

c. 32,700

## LONG STEEL

The Long Steel Division deals with scrap collection, EAF steel production and manufacturing of various types of long products.

### CORE BUSINESSES

<b>NSMMZ</b> Steel and long product production	<b>KNPEMZ***</b> Steel and long product production
<b>UZPS</b> Metalware production	Scrap collecting capacities A network of scrap collection and processing facilities

### MARKETS

<b>10%</b> of the Russian long steel market
--

### KEY PRODUCTS

Scrap	Wire rod
Billet	Metalware
Rebar	

### PRODUCTION HIGHLIGHTS

<b>1.9 million</b> tonnes of scrap processed	<b>1.7 million</b> tonnes of crude steel	<b>1.4 million</b> tonnes of long steel products and metalware
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### CASH COST

Steel production cash cost – USD401 per tonne

### PERSONNEL

c. 11,500

## MINING

Mining is an important line of business for NLMK. The group is 100% self-sufficient in iron ore concentrate and fluxing materials.

### CORE BUSINESSES

<b>STOILENSKY</b> Iron ore production	<b>DOLOMIT</b> Dolomite production
<b>STAGDOK</b> Limestone production	

### MARKETS

<b>23%</b> of the Russian iron ore concentrate production
--

### KEY PRODUCTS

Iron ore concentrate	Limestone
Sinter ore	Dolomite

### PRODUCTION HIGHLIGHTS

<b>13.8 million</b> tonnes of iron ore concentrate and sinter ore (+10% year-on-year)
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### CASH COST

Iron ore concentrate cash cost – USD18 per tonne

### PERSONNEL

c. 7,700

## COKE PRODUCTION

Coke and chemical production is represented at the Altai-Koks site, as well as at the Group's main production site in Lipetsk. These facilities make NLMK Group more than 100% self-sufficient in coke.

### CORE BUSINESSES

#### ALTAI-KOKS

Coke and related products production

#### NOVOLIPETSK

Coke and related products production

### MARKETS

12%

of Russian coke production, or in excess of 20% with coke production at Novolipetsk (parent company of the Group)

### KEY PRODUCTS

Coke

Chemical products

### PRODUCTION HIGHLIGHTS

3.6 million tonnes of coke produced (6% moisture)      6.0 million tonnes with parent company

### CASH COST

Consolidated coke production cash cost – USD214 per tonne

### PERSONNEL

c. 4,400

## 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. NTK performs almost 70% of the Group's shipping operations, and handles 90% of the cargo flows for the parent company. All the export activities are done through trading companies.

### CORE BUSINESSES

#### Novex Trading S.A.

Export trader

#### NTK\*\*

Transport services

#### Novexco Ltd.

Export trader

#### SHANS

Insurance services

### NLMK TRADING HOUSE

Trader/Commodities and materials supplier

### MARKETS

Key export markets include:

European Union, Middle East, South-East Asia, North America

### KEY OPERATIONS

Exports of steel and products

Material supplies to the Group companies

Domestic sales of raw materials and other products

Insurance services for NLMK Group businesses

Cargo transportation services for NLMK Group businesses and third parties

### PRODUCTION HIGHLIGHTS

5.3 million tonnes of steel and products sold to export (manufactured by Novolipetsk, VIZ-Stal, and Long Products Division businesses)      54.6 million tonnes of cargo transported (freight and forwarding services) (+21% year-on-year)

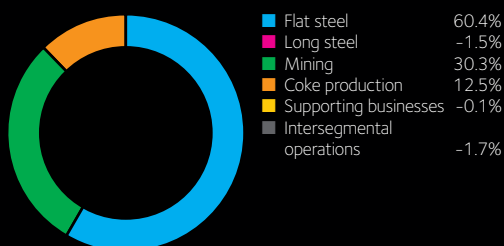
## ASSETS UNDER CONSTRUCTION



In 2010 the Group continued the construction of its Kaluga Mini Mill with a steelmaking capacity of 1.5 mtpa. In 2010, in line with the schedule, we started installing steelmaking equipment. The facility is expected to be operational in 2012.

In December 2010 NLMK launched a new Rolling Facility at NSMMZ, part of NLMK-Long Products, in Berezovsky. NLMK-Long Product's overall capacity is in excess of 2 mtpa.

### Contribution to Group operating profit (%)\*



\* Indicators are presented as shown in NLMK Group's US GAAP segment reports.

\*\* Disposed in 2011.

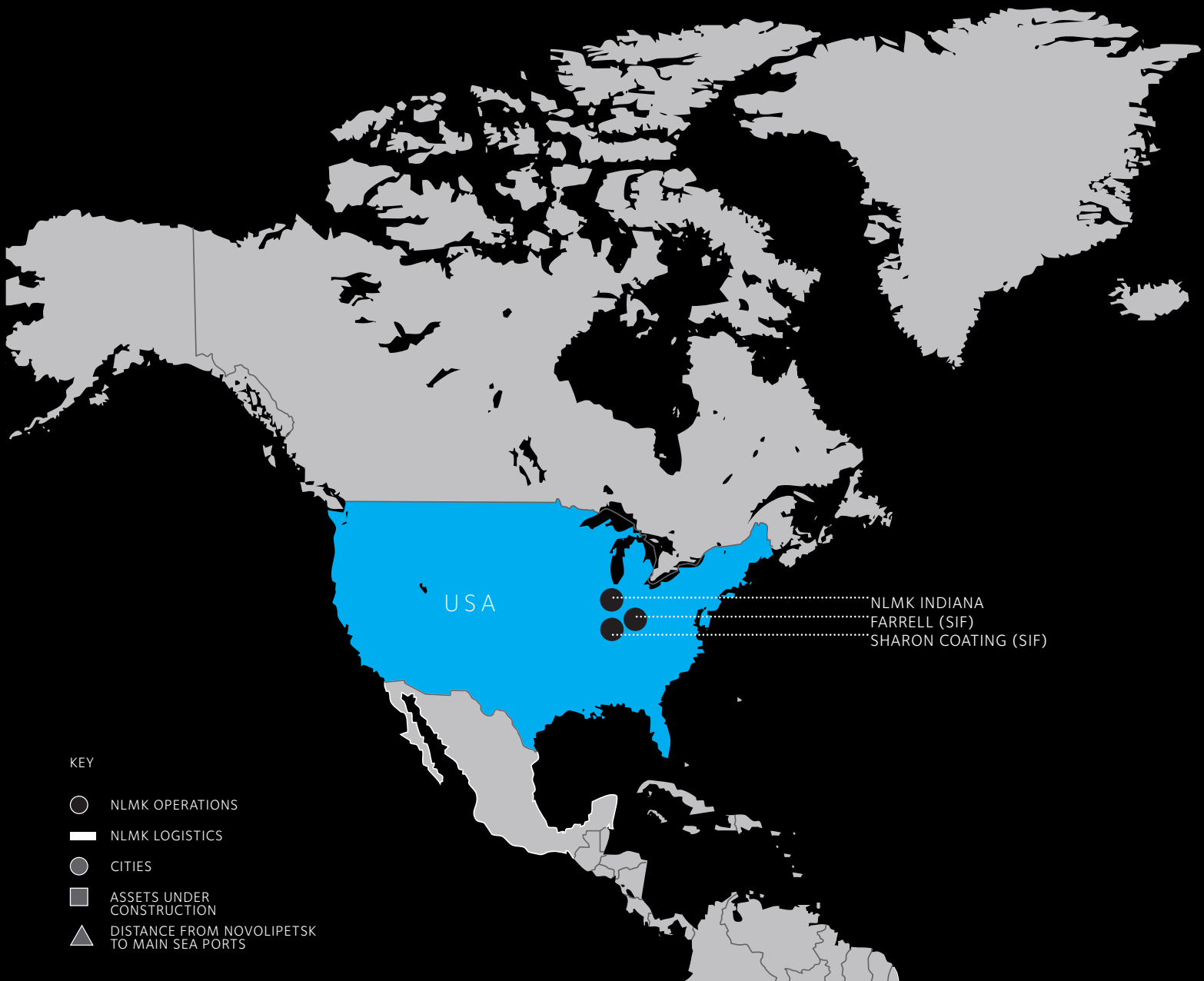
\*\*\* Under construction.

# 50% JV – the results of the Company are not consolidated.

**P.41** For more detailed information on our operating results

# AN EXTENSIVE GLOBAL PRESENCE

NLMK has grown from a local steelmaking company to a group with favorably located assets in Russia, Europe and the United States. NLMK’s main production site is situated in the city of Lipetsk in the centre of European Russia and close to transportation routes and the Company’s iron ore supplier.



1934

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

1966

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

1980

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

2003

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

2010

NLMK Long Steel. New rolling mill 150 is commissioned in Berezovsky.





From local to global

# OUR PRODUCTS RUNNING YOUR HOME

Most household items and many of the key elements of a residential property contain steel or products made of it. Steel is everywhere – it is difficult to imagine our homes, everyday lives and recreation without steel. Despite the fact that at times it has been replaced by plastic, steel continues to provide maximum reliability, sturdiness, durability and comfort. Steel changes as technology advances; new technologies allow steel to change its characteristics and shape depending on the consumers' requirements.

CONSTRUCTION  
ENGINEERING –  
HOT-ROLLED STEEL,  
COLD-ROLLED STEEL

FRAME SECTIONS –  
GALVANIZED STEEL

AIR-CONDITIONING  
SYSTEMS –  
GALVANIZED  
STEEL



## PRODUCT PORTFOLIO

**Hot-rolled steel** is used in construction in the form of sections, molded and welded shapes, and various types of pipes.

**Cold-rolled steel's** strength and lightness make it ideal for various frameworks (for e.g., doors), as well as for the manufacture of furniture.

**Galvanized steel** is highly resistant to the effects of the corrosive external environment, making it ideal for construction (supporting frameworks, roofing, drains, vent systems), as well as for the manufacture of white goods (gas and electric stoves, washing machines, fridges, air-conditioners, etc.)

**Pre-painted steel** is light and highly workable. Like galvanized steel, it is used for the manufacture of roofing materials, sandwich panels, siding, profiled flooring, drain systems and finishing accessories, as well as white goods.

**Long products** (rebar, wire rod) are usually used at the initial stages of construction for laying foundations, as the base for reinforced concrete structures, and in the manufacture of frames and lattice.

**Metalware** – wire, fixing hardware, nails, mesh – is also widely used in construction.

## MARKET DIVERSIFICATION

### Russia

Construction is the largest steel consuming market with c.60% of total steel consumption in 2010. NLMK is among the leading steel suppliers to the Russian construction sector, delivering an entire range of products for construction purposes, from long products used at initial construction stages, to flats for supporting frameworks and sidings for buildings. NLMK's share in the production of steel for construction purposes amounted to c.16% in 2010. The flat steel/long product ratio in deliveries to the construction sector was c.60%/40%. Moreover, NLMK supplies high-quality high value-added coils to domestic white goods (washing machine, refrigerator and electric stove, etc.) manufacturers.

### Export markets

NLMK is a leading global supplier of slabs. A proportion of our slabs are shipped to the Steel Invest and Finance rolling assets located in Europe and the US\*. The construction industry accounts for 25% of the Company's sales, consuming mostly pre-painted steel.

C.6% of SIF's products went to white goods manufacturers.

## SUMMARY

NLMK is one of the leading suppliers of HVA steel for construction purposes to the domestic market.

It is also the largest supplier of steel for white goods manufacturing.

Residential development and white goods manufacturing are among NLMK's end consumers in 70 countries worldwide.

\* JV with Duferco Group. In April 2011, NLMK signed definitive agreements to purchase a 50% interest in Steel Invest and Finance from Duferco Group which will result in SIF becoming a 100% subsidiary of NLMK Group.

**P.30** For more detailed information on our sales

**P.41** For more detailed information on our operating results



**METAL ROOF TILES –**  
PRE-PAINTED STEEL

**GAS & ELECTRIC**  
STOVES, WASHING  
MACHINES, FRIDGES,  
COOKER HOODS –  
COLD-ROLLED STEEL,  
PRE-PAINTED STEEL

**DOMESTIC BOILERS,**  
PIPES FOR WATER &  
GAS – GALVANIZED  
STEEL, HOT-ROLLED  
STEEL

**DRAIN SYSTEMS –**  
GALVANIZED STEEL

From local to global

# OUR PRODUCTS POWERING YOUR WORK

Regardless of the place and type of employment, steel provides the necessary working environment for almost everyone's professional life. Modern steelmaking technologies allow offices and large buildings to reduce construction costs, while moulding office infrastructure to adapt to man's most demanding requirements. Furthermore, despite some changes in characteristics, steel maintains its sturdiness and durability.

STEEL STRUCTURE OF  
BUILDING – HOT-ROLLED  
STEEL, GALVANIZED STEEL

BUILDING FACADE –  
GALVANIZED STEEL,  
PRE-PAINTED STEEL

OFFICE ENVIRONMENT –  
HOT-ROLLED STEEL,  
GALVANIZED STEEL,  
PRE-PAINTED STEEL



WELDED BEAMS – .....  
HOT-ROLLED STEEL

## PRODUCT PORTFOLIO

**Hot-rolled steel** is used in the manufacture of machine casings, pressure vessels and road-building machinery components.

**Hot-rolled thick plates** are used in tool engineering to produce compressors and pressure vessels.

**Cold-rolled steel** is used to make machinery body parts, distribution switchboards, refrigerators, lighting poles, elevators, yellow goods and accessories.

**Galvanized steel** is widely used in the manufacture of air ducts, vent systems, industrial boilers, as well as office and industrial interiors.

**Electrical steel** is used by the power and machine-building industries for the manufacture of transformers, various types of electric motors for different purposes.

**Long products and metalware** are applied in machine-building to produce components of gears and machines (axes, wheels).

## MARKET DIVERSIFICATION

### Russia

Machine-building accounts for c.13% of domestic steel consumption. C.7% of NLMK Group's domestic deliveries went to machine-building, industrial equipment and device manufacturers. C.34,000 tonnes of high-quality steel was supplied to the automotive industry, covering 3% of the sector's overall consumption. However, we are planning to build on our successful cooperation with car manufacturers to grow our autosteel sales in 2011. NLMK is Russia's only and one of the leading global (c.14% capacity share) suppliers of transformer steel.

### Export markets

Compared to emerging markets, machine-building in mature markets, including the EU, accounts for a larger share of steel consumption.

SIF rolling assets dispatch c.70% of their products to the machine-building sector, including 20% to car manufacturers.

## SUMMARY

The high quality of NLMK products supports the Company's standing as a key supplier of HVA steel to machine-building consumers, including car manufacturers and tool engineering in the domestic market.

Having rolling capacities in external markets allows NLMK to supply finished products to international consumers in such industries as car manufacturing, production of construction and special-purpose equipment, ship-building, electric power, etc.

**P.30** For more detailed information on our sales

**P.41** For more detailed information on our operating results

From local to global

# OUR PRODUCTS BUILDING OUR SOCIETIES

Steel products are the backbone to the infrastructure of our cities and towns. They help transport people and goods over long distances comfortably, quickly and safely. Steel allows us to erect bridges, construct roads, and produce and deliver electric power. With constant technological development and improvements in steel quality, vehicles are becoming bigger and faster, infrastructure is becoming more solid and comfortable. All that helps enhance our living standards.

## PRODUCT PORTFOLIO

**Hot-rolled steel** is widely used in the construction of various infrastructure elements, such as bridges, roads, pipelines, power transmission pylons. HRC is also used in the oil and gas and power industries (oil reservoirs, utility equipment and structures) and transport machinery sector (railroad equipment, port infrastructure, ship hulls, automobile manufacturing).

**Hot-rolled thick plates** are used in shipbuilding and infrastructure construction (bridges), as well as power engineering (wind turbines).

**Cold-rolled steel** is used for transport machinery, e.g. commercial and light vehicle body parts, as well as for pipe manufacturing.

**Galvanized steel** is widely used in the manufacture of car components, as well as in road construction.

**Electrical steel** is used in transport power equipment.

**Long products and metalware** are used in transport machinery (ship hull and train section elements, metal cords, fittings) and infrastructure development (railway tracks, etc.).

## MARKET DIVERSIFICATION

### Russia

NLMK supplies various grades of flat and long steel for the construction of roads, bridges, pipes and other infrastructure elements; transport and power machinery.

NLMK directs c.60% of its products to service centers, with the bulk going to the construction industry, including infrastructure development. Moreover, NLMK sells a small amount of its products to pipe manufacturers.

### Export markets

The bulk of deliveries from SIF's European rolling assets go to the Oil & Gas and Pipe industries (c.16%), that consume various grades of flat steel.

The manufacturers of pipes used in infrastructure development are also among key consumers for our US-based NLMK Indiana.

SHIP BUILDING –  
HOT-ROLLED  
THICK PLATE



BRIDGES –  
HOT-ROLLED PRODUCTS

## SUMMARY

Ongoing infrastructure developments in Russia support the demand for various grades of rolled steel, pushing up NLMK's sales among others. NLMK's European and North American rolling assets sell some of their products to the construction industry.

**P.30** For more detailed information on our sales

**P.41** For more detailed information on our operating results

PORT INFRASTRUCTURE –  
HOT-ROLLED PRODUCTS

ROAD CONSTRUCTION  
MATERIALS, LAMPPOSTS AND  
SIDEGUARDS – HOT-ROLLED  
STEEL, GALVANIZED STEEL

TRAINS & RAILROAD  
INFRASTRUCTURE –  
ELECTRICAL STEEL,  
HOT-ROLLED STEEL,  
COLD-ROLLED STEEL

POWER PLANTS &  
ELECTRICITY PYLONS –  
HOT-ROLLED PRODUCTS



“We grow our business by developing and acquiring upstream assets in cost-efficient locations and ensuring finishing facilities are close to our customers, without creating imbalances along the production chain.”

**Vladimir Lisin**  
Chairman

## Strategic Review

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# CREATING SUSTAINABLE BUSINESS GROWTH

"I would particularly like to thank our employees for their invaluable contribution to the Company's outstanding performance. Great teamwork, top professionalism and commitment are the keys to our success."

**Vladimir Lisin**  
Chairman



Dear shareholders,

NLMK is a global steelmaking company with exceptional industry standing and enviable growth potential. Last year, in terms of market capitalization, NLMK was positioned amongst the top three global steelmakers. We remain focused on pursuing our core strategy, aimed at sustainable growth and greater business efficiency with due account for industry risks.

## Market Overview

The global economy continued the process of recovery throughout last year. Steel prices increased as a result of higher levels of consumption and subsequent rises in raw material prices, with the emerging markets continuing to be the key drivers behind increasing demand. I am convinced, with recent history serving as evidence, that NLMK will continue to evolve dynamically, regardless of market conditions, whilst supported by our business model that allows us to capitalize on our advantages, such as vertical integration, diversified product mix and flexible sales strategy.

**P.22** For more detailed information on our markets

## Corporate Strategy

Our strategy is based on our ambition to become a flagship for efficiency among global steelmakers. For more than 10 years we have focused our efforts on enhancing operational efficiency, having invested over USD7 billion in technical upgrades (2000–2010); and on achieving a vertically integrated production chain. The results we've achieved prove the efficiency of our strategic choices and demonstrate a synergy with long-term industry trends. We can see today that the decisions we made have allowed us to maintain sustainability and flexibility through the 2008–2009 economic crisis.

But we need to keep pushing forward. The world is setting out new challenges and we are ready to take them on. We have made the strategic decision to develop upstream integration as a key cost-cutting tool. Coal currently accounts for over 20% in our cash costs. Developing the two coal mines in our newly acquired deposits will allow us to cover 20% of our needs by 2015, and become over 50% self-sufficient in coking coal by 2018. These new



# RUR1.82

## x8 times

DIVIDEND PER ORDINARY SHARE

# c.100%

OF OUR SOLID WASTE IS RECYCLED  
(AT THE LIPETSK SITE)

facilities will use the best available technologies. Even with the planned 40% expansion of steelmaking capacities, long-term self-sufficiency in iron ore will remain high. And our goal is to become fully self-sufficient in iron ore.

Optimal geographic location is of primary importance to us. It allows us to take advantage of regional benefits and maximize synergies. We currently have production operations in six countries across two continents. This allows us to benefit from efficient steelmaking operations located close to raw materials while bringing the rolling stage closer to the end consumer market, to mitigate logistic and product risks. We have consolidated rolling assets that were previously part of the NLMK/Duferco JV located in the EU and the US with an annual capacity of over 5.5 million tonnes. Integrating these plants in 2011 will ensure a significant expansion in output and revenue.

In Russia itself, we are now on the verge of completing our steelmaking expansion projects. These will supply high-quality competitive steel to our foreign assets. Our new blast furnace, the first in post-Soviet Russia, will be launched in 2011 at our main production site in Lipetsk.

In addition, we are working on the development of our network of mini-mills located close to key consumers. In 2012 we intend to launch a new mill in the Central region of Russia; its products will be in high demand from the construction industry. This is going to be a world class asset both in terms of performance and environmental efficiency.

We are growing the share of high value added products, including through expanding the production of branded steels. This enables us to improve the quality and expand our flats product mix both at our Russian and at our international sites. Our goal is to ensure a 40% share of niche and high-value products in our order portfolio.

**P.24** For more detailed information on our strategy

### Results

We've posted record operating performance for the second year running with 11.6 million tonnes of finished steel output (+10% year-on-year). Our 2010 revenue of USD8.4 billion was up 36% sequentially. We are steadily restoring our operating margins, which totaled 28% (up 5 percentage points).

In 2010 we plan to restore our dividend payout target. Dividends for the year could total over 30% of the Company's net profit.

### Corporate Responsibility

Occupational health and safety, the environment, labor efficiency, and, therefore, high social standards are a key focus, and we have improved our performance in all of these areas over the last ten years.

We consider ourselves to be a steelmaking company of the 21st century, and as such we see the key to our success in our personnel capable of making complex decisions and thinking outside the box. Every year, around half of our employees work towards their professional development and improve their levels of qualification. We understand that we cannot maintain our reputation as an attractive employer without consistently improving working conditions for our staff.

In my statement I always place special emphasis on the environmental aspect of our strategy. NLMK has been making consistent efforts to reduce its environmental footprint, without needing a push from the outside. We have stopped discharging waste water into the river at our main production site; we are recycling 100% of our solid wastes and almost all of our by-product gases. Our goal is for all the Group companies to comply with the best environmental practices.

### Corporate Governance

Last year a new member joined our Board of Directors. Mr Sarkisov has many years of experience in international marketing and sales.

We are consistently compliant with international corporate governance and transparency standards, striving to balance the interests of our shareholders, employees and the community in general.

I think we have been successful in this. Last year, Standard and Poor's once again ranked NLMK amongst the top ten of Russia's most transparent companies. Our IR team was recognized among the best in the European steel and mining industry.

**P.66** For more detailed information on our governance

### Summary

In our work, we do not rely on forecasts keeping in mind that all forecasts are relative. Our goal is to maintain stability and development rates through all changes and throughout the entire economic cycle. Lessons learned from the 2008 economic crisis once again confirmed that business growth must be well-balanced and aligned with industrial and economic logic. This approach allowed us to maintain our profitability leadership among global steelmakers, to run at practically full capacity in the midst of the crisis, to continue expanding our business and to create shareholder value.

I would particularly like to thank our employees for their invaluable contribution to the Company's outstanding performance. Great teamwork, top professionalism and commitment are the keys to our success.



**Vladimir Lisin**

Chairman of the Board of Directors

# OUR RESULTS DEMONSTRATE THE STRENGTH OF OUR VERTICAL INTEGRATION

“We continue to deliver superior returns throughout the production cycle and the strategy in place enables future long-term value creation.”

**Alexey Lapshin**  
President



Dear shareholders,

This past year turned out to be a successful stage in the history of the Company. Key factors that helped to shape the development of the global economy, and steel sector in particular, include some stabilization in the economies of the developed world and continuous growth in the emerging markets. Our flexibility allowed us to adapt to the favorable market environment last year. We posted a record crude steel output of 11.5 million tonnes, 9% higher sequentially. Total sales amounted to 11.7 million tonnes. These factors supported by a marked improvement in the pricing environment, as compared to the preceding 2009, translated into a 36% boost in revenue, reaching USD8.4 billion. Our efforts to increase cost savings, efficient vertical integration and well-invested facilities that stand on-par with our global peers, allowed us to deliver a 63% growth in EBITDA, reaching USD2.35 billion. The 2010 EBITDA margin further improved to 28%.

## Production activity

In 2010 NLMK Group's steelmaking facilities were running at an average of 97%. The main production site in Lipetsk, which represents about 80% of the total steel output of the Group, continued to operate almost at full capacity.

Run rates at the Group's other sites varied and were largely based on market requirements. We were able to deliver these outstanding performances by exploiting our low-cost position in the global cost curve, producing a diversified product mix and high quality products, and benefiting from a flexible sales policy aimed at maximizing the Company's profits. Furthermore, in the course of the year, management implemented a number of measures aimed at the improvement of equipment efficiency, which also contributed to production growth.

High capacity utilization was facilitated by semis shipments to the production sites of Steel Invest and Finance (JV with Duferco Group). Last year we increased slab shipments to the JV's rolling assets by 1.5 million tonnes (+25% vs. 2009).

Higher steel output resulted in high capacity utilization and the growth of performance indicators within NLMK Group's raw-material companies. Stoilensky fully satisfied the Lipetsk site's requirements in iron ore concentrate and sinter ore, while Altai-Koks supplied the required amounts of coke. Scrap was supplied by scrap yards which form part of the Long Products Division, which met about 80% of NLMK Group's steelmaking scrap requirement. Operating results of the Group's rolling assets also improved due to better market conditions. VIZ-Stal was able to boost its output due to the recovery of demand for electrical steel, while the growth of plate consumption in Europe had a favorable effect on DanSteel's shipment volumes.

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**P.41** For more detailed information on our operating results

## Sales

2010 saw a gradual recovery in demand for steel products from the 2008-2009 crisis period. Against this background NLMK Group was able to increase sales volumes by 11% to 11.7 million tonnes.

Despite the general growth trend in world steel consumption, the situation in many regional markets was not stable. However, the Company's flexible and efficient marketing system enables timely reaction to changes in the market environment and redirecting sales to more favorable markets. Owing to the fast pace of the Russian

# 63%

GROWTH IN EBITDA

economy's recovery, the NLMK Group enhanced the share of domestic sales up to 32%, which is practically equal to the pre-crisis level. In addition to Russia, NLMK's sales markets in 2010 included the European Union, Middle East, North America and South-East Asia, where the most favorable market conditions were registered.

Following the Company's strategic priorities, in 2010 the share of high value-added (HVA) products sales increased to 30%, mainly due to growing pre-painted and electrical steel deliveries. I would also emphasize growth in Long Products Division's sales. Products manufactured by Long Products Division are basically designed to satisfy the construction sector's demand. During the year, we improved our market strength in this segment through growing our output of HVA products which are in demand in the domestic market.

**P.30** For more detailed information on our sales

## Financial results

Due to higher operational results, product portfolio optimization and price growth, the Company's earnings grew by 36%, amounting to USD8.4 billion. HVA products accounted for 37% of this amount. Last year we had to deal with significant price growth in raw materials, however, due to efficient vertical integration and measures aimed at production cost reduction, the influence of this factor on consolidated results was limited. Last year we remained one of the most efficient high-quality steel producers in the world – in 2010 the cost of one tonne of slabs was USD318 at the Lipetsk site, which is significantly lower than global averages. The Company was able to increase its profitability due to the continuous implementation of its cost optimization and efficiency improvement programme.

Based on an EBITDA margin that was 28% in 2010 (+5 p.p. vs. 2009), we are still among the most profitable companies in the global steel sector.

NLMK maintained a low debt load and strong liquidity position – the Company's net debt amounted to USD1.5 billion, whereas the Net Debt/EBITDA was 0.62 as of the 2010 year end. The Company has a significant reserve of liquid assets, which exceeds short-term debt instruments more than twofold.

**P.34** For more detailed information on our financial performance

## Investments

Our strategy envisages allocating capital in the business segments that create maximum value, and this approach ensures the Company's long-term sustainable growth. Last year we continued to invest in the development of our low-cost steelmaking platform in Russia. A key project of the CAPEX programme is the construction of the new blast furnace at our Lipetsk site, the construction works are on schedule and it is expected to be operational in mid-2011. In 2010 we commissioned two ladle furnaces that allowed us to expand our product mix and improve the quality of the steel we produce to ensure our goal to meet the highest quality requirements of our customers.

Last year we also upgraded gas ducts at our steelmaking shop. This project will allow us to meet two targets – the creation of a platform for further incremental growth in steelmaking capacities and an improvement in the environmental performance of the operations.

We also achieved great progress in the development of our downstream operations by expanding our value-added

# \$1.5bn +31%

TOTAL CAPEX

and niche products portfolio. The Company continued mastering production of high permeability transformer steel and expansion of hot-rolling capacities at the Lipetsk site. We have also built the foundations for a 50% growth in pre-painted steel output which materialized early this year. Further improvement of energy self-sufficiency is also on the top of the agenda. At the Lipetsk site we built a power plant that will be mainly using by-product gases from the blast furnace. This project is financed with an EBRD long term facility of Euro125 million which we took last year.

A massive CAPEX is allocated in the upstream part of the business to fully satisfy our growing steelmaking facilities with high-quality low-cost raw materials.

We expanded capacities of our iron ore concentrate at our mine Stoilensky and, at the same time, we studied an option to develop a pelletizing facility there. In 2011 we have already approved construction of the pelletizing plant of 6 million tonnes per annum capacity. The plant is expected to be operational in 2014 and this move will allow us to fully cover our iron ore requirements. Early this year we acquired licenses to develop greenfield coal deposits Usinsky-3 and Zhernovski Gluboki. When developed, the projects together with the output from Zhernovskoye-1 coal deposit, will meet our requirements in high-quality coking coal grades.

Total CAPEX in 2010 grew by 31% to USD1.5 billion. During the last five years we invested more than USD6 billion in the Company.

**P.24** For more detailed information on our strategy

## Corporate responsibility

One of the most important targets faced by the Company's management is minimizing the environmental impact of steelmaking production. For the last several years we have been making significant investments into environmental safety, which is producing tangible results. For example, the Lipetsk site has completely ceased any discharge of pollutants into the Voronezh River, and specific atmospheric emissions (per tonne of steel) have been reduced by 6% for NLMK Group overall. The environmental aspect of the business will continue to be a top priority for NLMK in future.

NLMK's key asset is its motivated, highly-professional, workforce ensuring the Company's sustainable best performance. Our HR policy is aimed at enhancing the interest of the Company's employees in the development of their occupational skills, promoting productivity and corporate culture. Labor efficiency increased by 15% in 2010 against the previous year. This improvement was accompanied by the management's significant efforts aimed at production safety enhancement. Due to considerable resources allocated to occupational safety, NLMK Group has reduced the number of accidents and boosted production discipline.

Alongside NLMK's dedication to promoting its performance efficiency, our Company also maintains an active social stance. Our ambition is not only to create decent working conditions for the Company's employees, but also to make a contribution where possible into supporting our local communities by developing sponsorship and charity work in the areas where our Company has a presence.

**P.56** For more detailed information on our CR activities

## NLMK'S COMMITMENT TO A SUSTAINABLE FUTURE



NLMK has been steadily increasing its investment into environmental projects, asserting our commitment to sustainable development. In 2010 NLMK allocated over USD150 million towards protecting the environment. This represents a record amount since the launch of the Company's Technical Upgrade Programme. Our main production site in Lipetsk (which represents c. 80% of total steelmaking capacity) is considered to have the highest level of investment into sustainable development among our Russian peers. For more detailed information on our sustainability and environmental projects, please go to page 59.

## Forecast

In 2011 we expect global steel consumption to grow by about 6%. The major problem that the world steel industry may face is a serious rise in raw material prices, which in turn would be a major factor driving up steel prices. The financial sustainability and efficiency of steelmakers will depend on their ability to manage production costs.

The economic activity of consuming industries will also be a major factor.

In 2011 NLMK Group will realize an important part of the development programme – we are going to launch Blast Furnace No.7 and complete the reconstruction of converters. Production capacity for the Lipetsk plant will be increased to 12.4 million tonnes, while capacities for the Group will exceed 15 million tonnes. We will correspondingly increase the share of high value-added products taken to key markets through integration with Steel Invest and Finance.

Altogether existing integration with raw materials producers and highly efficient rolling facilities will allow NLMK to reduce the risks, sustain profitability margins and strengthen its financial position.

## Summary

In summary, the results of the Group have proved the efficiency of our vertically integrated business model as well as our strategy of concentrating on developing our key advantages. Our low-cost production base in Russia, highly developed technological equipment, up- and downstream integration as well as qualified personnel, and balanced financial policy, enable us to strengthen our leading position in the steelmaking industry.

**Alexey Lapshin**  
President (Chairman of the Management Board)



# INCREASED DEMAND IN LOCAL MARKETS

The global economy showed improvement in 2010. Real global GDP grew by 5% against a 0.5% contraction in 2009, with developing economies displaying higher growth rates than developed nations. Global industrial output is estimated to have grown by 10%, against a 7% fall in 2009.

## Global markets

The recovery of business activity in key steel-consuming sectors made a positive impact on the global demand for steel, with apparent net consumption improving by an estimated 13% by year end 2010. In an attempt to restore pre-crisis levels of steel production the global steel industry increased output by 15%.

Higher demand in the global markets, driven by increased buying activity in combination with an increase in the cost of raw materials, resulted in higher steel prices. In the first semester of 2010 prices were rising across the entire product range. After a certain decline in prices in Q3, caused by increased consumer inventories and lower buying activity, the demand for steel rebounded in Q4; prices resumed their growth and continued to grow in early 2011 after a surge in prices for raw materials.

## European Union

The EU economy is estimated to have grown by 2% in 2010 compared to 2009. At the same time, the growth rates vary significantly across the EU countries, with Germany and most of Northern European countries recovering at strong rates, while growth remained more sluggish across the EU periphery, with countries like Spain and Greece continuing to show negative growth.

In the EU-27 industrial output in 2010 grew by 7% compared to a 15% contraction in 2009. Automobile manufacturing, machine-building and the pipe manufacturing industries were the key drivers of growth. After collapsing by 37% in 2009, apparent steel consumption in the EU increased by 21% and reached 145 million tonnes. In 2011, consumption is expected to grow at a rate of 5%.

The recovery in demand and greater exports of steel allowed European steelmakers to increase their output by 25% to 147 million tonnes.

## Middle East (including Turkey) and Africa

The regional economy grew by 4% in 2010, while industrial output grew at a rate of 5%. Unlike oil exporting countries, where demand for steel fell, Turkey showed strong economic and industrial growth rates of 8% and 12%, respectively.

Apparent consumption of steel in the region in 2010 showed a 6% increase year-on-year, and amounted to 73 million tonnes.

Steel output in the Middle East in 2010 increased by 11%, by 15% in Africa, and also by 15% in Turkey.

## Asia and the Pacific

In 2010 the developing economies of Asia posted record high growth rates, compared to global averages, of 9%, mostly driven by 10% growth in China and India.

Apparent consumption of steel in Asia and the Pacific in 2010 reached 834 million tonnes, an 8% growth year-on-year. Steel output increased by 12%. Steel consumption in the region is expected to grow by 6% in 2011.

Annual average prices for steel flats in the region, CIF large Asian ports, grew by 25–30%, depending on the product, compared to 2009 levels.

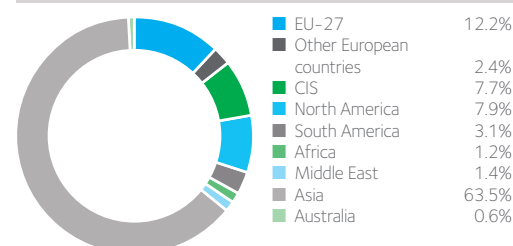
## North America

In 2010 the GDP of NAFTA countries grew by 3%. In the USA, the region's leading economy, industrial output increased by 6%, with the construction sector growing by 4%.

Apparent consumption of steel in the region reached 110 million tonnes, growing by 33% over 2009. In 2011 demand in the region is projected to grow by 11%.

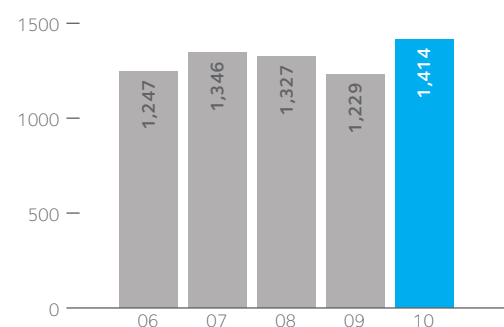
The recovery in demand and increased exports helped North American steelmakers to raise steel production by 36% after a 34% contraction in 2009.

World steel production by region in 2010 (%)



Source: World Steel Association.

World steel production in 2006–2010 (mt)



Source: World Steel Association.

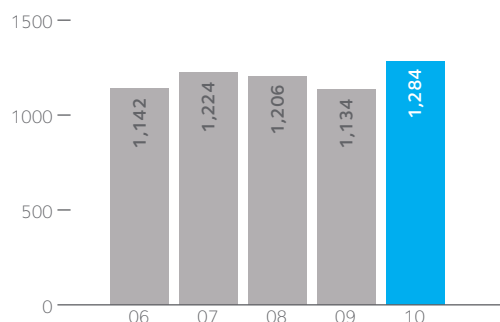
# +13%

GLOBAL STEEL  
CONSUMPTION GROWTH

# +45%

RUSSIAN FLAT STEEL  
CONSUMPTION GROWTH

World apparent steel use in 2006–2010 (mt)



Source: World Steel Association.

Average annual prices for steel flats produced by steelmakers in the US Mid-West grew by 10–25% year-on-year.

### Russian domestic market

GDP growth in Russia in 2010 is estimated at 4%. With consumer demand no longer declining, increased investments became the major driver for economic growth, helping along a recovery in industrial output. Positive developments were registered in the processing, mining and transportation sectors. Industrial production grew by 8%.

Construction continued to show negative growth. The key negative factor was the dramatic contraction in the number of new construction projects in 2008 and 2009. Given the average construction cycle duration of 18 to 24 months, this slump may continue to have an impact on the construction sector in 2011 as well.

The strongest rates of growth in the consumption of flat steel in 2010 were recorded in the machine-building industry. Increased consumption in the automotive industry was encouraged by the launch of the passenger automobile recycling programme, while railroad car manufacturers benefited from orders placed by Russian Railways.

Consumption growth in the flat steel segment is estimated at 45%, and at 31% in the long steel segment.

In 2011, Russian domestic consumption of rolled steel products is estimated to grow by between 9 and 11% over 2010.

Domestic market prices in the second semester of 2010 were less volatile than international market prices. By late 2010 and in early 2011, however, there emerged a trend for increased prices for rolled steel products, in line with international market developments.

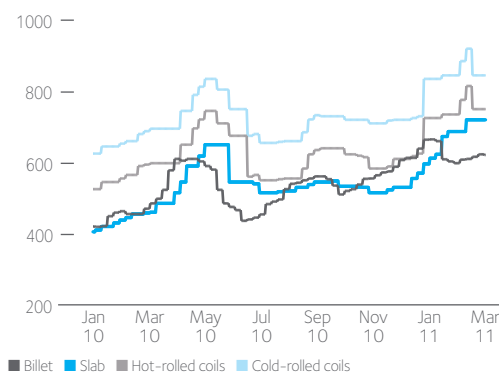
### Outlook

In 2011 the global economy is expected to continue to show positive growth rates, albeit somewhat lower than in 2010, with growth of about 4.5% compared to 5%, because of the weaker recovery in developed economies. Global industrial output may grow by 6.5%. This may lead to a 6% growth in global steel consumption over 2010.

The Russian domestic market for steel products is expected to maintain positive growth momentum, against the background of growth in the Russian economy. Russia's Ministry of Economic Development projects national GDP to grow at a rate of 4.2% in 2011, with industrial output growing by 5.4%.

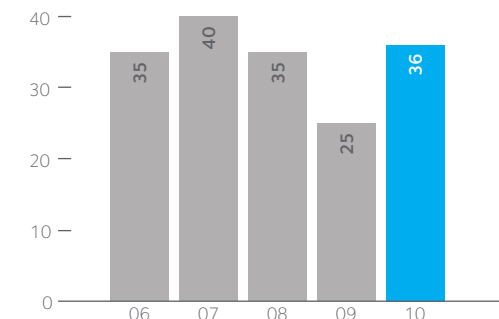
**P.18** For our Chairman's review of market developments

CIS export prices in 2010–Q1 2011 (FOB) (\$/t)



Source: Steel Business Briefing.

Apparent steel use in Russia in 2006–2010 (mt)



Source: World Steel Association.

# DELIVERING AGAINST OUR TARGETS

NLMK transforms ideas and resources into steel products. We source ideas from our employees, customers and business partners. We use our business model of vertical integration to help us control resources throughout the production life cycle, utilizing and reusing them safely and responsibly. We produce clean and durable steel that is used in thousands of applications that improve everyday lives.

### MISSION:

Our mission is to increase the long-term value of the Company through continuous improvement and adoption of the sustainable management and operational business model.

### LONG-TERM GOALS:

We will continue to maintain shareholders’ confidence through transparency and superior returns. Our long-term value creation strategy builds upon three competitive advantages:

- sustainable growth capabilities
- safe and efficient processes
- flexibility

### STRATEGIC PRIORITY

We regard vertical integration as a key strategic priority of the Group to better control our cost base through access to raw materials and energy supply, decreasing our dependence from volatile raw material markets, and further increase share of value-added products.

#### UPSTREAM

Pursuing self-sufficiency in raw materials through vertical integration.

##### Priorities

- Enhance our level of self-sufficiency in key raw materials.
- Ensure the efficiency of vertical integration as a key condition for its development.
- Match upstream production with the expansion of steelmaking and downstream operations.
- Move up the value chain in the segments where the Company has no or limited integration (such as from coke to coal).

#### MIDSTREAM

Emphasizing high-quality and low-cost steel production as a strong platform for further development.

##### Priorities

- Increase capacities of low-cost and high-quality steel production.
- Improve efficiency of assets through constant thoughtful insight into the nature of production processes.
- Maintain an efficient balance between different routes of steel production (BOF vs EAF) to capture demand within growing markets and increase flexibility of production.
- Increase the depth of steel processing to improve the quality of the existing product portfolio.

#### DOWNSTREAM

Creating a diversified value-added portfolio with a balanced combination of flat and long steel capacities.

##### Priorities

- Increase finished steel rolling capacities.
- Target niche markets offering superior quality, timely delivery and service.
- Offer a balanced and innovative product mix to growing markets.
- Improve diversity of products and geographical presence.

## LONG-TERM GOALS

### Sustainable growth capabilities

NLMK is a growth company. Our objective is to deliver above average long-term growth. We operate in a highly cyclical industry and plan growth with risks in mind. Vertical integration remains our principal means of reducing industry risks. As a highly vertically integrated business, we have assets spanning from mining and electric and heat energy generation, to primary steelmaking, processing and distribution. We grow our business by developing and acquiring upstream assets in cost-efficient locations and ensuring finishing facilities are close to our customers, without creating imbalances along the production chain. While we take advantage of arising acquisition opportunities that enhance our growth options, each opportunity must pass rigorous tests relating to both value and synergy for the Company before acquisition can be considered.

NLMK has been pursuing self-sufficiency in key resources to secure supplies and to control costs of steel. We are largely self-sufficient in iron ore, coke, scrap and energy and will continue expanding our upstream portfolio against the backdrop of supply restrictions. We have built a portfolio of mining rights for high-quality coking coal deposits and expect to achieve a high degree of self-sufficiency in coal over the next few years.

Our Russian steelmaking platform remains our main growth engine. Many years of continuous investment in primary steelmaking assets and processes ensure future organic growth and best-in-class operating performance. Continuing downstream expansion both in the domestic and international markets enables NLMK to meet evolving customer requirements and to improve profitability by offering higher value-added products. We will be further expanding our product offering by developing our processing and distribution facilities, with a focus on growth markets as well as the EU and the US.

**P.06** For more detailed information on our business structure

**P.38** For more detailed information on our approach to risk management

### Safe and efficient processes

Safety and efficiency have always been at the heart of what we do. We aim to ensure compliance of our operating practices by applying rigorous health and safety standards across our divisions. NLMK delivers on its safety commitment by continuously reviewing its operating practices and assessing associated risks. To mitigate operating risks and to prevent accidents we create safe working environments by improving processes, investing in employee education and enforcing health and safety discipline. Our safety commitment goes beyond the boundaries of our production facilities. For many years we have been investing in environmental projects designed to minimize the impact of our processes on the communities and environments where we operate. Having achieved zero water and minimal air emissions, the Company has reached international standards.

Efficiency remains the cornerstone of our strategy. We help our customers to be competitive by offering lowest-cost, high-quality steel. We strive to secure cost leadership positions in all markets where we compete. Not only do we control our costs through having raw materials and energy production in-house but also through maintaining lower conversion costs across the entire production chain. NLMK continuously runs efficiency management initiatives, identifying cost reduction opportunities and converting them into cost savings.

**P.56** For more detailed information on our CR activities

**P.35** For more detailed information on our products' cash costs

### Flexibility

We operate in a fragmented cyclical industry facing competition from established and emerging players and technologies. To protect and create competitive advantages, we have to be responsive to short-term market shifts and be open-minded about ongoing structural changes.

In the face of increasing industry challenges we have developed a flexible business model. We produce all raw materials and liquid steel in low-cost locations, combining integrated and scrap-based production routes. A significant share of our finished products is produced in developed markets in close proximity to a diverse and demanding customer base. In most product categories we seek to maintain a healthy balance between exposure to emerging and mature markets, thereby balancing growth and stability.

Diversity also comes from our product mix, which helps manage exposure to divergent industry cycles. Our product portfolio is well balanced between standard and high-end products, combining superior asset performance and profitability. Ongoing technological innovation and product development drive up the share of new products in our product mix, making our business more adaptable to the ever evolving needs of our clients.

Our business strategy relies on financial and operational flexibility. We maintain high through-cycle capital availability by adhering to rational financial metrics and by securing access to multiple financial sources and instruments. Our operational strategy evolves with the changing business environment. While sustainable growth and efficiency will remain key pillars of our strategy, we will be adding new elements through a constant dialogue with our stakeholders.

**P.30** For more detailed information on our sales

**P.34** For more detailed information on our financial results

## UPSTREAM

NLMK's vertical integration model allows it to sustain one of the lowest cost positions in the industry and maintain high levels of profitability through the cycle. For example, we currently enjoy 100% self-sufficiency in iron ore concentrate, more than 150% self-sufficiency in coke and about 80% self-sufficiency in scrap. However, we have 0% self-sufficiency in coking coal and 46% in energy. We are currently implementing a number of projects aimed at expanding integration into areas such as coking coal, electricity generation, scrap collection and processing and iron ore pellets. This is being achieved through organic expansion of existing capacity, new project development, selected acquisitions and joint ventures with existing suppliers.

### Achievements

- Expansion of upstream capacities at Stoilensky to increase production of iron ore concentrate.
- Construction of a pelletizing plant to switch from purchased material to captive supply.
- Development of the greenfield coking coal mining projects to cover a significant part of our coal needs.
- Growth in scrap collecting capacities to enhance self-sufficiency in scrap.
- Expansion of own electricity-generating capacities using by-product gases.

## MIDSTREAM

High performance and efficiency are key tools in maintaining our successful business model. We create value through consistent improvements to steel quality and the development of new products for our clients. We are focusing on the improvement of steel quality along with the expansion of our crude steel capacities in Russia, to meet the growing requirements of our customer base, gain additional market share and strengthen our niche product positions. For flexible, localized production in Russia, our dynamic production model offsets seasonal demand volatility. Within two years NLMK will complete two major projects that will make it the largest steel producer in Russia.

### Achievements

- 40% growth in crude steel capacity, 100% of which is located in Russia.
- Construction of Blast Furnace (BF) of 3.4 mtpa and expansion of BOF operations.
- Construction of EAF mini-mill of 1.5 mtpa.
- Upgrade of steelmaking operations to improve quality and add new grades of steel.
- Stringent cost control and improvement of efficiency.
- Growth in steelmaking capacities in our low-cost Russian platform, matched with expanding rolling capacity both in Russia and throughout the world.

## DOWNSTREAM

NLMK operates superior quality rolling assets, with a balanced split between flat and long capacities, located near to our end-customers. Competitive steel products are offered both to the growing domestic market and to our export clients in 70 countries around the world. We increase the market penetration by converting our semi-finished products into ready-to-use final quality products in facilities located in proximity to our customers. We aim to offer a wide range of high-quality steel products, supported by a comprehensive technical and customer service, to make us the preferred supplier of our core customers. We are targeting the markets where steel consumption is set to remain robust or grow. We are also offering high-quality selected niche products both in the emerging and mature markets.

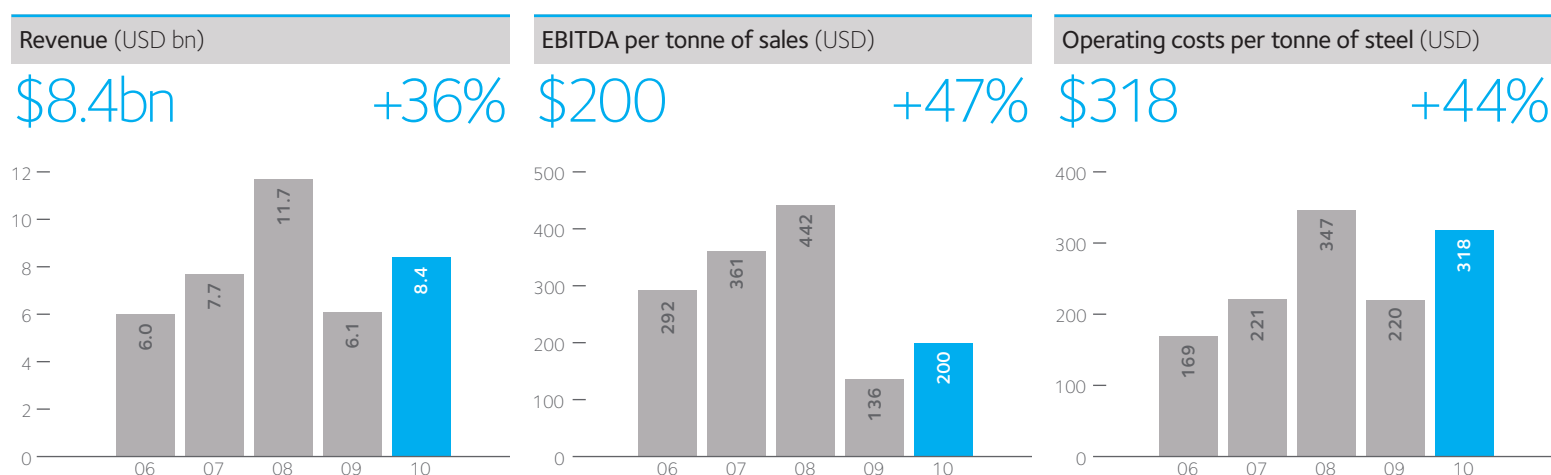
### Achievements

- Growth in finished steel capacities of Russian and European assets (including JV assets) with a focus on niche products.
- Organic expansion of HRC and thick plates production at existing assets.
- Growth in production of niche products (e.g. thick plates, transformer steel, hot-rolled galvanized steel).
- 100% growth in finished long steel capacities in Russia.

# MONITORING OUR PERFORMANCE

Financial and non-financial key performance indicators gauge how effectively the Group's current strategy is being implemented. These indicators are assessed both annually and quarterly throughout the year, reviewing developments over time and by comparing them to industry averages.

## FINANCIAL KEY PERFORMANCE INDICATORS



### Definition

The funds received by NLMK from the sale of products and services.

### Comments, reasons behind changes

In 2010 we saw an improvement of the market environment and cyclical growth of the average prices for steel. These factors backed by our flexible sales strategy allowed the Group to show one of the best recovery paces in the industry.

### Risks

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

### Outlook for 2011

Sales volumes will increase by roughly 10%, driven by growing demand from the key consuming industries.

### Definition

The profit per tonne of sold steel products adjusted for non-cash expenses, interest and tax expenses.

### Comments, reasons behind changes

The pace of growth in steel prices in 2010 was faster than operating costs mainly controlled by the Group. Our intention to optimize the product mix, which is a key priority of the Group strategy, allows the historical indicators to be the best in the peer group.

### Risks

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

### Outlook for 2011

The indicator is expected to demonstrate positive dynamics.

### Definition

Direct cash costs incurred in producing one tonne of crude steel at its main plant in Lipetsk.

### Comments, reasons behind changes

Our 2010 operating cost was impacted by higher prices for coking coal and utilities. However, our vertically integrated business model and constant efforts to improve the operating efficiency allows the indicator to be still one of the best globally.

### Risks

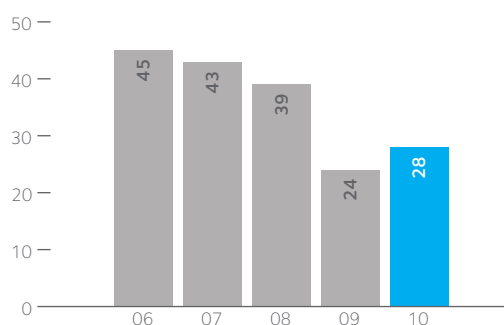
This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

### Outlook for 2011

The cash cost dynamics for steel production will be affected by coking coal, pellet prices and utilities costs. We expect the indicator to remain highly competitive in the industry.



**EBITDA margin****28%****+5p.p.****Definition**

Company's profitability adjusted for non-cash expenses, interest and income tax.

**Comments, reasons behind changes**

The EBITDA margin of the Group is the best indicator representing the success of the strategy to increase output of high value-added products. In 2010 we've seen an improvement of prices for various NLMK products which together with competitive costs enabled us to show an outstanding financial performance.

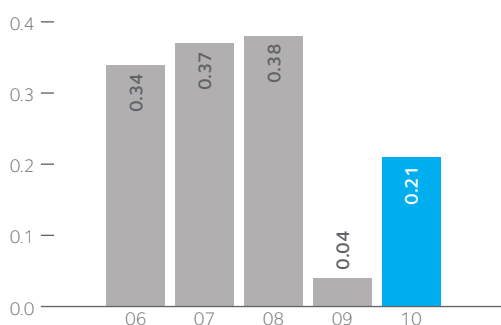
**Risks**

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

**Outlook for 2011**

We expect comparable EBITDA margin in 2011 with some further improvement.

**Net income per share (USD)****\$0.21****x5.8 times****Definition**

Net income for the year per the ordinary share.

**Comments, reasons behind changes**

The overall successful results of the Group along with improving indicators of our associates prove our balanced organic and acquisitions growth strategy. In 2010 we saw one of the best recoveries for net income in the peer group.

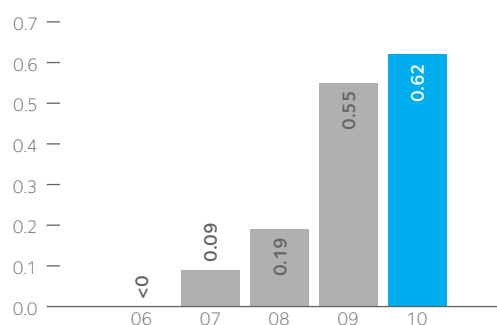
**Risks**

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

**Outlook for 2011**

We expect better results for the indicator in 2011 (not considering one-offs).

**Net debt/EBITDA****0.62****+12%****Definition**

Ability to pay off debt with its own funds, as well as funds from operating activities.

**Comments, reasons behind changes**

In 2010 our net debt increased marginally while the volume of organic investment grew significantly. This comparatively stable level of net debt was supported by a significant level of operating cash flow. Our strong financial position backed by the conservative financial policy is recognized by the top agencies with highest credit ratings in the peer group.

**Risks**

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

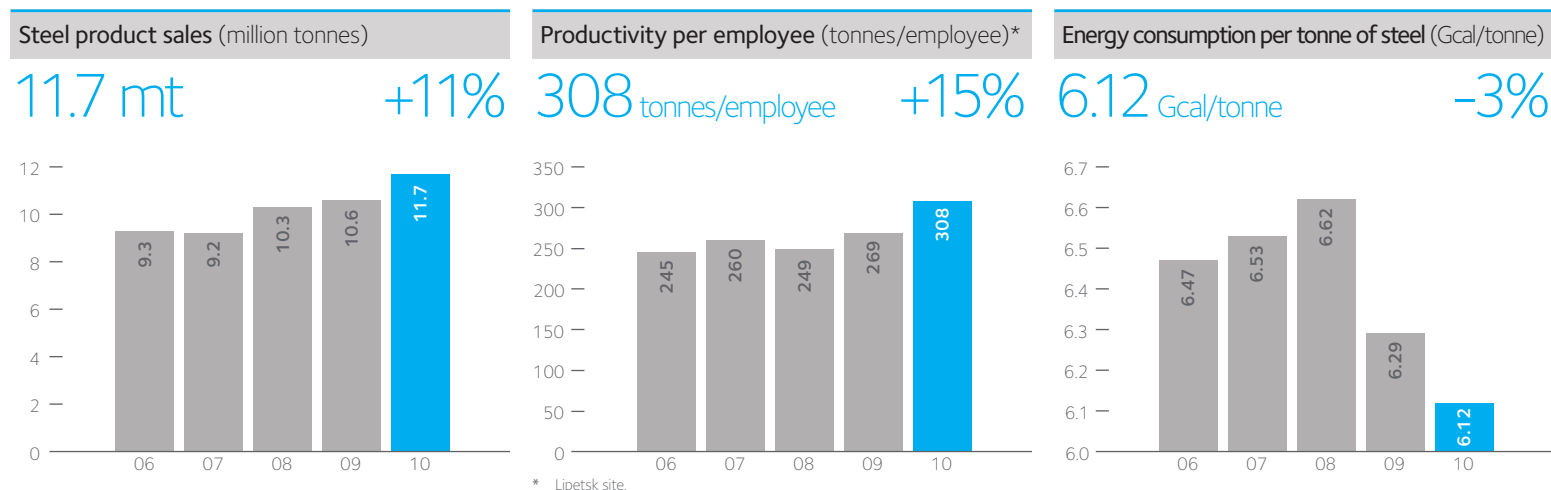
**Outlook for 2011**

The target level set by NLMK is around 1. NLMK management will try to maintain low debt levels to ensure financial stability.

**P.24** For more detailed information on our strategy

A range of non-financial key performance indicators is also regularly monitored by the Company. In addition to financial indicators they help us assess the progress made against our strategic priorities and long-term goals, including sustainable development targets.

## NON-FINANCIAL KEY PERFORMANCE INDICATORS



### Definition

Consolidated steel product sales.

### Comments, reasons behind changes

The improving demand for steel on the local and appropriate export markets was the key driver of the growth.

### Risks

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

### P.38

For detailed information on our approach to risk management

### Outlook for 2011

In 2011, total sales are expected to grow by about 10% assuming high level of utilization rates of the existing assets and launch of the new production facilities.

### Definition

Crude steel production volume per employee at the main production site.

### Comments, reasons behind changes

Our strategy is dedicated to improving the efficiency of operations, as well as streamlining NLMK Group headcount, enabling us to improve the indicator.

### Risks

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

### P.38

For detailed information on our approach to risk management

### Outlook for 2011

We expect that labor productivity will increase as a result of improved equipment efficiency as well as due to further headcount streamlining.

### Definition

Average electric energy consumption to produce one tonne of steel at the Lipetsk site.

### Comments, reasons behind changes

In 2010, lower specific energy intensity was caused by implementation of measures to increase energy efficiency, which helped reduce electric power and fuel consumption. This initiative is in line with our strategy and designed to improve the environmentally-friendly operations.

### Risks

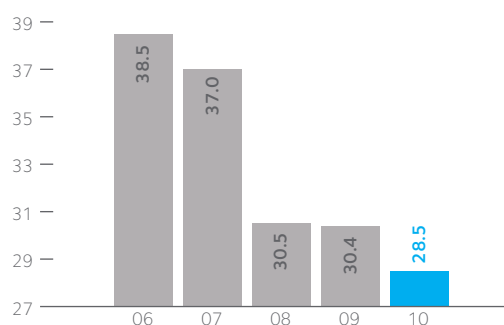
This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

### P.38

For detailed information on our approach to risk management

### Outlook for 2011

The implementation of planned Technical Upgrade Programme activities will improve energy efficiency in steel production at the Lipetsk site.

**Specific emissions of air pollutants (kg/tonne)****28.5** kg/tonne**-6%****Definition**

Total volume of air pollutants per tonne of crude steel.

**Comments, reasons behind changes**

This reduction in the adverse environmental impact is driven by consistent investment in environmental programmes.

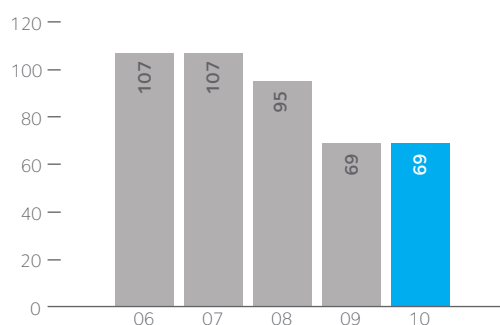
**Risks**

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

**Outlook for 2011**

Stable downward changes are expected due to implementation of environmental sustainability projects, and increased efficiency of steelmaking facilities.

**Accident rate (number)****69** accidents**Definition**

Number of accidents at NLMK Group's Russian assets.

**Comments, reasons behind changes**

The consistent implementation of labor protection and occupational safety systems led to improved safety indicators.

**Risks**

This indicator might be affected by the various types of market, operating, industry, financial and investment risks.

**P.38** For detailed information on our approach to risk management

**Outlook for 2011**

Labor protection and occupational safety systems will be improved further. NLMK management will apply maximum effort to reduce the number of industrial accidents.

**P.24** For more detailed information on our strategy

# QUICK AND TIMELY RESPONSE TO IMPROVED MARKET ENVIRONMENT

NLMK's sales strategy is based on efficient sales channels, a high-performance and flexible marketing system, and effective HR management. The Company continuously monitors and reviews developments in key markets and identifies promising sales opportunities.

Our sales strategy is guided by the following core principles:

- Increased sales of high value-added products;
- Increased sales to domestic markets;
- Marketing of products which comply with best international standards and meet the requirements of leading Western consumers;
- Marketing of Company products in key overseas markets through our own international trading companies;
- Expansion of our presence in regions which offer the highest export sales margins;
- Strengthening our position of niche player in the plates and transformer steel segments;
- Building long-term relationships with clients; and
- Maintaining the ability to divert sales to export destinations in case of weakened domestic demand.

In 2010, total sales of steel products by NLMK Group reached 11.7 million tonnes, which is 11% stronger than in 2009. Increased sales were made possible by a return to positive growth of output in steel-consuming industries.

NLMK is an export-oriented company. In 2010, the share of export sales was 68%, contracting from 73% in 2009. The lower share of exports was caused by higher sales in the domestic market in view of recovery in demand and output by steel-consuming sectors.

At the same time, sales volumes increased across all product groups, with the exception of long steel billets and products, due to relatively worse conditions in the overseas markets.

Flat rolled steel accounted for 48% and the bulk of NLMK Group sales in 2010. This was coupled with an increase in the share of HVA products in consolidated sales, rising from 28% in 2009 to 30% in 2010 and mostly attributed to stronger sales of galvanized and transformer steel flats.

## Domestic sales

NLMK Group sees the domestic market as a priority area, given the opportunities for obtaining an additional price premium and streamlining logistics. In this context NLMK Group seeks to secure a strong position in the Russian

market by capitalizing on its key competitive advantages. Favorable geography, high levels of product quality, loyal client base, flexible pricing policy, and a wide range of niche products allow the Company to occupy a substantial share of the Russian market.

As the markets deteriorated in 2009 we witnessed a decline in the volume of steel products consumption, leading to a contraction of the Company's share in the Russian steel markets. As soon as the markets and output recovered, NLMK Group regained its pre-crisis share of the market. In 2010 the Group accounted for 21% of the Russian CR steel market, 23% of the galvanized steel market, 21% of the pre-painted steel market, and 63% of the electrical steel market. Expansion of our market share in the galvanized steel segment from 19% in 2009 to 23% in 2010 was brought about by the commissioning of new production capacity.

In 2010 NLMK Group sold 3.7 million tonnes of steel products on the domestic market, or +28% year-on-year. Higher sales were driven by stronger demand from steel-consuming industries; this was accompanied by correspondingly stronger prices for steel products.

In terms of the product mix the bulk of domestic sales are long steel (28%) and HR flats (23%). The share of HVA flats sales to the domestic market in 2010 was 48%, or 1 percentage point higher than in 2009.

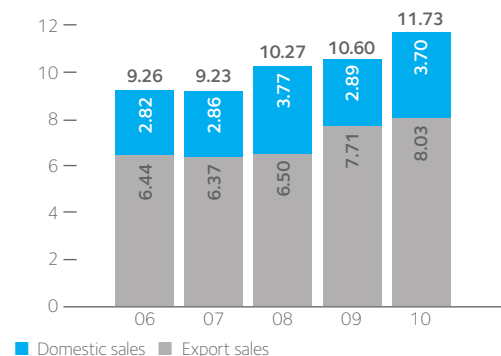
In terms of sector distribution, the major domestic consumers were steel processors and service centres (64%), and the construction sector (24%). The share of the pipe manufacturing industry was 2.9%, while machine-building, electrotechnical and instrument industries accounted for 2.3% each. White goods manufacturers accounted for 1.9%, and the share of the automobile manufacturers was 1.0%.

In terms of geography the Central Economic Region remains NLMK Group's main domestic market, accounting for 59% in 2010. Other major domestic destinations in 2010 included the Urals Region with 10.1%, and the Northern Caucasus with 8.5%.

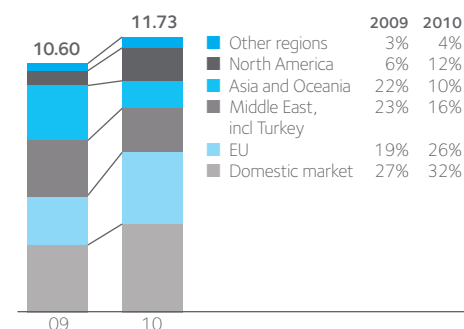
## Export sales

In 2010 NLMK Group exported 8.0 million tonnes of steel products, of which 0.9 million tonnes were produced by our overseas assets. Geographically, EU countries were the main destination for our exports in 2010, accounting for

NLMK Group steel product sales 2006–2010 (mt)



NLMK Group sales by region 2009–2010 (mt)



38% of export sales. Belgium and Italy were the largest importers of NLMK products in Europe. Middle Eastern countries, including Turkey, were the second largest in terms of export sales with 24% of total, while North American destinations ranked third with 17%.

As regards our export product mix, it was dominated by slabs (48%), most of which (50% of all slabs sold) were shipped to DanSteel A/S and our joint venture with Duferco Group (SIF S.A.). This encouraged capacity utilization in Russia and reaffirmed our strategy of processing slabs in locations within close proximity to end consumers. The Group's share of the global market for merchant slabs is close to pre-crisis levels (14%), accounting for a 50% expansion of the market capacity as a whole.

The shares of HR and CR steel in NLMK sales structure reached 24% and 11%, respectively.

NLMK Group also increased its international sales of transformer steel, boosting its share of the global market for this product to 7%.

NLMK Group markets its steel products internationally via its own export trading companies. The presence of trading businesses within the Group ensures effective management of the marketing process and helps to redirect commodity flows in response to market developments.

Given the predominance of slabs in our export product portfolio, overseas steelmakers accounted for about 70% of our exports by sector, while steel processors and service centres accounted for 10% of our exports.

Within the industry break-down for CIS countries, leading importers include manufacturers of white goods (16%), steelmakers, processors and service centres (15% each) and machine-building (14%).

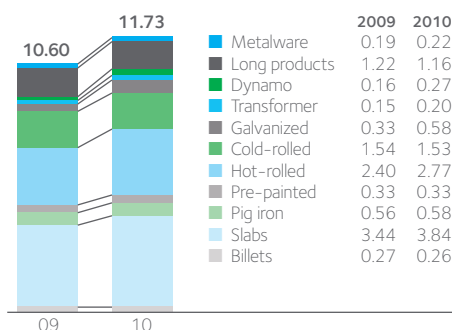
### Outlook

Based on projected growth rates for the global economy and industrial output, we expect stronger demand from steel-consuming industries, which should have a positive impact on our sales. We project that sales of steel products by NLMK Group in 2011 will grow by 10-15%.

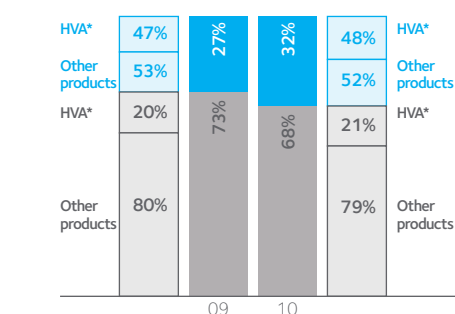
At the same time we expect that the domestic market for steel products will continue to grow in 2011 along with overall growth of the Russian economy. In view of expected growth in domestic consumption of steel, domestic sales by the NLMK Group are projected to grow by 15-20%.

Stronger sales of flat steel will be accompanied by higher sales of long products and metalware. Domestic sales of long products and metalware are expected to grow by 4%, while we continue to maintain our 20% and 22% shares, respectively, of the rebar and low-carbon steel metalware markets. Projected stronger sales of long products assume expected developments in the construction sector, taking into account the time lag between demand for steel products and actual real estate commissioning schedules. According to the Ministry of Regional Development, construction of new housing in Russia in 2011-2013 will grow by 3-5%. Expectations for growth in the industrial and commercial construction sectors are based on the projections for GDP growth in 2011.

NLMK Group sales by product 2009-2010 (mt)



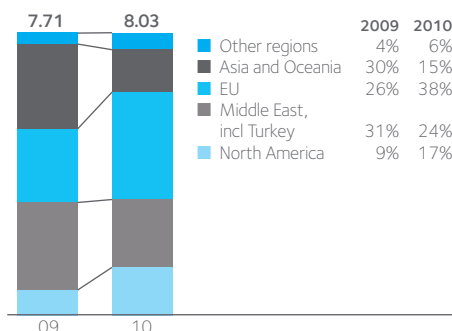
Sales structure 2009-2010



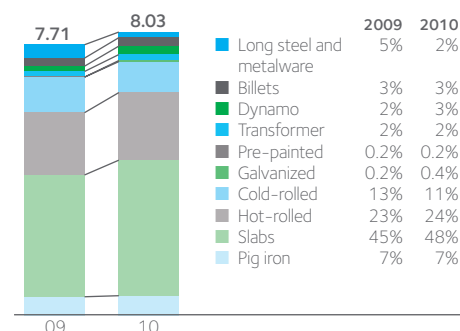
■ Domestic sales ■ Export sales

\* Including plates, CRC, HDG, pre-painted and electrical steel and metalware.

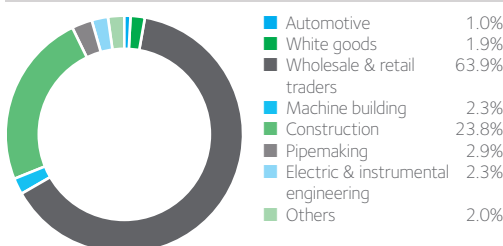
NLMK Group export sales by region 2009-2010 (mt)



NLMK Group export sales 2009-2010 (mt)

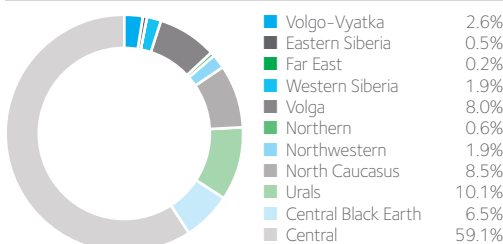


NLMK Group domestic sales by industry in 2010 (%)

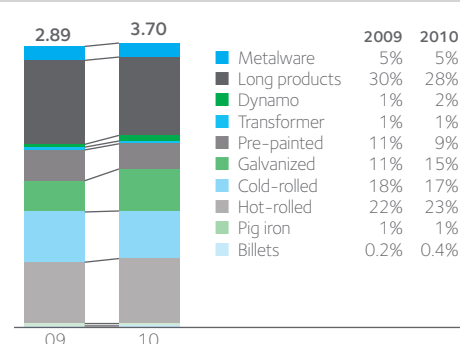


Note: The structure is adjusted to physical units of measurement.

NLMK Group sales by Russian regions in 2010 (%)



NLMK Group domestic sales 2009-2010 (mt)



Performance Review

34	Finance review
38	Risk management
41	Operating review
56	Corporate responsibility



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



“NLMK has performed strongly this year, taking advantage of favorable market conditions and keeping production costs low. We once again confirmed our status as a highly sustainable business, both financially and operationally capable of moving ahead irrespective of the market fluctuations.”

**Alexey Lapshin**  
President

# STRONG FINANCIAL POSITION

In the light of improving conditions, we are planning to expand our production, further penetrate key markets, and boost efficiency.



**Galina Aglyamova**  
Vice-President, Finance

NLMK Director for Economics and Finance and Deputy General Director for Finance since 2000. She joined NLMK as a planning economist in 1985.

Graduated from the Moscow Institute of Steel and Alloys.

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

## Economic developments

As noted above, last year the global economy saw a gradual recovery from the 2008–2009 crisis. Following an uptake in growth in the emerging markets, improvements and upward trends in economic activity reached developed countries as well. Demand for steel from our key consumers (construction, machine-building, automotive, white goods manufacturing, etc.) increased due to higher demand for durable goods and growth in capital investments. Demand for steel products was additionally supported by the implementation of infrastructure projects launched during the crisis.

Significant global steel output growth (+15% year-on-year) resulted in a substantial increase in demand for raw materials, particularly from Chinese manufacturers. 2010 saw a significant growth in raw material prices due to limited offer and high market consolidation. This drove steel prices up, but steelmakers' margins were constrained by the impossibility to pass the rising costs to the consumer. In this context, vertically integrated companies display top efficiency given their control over raw material costs.

## Outlook

We expect the global economy to grow gradually in 2011, positively impacting steel demand. We expect raw material prices to grow given the limited offer in the raw material market and improved operating performance in global steelmaking, further accentuating the competitive advantages of integrated producers. In the light of improving conditions, we are planning to expand our production, further penetrate key markets, and boost efficiency.

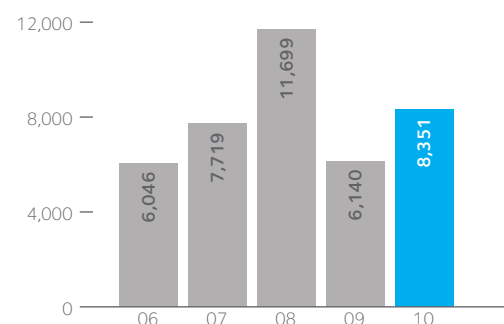
## Debt management

Financial debt is mostly represented by three-year Russian exchange traded bonds issued in year end 2009 – beginning 2010 as well as five-year USD1.6 billion loan attracted in 2008 with the interest rate 3M LIBOR + 1.2%.

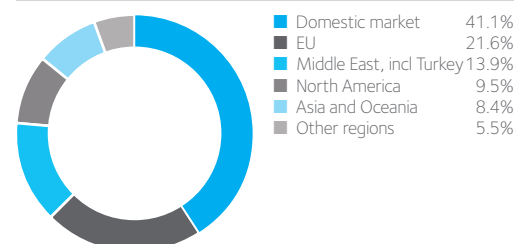
In December 2009 the Group signed a Euro524 million financing facility agreement guaranteed by Export Credit Agencies with a maturity of 7–10 years and interest rate of EURIBOR+1.53%. In 2010, Euro321 million was received from this facility.

In July 2010, NLMK signed a loan agreement worth Euro125 million with the European Bank for Reconstruction and Development (EBRD) to finance its Energy Efficiency Programme.

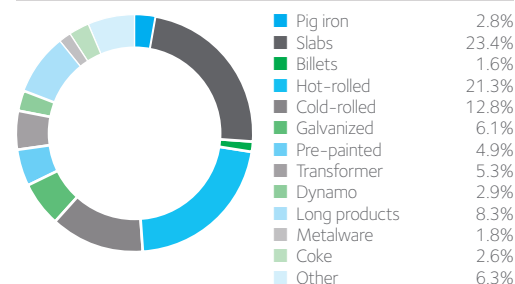
Sales revenue of NLMK Group in 2006–2010 (\$m)



NLMK Group sales revenue structure in 2010 (%)



Sales revenue structure by product 2010 (%)





“We continued to maintain a net debt/EBITDA ratio of around 0.62, one of the best net debt/EBITDA ratios in the world.”

#### Consolidated indicators

USD million	FY 2010	FY 2009	Change, %
Revenue	<b>8,351</b>	6,140	+36%
Gross profit	<b>2,948</b>	1,990	+48%
Operating income	<b>1,795</b>	892	+101%
EBITDA	<b>2,349</b>	1,444	+63%
EBITDA margin (%)	<b>28%</b>	24%	
Net income*	<b>1,255</b>	215	+484%
Net debt/EBITDA	<b>0.62</b>	0.55	

\* Net income attributable to OJSC NLMK shareholders.

#### Income and expenses

In FY 2010 sales revenue reached USD8,351 million (36% increase year-on-year) attributable to higher sales volumes, optimized product mix and growth of average selling prices to USD648/t (+26% to 2009).

With 37%, HVA products dominate the revenue breakdown. Common grades (HRC and long products) accounted for 26%, semis constituted 28%, and other products took 9%. Slab deliveries to Steel Invest and Finance (where they are processed into finished goods) accounted for the bulk of the semis share.

NLMK revenues enjoy wide geographical diversification. We maintained the domestic/export sales balance in 2010. Revenues from sales to the domestic market (that absorbs the bulk of HVA) amounted to 41% (32% in natural terms).

Middle East with 14% and the EU with 22% were our key sales markets in 2010. Slabs supplied to the SIF rolling assets, as well as plates sold by DanSteel accounted for the bulk of European sales, whilst NLMK Indiana (the Group's US-based asset) was the main contributor to sales revenues for North America.

FY 2010 production expenses (excluding depreciation and amortization) amounted to USD4,933 million (+34% year-on-year). The increase in expenses was attributable to higher sales volumes, an increase of tariffs for the products and services of natural monopolies (energy, railways), as well as surging raw material prices. The price factor was partially offset by vertical integration into iron ore, coke and scrap. Moreover, Novolipetsk was able to reduce energy costs due to its partial self-sufficiency in power.

Despite the soar in raw material prices (x2 for pellets and coal; +38% for scrap), Novolipetsk was able to contain the growth of consolidated cash costs within 45% to USD318/t, well below the industry average, due to its self-sufficiency in key raw materials and enhanced efficiency.

Ongoing cost streamlining measures allowed NLMK to cut SG&A by 11% to USD263 million. Commercial costs grew 8% to USD709 million on the back of increased sales.

Higher sales volumes, optimized product mix and an improved market environment backed by strict cost controls enabled NLMK's operating profit to increase twofold to USD1,795 million (+101%), while the operating profit margin increased to 21% (+7 p.p.).

12M 2010 EBITDA totaled 2,349 million (+63%). The EBITDA margin was 28% (+5 p.p.). The Company remains one of the most profitable steelmakers in the world. EBITDA was mostly impacted by revenue growth that fully offset the increase in production costs.

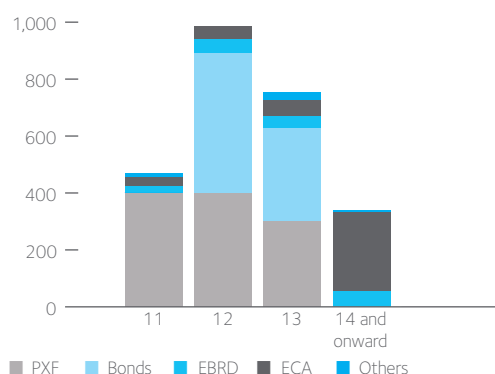
The significant year-on-year reduction of these expenses (USD16 million in 2010, – 91% year-on-year) is attributable to their capitalization as part of construction in progress. The amount of capitalized interest expenses in 2010 was USD173 million in contrast to USD30 million in 2009 (see Note 8 to the Financial Statements).

Therefore the sum of interest charges in 2010 amounted to USD189 million, a 5% reduction due to improved debt structure and lower average interest rates.

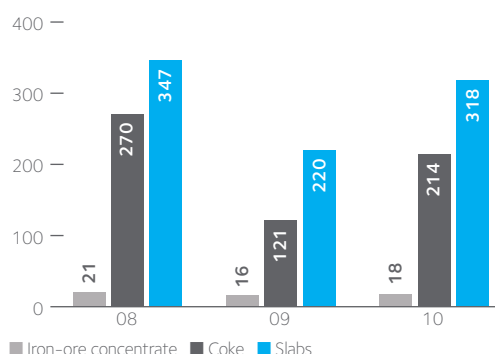
In FY 2010, the net FX loss amounted to USD59 million. This is mainly attributable to the results from the executed forward contracts as well as other FX gains received by the Group.

In FY 2010 the Company recorded net income (attributable to NLMK shareholders) amounting to USD1,255 million, a five-fold increase. Net income margin was 15% (+12 p.p. year-on-year). The substantial increase of the profitability resulted from better financial performance of the Group and a lower level of losses arising from associated companies' results reflected in the NLMK Income statement.

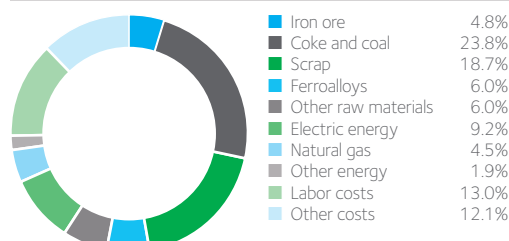
#### Debt maturity (\$m)



#### Key products cash cost in 2008-2010 (\$/t)



#### NLMK Group production cost structure in 2010 (%)



### Balance sheet

As of 31 December 2010 the Group's assets totaled USD13.9 billion, an 11% increase compared to 31 December 2009. The key factors contributing to this increase were capital expenditures that resulted in fixed assets growth and an increase in working capital. The return on assets in 2010 was 10% (+8 p.p. year-on-year).

In 2010 the Company continued to implement its large-scale investment programme, with main launches scheduled for 2011. NLMK's asset value increased substantially (by USD1 billion) on the back of growing production volumes.

In addition to this and higher prices for raw materials, the steel sales prices accounts receivable increased by 38% and inventories grew by 39%. These factors majorly impacted on the growth of the current assets that totaled USD4.1 billion (+6% to the beginning of the year).

We have a sufficient amount of liquid assets with an aggregate of the cash and cash equivalents and short-term investments (majorly represented by ST bank deposits) standing at USD1.2 billion.

The stockholders' equity amounted to USD9.7 billion, a USD1 billion (+11%) increase was largely attributable to the increase of the retained earnings. The share of the equity to the total assets was 70% and the return on equity was 14% (+11 p.p. to the beginning of the year).

Current liabilities of the Group stood at USD1.7 billion, mostly representing financial debt. ST debt stood at USD526 million, which is two times less than the sum of liquid assets.

The Group historically reported a very strong level of solvency and financial stability. Current liquidity ratio was 2.5 and acid ratio was 1.5.

The overall debt leverage is still one of the lowest in the industry. The total debt as of the end of 2010 was USD2.6 billion (+5% to the beginning of the year), of which 80% – is long-term debt. An increase of the caption mainly relates to the attraction of the loan from EBRD guaranteed by export credit agencies.

Net debt as at the end of the year was USD1.5 billion. Net debt to EBITDA was 0.62.

### Cash flow

NLMK Group's solid financial standing is determined by its ability to generate significant cash flow from operating activities.

#### Cash flow from operations

Cash flow from operating activities in FY 2010 amounted to USD1,431 million, +3% year-on-year. Comparatively low growth of operating cash flow is mainly explained by the increase of working capital on the back of the growing prices for raw materials and steel products.

A sufficient volume of cash flow from the operating activities allows us to perform large-scale investments and maintain flexibility to use our own and external funds without significantly increasing the debt leverage.

### Cash flow from investing activities

Cash outflow from investing activities in 12M 2010 amounted to USD1,847 million (+4%). The bulk of the outflow was directed to the purchase of property, plant and equipment (USD1,463 million, +31%).

In 2010 NLMK made placements of available cash and cash equivalents to the ST bank deposits. This transaction was reflected on the captions 'Purchase of investments and placement of bank deposits' (-USD832 million) and 'Proceeds from sale of investments and loans settled' (+USD450 million).

Additionally, the USD28 million acquisition of VMI Recycling Group is also reflected in the investment cash flow.

### Cash flow from financing activities

Net cash used in financing activities in FY 2010 totaled USD79 million. Net cash inflow from an increase of debt (USD132 million) was compensated by the leasing expenses (USD46 million) and dividend payments (USD165 million). Dividends for 2009 (USD43 million) and 6M 2010 (USD122 million) were paid in 2010.

The Group's cash position as at 31 December 2010 totaled USD748 million. The reduction of the amount to the beginning of the FY was attributable to the allocation of cash on deposit accounts (recognized as short-term investments) and significant capital expenditures.

An aggregate of cash and cash equivalents and short-term investments stood at USD1,171 million, confirming the Company's financial sustainability on the back of a low debt load.

### Segments results

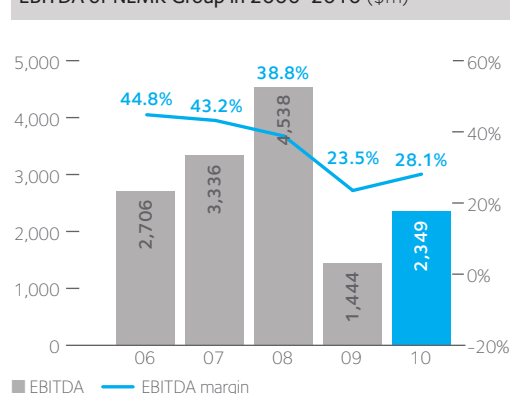
The Steel segment has always been the main contributor to the Group's revenues (86%). This is explained by the scale of operations, as well as by the inclusion of traders within the segment through which other segments' products are sold.

Traditionally, the Steel segment accounts for the bulk of operating profit. However, given the rise in raw material prices in 2010, the Mining segment's profit share increased significantly, reflecting the global trend towards higher margins for mining companies and reduced profitability for steelmakers as seen last year.

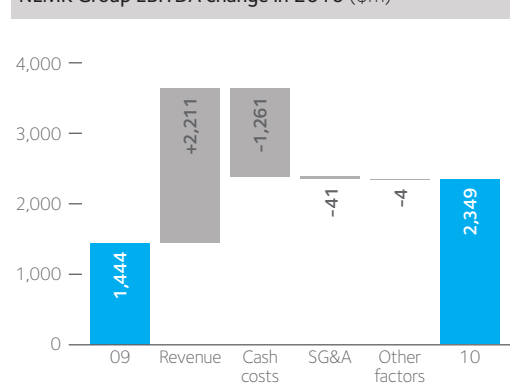
#### Steel segment

USD million	FY 2010	FY 2009	%
Revenue from external customers	7,161	5,305	+35%
Revenue from intersegmental operations	130	99	+31%
Gross profit	1,898	1,587	+20%
Operating profit	1,084	785	+38%
Profit/(loss) after income tax	1,372	1,240	+11%
Capital expenditures	1,071	858	+25%

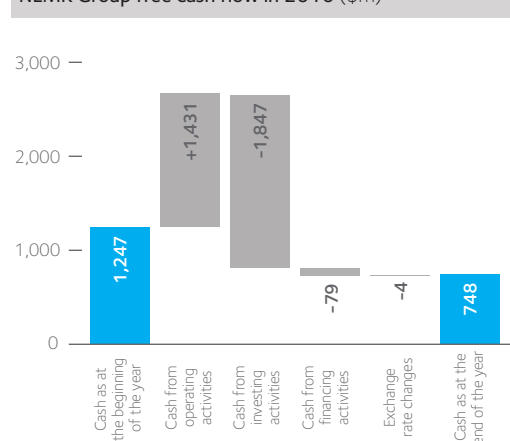
EBITDA of NLMK Group in 2006–2010 (\$m)



NLMK Group EBITDA change in 2010 (\$m)



NLMK Group free cash flow in 2010 (\$m)



The Group's financial performance is largely defined by the performance of the Steel segment, which comprises Novolipetsk, VIZ-Stal (a producer of electrical steel), DanSteel A/S (a thick plates producer), NLMK Indiana (formerly Beta Steel, the US-based steel and flats producer), trading companies Novexco Limited, Cyprus and Novex Trading S.A., Switzerland, as well as a number of service companies (Logistics company NTK and Trading House NLMK).

FY 2010 revenue from external customers amounted to USD7,161 million, which was 35% higher year-on-year driven by improved market environment. Operating profit was USD1,084 million (+38% year-on-year).

The segment's CAPEX in 2010 amounted to USD1.1 billion, or 73% of total investments, with the bulk of it going to Novolipetsk to construct Blast Furnace No.7, upgrade BOF production, etc.

#### Long products segment

USD million	FY 2010	FY 2009	%
Revenue from external customers	865	572	+51%
Revenue from intersegmental operations	512	310	+65%
Gross profit	209	52	+302%
Operating profit	-28	-142	-80%
Profit/(loss) after income tax	-245	-401	-39%
Capital expenditures	254	181	+40%

The Long Products segment includes the Long Products Division companies: NSMMZ, UZPS, scrap collecting and processing facilities and others. The core activities of these companies are scrap collection and processing, steelmaking (EAF based) and long products and metalware manufacturing.

FY 2010 revenue from external customers amounted to USD865 million (a 51% increase year-on-year), operating loss reached USD28 million. The segment's improved FY 2010 financials are attributable to improved market conditions and improved product mix (higher sales of metalware).

The segment's capital expenditures increased by 40% and amounted to USD254 million. Higher investments are attributable to the launch of the new rolling mill at NSMMZ (Berezovskiy mill) and the start of the Kaluga mini-mill construction works.

#### Mining segment

USD million	FY 2010	FY 2009	%
Revenue from external customers	81	85	-4%
Revenue from intersegmental operations	831	430	+93%
Gross profit	604	217	+178%
Operating profit	545	160	+241%
Profit/(loss) after income tax	428	140	+205%
Capital expenditures	126	80	+58%

NLMK's Mining segment comprised 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.

The segment revenue from external customers did not

exceed 10% of overall sales as the bulk of sales are directed to Novolipetsk

Higher sales prices, better operational performance and low cost of production (cash cost per tonne of concentrate stood at USD18, +10% year-on-year) allowed sufficient increases across financial indicators. Sales revenue was almost two times higher and operating profit increased threefold.

Capital expenditures for the segment amounted to USD126 million, +58% as a result of new project initiation. The project is aimed at increasing Stoilensky capacities in order to make the Group self-sufficient in iron ore in view of increasing steelmaking capacities at Novolipetsk.

#### Coke-chemical segment

USD million	FY 2010	FY 2009	%
Revenue from external customers	243	172	+41%
Revenue from intersegmental operations	763	330	+131%
Gross profit	268	100	+167%
Operating profit	225	60	+272%
Profit/(loss) after income tax	176	40	+335%
Capital expenditures	8	2	+246%

The Coke-chemical segment comprises Altai-Koks and its subsidiaries. Altai-Koks is Russia's largest non-integrated coke producer which, together with the coke production facility of Novolipetsk, makes the Group fully self-sufficient in coke.

Higher market prices for coke chemical products allowed us to improve operation and financial results – sales revenue from inter-company operations increased by 131%, operating profit was 3.7 times higher.

#### Credit ratings

NLMK is rated by three leading rating agencies. We are the leader among Russian steel companies according to the credit rating level.

Rating agency	Standard and Poor's	Moody's	Fitch Ratings
NLMK Credit Rating as at 31.12.2010	BBB- (stable)	Ba1 (positive)	BB+ (stable)

In March 2010 Standard & Poor's, the international rating agency, raised its outlook for NLMK's BBB- corporate rating from 'negative' to 'stable' and revised its national scale rating from ruAA+ to ruAAA (the highest level of Standard and Poor's Russian scale). Also in March 2010 Standard & Poor's assigned a BBB- priority unsecured debt rating to NLMK's ruble bonds. The bonds issue volume is RUR10 billion.

In June 2010 Moody's Investors Service changed the outlook for NLMK's Ba1 corporate family rating and the outlook on NLMK's Aa1.ru national scale rating to 'positive' from 'stable'.

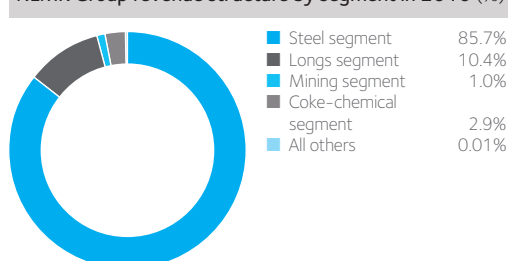
#### Subsequent events

In May 2011 Fitch upgraded the Company's long-term credit rating from BB+ to the investment grade level at BBB- with a stable outlook.

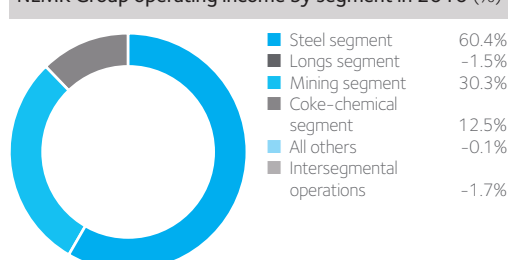
## P.79

For more detailed information on our financial results see the Financial statement

NLMK Group revenue structure by segment in 2010 (%)



NLMK Group operating income by segment in 2010 (%)



# MANAGING AND MITIGATING OUR RISKS

The Company’s risk management efforts are focused on mitigating the potential negative impact on its business from changes in the external and domestic environment.

**Risk management policy**

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

- Identification and constant monitoring of risks;
- Assessment of potential risk impact on Company operations;
- Distribution of responsibility by risk owners;
- Development of risk mitigation actions;
- Monitoring of critical risks; and
- Risk management reporting.

Within the integrated approach to risk management the responsibilities of core participants are distributed as described in the following table.

In 2008-2009 NLMK engaged Marsh, a leading risk management consultant, in a joint exercise to assess the effectiveness of the existing risk management system, and developed recommendations on how to improve it, drafting internal documents regulating the Company’s risk management process. In 2010 the Company completed its first independent annual risk management cycle.

RISK RESPONSIBILITIES	
Authority	Responsibility
Board of Directors	Assure shareholders that the Company has identified key risks and is successfully managing them
Management Board	Monitor effectiveness of the risk management system and internal audit function
Vice Presidents, Division Heads (risk owners)	Identify division-specific risks and implement risk management actions
Vice President (CFO)	Monitor performance of the risk management system, generate consolidated risk management reports
Business Units	Identify risks, define and implement risk management practices

## MARKET RISKS:

RAW MATERIALS AND SUPPLIES		IMPACT LEVEL: CRITICAL
<p><b>Description:</b> Risks related to raw materials and supplies are among the most significant for the Company.</p> <p>Raw material supplies are subject to risks specific for each individual sector of the market.</p> <p><b>Comments:</b> High degree of self-sufficiency in raw materials.</p> <p><b>Mitigation measures:</b> Measures to mitigate risks associated with raw materials</p>	<p>stem from our strategy to develop our own raw materials base. At present, NLMK is fully self-sufficient in iron ore concentrate, fluxes, coke and to a large extent in ferrous scrap.</p> <p>Over a number of years the Company has been pursuing a consistent policy of diversifying its supplier base.</p> <p>Currently all purchases of raw materials, supplies and equipment are based on market analysis, tenders and negotiations with suppliers for long-term contracts and fixed purchase prices.</p>	<p>The Group includes the NLMK Trading House, which in part centralizes the commercial functions for Group businesses. In this manner the Company is able to minimize its purchasing costs and streamline its transportation expenses.</p> <p><b>2010 developments:</b> Slab cash cost was USD318/t, one of the lowest in the global steel industry.</p>

FINISHED PRODUCTS		IMPACT LEVEL: CRITICAL
<b>Description:</b> <ul style="list-style-type: none"> <li>• Cyclical nature of demand for steel;</li> <li>• Price risks due to volatility of steel prices, both international and domestic;</li> <li>• Credit risks caused by failure of customers to pay for delivered products;</li> <li>• International and domestic macro-economic risks, including economic growth rates, inflationary expectations and energy prices;</li> </ul>	<ul style="list-style-type: none"> <li>• Imposition of quotas and other trade barriers in key export markets; and</li> <li>• Increased competition from other producers, including steelmakers in developing countries.</li> </ul> <b>Comments:</b> Risks related to sales of products in various markets remain among the most significant risks for the Company.	<ul style="list-style-type: none"> <li>• Sales diversification by region and by product;</li> <li>• Flexible sales system allowing shifting product flows among markets;</li> <li>• Exports done through traders; and</li> <li>• Prompt resolution of customer arrears and negotiation of acceptable terms of payment.</li> </ul> <b>2010 developments:</b> Growth in steel sales by 11% to a record level of 11.7 mt in 2010.

## INDUSTRY RISKS:

RISKS RELATED TO DOMESTIC NATURAL MONOPOLIES		IMPACT LEVEL: CRITICAL
<b>Description:</b> Risks associated with the transportation of raw materials and semi-finished products to production sites and delivery of products to customers.  Key energy resources (natural gas, electric power) are supplied by Russian natural monopolies, giving rise to the risks of government regulation of prices in the medium term.	<b>Mitigation measures:</b> NLMK Group includes the Independent Transport Company (NTK)*, a subsidiary with its own fleet of railroad cars, which provides for uninterrupted deliveries of raw materials and finished products to and from Group businesses.  The Company pursues a policy of increasing its self-sufficiency in energy resources, procures resources on the unregulated market, and intends to become 55% self-sufficient in electric power by implementing Phase 2 of its CAPEX programme. In order to mitigate regulatory risks in the energy sector the Company	participates in the work of standing advisory bodies and public organizations.  <b>2010 developments:</b> Over 40% of the energy needs of our main production site are covered by in-house generation using by-product gases from blast furnace operations.  * Disposed in 2011.

## OPERATING RISKS:

PROPERTY RISKS		IMPACT LEVEL: CRITICAL
<b>Description:</b> 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.	<b>Mitigation measures:</b> 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.  NLMK Group's major businesses take out insurance for their 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 programmes, which provide for the most favorable pricing terms, as well as guaranteed insurance indemnity paid in case of an insured event.  <b>2010 developments:</b> No accidents resulting in long-term production interruptions.

## INVESTMENT RISKS:

PROJECT RISKS		IMPACT LEVEL: CRITICAL
<b>Description:</b> Risks associated with completing the development programme projects.	<b>Mitigation measures:</b> Main measures taken to mitigate this risk include: <ul style="list-style-type: none"> <li>• Reviews of the Technical Upgrade and Development Programme in order to identify the key and most effective projects which would continue to be financed on a priority basis; and</li> <li>• Borrowing from international capital markets to finance investment projects.</li> </ul>	<b>2010 developments:</b> In 2010 NLMK received Euro321 million under the financing facility agreement guaranteed by ECA to finance the purchase of imported equipment.  In 2010 NLMK signed a long-term loan agreement worth Euro125 million with the EBRD to finance its Energy Efficiency Programme.

ACQUISITION AND DISPOSAL RISKS		IMPACT LEVEL: SIGNIFICANT
<b>Description:</b> The Company has been actively pursuing a strategy of growth through acquisitions. At present key risks are associated with failure of these acquisitions to produce expected results.	<b>Mitigation measures:</b> 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.	<b>2010 developments:</b> Dynamic expansion through disciplined and synergy-driven M&A activity.  SIF rolling assets situated in EU and USA allow us to assure stable sales of Russian semi-products to strategic European and American markets.

<b>RISK OF IMPAIRED INVESTMENT CASE</b>	<b>IMPACT LEVEL: SIGNIFICANT</b>
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<b>Description:</b> Risks associated with how markets perceive the Company.	<b>Mitigation measures:</b> 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.	<b>2010 developments:</b> In 2010 our Investor Relations programme was ranked third among European Metals and Mining companies by Institutional Investor.
<b>Comments:</b> Balanced development and information policies.		

## FINANCIAL RISKS:

<b>CURRENCY RISKS</b>	<b>IMPACT LEVEL: CRITICAL</b>
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<b>Description:</b> 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 roubles.	<b>Mitigation measures:</b> In order to mitigate currency risks the Company's export programme assumes projected exchange rate movements for major currencies. When concluding export contracts, the Company hedges its foreign currency operations through matching the currencies of cash inflows and outflows.	
<b>Comments:</b> When exchange rates move widely, this has an important impact on the Company's financial performance.		

<b>INTEREST RATE RISK</b>	<b>IMPACT LEVEL: INSIGNIFICANT</b>
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<b>Description:</b> Risks related to possible changes of the interest rates because the Company borrows internationally in foreign currencies (Euro, USD).	<b>Mitigation measures:</b> The Company reviews interest rate risks on a regular basis and analyzes potential consequences to ensure proper risk management. In order to mitigate this risk, the Company takes measures to strike a proper balance between borrowing at fixed and floating rates.	
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## SOCIAL RISKS:

<b>ENVIRONMENTAL RISKS</b>	<b>IMPACT LEVEL: INSIGNIFICANT</b>
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<b>Description:</b> Environmental risks emerge in the course of construction and operation of production facilities, and in cases of likely adverse impact on the environment.	<b>Mitigation measures:</b> In order to mitigate environmental risks the Company performs regular monitoring of air emissions and effluents. The overall environmental impact is further reduced through commissioning of advanced environmentally friendly technologies and upgrading of existing equipment.  NLMK Group businesses carry third-party liability insurance against accidents while operating hazardous production facilities.	<b>2010 developments:</b> Novolipetsk was awarded one of Russia's Top 100 – Ecology and Environmental Management for its environmental activity in 2010.  Investments in environmental projects increased to USD150 million (+9% to 2009).  Recycling rate exceeds 100%.  Zero effluent discharge at the Lipetsk site.
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<b>PERSONNEL RISKS</b>	<b>IMPACT LEVEL: INSIGNIFICANT</b>
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<b>Description:</b> Personnel risks for the Company may emerge in the form of undesirable developments in employment and the social sector.	<b>Mitigation measures:</b> In order to address personnel risks the Company has elaborated a set of corporate personnel management standards regulating hiring and dismissal, training and professional skills assessment processes, staff awards, engagement of young employees, and the implementation of other internal social programmes aimed at improving the health and social welfare of our employees, etc.	<b>2010 developments:</b> Over 30,000 employees completed professional training programmes in 2010.
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**P.24** For more detailed information on our strategy



# IMPROVED OPERATIONAL PERFORMANCE

Against the background of recovering demand for steel, NLMK's effective arrangement for managing its production assets in conjunction with the Group's flexible sales system allowed the Company to gain major improvements in its operational performance.

## CONSOLIDATED HIGHLIGHTS

In 2010 the Group increased its output of crude steel by 9% to 11.5 million tonnes, most of which was attributed to increased output at Novolipetsk. In 2010 the Company produced 7.1 million tonnes of rolled steel, a 12% increase year-on-year and 3.9 million tonnes of semi-finished steel products, for an increase of 4%. To a large extent the improvements in production of flat steel were driven by higher output of finished products, including plates, galvanized and electrical rolled steel. Overall for the Group steelmaking facilities were operating at 97% of capacity, or 4 percentage points higher than in the previous year.



**P.42** For detailed information on Flat Steel production



**P.48** For detailed information on Long Steel production



**P.50** For detailed information on Mining



**P.52** For detailed information on Coke and Coal production



**P.54** For detailed information on our supporting businesses

## CONSOLIDATED OPERATING RESULTS

	2009 '000 tonnes	2010 '000 tonnes	+/-	Change %
<b>Pig iron</b>	<b>8,476</b>	<b>9,265</b>	<b>789</b>	<b>9%</b>
<b>Steel</b>	<b>10,614</b>	<b>11,547</b>	<b>933</b>	<b>9%</b>
Novolipetsk	8,507	9,288	781	9%
NLMK Long Products	1,715	1,701	-14	-1%
NLMK Indiana	392	558	166	42%
<b>Commercial pig iron</b>	<b>510</b>	<b>649</b>	<b>139</b>	<b>27%</b>
<b>Semi-finished steel products</b>	<b>3,709</b>	<b>3,861</b>	<b>152</b>	<b>4%</b>
Slabs	3,440	3,614	173	5%
Billet	269	247	-21	-8%
<b>Total rolled products</b>	<b>6,366</b>	<b>7,114</b>	<b>748</b>	<b>12%</b>
<b>Flats</b>	<b>5,002</b>	<b>5,710</b>	<b>708</b>	<b>14%</b>
Plates	208	378	169	81%
HRC	2,282	2,422	140	6%
CRC	1,535	1,497	-39	-3%
HDG	350	604	253	72%
Pre-painted steel	333	339	5	2%
Transformer steel	131	195	65	50%
Dynamo steel	163	276	113	70%
<b>Long products and metalware</b>	<b>1,364</b>	<b>1,404</b>	<b>40</b>	<b>3%</b>
Long products	1,174	1,183	9	1%
Metalware	190	221	31	16%
<b>Total steel products</b>	<b>10,586</b>	<b>11,624</b>	<b>1,038</b>	<b>10%</b>

# FLAT STEEL – RECORD PRODUCTION RESULTS



## FLAT STEEL

Flat Steel segment delivered record production results in 2010. Over 75% of NLMK's output is flat steel ranging from slabs (#1 in the global merchant slab market) to sophisticated value added and niche products sold to the customers in construction and infrastructure, machinery building, capital goods, energy sectors worldwide.


**Igor Anisimov**

Senior Vice-President, General Director, Ph.D., Ec.

Mr Anisimov started his career with NLMK in 1995 as an engineer. He served as Vice-President, Technical Upgrade and Development, between 2007 and October 2010. In late 2010 he became Senior Vice-President, General Director of NLMK. Mr Anisimov graduated from the Karaganda State University and the All-Russian Distance-Learning Institute of Finance and Economics.

# FLAT STEEL

## OPERATING COMPANIES

Novolipetsk,  
VIZ-Stal,  
DanSteel A/S,  
NLMK Indiana,  
Steel Invest  
and Finance (JV)

## LOCATIONS

Lipetsk,  
Yekaterinburg (Russia),  
Frederiksvaerk (Denmark),  
Portage (USA),  
Europe and USA

## PRODUCTS

Pig iron, slabs, hot-rolled steel  
(including thick plates), galvanized  
steel, pre-painted steel, transformer  
steel and dynamo steel

## HIGHLIGHTS

**9.8 mt**  
CRUDE STEEL OUTPUT

**5.7 mt**  
FLAT STEEL OUTPUT  
(excluding SIF)

### FLAT STEEL – RUSSIAN ASSETS

Within the Group, flat steel products are manufactured by Novolipetsk, VIZ-Stal, NLMK Indiana, DanSteel, and the Steel Invest and Finance (SIF) joint venture.

#### Novolipetsk

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

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

Novolipetsk enjoys an extensive customer base and ships its products to businesses operating in a number of sectors, including construction, automobile manufacturing, machine-building, ship-building and manufacturing of electrical equipment.

Novolipetsk managers focus their efforts on meeting customer demands for high-quality products whilst maintaining high levels of output and the business' standing as one of the lowest-cost steel producers in the world. Our products have been certified by leading Russian and international certification authorities.

Novolipetsk implemented a quality assurance policy formalizing its commitment to ensuring that it continues to manufacture products of a quality which meets our customers' expectations and requirements, whilst fulfilling our obligations with respect to our personnel, shareholders and the community.

Novolipetsk products have been certified by leading Russian and international authorities. In 2010 Novolipetsk successfully completed a TÜV SÜD (Germany) certification audit for compliance with the ISO/TS 16949 international standard; this implies that the manufacturer is recognized as a potential supplier for the global automotive industry.

## NLMK FLAT STEEL OPERATING PERFORMANCE

Assets	Location	Steel/flats	2010 output (mt)
<b>Russian assets</b>			
Novolipetsk	Lipetsk, Russia	Steel	9.3
		Flats	4.8
VIZ-Stal	Yekaterinburg, Russia	Electrical steel	0.2
<b>International assets</b>			
DanSteel A/S	Frederiksvaerk, Denmark	Plates	0.4
NLMK Indiana	Portage, IN, US	Steel	0.6
		Flats	0.6
<b>Joint ventures (50/50)</b>			
Steel Invest and Finance	US, EU	Steel	0.7
		Flats <sup>1</sup>	3.1
		Long products <sup>1</sup>	0.1

<sup>1</sup> Data on product sales.

In the course of a different TÜV SÜD (Germany) certification audit, Novolipetsk Quality Management Systems were found to be compliant with ISO 9001: 2008 (all Company operations, from contracting to sale of products to customer, are in line with international requirements) and appropriate EU Directives, and Novolipetsk was allowed to use the CE mark for identifying steel products used in the construction industry.

The Group's main production site is a fully integrated iron and steel maker occupying a plot of approximately 27 square kilometers in Lipetsk. High concentration of production facilities within a single site allows for effective organization of the production cycle and defines Novolipetsk's major competitive advantage in low-cost production of steel.

Another key competitive advantage of Novolipetsk is its strong technology base. Its Technical Upgrade Programme calls for extensive technology renewal and modernization.

In 2010 Novolipetsk commissioned two ladle furnaces with a combined annual capacity of approximately eight million tonnes of steel. Utilization of this technology will allow the Company to reduce steel processing costs, achieving maximum improvements in quality, and to increase output of new grades of steel used by the automotive industry and for the manufacture of household appliances and pipes. In 2011 the Company expects to commission two additional ladle furnaces with a combined capacity of circa 4 million tonnes. This will increase the volume of steel processed at the main site to 12 million tonnes per annum.

Last year Novolipetsk completed the reconstruction of gas exhaust ducts and installed a fugitive exhaust capturing system in BOF Shop No.1. Since 2009 three BOFs have been gradually equipped with new air suction systems. Implementation of this project reduces the environmental impact of steelmaking facilities by more than one half.

In 2010 Novolipetsk manufactured the first batch of products using its new machine for insulation coating of transformer steel, thus making yet another step towards

implementing the technology required to produce nano-structured high permeability grain-oriented steel in Russia. Given the strong global demand for this product, the Company will be able to strengthen its presence in the global markets and ensure stable sales.

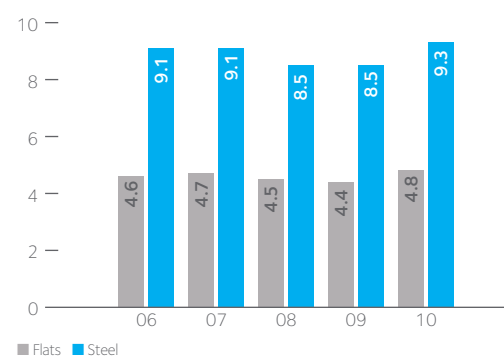
Recovery in global steel markets, accompanied by growing demand for Company products, was the main driver for Novolipetsk's improved operational performance. In 2010 steelmaking capacity at Novolipetsk reached 100%, compared to 93% in 2009. Steel output at Novolipetsk increased by 9% and reached 9.3 million tonnes, a record high in the last 20 years. The Company produced 4.0 million tonnes of slabs (an increase of 11% over 2009) and 4.8 million tonnes of rolled flat steel (an 8% increase) in 2010. Increased output of flat steel was mostly driven by higher production of galvanized and electrical steel due to recovery in demand from key consumers of steel, including the automotive, construction, machine-building and instrument-making industries. Production of high value-added products increased by 14%.

#### VIZ-Stal

VIZ-Stal is Russia's largest producer of transformer steel, accounting for 70% of the Russian market. It is a semi-integrated steelmaker and manufacturer of cold-rolled transformer and dynamo steel with various types of electric insulation coating. VIZ-Stal products are used in the manufacturing of electrical machinery and equipment. Its production capabilities combine rolling and heat treatment machines for processing of hot-rolled re-rolling stock with special chemical properties supplied by Novolipetsk.

Given the stabilization in demand for electrical rolled stock in 2010, VIZ-Stal saw an increase in demand for its products. This led to the significant increase in production of transformer flat steel of 51% over 2009. At the same time the utilization rate of its anisotropic steel capacities increased substantially from 53% in 2009 to 91% in 2010.

2006–2010 Novolipetsk steel and flats output (mt)



## NOVOLIPETSK OPERATING PERFORMANCE

	2009	2010	Change	
	'000 tonnes	'000 tonnes	+/-	%
<b>Sinter</b>	<b>13,335</b>	<b>14,177</b>	<b>842</b>	<b>6%</b>
<b>Coke 6% moisture</b>	<b>2,425</b>	<b>2,476</b>	<b>51</b>	<b>2%</b>
<b>Steel</b>	<b>8,507</b>	<b>9,288</b>	<b>781</b>	<b>9%</b>
<b>Pig iron</b>	<b>8,476</b>	<b>9,265</b>	<b>789</b>	<b>9%</b>
<b>Finished products:</b>				
<b>Commercial pig iron</b>	<b>510</b>	<b>649</b>	<b>139</b>	<b>27%</b>
<b>Slabs</b>	<b>3,598</b>	<b>3,981</b>	<b>383</b>	<b>11%</b>
<b>Flat steel</b>	<b>4,432</b>	<b>4,782</b>	<b>350</b>	<b>8%</b>
HRC	2,023	2,027	4	0%
CRC	1,535	1,497	-39	-3%
HDG	350	604	253	72%
Pre-painted steel	333	339	5	2%
Transformer steel	29	42	13	45%
Dynamo steel	162	275	114	70%
<b>Total steel products</b>	<b>8,540</b>	<b>9,412</b>	<b>872</b>	<b>10%</b>

VIZ-Stal is an export-oriented business, with exports accounting for 84%, or 129,000 tonnes, in total sales for 2010. This is 60% higher than the 81,000 tonnes exported in 2009.

Overall, global demand for 2011 is estimated at 2.1–2.2 million tonnes. In subsequent years demand is projected to grow at a rate of 10% per year. In 2011 VIZ-Stal is expected to diversify its exports and increase sales to India, Italy, Turkey and Ukraine.

In order to meet customer expectations and enhance the competitiveness of its products, VIZ-Stal is expanding its product portfolio, diversifying across destinations and customers, and improving the quality of its products. It is also launching production of a new product line, high permeability grain-oriented steel, which is expected to reach 70,000 tonnes beginning in 2014.

VIZ-Stal is pursuing a programme for reducing operating and other expenses, is streamlining its inventory stockpiles and collecting receivables from customers on a timelier basis.

#### FLAT STEEL – INTERNATIONAL ASSETS

##### NLMK Indiana

NLMK Indiana is a producer of steel and hot-rolled products. It specializes in the manufacture of hot-rolled coils and markets these to service centres and pipe manufacturers. NLMK Indiana operates electric arc smelting facilities and rolling facilities with capacity of 0.7 million tpa and 0.9 million tpa, respectively.

The Company benefits from being located close to both key consumers and suppliers of scrap, which helps to streamline transportation costs.

NLMK Indiana boasts cutting edge technology allowing it to produce a wide range of high-quality steel products.

In 2010 NLMK Indiana significantly expanded its product mix in high carbon and alloyed steel. The bulk of its rolled products were delivered to Farrell, which is part of the joint

venture with Duferco. Through successful cooperation between NLMK Indiana and Farrell the specialized steel division expanded its share of the US market and gained a strong and promising position in the market for high value-added products.

In 2010 NLMK Indiana produced 558,000 tonnes of crude steel, 42% more than in 2009. Production of hot-rolled flat steel increased by 199,000 tonnes, growing by 53%. Increased output was driven by reduced down-time and lower spoilage during rolling. In 2010 the Company also performed scheduled maintenance and modernization of installed equipment in order to meet the rising demand in the US steel market.

NLMK Indiana will continue to target further growth in 2011 by expanding its capacity, improving quality and extending its customer base.

##### DanSteel A/S

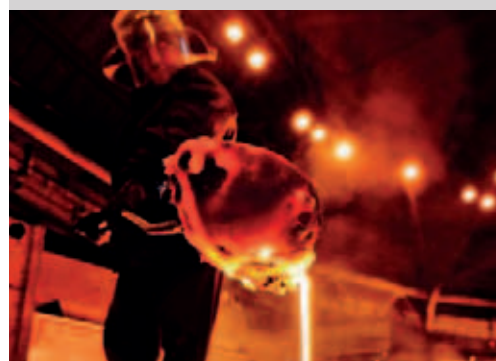
DanSteel A/S is a Danish producer of hot-rolled plates. Its core production assets include a plate rolling mill, a heavy plate processing centre, a service centre, a loading facility and its own sea port used for delivering slabs and shipping finished products.

Its main product is steel plate 6 to 150 mm thick, which is used in shipbuilding, the energy sector, machine-building and the construction sector. In addition, DanSteel A/S occupies a niche position in the market for steel plates used in the construction of large-scale off-shore wind power facilities.

The Company is primarily focused on the EU market. DanSteel A/S accounts for about 4.5% of the European steel plate market.

DanSteel A/S is one of the major buyers of slabs produced by NLMK. In 2010 NLMK sold 0.4 million tonnes of slabs to DanSteel A/S. The Company also engages in technological cooperation with Steel Invest and Finance (SIF) businesses, including Verona Steel and Duferco Clabecq.

#### 100% UTILIZATION OF STEELMAKING CAPACITIES AT LIPETSK PLANT



Our flat steel segment performed strongly in 2010 achieving record production output. Our steelmaking facilities located in Russia were running at 100% delivering sustainable operational performance through the cycle.

## VIZ-STAL OPERATING PERFORMANCE

	2009 '000 tonnes	2010 '000 tonnes	Change +/-	%
Transformer steel	102	154	52	51%
Dynamo steel	0.8	0.7	-0.1	-10%
<b>Total</b>	<b>103</b>	<b>155</b>	<b>52</b>	<b>50%</b>

## NLMK INDIANA OPERATING PERFORMANCE

	2009 '000 tonnes	2010 '000 tonnes	Change +/-	%
Steel	392	558	166	42%
HRC	373	572	199	53%



In 2010 DanSteel A/S produced 0.38 million tonnes of plates, an increase of 81% over 2009. Increased output was driven by growing demand from key consumers against the background of recovery in the European markets.

With a view to improving the quality of its products and strengthening its competitive advantage, DanSteel A/S completed the construction of a thick plate processing center; and continued to implement a new production planning and management IT system: pre-design activities have started for the new 4200 mill with construction scheduled for completion in 2012. The Company also continued upgrading the existing production capacity, allowing it to expand its product mix.

#### Steel Invest and Finance joint venture

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

The joint venture comprises 9 production assets located in Belgium, France, Italy and the US. Its distribution division is represented by service centres in the EU (France, Belgium and the Czech Republic), as well as a trading company.

SIF's key competitive advantages are its high share of value-added products, which exceed 50% of total sales, and include plates, cold-rolled and pre-painted steel, a diversified sales profile and strong marketing system.

SIF operates in three core business areas: EU Flat Products; EU Plates; and US Flat Products.

#### EU Flat Products Division includes:

- **Duferco La Louvière S.A.**, a producer of flat products, including hot-rolled, pickled, cold-rolled and long products, including wire rod and wire. The Company relies on EAF technology, allowing it flexibility in production;
- **Duferco Coating S.A. (Beautour & Sorral)** specializes in pre-painted steels; Beautour produces electrogalvanized steel sheet, while Sorral is a producer of galvanized coils, pre-painted sheets and rolled products;

- **Carsid S.A.** is an integrated slab producer (starting from November 2008 the facility remains idle); and
- **Duferco Transformation Europe S.A. (DTE Group)** comprises 7 service centres located in France, Belgium and the Czech Republic. Businesses within the DTE Group provide after-sales processing and are also engaged in distribution.

Construction, automotive, machine-building and pipe manufacturing industries are the primary customers of EU Flat Products, most of whom are located close to the production sites in Germany, France and the Benelux countries. In addition to minimizing transportation costs, this helps with improved customer service. The Division benefits significantly from integration with NLMK and operates an effective slab processing model, with the bulk of slabs supplied by Novolipetsk. The CAPEX programme for this division aims at boosting production capacity, expanding the product mix, improving energy efficiency, increasing labor productivity, and reducing the adverse environmental impact.

Core strategic objectives for 2011 include:

- Improved product quality;
- Streamlined working capital profile; and
- Increased supplies of NLMK slabs to Duferco La Louvière

#### EU Plates Division includes:

- **Verona Steel S.p.A.**, a producer of plates and bars
- **Duferco Clabecq**, a producer of plates

Utilizing slabs which are largely supplied by NLMK, these companies maintain high-quality rolling assets and produce a wide range of plates, varying from 3.0 to 1,000 mm in thickness. Verona Steel also produces special quality slabs and ingots for forging. The companies' products enjoy sound demand from the energy, machine-building and construction sectors, and are shipped to a wide range of destinations. Key markets include European countries, such as Germany, France and Italy. HVA products are sold to the global market.

As part of the CAPEX programme in 2010, the companies launched the commissioning of heat treatment equipment, including a quenching and tempering line. These projects are scheduled for completion in H1 2011, including the final launch of all equipment. Commissioning of new technology is part of the strategy to expand capacity for the production of high value-added products.

Core strategic objectives for 2011 include:

- Expanded portfolio of HVA products;
- Improved quality and increased efficiency of production to strengthen positions in the global market.

#### US Flat Products Division includes:

- **Duferco Farrell Corporation**, a producer of hot-rolled, pickled and cold-rolled steel; and
- **Sharon Coating LLC**, a US-based producer of galvanized steel.

As part of its specialized steel business development efforts, Duferco Farrell continued to procure high carbon and alloyed steel from NLMK Indiana, including slabs and hot-rolled steel. This cooperation resulted in an increased share of the North American market and allowed the company to gain a strong and promising position in the high value-added products market.

Sharon Coating LLC's production lines include three continuous hot-dip galvanizing lines with capacity of 0.8 mtpa, and located on a single production site in Pennsylvania, USA. The company was acquired in June 2007, after the joint venture had been formed. CR drawing steels serve as the input for producing galvanized coil, and are supplied predominantly by the Duferco Farrell Corporation.

North America, predominantly the US, is the core market for the US Flat Products Division. Its key consumers are construction, the pipe manufacturing industry, as well as service centres and metal traders.

## DANSTEEL A/S OPERATING PERFORMANCE

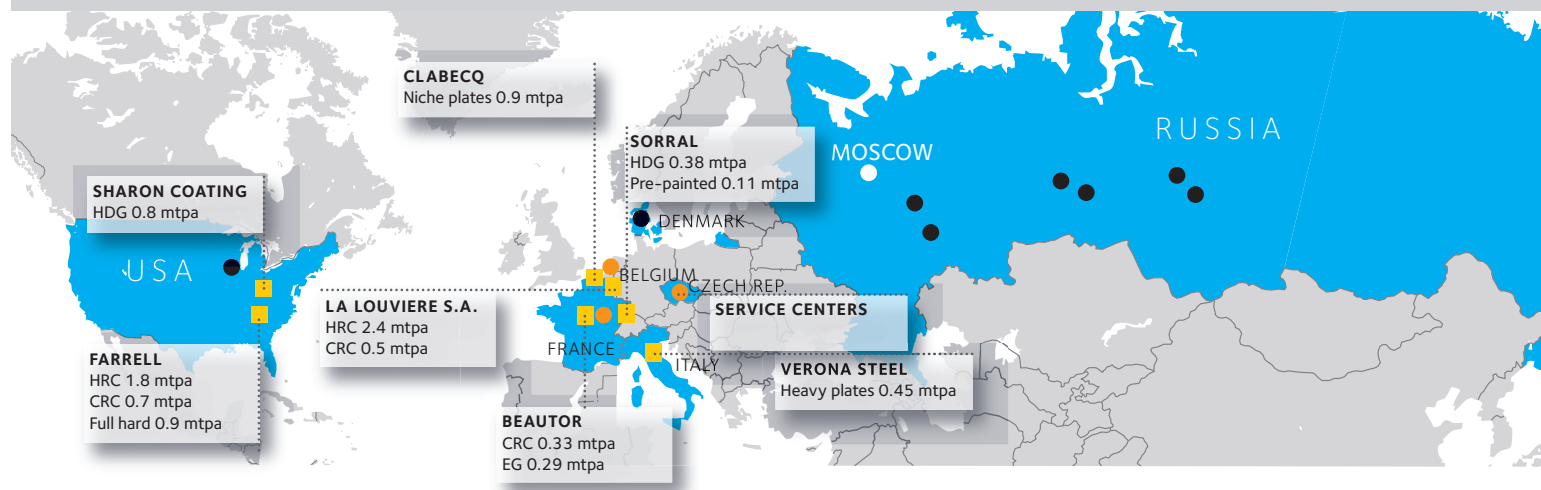
	2009 '000 tonnes	2010 '000 tonnes	Change +/-	Change %
<b>Plates</b>	<b>208</b>	<b>378</b>	<b>169</b>	<b>81%</b>

## SIF SALES

	2009 '000 tonnes	2010 '000 tonnes	Change +/-	Change %
Semis	141	198	57	40%
Plates	410	574	164	40%
HRC and pickled steel	1,054	1,339	284	27%
CRC and cold-worked steel	354	582	228	65%
Pre-painted steel	582	622	40	7%
Long products	85	94	9	11%
DTE products*	180	25	-155	-86%
<b>Total</b>	<b>2,806</b>	<b>3,433</b>	<b>627</b>	<b>22%</b>

\* Processing and sales of third-party products.

## GEOGRAPHY OF STEEL INVEST AND FINANCE ROLLING ASSETS (EXCLUDING NON-CORE ASSETS)



In 2010 there was a significant increase in demand in core markets, the EU and the US, accompanied by economic recovery and lower inventory stocks. This led to 2010 Steel Invest & Finance (SIF) sales reaching 3.4 million tonnes, or 22% higher than in the previous year. SIF's development strategy, which in recent years has been targeted at stronger sales of high value-added products, is paying off. In 2010 the share of HVA sales, including plates, pre-painted steel, cold-rolled and CR drawing steels, reached 52% (an increase of 4 percentage points over 2009).

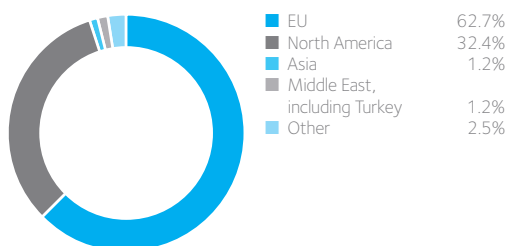
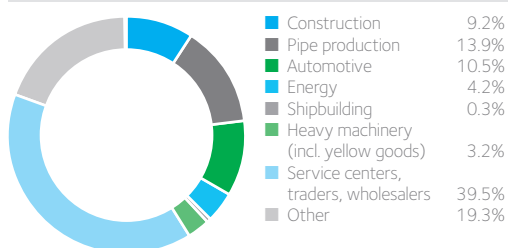
The joint venture's core markets are in the European Union (62.7% in 2010) and North America (32.4%). The Company also markets its products to destinations in the Middle East and Asia.

In 2010 key consumers of SIF products included service centres, traders and wholesalers (39.5%), pipe manufacturers (13.9%), construction (9.2%) and automobile manufacturing (10.5%).

**SIF synergies**

NLMK's current development strategy proposes to acquire the remaining stake in Steel Invest and Finance from the Duferco Group. Once that happens, the SIF group will be restructured in line with the Company's development strategy. Assets that do not fit into the strategy will be transferred to the Duferco Group. As a result SIF is expected to have under its management seven production sites and a network of sales and service centres in Europe and the US. Assets proposed for acquisition operate 5.5 million tonnes of rolling capacity and hold strong positions in key product niches.

The proposed acquisition would allow the Group to process into finished products the projected 3.4 million tonne increase in output of semi-finished stock at Novolipetsk by expanding its rolling capacity. It will also boost output of high value-added products, enhance geographic diversification and ensure proximity to end consumers.

**2010 SIF sales by region (%)****2010 SIF sales by industry (%)**

**P.24** For more detailed information on our strategy

**P.30** For more detailed information on our sales



# LONG STEEL— OPTIMIZING EFFICIENCIES

## LONG STEEL

NLMK Long Steel Division represents a quarter of the total production capacity of the Group. Our long steel portfolio ranges from high quality re-bar to wire rod to metalware. Over 80% of the output is sold locally to the construction sector.



### Alexander Burayev

Chief Executive Officer of NLMK Long Products

Mr Burayev is a graduate from the Lipetsk Polytechnic Institute, majoring in Metallurgy and Welding Technology. He has been with NLMK since 1988. In 2010 Mr Burayev was appointed Chief Executive Officer of NLMK Long Products.

# LONG STEEL

## OPERATING COMPANIES

NSMMZ, UZPS,  
KNPEMZ,  
Vtorchermet

## LOCATIONS

Sverdlovsk region,  
Kaluga,  
Yekaterinburg

## PRODUCTS

Scrap, billets, long products  
(rebar, wire rod), metalware

## HIGHLIGHTS

**1.7 mt**  
CRUDE STEEL OUTPUT

**1.4 mt**  
LONG PRODUCTS AND  
METALWARE OUTPUT

**1.9 mt**  
SCRAP PROCESSING

### NLMK Long Products

NLMK Long Products was established as a company in December 2009. It manages the businesses within the NLMK Long Steel Division, which operate within an integrated production cycle, including collection and processing of ferrous scrap, EAF steelmaking and production of HVA steel products.

NLMK Long Products businesses rely on electric arc furnaces to make steel and scrap as the primary input.

NLMK Long Products combines the production operations of NSMMZ and UZPS, which produce an extensive range of construction-grade products, including rebar, wire rod, wire and fittings made of various grades of steel. The Company accounts for about 20% of the Russian market in the rebar and metalware segments.

The raw materials segment within the division is represented by NLMK's scrap treatment businesses (Vtorchermet NLMK), which collect and process scrap in 35 regions across Russia.

In 2010 NLMK Long Products businesses produced 1.7 million tonnes of crude steel and 1.7 million tonnes of finished products. Overall, the division's performance in 2010 reflected the continued improvement in the markets, brought about by economic recovery and increased steel consumption by the construction sector and infrastructure development projects.

### NSMMZ AND UZPS

The Nizhneserginsky Steel Plant (NSMMZ) is a modern producer of steel and long products. In 2010 the rolling operations were consolidated when BEMZ was merged with NSMMZ, allowing for a streamlined management structure, reduced transaction costs, improved controllability of the production process and optimization of cash flows and inventories.

The Urals Precision Alloys Factory (UZPS) specializes in the production of metalware and is one of Russia's largest metalware manufacturers.

Its products are mostly consumed by the construction and infrastructure sectors. NSMMZ supplies re-rolling stock (wire rod) to UZPS.

### KNPEMZ

In 2010 NLMK acquired 100% of the Kaluga Mini-Mill (KNPEMZ) shares. It has design capacity of 1.5 million tpa of crude steel and 1.55 million tpa of long products and is still under construction. Relevant capital expenditures are estimated at about USD1 billion. The mini-mill is scheduled for launch in 2012. It is located in the Kaluga Province and will consume ferrous scrap, which is of significant importance to the development of recycling and improvement of the environment in the central parts of Russia.

The plant is strategically located in the Central Federal District, where there is a stable high demand for long products combined with a shortage of steelmaking capacity. Its proximity to the Moscow Province, which is the largest source of scrap in Russia and also hosts the VMI operation acquired in 2010, will ensure uninterrupted supply of scrap, the key input, and generate savings in terms of logistics costs.

### Vtorchermet NLMK

Vtorchermet NLMK, previously known as Uralvtorchermet, is a combination of ferrous scrap collecting and processing businesses. In 2010 some 90% of the scrap collected by Vtorchermet NLMK was consumed within NLMK Group, by NSMMZ and Novolipetsk.

In 2010 NLMK acquired VMI Recycling Group (VMI). VMI operates 4 sites in the Moscow Province, equipped with modern ferrous scrap collecting and processing facilities with a capacity of about 500,000 tonnes. With the consolidation of VMI within NLMK Long Products in-house scrap collection by the division in 2010 increased by 349,000 tonnes.

## NLMK LONG STEEL OPERATING PERFORMANCE

	2009 '000 tonnes	2010 '000 tonnes	+/-	Change %
<b>Steel</b>	<b>1,715</b>	<b>1,701</b>	<b>-14</b>	<b>-1%</b>
<b>Steel products</b>	<b>1,633</b>	<b>1,651</b>	<b>18</b>	<b>1%</b>
Commercial billet	269	247	-21	-8%
Long products	1,174	1,183	9	1%
Metalware	190	221	31	16%
<b>Scrap processing</b>	<b>1,264</b>	<b>1,928</b>	<b>664</b>	<b>53%</b>

**P.24** For more detailed information on our strategy

**P.10** For more detailed information on our products



# MINING – 100% SELF-SUFFICIENCY IN IRON ORE CONCENTRATE

## MINING

Iron ore is a primary raw material used in steel manufacturing. NLMK controls one of the most efficient iron ore mines fully covering its iron ore concentrate and fluxes needs with high quality low cost input material.





### Alexander Gorshkov

Vice President, Head of Iron Ore Division

Mr Gorshkov has headed the Iron Ore Division since 2007. He has also served as Chief Executive Officer at Stoilensky since 2004. He is a graduate of the Novosibirsk Electro-Technical Institute.

The NLMK Group controls several mining assets, which make our main production site fully self-sufficient in high-quality iron ore concentrate and fluxing materials.

The core business within the mining division is Stoilensky, a producer of iron ore, which was consolidated into the NLMK Group in 2004.

Stoilensky makes NLMK 100% self-sufficient in iron ore concentrate and sinter ore.

The mining division also comprises Stagdok and Dolomit, which provide fluxing materials for our main production site.

### Stoilensky

Stoilensky is one of Russia's largest mining companies, specializing in the extraction and processing of iron ore. It is located in the Belgorod Province in Central Russia, 350 kilometers from the main production site in Lipetsk, and is currently developing a part of the Kursk Magnetic Anomaly, the world's largest iron ore basin. Ore is mined in an open pit using modern technology, providing steelmaking with low-cost iron ore.

Stoilensky produces iron ore concentrate, with 66.5% average iron content, and sinter ore, with 52% average iron content, which are used as key raw materials in the steelmaking industry.

In 2010 production of iron ore concentrate increased by 11% over 2009 and reached 12.1 million tonnes, while production of sinter ore increased by 4% to 1.8 million tonnes. Increases in output of iron ore concentrate and

# MINING

## OPERATING COMPANIES

Stoilensky,  
Stagdok,  
Dolomit

## LOCATIONS

Belgorod,  
Lipetsk region

## PRODUCTS

Iron ore concentrate, sinter ore,  
dolomite, fluxing limestone

## HIGHLIGHTS

**12.1 mt**  
IRON ORE  
CONCENTRATE OUTPUT

**1.8 mt**  
SINTER ORE OUTPUT

**3.3 mt**  
FLUXING LIMESTONE  
OUTPUT

**1.5 mt**  
DOLOMITE OUTPUT

sinter ore were driven by sustained growth in demand for steel and, respectively, iron ore throughout 2010.

98% of iron ore concentrate and 34% of sinter ore in 2010 were shipped to Novolipetsk. Stoilensky's other consumers in 2010 included steelmakers in Russia, Ukraine, Eastern Europe and China.

Stoilensky is actively implementing its part of the Technical Upgrade and Development Programme. The Programme strategy targets increasing self-sufficiency in raw materials to 100% through higher production volumes, introduction of new products, increased efficiency of production, and improved quality of products, as well as improved energy efficiency by introducing resource-saving technology.

NLMK management has approved the construction of a pelletizing facility with capacity of 6 million tonnes of iron ore pellets per year at Stoilensky. Construction work is expected to be completed in 2014. Upon its commission, the facility will make the company fully self-sufficient in high-quality pellets with about 65% iron content already in 2015.

### Flux production

Other assets in the Mining Division include two fluxing materials businesses, Stagdok and Dolomit. Both have been part of the NLMK Group since 1999.

### Stagdok

- Core operations involve the production of fluxing limestone used in steelmaking. It also produces construction, road-building and other materials;

- Fully meets the demand for fluxing limestone from NLMK Group's steelmaking businesses;
- Production facilities are located within 20 kilometers of NLMK's main production site, Novolipetsk;
- Increased output in 2010 to 3.3 million tonnes, a 7% increase year-on-year. Company sales of commercial products in 2010 increased by 5% over 2009 and reached 2.8 million tonnes, of which 2.4 million tonnes, or 87%, of fluxing limestone were shipped to Novolipetsk; and
- In the future the company intends to increase output to meet NLMK's demand for limestone.

### Dolomit

- Core business is the production of dolomite used as a flux for steelmaking operations;
- The company fully meets the demand for dolomite from NLMK Group businesses;
- 2010 sales were in line with 2009 volumes;
- 2010 output contracted by 10%, compared to 2009, due to sales of finished product stock accumulated during the previous periods;
- The Company sold 1.6 million tonnes of dolomite in 2010, of which 57% was shipped to the main production site, Novolipetsk; and
- Dolomit is also implementing the Technical Upgrade and Development Programme, through renovation and reconstruction of installed equipment.

## IRON ORE AND FLUX RESERVES

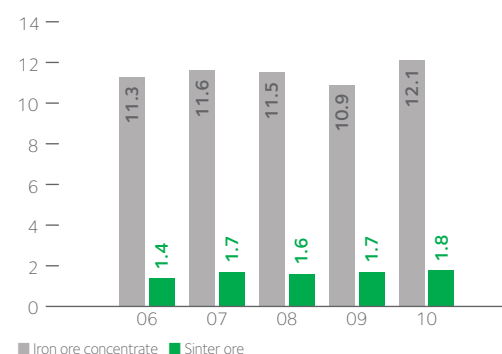
	Stoilensky		Stagdok	Dolomit
	Rich iron ore	Magnetic quartzite*	Limestone	Dolomite
As of January 1, 2011				
Reserves, million tonnes	53	2,298	153	238
Years of reserves	circa 44	circa 72	circa 30	circa 142

\* Within the current pit boundary.

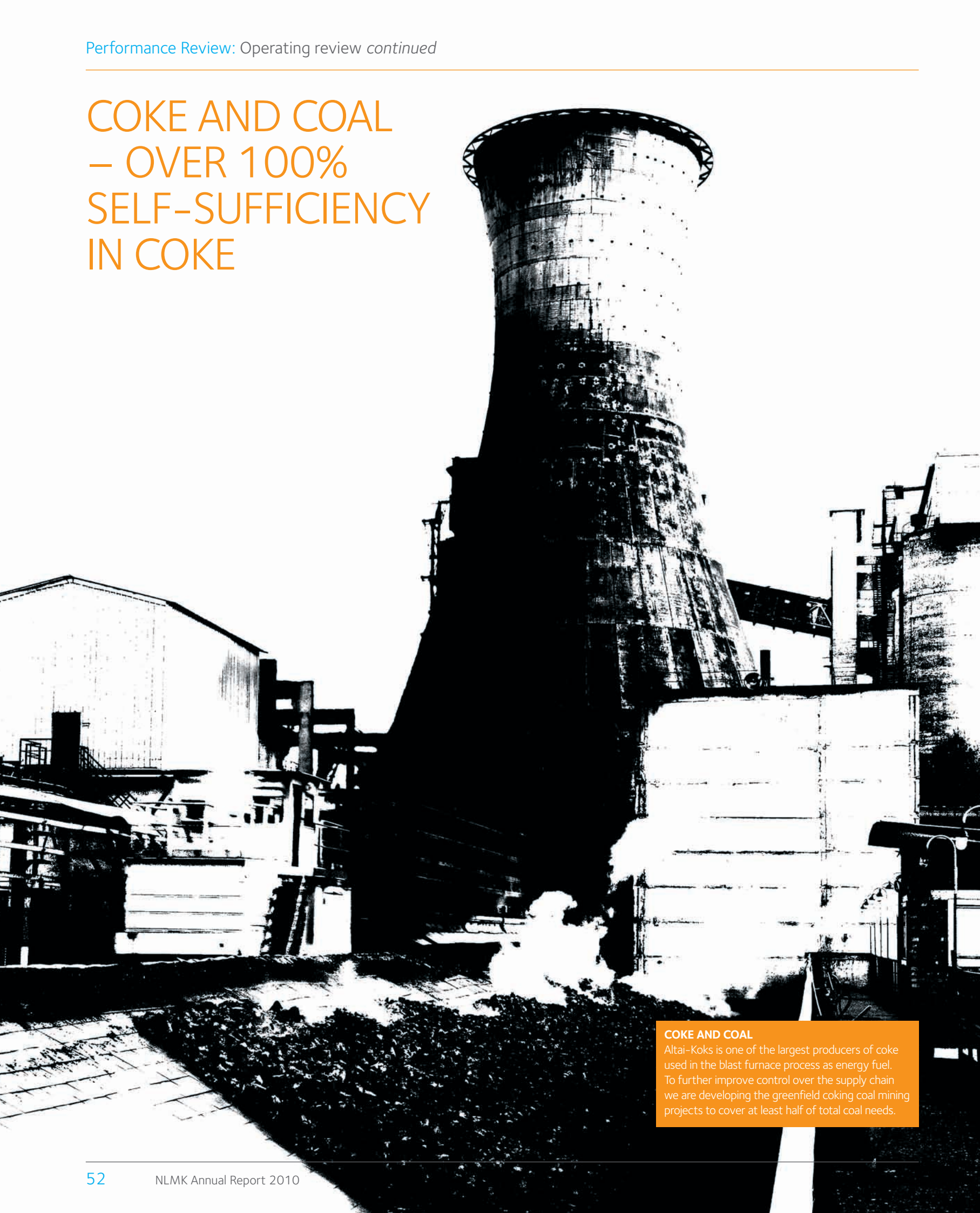
**P.24** For more detailed information on our strategy

**P.04** For more detailed information on our vertically integrated business model

2006-2010 Stoilensky output (mt)



# COKE AND COAL – OVER 100% SELF-SUFFICIENCY IN COKE



## COKE AND COAL

Altai-Koks is one of the largest producers of coke used in the blast furnace process as energy fuel. To further improve control over the supply chain we are developing the greenfield coking coal mining projects to cover at least half of total coal needs.



#### Alexander Saprykin

Vice-President and Head of Coal Division

Mr Saprykin was Vice-President and Head of the Iron Ore Division from 2006 to 2007. From 2002 until 2006 he was Head of the Raw Materials Market Department at Rumelco. He graduated from the Moscow Mining University.

# COKE AND COAL

## COMPANIES/ ASSETS

Altai-Koks, development rights to the Zhenovskoye-1 (GZh, Zh), Zhernovskiy Gluboki (Zh) and Usinsky-3 (2Zh, Zh)

## LOCATIONS

Altai region, Kemerovo region, Komi Republic

## PRODUCTS

Coke, chemical products, coking coal (starting from 2014)

## HIGHLIGHTS

**3.6 mt**  
COKE OUTPUT  
(6% MOISTURE)

### Altai-Koks

Coke is one of the key raw materials for steelmaking. NLMK's coke production facilities are concentrated at Altai-Koks (5.0 million tonnes projected capacity) and at Novolipetsk (2.6 million tonnes of capacity). NLMK Group is more than 100% self-sufficient in coke.

Altai-Koks is Russia's largest non-integrated coke producer, accounting for 10% of gross coke supplies in Russia (excluding intra-company sales).

The company is located in the Altai Province, in close proximity to the Kuznetsk Coal Basin mining companies, which helps to streamline transportation costs.

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

Alongside steelmakers, Altai-Koks' key consumers include non-ferrous metal and petrochemical companies.

In 2010 Altai-Koks produced 3.6 million tonnes of coke with 6% moisture content, a 13% increase over 2009. Increased output, compared to 2009, was driven by higher demand for coke-chemical products. Novolipetsk is the largest consumer of company products, accounting for 2.3 million tonnes, or 70% of total sales, in 2010. Other Altai-Koks consumers in 2010 included Russian, CIS, European and Asian companies.

In 2010 prices in the coke market increased by about 90%, compared to 2009, in the wake of rising demand for coke and higher coal prices. Flooding of important coal mining assets in Australia provoked a surge in coal prices in early 2011, and an acute shortage of hard coking coal in international markets. NLMK continues expanding its upstream portfolio and expects to achieve high degree of self-sufficiency in coal over the next years.

### Coal assets

#### Zhernovskoye-1

In May 2005 NLMK obtained mineral prospecting and development rights to the Zhenovskoye-1 coal deposit in the Kemerovo Province. Its adjusted on-balance reserves are estimated at 163 million tonnes of coking coal. The expected operating life of the mine exceeds 30 years. Project design work will be completed in 2011, with commissioning projected for 2014. It is expected that output will be about 3.6 million tonnes of coking coal concentrate.

#### Usinsky-3

In January 2011 NLMK obtained development rights for mine-take No.3 of the Usinsky Coal Deposit (Usinsky-3), located in the northern part of the Komi Republic. The operating life of the mine exceeds 40 years. Usinsky-3 reserves exceed 227 million tonnes of high-quality hard coking coal (grades 2Zh, Zh). The mine is expected to be commissioned in 2016, and to reach design capacity in 2018. It is expected to produce about 2.7 million tonnes of coking coal concentrate.

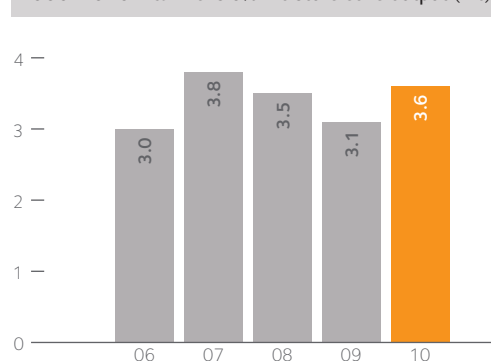
#### Zhernovskiy Gluboki

In April 2011 NLMK has won the right to explore and develop the Zhernovki Gluboki plot of the Zhernovskoye coal deposit located in the Kemerovo region.

The 13.5 sq km plot has 73 million tonnes of on-balance reserves of high-quality hard coking coal (grade Zh). Development of the two plots (Zhernovskiy Gluboki and Zhernovskiy-1) in a single scheme (the Zhernovskiy Mining and Beneficiation Plant) will allow to share costs for the construction of a common infrastructure using best available technologies, enhance production capacities, and improve technical and economic performance of the operations. Moreover, integrating newly acquired reserves will substantially improve the mine life of the deposit.

The coal projects are pursued as part of the company's strategy to boost long-term effectiveness and sustainability by integrating the production of high-quality raw materials.

2006-2010 Altai-Koks 6% moisture coke output (mt)

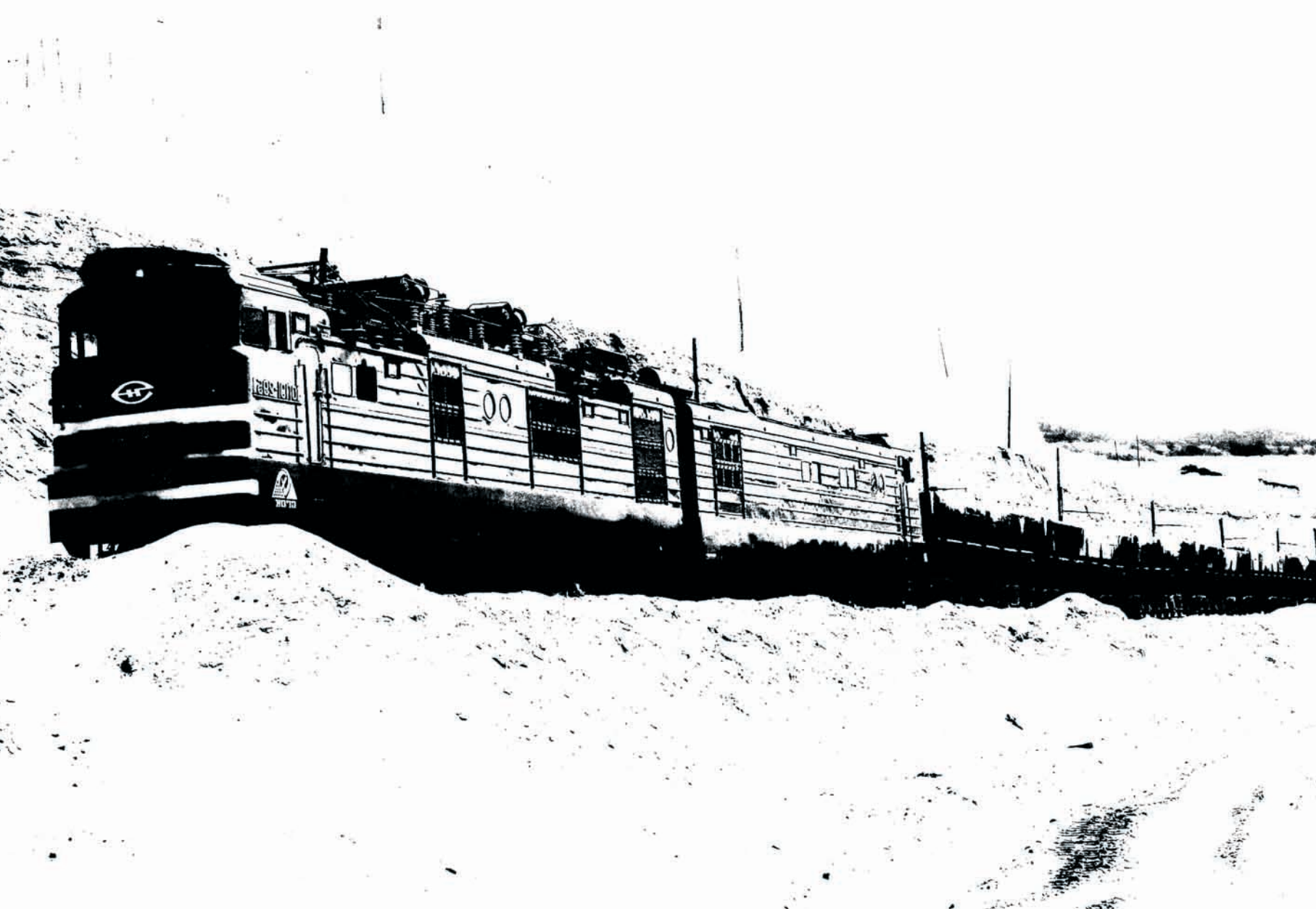


**P.24** For more detailed information on our strategy

**P.04** For more detailed information on our vertically integrated business model



# SUPPORTING BUSINESSES – IMPROVING OUR CUSTOMER REACH



## LOGISTICS

As a highly vertically integrated business we control operations through the entire value chain from getting raw materials from the soil to conversion into final product to delivery to the customers.

# SUPPORTING BUSINESSES

## OPERATING COMPANIES

Novex Trading S.A.,  
Novexco Ltd.,  
NLMK Trading House,  
NTK,  
Shans (Lipetsk insurance  
company)

## LOCATIONS

Switzerland,  
Cyprus,  
Russia

## SERVICES

Export and local trading operations,  
raw material supplies, cargo  
transportation, insurance

## HIGHLIGHTS

**5.3 mt**  
EXPORT SALES  
BY TRADERS

**54.6 mt**  
TRANSPORTATION  
VOLUME (FREIGHT AND  
FORWARDING SERVICES)

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.

### Trading

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

In 2010 the trading companies sold 5.3 million tonnes of steel products produced by our Russian steel assets. In addition to steel products the trading companies are also involved in exports of iron ore, coke and chemical products.

NLMK Trading House focuses on consolidated purchases of raw materials; and also markets some NLMK Group products. These two activities accounted for 70% and 30% respectively in the Company's 2010 turnover. By merging commodity and information flows, NLMK Trading House ensures control over costs associated with raw material purchases and enhances sales efficiency. NLMK Trading House is also responsible for developing and monitoring the work of NLMK Group's electronic trading platform ([www.td-nlmc.ru](http://www.td-nlmc.ru)), aimed at ensuring transparency, objectivity, fair and equal treatment of all suppliers.

### Logistics

NTK<sup>1</sup> 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 used for transporting the clients' cargo, and optimizing private rolling stock fleet management.

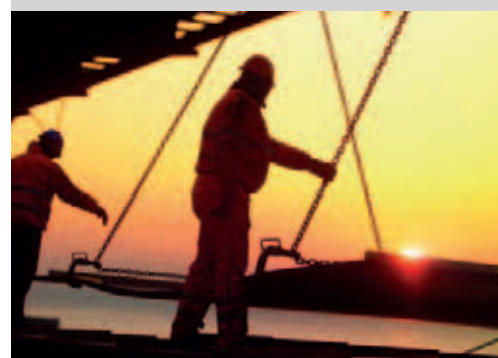
NTK services include developing and selecting the best available low-cost transportation arrangements and accompanying the customers' cargo to its point of destination. The company also provides trans-shipping services.

In 2010 the company was focused on carrying and forwarding cargo for the NLMK Group and third-party clients. NTK provides freight and forwarding services utilizing its own rolling stock, as well as railroad cars provided by Russian Railways and third parties.

In 2010 NTK expanded its own fleet of railroad cars. As part of the 2010 Technical Upgrade Programme, NTK purchased 45 gondolas at its own expense and also utilized 1,970 gondolas under financial leases and another 13,980 gondolas under operating lease arrangements. As of January 1, 2011 it operated a fleet of 22,600 railroad cars.

During 2010, cargo carried for NLMK Group businesses, including raw materials and finished products, accounted for 85% of total volume of services provided by NTK. This percentage is due to diversification of operations, expansion of railroad car fleet and increased freight traffic. At the same time, NTK accounted for 68% of all transport services procured by NLMK Group companies.

## STRONG CUSTOMER RELATIONSHIPS



We use our sales and service capabilities to build strong relationships with our customers in over 70 countries worldwide.

**P.24** For more detailed information on our strategy

**P.04** For more detailed information on our vertically integrated business model

<sup>1</sup> In April 2011, NLMK's Board of Directors made the decision to sell NLMK's 100% holding in Independent Transportation Company LLC (NTK) to UCL Rail B.V., a subsidiary of Universal Cargo Logistics Holding B.V. (UCL Holding).



# DEVELOPING A SUSTAINABLE BUSINESS

## OUR OBJECTIVES

NLMK's corporate responsibility policy is geared towards achieving sustainable development objectives, which are aligned with the long-term economic interests of the business, encouraging high standards of public welfare and promoting conservation of the environment. The Company's CR activities are aimed at reaching the following strategic objectives:

- Create a favorable and predictable social and economic environment for NLMK employees and local communities;
- Improve corporate governance frameworks for economic, environmental and social activities of the Company;
- Comply with international and national environmental protection standards;
- Observe business ethics principles;
- Develop new types of products to meet customer expectations;
- Create an environment for stronger performance by Company employees;
- Ensure sustainable improvements in welfare and social safety for Company employees and safe workplace environments; and
- Prevent violations of human rights and applicable labor legislation.

## PERFORMANCE AGAINST OBJECTIVES

### 2010 PERFORMANCE

#### CORPORATE GOVERNANCE

- An increasing number of stakeholders are engaged in a dialogue with NLMK. Enhanced efficiency of joint decisions.
- Production Director positions were introduced to increase NLMK governance efficiency.
- In 2010 the Company completed its first independent annual risk management cycle.

#### IMPROVED EFFICIENCY OF OPERATIONS

- Launch of an Enterprise Resource Planning (ERP) system for Novolipetsk.
- Increase in labor productivity at the Lipetsk site (308 tonnes of steel per person in 2010 (+15% year-on-year).
- Commissioning of two ladle furnaces for BOF production.

#### PERSONNEL POLICIES

- NLMK Group's capacity utilization rates reached 97% in 2010 (+4 p.p. to 2009).
- Average wage for NLMK Group employees increased to USD1,012 in 2010.
- Over 30,000 employees completed professional training programmes in 2010.
- All collective labor agreement commitments were essentially met in 2010.
- NLMK Group headcount was reduced by 5% to 59,400 people in 2010.

#### SOCIAL POLICIES

- All activities planned for 2010 successfully completed. Over USD5 million allocated to charity.

#### ENVIRONMENTAL PROTECTION

- USD150 million (+9% year-on-year) directed towards Technical Upgrades to ensure NLMK Group's environmental effect.
- Specific atmospheric emissions reduced from 30.4 kg/t of steel to 28.5 kg/t.

#### OCCUPATIONAL HEALTH AND SAFETY

- Over USD12 million invested into OHS in 2010.

#### CUSTOMER SATISFACTION

- NLMK product quality received high consumer appraisal in 2010.



### Stanislav Tsyrlin

Vice-President, HR and Management System

From 2004 until 2006 Mr Tsyrlin served as Director for Strategy and Management Systems at NLMK.

He graduated from the Moscow Institute of Physics and Technology and from Stanford University.

## 2011 OBJECTIVES

- Further stakeholder involvement improvements.
- Further corporate governance streamlining.
- Integrated risk management system improvements.
- Solution roll-out to other NLMK Group businesses (VIZ-Stal, Altai-Koks), and R&M functionality implementation for Novolipetsk.
- Implement measures to increase labor productivity.
- Increase the Group's production capacity (launch BF-7, two more ladle furnaces, expand rolling facilities).
- Ensure high-capacity utilization rates.
- Improve system of incentives for Company employees.
- Develop personnel engagement procedures at subsidiaries and align them with uniform corporate standards.
- Continue with the practice of executing collective labor agreements at NLMK Group. Ensure compliance with commitments under collective labor agreements.
- NLMK Group headcount streamlining.
- High-level KPI system development and implementation.
- Implement programmes targeting macro-economic development of regions where the Company is present.
- Implement nature conservation measures scheduled for 2011 within the framework of Phase 2 of the Technical Upgrade and Development Programme.
- Reduced environmental footprint in the regions where the Group operates.
- Implement measures designed to create a healthy and safe working environment for Company employees.
- Continue responding to all customer requirements and expectations.

## HR POLICY

NLMK Group recognizes good HR management is a core factor in the successful development of the Company.

Our HR policies are based on the principles of:

- Social partnership between employees and their employer;
- Their mutual accountability for 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.

The Company steadfastly complies with these principles and is consistently pursuing programmes which encourage better productivity and performance by Company employees and target stronger wage growth, whilst creating opportunities for skill enhancement, offering career promotions to the best performers and attracting both young talent and seasoned skilled professionals.

At present, NLMK Group includes businesses in Russia, the European Union and the US. The Group's average headcount in 2010 was 59,400 employees, of which 30,100 were employed by Novolipetsk. In 2010 the Company continued to implement its employment streamlining programme in order to align employment by Group companies with international standards.

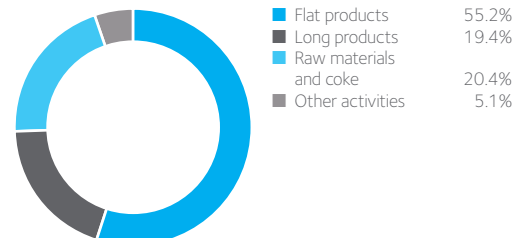
It also continued to implement further improvements in its labor remuneration framework, seeking to motivate highly skilled specialists, attract young staff, and provide incentives for efficient performance and production of quality products.

Within the Group, average wages in 2010 reached an equivalent of USD1,012.

The key priority of the Company's HR policy is to create a favorable environment for high labor productivity and manufacturing of HVA products.

More than one half of all NLMK Group employees have high levels of professional qualifications, making this a major competitive advantage for the Company and promoting the implementation of our large-scale Technical Upgrade and Development Programme.

## 2010 personnel breakdown by activity (%)



## ATTRACTING AND RETAINING THE BEST PEOPLE



To successfully deliver our strategy goals we aim to attract and retain the best people.

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, ultimately, the value of the Company. Proper professional training not only provides the 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, and has a direct impact on 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 designed in line with international practices.

The Company occupational health and safety policy covers the following areas:

- Application of uniform standards for OHS management activities;
- Regular monitoring of compliance with OHS requirements by Company business units;
- Conduct of proper medical examinations and reviews of employee health and improvements in their quality;
- Preventive actions to reduce the incidence of occupational diseases;
- Regular reviews of workplaces for compliance with working environment requirements;
- Material, organizational, technology and methodology support for the corporate OHS system;
- Training and skill improvement for OHS specialists;
- Improving personnel motivation for strict compliance with OHS requirements; and
- Informing personnel of the state of Company OHS arrangements.

In 2010, while output was growing, the management's OHS efforts helped to prevent any substantial increase in the number of accidents at the Group's production assets. At the same time the number of severe accidents was reduced to 5 for the NLMK Group.

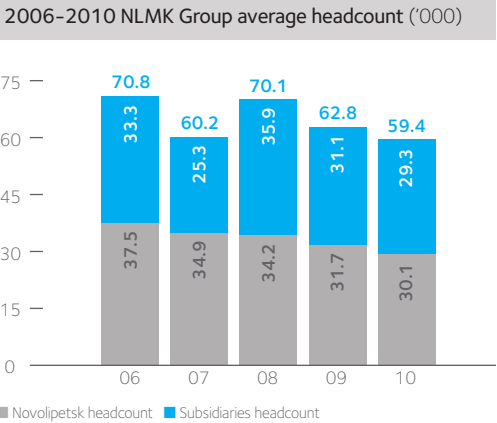
**Social programmes**

The Company recognizes that long-term sustainability of its business depends on the macro-economic stability in the regions of its operations. For this reason we find it strategically advisable to pursue a policy of corporate social responsibility with respect to our employees and local communities.

NLMK Group pursues a number of social programmes, including mandatory and voluntary medical coverage for its employees, participation in a private pension benefit programme, construction of housing and other activities.

The Group businesses have a strong commitment to 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 standing as a company with a strong social responsibility agenda.



**SUPPORTIVE OF THE COMMUNITIES  
IN WHICH WE OPERATE**



We support cultural, social, educational and sporting activities that contribute to the well-being of the communities where we operate.



## Yury Larin

Vice President, Development and Environment

From 2006 to 2007 Mr Larin served as Vice President for Technology and Environment. He served as Director of the NLMK Engineering Centre from 1999 to 2006, and as Deputy Director for Technology at NLMK's Central Laboratory between 1996 and 1999.

He is a graduate of the Voronezh Polytechnic Institute. Ph. D., Tech.

## ENVIRONMENT

The Group's environmental policy defines our long-term commitment to ensuring the environmental safety of our production facilities and of the communities where these businesses are present.

Our environmental policy is based on key corporate principles and their consistent implementation ensures NLMK Group's strong performance in protecting the environment.

### Corporate environmental policy principles:

- Public accountability of businesses for their impact on the environment;
- Compliance with environmental laws and regulations;
- Reliance on best available technology during construction and modernization of facilities;
- Improvements in production processes, environmental technology and equipment in order to reduce any negative impacts on the environment;
- Rational use of natural resources; and
- Design and implementation of effective waste recycling solutions.

By relying on its corporate environmental policy principles the Group commits itself to the following objectives:

- Complete environmental protection projects and actions on time and in line with the design indicators identified by Phase 2 of the Technical Upgrade and Development Programme;
- Preclude any violations of environmental laws and regulations in terms of exceeding the maximum allowed environmental impact indicators;
- Reduce negative impact on the environment while at the same time achieving higher output;
- Achieve compliance with regulatory requirements for atmospheric air quality at the boundaries of designated buffer zones; and
- Achieve compliance with regulatory requirements for effluents discharged into surface water bodies.

A key aim of the Technical Upgrade Programme is to achieve overall improvement in the environmental safety of operations. This will help to achieve strategic objectives by eliminating potential environmental risks.

Reduced environmental impact is the result of focused capital investment by Group businesses. In 2010 the Group spent USD150 million on technology upgrades, modernization of core operations and environmental protection measures, compared to USD137 million in 2009. These outlays have been growing consistently over the last five years.

## NLMK GROUP'S ENVIRONMENTAL PERFORMANCE IN 2010\*

**74 million m<sup>3</sup>**  
-11%  
NLMK GROUP'S WATER  
CONSUMPTION

**USD150m**  
+9%  
NLMK GROUP'S  
ENVIRONMENTAL  
INVESTMENTS

**28.5kg/t**  
-6%  
NLMK GROUP'S SPECIFIC  
AIR EMISSIONS

**306 tonnes**  
-89%  
NLMK GROUP'S  
EFFLUENT DISCHARGE

Across core NLMK Group assets, specific air emissions per tonne of steel declined by 6% in 2010, while steel output increased by 9% compared to 2009.

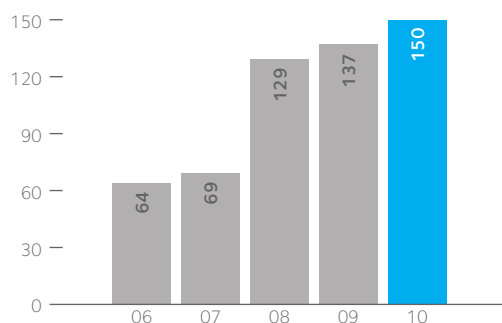
Water consumption varies across Group businesses depending on the nature, scale and profile of the operations, and the design of the water circulation systems. A dramatic change in water consumption by NLMK Group was achieved in 2009 with the completion of the process water supply network upgrades at Novolipetsk, which stopped discharging industrial effluents into the Voronezh River. In 2010 NLMK Group businesses reduced their water consumption by 11%. Changes in the Group's water consumption pattern also had a positive effect on its impact on water resources. The volume of pollutants discharged into water bodies with effluents in 2010 was 89% lower than in 2009.

NLMK Group businesses attest to best waste management practices aimed at maximizing recycling. Waste utilization levels in 2010 were approaching 100%: 104.3% at Novolipetsk, 96.6% at Altai-Koks, 89.8% at Dolomit, and 89.8% at NLMK Long Products. High performance at Novolipetsk in 2010 was supported by the recycling of previously stockpiled waste.

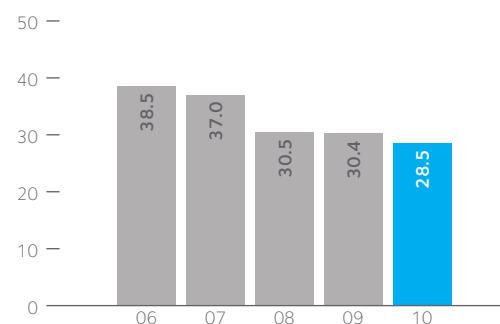
In 2011 Group businesses will focus their environmental conservation efforts on the following priorities:

- Timely completion of environmental conservation projects as part of Phase 2 of the Technical Upgrade and Development Programme;
- Achievement of guaranteed environmental performance by investment projects; and
- Mitigation of financial risks stemming from environmental issues.

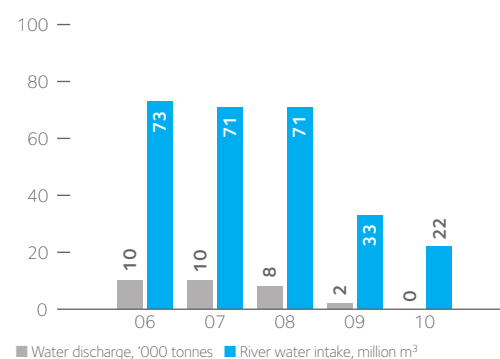
### 2006-2010 NLMK Group's environmental investments (\$m)



### 2006-2010 NLMK Group's specific air emissions (kg/t of steel)



### 2006-2010 NLMK Group water body impact



For more detailed information on our CR activities, please visit our website ([www.nlmk.com](http://www.nlmk.com)) and view our CR reports

\* Environmental performance data is presented for the Group's Russian assets.



“We are consistently compliant with high corporate governance standards. At the same time, we are always looking for ways to further improve our performance and strike a perfect balance between the interests of our shareholders, employees and the community in general.”

**Vladimir Lisin**  
Chairman



## Governance

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### VISIT US ONLINE

Our online report is available at [www.ara2010.nlmk.com](http://www.ara2010.nlmk.com).  
For more detailed information please visit our corporate website at [www.nlmk.com](http://www.nlmk.com)



#### 1. Vladimir Lisin (1956)

Chairman

**Appointment:** Chairman of the Board since 1998. Board member since 1996.

**Education:** Graduate of Siberian Metallurgic Institute, majored in Ferrous and Non-Ferrous Foundries. In 1990 graduated from the Higher School of Commerce with the Foreign Trade Academy. In 1992 graduated from the Academy of National Economy, majored in Economics and Management. Ph.D., Tech.; Ph.D., Ec.; Professor, Department of Market and Economy Issues, Academy of National Economy under the Government of the Russian Federation. He holds 89 patents for metallurgical processes and published numerous articles on metallurgy and economics.

Winner, USSR Council of Ministers prize for Science and Technology. Honorary Metallurgist of the RF. Knight of the Order of Honour.

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

**External appointments:** Member of the Board of Directors, Chairman of Strategic Planning Committee of United Shipbuilding Corporation; Member of the Supervisory Committee of Russian Steel Non-profit organization; Member (Director) of World Steel Association; Member of the Executive Body of the Union of the Industrialists and Entrepreneurs (RSPP), including Chairman of Metals and Mining Commission under RSPP.

He is a member of the various sporting organizations: President of European Shooting Federation, President of the Russian Shooting Union; Member of the Council on the Development of Physical Culture and Sports under the President of the Russian Federation; member of the Commission for Culture and Olympic Education of the International Olympic Committee, and a number of other regional and international organizations.

#### 2. Vladimir Skorokhodov (1951)

Deputy Chairman of the Board

**Appointment:** Board member since 1996.

**Education:** 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 at the Moscow Institute of Steel and Alloys). Professor. Holder of the 1982 National Prize for Science and Technology. 281 academic research papers: 117 academic publications, six books, 158 patent descriptions.

**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. With Rumelco since 1999.

**External appointments:** Does not hold offices in executive bodies in other organizations.

#### 3. Oleg Bagrin (1974)

Member of the Board

**Appointment:** Board member since 2004.

**Education:** Mr. Bagrin holds graduate and post-graduate degrees in economics from the State Management University, Moscow and a degree in business administration from the University of Cambridge, UK.

**Professional experience:** Mr. Bagrin has been a member of the Board of Directors of NLMK since 2004 where he currently serves as a Chairman of Strategic Planning Committee and a member of the Audit Committee. Prior to joining NLMK he was Deputy Chairman of AKB Avtobank in Moscow.

**External appointments:** Mr. Bagrin is a managing director of Libra Capital, a Moscow-based investment management company.

#### 4. Nikolai Gagarin (1950)

Member of the Board

**Appointment:** Board member since 2001.

**Education:** Graduate of Moscow State University, majored in Law.

**Professional experience:** In 2003 was appointed Chairman of the Board at Reznik, Gagarin, Abushakhmin and Partners Law Offices. Managing Partner since 1999.

Chairman of the Board, Managing Partner at Reznik, Gagarin and Partners Law Offices, Moscow, since 2009.

**External appointments:** Chairman of the Board of Directors: Chernomorneftegaz, Chairman of the Board, Managing Partner: Reznik, Gagarin and Partners Law Offices, Moscow, Member of the Board of Directors: Tuapse Sea Trade Port.

#### 5. Karen Sarkisov (1963)

Member of the Board

**Appointment:** Board member since 2010.

**Education:** Graduated from Tashkent State University in 1986, majored in Oriental History.

**Professional experience:** From early 1990s to 2008 engaged in commercial trading in metals; held senior executive offices in several metals trading companies. In 2006-2007 was Chairman of the Board of Directors of VIZ-Stal. Aide to the Chairman of the Board of Directors on external economic relations since 2009.

**External appointments:** Member of the Board of Directors: Steel Invest and Finance (Luxembourg) S.A., Member of the Board of Directors, Member of Collective Executive Body: NLMK International B.V.



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#### 6. Karl Doering (1937)

Non-executive Director

**Appointment:** Board member since 2006.

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

**Professional experience:** Currently heads Project Consulting, a consulting company. Represented the French USINOR in Central and Eastern Europe.

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

**External appointments:** Managing Director: Project Consulting.

#### 7. Randolph Reynolds (1941)

Member of the Board

**Appointment:** Board member since 2005.

**Education:** Graduate of Bellarmine University.

**Professional experience:** Currently the Director 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. In 2000 when Alcoa purchased the company, was Deputy Chairman of the Board of Directors and Executive Director of the company. Previously a member of the Board of Directors of First Union National Bank. Served on the Board of the Greater Richmond Chapter of the American Red Cross. Currently serves on the Advisory Board for the Carpenter Company.

**External appointments:** Director: Industrial Advisors Services, Inc., Member of Advisory Committee: Carpenter Company, Member of Advisory Committee: RUSAL.

#### 8. Igor Fyodorov (1966)

Member of the Board

**Appointment:** Board member since 2002.

**Education:** 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. Served as Member of the Moscow Chamber of Lawyers, the Reznik, Gagarin, Abushakhmin and Partners Law Offices, and the Abushakhmin and Partners Law Offices. Currently a lawyer at the Moscow Chamber of Lawyers. Law Offices of Igor P. Fyodorov, Attorney, are included into the Register of Lawyers of Moscow.

**External appointments:** Chairman of the Board of Directors: Sea Port of Saint Petersburg, Chairman of the Board of Directors: Tuapse Sea Trade Port, Chairman of the Board of Directors: Taganrog Sea Trade Port, Member of the Board of Directors: Universal Cargo Logistics Holding B.V.

#### 9. Bruno Bolfo (1941)

Non-executive Director

**Appointment:** Board member since 2007.

**Education:** Studied economics at the University of Parma. Holds an honorary degree in Economics from the University of Genoa.

**Professional experience:** Currently is President of Duferco S.A., Chairman of the Management Board of Duferco Participations Holding Ltd.

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.

**External appointments:** President: Duferco S.A., Chairman of the Management Board: Duferco Participations Holding Ltd, Member of the Board of Directors: Duferco U.S. Investment Corp.



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**1. Alexey Lapshin (1947)**

President (Chairman of the Management Board), NLMK

**Education:** Graduate of the Orsk Petroleum Vocational Training School and the All-Union Distance Learning Polytechnic Institute.

**Professional experience:** General Director of DanSteel A/S from 2006 and a management and technical consultant with DanSteel A/S prior to that. Head of Department at Rumelco from 1999 to 2002, at the same time as 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.

**2. Igor Anisimov (1965)**

Senior Vice-President, General Director, NLMK

**Education:** 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, Technical Upgrade and Construction, NLMK, between 2007 and 2010.

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.

**3. Galina Aglyamova (1961)**

Vice-President, CFO, NLMK

**Background:** Graduated from the Moscow Institute of Steel and Alloys.

Ph.D., Ec. Merited 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.

**4. Dmitry Baranov (1968)**

Vice President, Sales, NLMK

**Education:** 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.





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#### 5. Alexander Gorshkov (1961)

Vice-President, Head of Iron Ore Division, NLMK

**Education:** Graduated from the Novosibirsk Electro-Technical Institute.

**Professional Experience:** General Director of Stoilensky since 2004. From 2003 to 2004 worked as Deputy Director of the Lipetsk branch of Rumelco. From 1999 to 2003 served as General Director of Dolomit OJSC.

#### 6. Yury Larin (1952)

Vice-President, Development and Environment, NLMK

**Education:** Graduate of the Voronezh Polytechnic Institute.

Ph.D., Tech.

**Professional experience:** Vice-President for Technology and Environment, NLMK, from 2006 to 2007. Prior to that he was Director of the NLMK Engineering Centre from 1999 to 2006, and from 1996 to 1999 he worked as Deputy Director of NLMK's Central Laboratory in charge of technology.

#### 7. Alexander Saprykin (1967)

Vice-President, Head of Coal Division, NLMK

**Education:** Graduated from the Moscow Mining Institute.

**Professional experience:** From 2006 to 2007 served as Vice-President, Head of Iron Ore Division, NLMK. 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 CJSC.

#### 8. Stanislav Tsyrlin (1968)

Vice-President, HR and Management System, NLMK

**Education:** 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.



# COMMITTED TO GOOD GOVERNANCE

The Company is strongly committed to the corporate governance principles and procedures defined in our Code of Corporate Governance, as approved at the General Meeting of NLMK shareholders. The Code sets forth the overall platform of corporate governance standards for the Company, and aims to secure and safeguard the rights and interests of all shareholders.

In safeguarding the rights of our shareholders the Company adheres to international corporate governance practices. The NLMK corporate governance framework is consistent with the modern day requirements of investors. We strive to continue to improve our corporate governance arrangements.

**Corporate governance principles**

The following principles form the groundwork for the NLMK corporate governance framework:

- 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;
- Promote a policy of open and transparent communications;
- Adhere to a policy of complying with business ethics in conducting its operations; and
- Seek to comply with the applicable legislation and international corporate governance standards.

**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.

On June 4, 2010 the Annual General Meeting of Shareholders of NLMK approved the restated Charter and Regulations on the Procedures for Holding the General Meeting of Shareholders with a view to improving

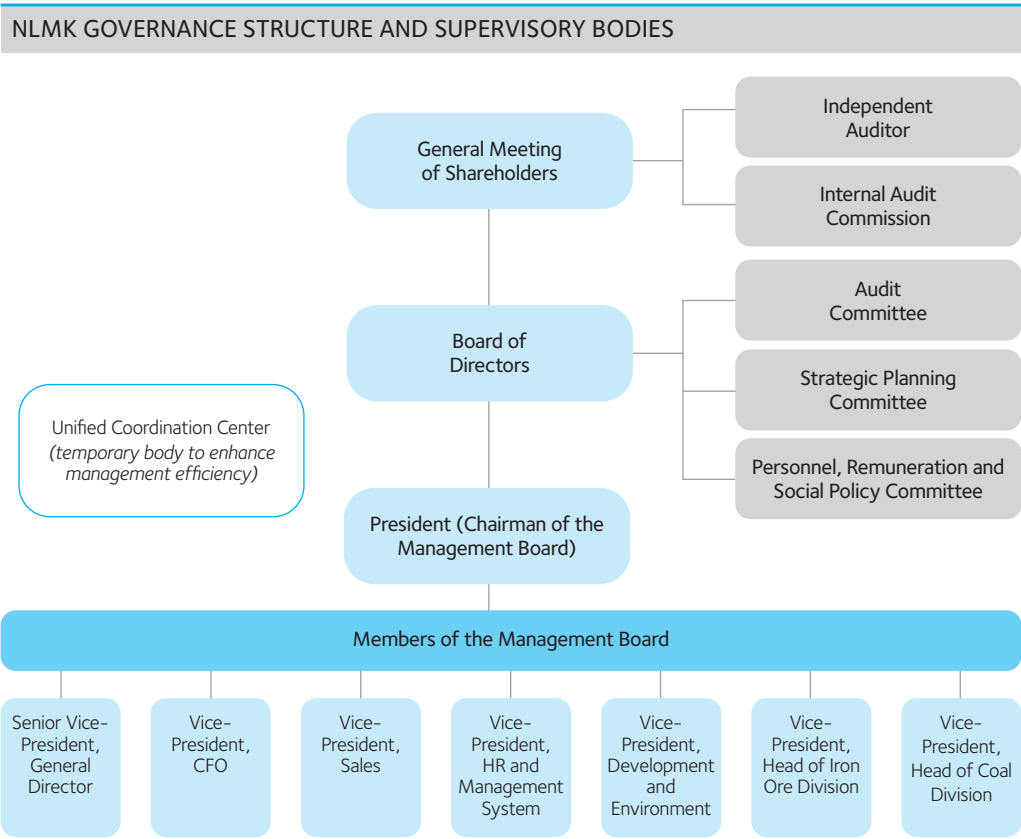
corporate governance. The amendments to the Charter and Regulations were drafted in order to make the Company's internal documents consistent with the Russian Federation Joint-Stock Companies Federal Act, which itself had been revised in 2009, and also in connection with the changes in the list of publications, which in accordance with the Charter should be used to notify shareholders of the convocation of the General Meeting of Shareholders and the results of voting on the Meeting's agenda items.

The Unified Coordination Centre (UCC), originally established in January 2009, continued to operate throughout 2010. The purpose of the UCC is to boost the effectiveness of decisions and to maintain continuous

monitoring of developments, to oversee Group operations in times of crisis, and also to coordinate actions, reduce costs and encourage sales.

Members of the Board of Directors, members of the Management Board and NLMK Group managers are involved in the Centre's activities on a full-time basis. The UCC holds regular meetings to discuss anti-crisis action plans, exercise oversight over their implementation and review their effectiveness, and to monitor Novolipetsk and NLMK Group budgets on a continuous basis.

The Group's governance structure in 2010 is shown below:



### General Meeting of Shareholders

Shareholders participate in the management of the Company by making decisions at the General Meeting of Shareholders. Any shareholder owning voting stock may participate in the General Meeting of Shareholders in person or by proxy. Through voting, shareholders have a significant influence on the business of the Company. Some of the Shareholder Meeting's powers include election of the Group's key managing and supervisory authorities, approving large-scale deals, declaring dividends and a wide range of other issues.

The Annual Meeting of NLMK Shareholders for 2009 was held on June 4, 2010 to discuss the following items:

- Election of the Company's managing and supervisory authorities;
- Approval of restated internal instruments;
- Approval of the 2009 NLMK Annual Report;
- Declaration of dividends for 2009;
- Approval of PricewaterhouseCoopers Audit as NLMK's external auditor;
- Payment of compensation to members of the NLMK Board of Directors; and
- Approval of transactions with related parties.

Extraordinary General Meetings of Shareholders are convened by decision of the Board of Directors at its own initiative, at the request of the Internal Audit Commission or the External Auditor of the Company, or at the request of one or more shareholders who own at least 10% of voting stock as of the day on which the request to convene an extraordinary meeting is made.

The Extraordinary General Meeting of NLMK Shareholders held on September 30, 2010 approved the payment of dividends for the first semester of 2010.

### Board of Directors

The Board of Directors exercises overall control of Company operations, defines its long-term development strategy and enforces effective oversight over the financial and operational activities of the Company.

It is a core objective of the Board of Directors to perform its governance functions in good faith and in a competent manner, encouraging higher Company share prices and enhancing shareholder value, as well as safeguarding the rights of shareholders by providing them with the opportunity to exercise their rights.

Within its agreed areas of competence the Board of Directors decides on the following matters:

- Defines priority areas of operations and approves long-term plans and key programmes of Company activities;
- Convenes the Annual and Extraordinary General Meetings of Shareholders;
- Establishes the NLMK Management Board, determines its structure and composition, approves Management Board members, their early termination, suspends the powers of the President (Chairman of the Management Board), and appoints an acting President (Chairman of the Management Board);
- Advises the General Meeting of Shareholders on the size of dividends payable on shares and the arrangements for pay-out;
- Approves internal documents;
- Approves the Company Registrar;
- Approves large transactions and transactions with related parties;
- Approves decisions with regard to transactions involving the acquisition or disposal of assets; and
- Establishes Board committees and approves their by-laws.

Directors are elected by cumulative voting during General Meetings of Shareholders for a term of office until the next Annual Meeting.

Meetings of the Board of Directors are convoked by the Chairman of the Board of Directors in accordance with the approved Annual Plan of Meetings.

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

The agenda for an upcoming Board of Directors meeting is approved by the Chairman of the Board of Directors. The draft agenda for a Board of Directors meeting is prepared by the Company's Corporate Secretary based on proposals and requests made by a Director, Company President (Chairman of the Management Board) and/or the Management Board, the Internal Audit Commission, the External Auditor of the Company, and by Company 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.

### 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 organizes the work of the Board, convenes the Board Meetings and presides over them, arranges for keeping of minutes during meeting, and presides at the General Meetings of Shareholders. 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 and disposal of non-core assets.

Mr. Vladimir Lisin has been a Member of the Board of Directors and its Chairman for 14 and 12 years, respectively.

### Members of the Board of Directors

The Board of Directors comprises nine members. In accordance with international corporate governance practices and the provisions of NLMK corporate instruments, Independent Directors have been elected to the Company Board of Directors since 2005. The criteria for Independent Directors have been defined in NLMK corporate by-laws and are in line with international corporate governance practices. At present two of the nine members of the Board are independent Directors.

### Board of Directors activities in 2010

In 2010 the NLMK Board of Directors held nine meetings (three meetings were held in the form of absentee voting).

In 2010 the NLMK Board of Directors approved the following key decisions:

- Preliminary approval of the 2009 Annual Report;
- Convocation and holding of the General Meeting of NLMK Shareholders;
- Election of the Chairman of the Board of Directors and Deputy Chairman of the Board of Directors, appointment of the Corporate Secretary, establishment of Board committees;
- Participation of NLMK in the charter capital of other companies (NLMK International B.V.);

As of December 31, 2010 the NLMK Board of Directors includes 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	14	No		✓	Chairman
Vladimir Skorokhodov	Deputy Chairman of the Board of Directors	14	No		✓	
Oleg Bagrin	Member of the Board	6	No	✓	Chairman	
Bruno Bolfo	Member of the Board	3	Yes		✓	
Nikolai Gagarin	Member of the Board	9	No	✓	✓	
Karl Doering	Member of the Board	4	Yes	Chairman	✓	
Randolph Reynolds	Member of the Board	5	No	✓		
Karen Sarkisov	Member of the Board	1	No		✓	✓
Igor Fyodorov	Member of the Board	8	No	✓	✓	

- Review and approval of NLMK internal instruments, including its Charter, and the Regulations for the General Meeting of Shareholders;
- Approval of decision to issue and sell bonds;
- Approval of budgets for NLMK and NLMK Group companies;
- Approval of structure and individual members of the NLMK Management Board;
- Approval of transactions with related parties; and
- Approval of fee payable to NLMK External Auditor.

On March 16, 2010 a meeting of the NLMK Board of Directors was held in Brussels, Belgium to discuss matters regarding the development of Steel Invest & Finance S.A., Luxembourg.

The table below shows attendance of Board meetings by members of the Board of Directors in 2010:

Board of Directors Member	Participation in meetings
Vladimir Lisin	9
Vladimir Skorokhodov	9
Oleg Bagrin	9
Bruno Bolfo	9
Nikolai Gagarin	9
Karl Doering	9
Randolph Reynolds	9
Karen Sarkisov	5 <sup>1</sup>
Igor Fyodorov	9

<sup>1</sup> Mr. Karen Sarkisov was elected to the Board of Directors at the Annual General Meeting of Shareholders held on June 4, 2010.

#### Board of Directors involvement in risk management

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

#### Directors' remuneration and compensation

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

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

Based on Company performance in a given fiscal year, the Annual General Meeting of Shareholders, acting on the advice of the Human Resources, Remuneration and Social Policies Committee, may decide to pay a bonus to each Director equal to within 0.1% of the NLMK Group net

profits for the reported period, as determined in accordance with the Generally Accepted Accounting Principles (US GAAP). Directors who have failed to attend more than half of the Board of Directors Meetings during their tenure are not eligible to receive an annual performance bonus.

The Company reimburses its Directors for any expenses incurred in connection with the performance of their functions, including the costs of soliciting the professional advice of experts on issues raised during Board of Directors meetings, and in connection with the translation into foreign languages of documents and/or materials supplied to the Directors for their consideration.

#### Remuneration and compensation to Board of Directors Members in 2010, USD million

Item	2010
Remuneration	1.8
<b>Total paid to Board Members</b>	<b>1.8</b>

Note: paid in 2010 calendar year.

#### Board of Directors 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:

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

#### Oleg Bagrin

Chairman of the Strategic Planning Committee



#### Strategic Planning Committee

This Committee, chaired since 2010 by member of the NLMK Board of Directors, Oleg Bagrin, drafts and submits recommendations to the Board regarding priority areas for Company activities and its development strategy. This includes long-term actions to improve effectiveness, and to promote asset growth, profitability and a stronger investment case.

As of December 31, 2010 the Strategic Planning Committee also includes Vladimir Lisin, Vladimir Skorokhodov, Nikolai Gagarin, Bruno Bolfo, Karl Doering, Karen Sarkisov and Igor Fyodorov (all are members of the Board of Directors), and Alexey Lapshin, NLMK President (Chairman of the Management Board).

In 2010 the Strategic Planning Committee held 11 meetings to discuss the following key issues:

- Development of recommendations to the NLMK Board of Directors regarding the size of dividends payable on shares and procedures for their payment, as well as profit/(loss) distribution procedures for FY 2009 and the first semester of 2010; and
- Main areas of development, including NLMK Group IT systems, coke and chemical assets, scrap collection network, sinter and blast furnace and steelmaking operations, and Stoilensky.

#### Karl Doering

Chairman of the Audit Committee



#### Audit Committee

The Audit Committee has been chaired by Independent Director Karl Doering, since 2010. This Committee drafts and submits to the Board recommendations regarding the efficient supervision of the financial and business activities of the Company, including annual external audits of financial statements, the quality of services provided by the external auditor and compliance with the requirements for external auditor independence. From December 31, 2010 the Committee also includes NLMK Directors Nikolai Gagarin, Randolph Reynolds, Oleg Bagrin and Igor Fyodorov.

In 2010 the Audit Committee held four meetings to discuss the following key issues:

- Development and submission to the Board of Directors of recommendations/proposals for the Annual General Meeting of Shareholders to approve NLMK's RAS financial (accounting) statements and NLMK Group's US GAAP consolidated financial statements for 2009;
- Review of the draft auditor's report by the NLMK Group External Auditor with respect to NLMK Group's RAS financial (accounting) statements for 2009;
- Review of the nominations and recommendations for the NLMK's External Auditor and external auditors of its subsidiaries and affiliates for 2010 and their fees;
- Review of NLMK's US GAAP condensed consolidated interim financial statements for Q1, H1 and 9M of 2010; and
- Review of proposals to accelerate the preparation of NLMK's US GAAP consolidated financial statements.

### Vladimir Lisin

Chairman of the Human Resources, Remuneration and Social Policies Committee



### Human Resources, Remuneration and Social Policies Committee

The primary purpose of the Human Resources, Remuneration and Social Policies Committee which Vladimir Lisin, Chairman of the Board of Directors of NLMK, has chaired since 2010, 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.

As of December 31, 2010 the Human Resources, Remuneration and Social Policies Committee also includes NLMK Board of Directors member Karen Sarkisov, Management Board members Alexey Lapshin and Stanislav Tsyrlin, and Sergei Melnik, Company Personnel and General Issues Manager.

In 2010 the Human Resources, Remuneration and Social Policies Committee held five meetings to discuss the following key issues:

- Review of Novolipetsk and NLMK Group's governance structure;
- Review and implementation of a system to improve operating efficiency for Novolipetsk; and
- Review of a system to create a top-management pool for NLMK Group.

### Management Board

The day-to-day activities of the Company are managed by the President (Chairman of the Management Board), as the sole executive authority, and the Management Board, as the plural executive authority.

The Management Board is guided by the following principles:

- Prompt and objective decision-making in the interests of the Company and its shareholders;
- Fair, prompt and effective implementation of decisions approved by the General Meeting of Shareholders and the Board of Directors of the Company;
- Liaison with trade union organizations in order to account for the interests of employees; and
- Co-operation with the Federal Government authorities and local authorities in matters of utmost importance for the public.

### Members of the Management Board

The structure and membership of the Management Board are approved by the Board of Directors of NLMK Group and take account of the opinion of the President (Chairman of the Management Board). Individual members of the Management Board are nominated by the President and approved by the Board of Directors.

The President is elected at the General Meeting of Shareholders and serves until the next Annual General Meeting, unless otherwise determined by the General Meeting of Shareholders. Mr. Alexey Lapshin has been President of NLMK since 2006. He was re-elected for a new term on June 4, 2010. At present the NLMK Management Board consists of eight people.

The meeting of NLMK's Board of Directors held on December 14, 2010, approved the following composition of the Management Board:

- Alexey Lapshin, President (Chairman of the Management Board);
- Igor Anisimov, Deputy Chairman of the Management Board, Senior Vice President, General Director;
- Galina Aglyamova, Vice President, CFO;
- Dmitry Baranov, Vice President, Sales;
- Alexander Gorshkov, Vice President, Head of Iron Ore Division;
- Yury Larin, Development and Environment;
- Alexander Saprykin, Vice President, Head of Coal Division; and
- Stanislav Tsyrlin, Vice President, HR and Management System.

### Management Board activities in 2010

In 2010 the Management Board held 33 meetings, six of which were held in the form of absentee voting, to discuss the following key issues:

- Recommendations to the Board of Directors, as well as to the management bodies of significant subsidiaries and affiliates (on issues related to budget approval, elections of executive bodies);
- Review of NLMK's draft 2009 Annual Report and annual financial statements, including the profit and loss statement;
- Approval of draft resolutions on issues within the competence of the General Participants' Meeting in companies where NLMK is the sole participant;
- Appointment of NLMK representatives to Shareholder Meetings of its subsidiaries and affiliated companies, as well as other businesses in which the Company is a participant, founder or member;
- Participation by NLMK in tenders to acquire rights to use mineral resources;

- Company membership and termination of membership in other companies;
- Approval of the list of significant subsidiaries and affiliates;
- Recommendations for the development programmes of significant subsidiaries and affiliates;
- Approval of transactions with an amount exceeding 10% of the Company's book value as on the last reporting date;
- Performance of Phase 1 of the NLMK Technology Upgrade and Development Programme at Novolipetsk; and
- Phase 2 of the Technology Upgrade and Development Programme for 2007-2012 for Novolipetsk and the NLMK Group.

The table below shows attendance of Management Board meetings by members of the Management Board in 2010:

Management Board Member	Participation in meetings
Alexey Lapshin	33
Igor Anisimov	28
Galina Aglyamova	30
Dmitry Baranov	32
Alexander Gorshkov	31
Yury Larin	32
Alexander Saprykin	26
Stanislav Tsyrlin	29
Vladimir Nastich	16 <sup>1</sup>

<sup>1</sup> Vladimir Nastich was member of the Management Board until December 14, 2010.

### Remuneration and compensation to Management Board Members

In accordance with the NLMK 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 contracts executed in accordance with the regulations for Management Board Member remuneration.

### Remuneration and compensation paid to Management Board Members in 2010

Item	2010 USD million
Bonuses and salaries	7.6
Other	0.2
<b>Total paid to Management Board Members</b>	<b>7.8</b>

Note: paid in the calendar year.

Members of the Management Board are remunerated in cash.

#### Company shares owned by Management Board Members

Management Board Member	Company shares owned as of December 31, 2010
Alexey Lapshin	None
Galina Aglyamova	0.00017%
Igor Anisimov	0.0017%
Dmitry Baranov	None
Alexander Gorshkov	None
Yury Larin	0.00083%
Alexander Saprykin	None
Stanislav Tsyrlin	None

#### Company policy vis-à-vis related party transactions

This policy is aimed at mitigating the risks related to asset misuse by the Company's top management. At NLMK related party transactions are approved in accordance with the provisions of the Joint-Stock Companies Federal Act and the Company Charter. The Company has designed an internal control system which monitors the compliance with the requirements applicable to related party transactions of NLMK and the procedures by which they are approved.

The mandate of the Management Board includes issuing advice to the NLMK Board of Directors regarding the approval of large and/or related party transactions submitted for the consideration of the Board of Directors in accordance with its competence.

Information regarding related party transactions approved in 2010 is reported in shareholder relations/disclosures (see below).

#### Shareholder relations/disclosures

The Company's external relations are guided by its information policy which is consistent with best international practice applicable to shareholder and potential investor relations.

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

The Company maintains a Corporate Secretary, who is responsible for safeguarding the rights and interests of shareholders, including the establishment of effective and transparent arrangements for securing the rights of shareholders.

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, maintenance and dissemination of information about the Company and reviewing communications from shareholders.

The Company has also developed an Investor and Shareholder Relations Programme, managed by the Director of External Relations. Members of the Board of Directors and top managers participate in regular meetings with our existing and potential investors during the course of which NLMK representatives inform them of the Company's strategic areas of development, in addition to taking into account shareholders' opinions 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 maintains a continuous dialogue with the investor community by arranging teleconferences to discuss 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 investors with an opportunity to see the Company's production assets first-hand 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 in order to obtain adequate assurance that Company operations 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 Internal Audit Commission acts in the interests of the shareholders and reports to the General Meeting of Shareholders.

The incumbent Internal Audit Commission was elected by the General Meeting of Shareholders on June 4, 2010 and includes the following people:

- Lyudmila Kladienko – member;
- Valery Kulikov – chairman;
- Sergei Nesmeyanov – member;
- Larissa Ovsyannikova – member; and
- Galina Shipilova – member.

##### External auditors

The General Meeting of Shareholders of NLMK appoints an external auditor on an annual basis 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 external auditor of the Company, selected from a list of recognized independent auditors of high professional repute. While drafting its proposals, the Audit Committee is guided by the following principles:

- Qualifications of the external auditor and its professional reputation;
- Quality of services; and
- Compliance with requirements for external auditor independence.

In 2010 the Annual General Meeting of Shareholders of NLMK approved ZAO PricewaterhouseCoopers Audit as the External Auditor for the purposes of auditing NLMK's RAS and US GAAP financial statements.



### 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)

One Global Depository Share equals 10 ordinary shares. As of December 31, 2010 the Global Depository Shares issued by NLMK Group and traded at the London Stock Exchange account for 9.17% of share capital. As of December 31, 2010 GDSs were trading at USD47.7.

Deutsche Bank Trust Company Americas serves as the Depository Bank for the Company.

### Share price

#### NLMK ordinary shares at RTS

	2010	2009
Maximum (USD)	<b>4.53</b>	3.1
Minimum (USD)	<b>2.60</b>	0.90
At end of year (USD)	<b>4.53</b>	3.02
Number of trades	<b>119</b>	115
Trading volume (USD million)	<b>2.41</b>	2.35

#### NLMK ordinary shares at MICEX

	2010	2009
Maximum (RUR)	<b>144.67</b>	99.91
Minimum (RUR)	<b>80.16</b>	30.40
At end of year (RUR)	<b>144.67</b>	91.84
Number of trades	<b>344,724</b>	375,595
Trading volume (RUR million)	<b>17,300</b>	17,039

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

#### NLMK Global Depository Shares at the London Stock Exchange

	2010	2009
Maximum (USD)	<b>47.7</b>	33.3
Minimum (USD)	<b>25.0</b>	8.5
At end of year (USD)	<b>47.7</b>	30.7
Trading volume (USD million)	<b>3,214</b>	2,794

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

### Market capitalization

During 2010 the NLMK Group capitalization showed positive upward momentum, reflecting the skillful financial and investment policies pursued by Company management. In late 2010 shares were trading on the London Stock Exchange at USD4.8 per share (USD47.7 per GDS), consistent with a market capitalization of USD28.5 billion, or 50% higher than capitalization at end of 2009. Excellent operating and financial efficiency, low debt levels and good business diversification have allowed NLMK to maintain its No.1 position in terms of capitalization among Russian steelmakers and remain one of the world's top five steelmakers by market cap.

### 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 also 9% and 15%, respectively (the tax rate applies from January 1, 2008). Wherever an avoidance of double taxation treaty is in effect, taxes are assessed at the rate defined by the treaty. Taxation information is provided for general information only. Potential and existing investors should consult their advisors on taxation implications for investments in Company shares, including Global Depository Shares (GDS).

### Dividends

#### Dividend policy

The Company's dividend policy was approved in June 2006 and aims to offer clear guidance to shareholders and all parties concerned about the Company's strategy with respect to the distribution and use of NLMK net profits. The Dividend Policy states that 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, outlook, 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 Depository Shares shall be declared and paid to the Depository Bank in Russian roubles 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

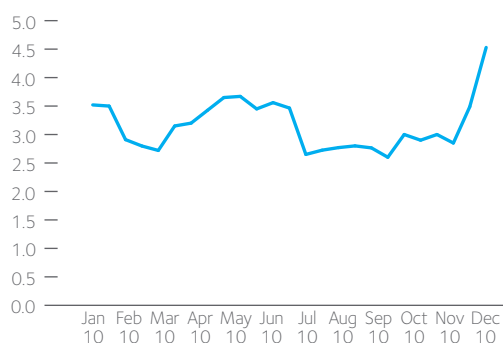
Shares issued	5,993,227,240
Dividends per 1 ordinary share with par value of RUR1.00, roubles (projected) <sup>3</sup>	1.82
Total dividends payable for 2010 (projected), RUR <sup>3</sup>	10,907,673,577

The Board of Directors has recommended that the General Shareholders' Meeting approve a decision to pay dividends for 2010 in the amount of RUR 1.82 in cash per ordinary share.

Taking into account the previously paid interim dividends for the first half of 2010 of RUR0.62 per ordinary share approved at the Annual Shareholders' Meeting in September 2010, additional payment will amount to RUR1.20 per ordinary share.

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

NLMK share price at RTS in 2010 (Share price, USD)



NLMK share price at MICEX in 2010 (Share price, RUR)



NLMK GDA price performance at LSE in 2010 (GDS price, USD)



#### Dividend history

Year		Dividend per share <sup>1</sup>	Declaration date	Total amount of dividend declared	Dividend/net income
<b>2002</b>	Full year	RUR312.5 (USD10.3010)	27.06.03	RUR1,871,012,500 USD61.675 million	18%
<b>2003</b>	Full year	RUR0.6045 <sup>2</sup> (USD0.0208)	25.06.04	RUR3,622,905,867 USD124.834 million	19%
<b>2004</b>	Full year	RUR1.8 (USD0.0643)	20.05.05	RUR10,787,809,032 USD385.556 million	22%
	of which nine months interim	RUR1 (USD0.0357)	03.12.04	RUR5,993,227,240 USD214.081 million	
<b>2005</b>	Full year	RUR3 (USD0.1101)	06.06.06	RUR17,979,681,720 USD659.573 million	48%
	of which six months interim	RUR1 (USD0.0352)	26.09.05	RUR5,993,227,240 USD210.792 million	
<b>2006</b>	Full year	RUR3 (USD0.1140)	05.06.07	RUR17,979,681,720 USD683.266 million	33%
	of which six months interim	RUR1.5 (USD0.0561)	29.09.06	RUR8,989,840,860 USD336.071 million	
<b>2007</b>	Full year	RUR3 (USD0.1231)	06.06.08	RUR17,979,681,720 USD737.682 million	33%
	of which six months interim	RUR1.5 (USD0.0601)	28.09.07	RUR8,989,840,860 USD360.142 million	
<b>2008</b>	Full year	RUR2 (USD0.0786)	05.06.09	RUR11,986,454,480 USD471.338 million	21%
	of which six months interim	RUR2 (USD0.0786)	19.09.08	RUR11,986,454,480 USD471.338 million	
<b>2009</b>	Full year	RUR0.22 (USD0.0071)	04.06.10	RUR1,318,509,992.80 USD42.679 million	19.8%
<b>2010</b>	Full year (projected) <sup>3</sup>	RUR 1.82 (USD0.0629)		RUR 10 907 673 577 USD376.991 million	30.0%
	of which six months interim	RUR0.62 (USD0.0204)	30.09.10	RUR3,715,800,888.80 USD122.218 million	

<sup>1</sup> The dividends were declared in Russian roubles (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 2010 (projected) the exchange rate – the amount of interim dividends is based on the RUR/USD exchange rate as at the date of their approval at the Annual Shareholders' Meeting (September 30, 2010), additional dividends are based on the RUR/USD exchange rate as at the date of the Board of Directors' recommendations on the amount of dividends (April 8, 2010).

<sup>2</sup> In May 2004, following a revaluation of fixed assets, NLMK issued 5,987,240,000 additional common shares with a par value of RUR1 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.

<sup>3</sup> Amount of dividends for 2010 is subject to approval at the Annual Shareholders' Meeting that will be held in June 2011.

### Share capital structure as of December 31, 2010

Shareholders	Stake, %
FLETCHER GROUP HOLDINGS LIMITED	
*beneficially owned by Vladimir S. Lisin, Chairman of the Board of Directors of NLMK	85.54
Companies beneficially owned by NLMK managers	3.17
Free-float shares, including those traded at Russian stock exchanges and in the form of global depository shares at the London Stock Exchange	11.29

### 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 notices of results on the LSE website via the Regulatory News Service (RNS), 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 from the Shareholder Register's office and our PR consultants in London.



For more detailed information on our investor relations activity please visit our website ([www.nlmk.com](http://www.nlmk.com)), Investor Relations section

**List of NLMK subsidiaries and affiliates as of December 31, 2010**

Item No.	Company name	Activity	Share of OJSC Novolipetsk in Charter Capital (%)	Location
<b>Subsidiary Companies</b>				
1	VIZ-Stal, Limited Liability Company	Production and marketing of electrical steel	100	28 Kirova St., Yekaterinburg, 620219 Russia
2	Vtormetsnab NLMK Limited Liability Company	Collection, processing and sales of ferrous scrap	100	2 Metallurgov Sq., Lipetsk, 398040 Russia
3	Vtorchermet NLMK, Limited Liability Company	Collection, processing and sales of ferrous and non-ferrous scrap	100	43 Toledova St., Yekaterinburg, 620034 Russia
4	Hotel Metallurg, Limited Liability Company	Hotel services	100	36 Lenina St., Lipetsk, 398020 Russia
5	Karamyshevskoye, Limited Liability Company	Production and processing of agricultural produce	100	1 Tsentralnaya Sq., Karamyshevo Village, Gryazinsky District, Lipetsk Region, 399077 Russia
6	Kleaningovaya Kompaniya Limited Liability Company	Cleaning and janitorial services for production premises, housing, equipment and vehicles	100	8 Ferrosplavnaya St., Lipetsk, Russia
7	SHANS Lipetsk Insurance Company, Limited Liability Company	Insurance	100	30 Nedelina St., Lipetsk, 398059 Russia
8	Independent Transport Company, Limited Liability Company	Cargo transportation and other transportation and forwarding services	100	32A Leninsky Prospekt, Moscow, 119991 Russia
9	NLMK Long Products, Limited Liability Company	Managing company, trading and procurement activities	100	43 Toledova St., Yekaterinburg, 620034 Russia
10	NLMK-Uchetniy Tsentr, Limited Liability Company	Book-keeping and tax accounting services for NLMK Group businesses	100	2 Metallurgov Sq., Lipetsk, 398040 Russia
11	Novolipetskaya Metallobaza, Limited Liability Company	Manufacturing of plastics products and metalware	100	8 Almaznaya St., Lipetsk, Russia
12	Novolipetsky Pechatny Dom, Limited Liability Company	Printing services	100	2 Metallurgov Sq., Lipetsk, Russia
13	Steel, Limited Liability Company	Raw materials, supplies, scrap for steelmaking	100	3 Uspenskaya Sq., Uglich, Yaroslavl Region, 152615 Russia
14	NLMK Construction and Assembly Trust, Limited Liability Company	Contracting of industrial, housing, utilities, services and road construction works. Construction of health facilities, household natural gas supply lines	100	2 Fanernaya St., Lipetsk, 398017 Russia
15	NLMK Trading House, Limited Liability Company	Consolidated purchases of raw materials and inputs, sale of NLMK Group by-products	100	10 Bakhrushina St., Building 1, Moscow, 115054 Russia
16	Ussuriyskaya Metallobaza, Limited Liability Company	Acquisition, processing, storage and domestic sale of ferrous and non-ferrous metals	100	8 Kommunalnaya St., Ussuriysk, Primorskiy Kray, 692519 Russia
17	Altai-Koks, Open Joint-Stock Company	Production and marketing of coke and by-products, generation and marketing of heat and electric power	100	2 Pritayezhnaya St., Zarinsk, Altayskiy Kray, 659107 Russia
18	Dolomit, Open Joint-Stock Company	Mining and processing of dolomite	100	1 Sverdlova St., Dankov, Lipetsk Region, Russia
19	Stoilensky Mining and Dressing Company, Open Joint-Stock Company	Mining and processing of iron ore and other minerals	100	Fabrichnaya Site, South-Western Industrial District, Passage 4, Stary Oskol, Belgorod region, Russia
20	Studenovskaya Joint Stock Mining Company, Open Joint-Stock Company	Production of fluxing limestone for steelmaking, process limestone for the sugar industry, lime-containing materials and crushed stone for construction and roadwork	100	4 Gaydara St., Lipetsk, 398008 Russia



**List of NLMK subsidiaries and affiliates as of December 31, 2010** *continued*

Item No.	Company name	Activity	Share of OJSC Novolipetsk in Charter Capital (%)	Location
<b>Subsidiary Companies</b> <i>continued</i>				
21	Kaluzhsky Nauchno-Proizvodstvenny Elektrometallurgichesky Zavod (KNPEMZ), Closely-held Joint-Stock Company	Production of steel, re-rolling stock (billets), hot-rolled and forged flats, unpainted and pre-painted cold-rolled flat steel	100	20 Lyskina St., Vorsino Village, Borovsky Rayon, Kaluga Region, 249020 Russia
22	Uralvtorchermet, Closely-held Joint-Stock Company	Consulting services re commercial activities, management, investing in securities, leasing of assets	100	3 Novinskaya St., Room 501, Yekaterinburg, Sverdlovsk Region, 620024 Russia
23	NLMK International B.V.	Holding company, holds shares in subsidiary production and trading companies, manages subsidiaries, provides financing	100	World Trade Center Amsterdam Strawinskylaan 1331, Tower B, 1077 XX Amsterdam The Netherlands
24	Top Gun Investment Corp. II	Holds shares in subsidiary production and trading companies, manages subsidiaries, provides financing	100	32 West Loockerman Street, Suite 201, City of Dover, County of Kent 19904, State of Delaware, USA
25	Novolipetsky Metallurg Resort, a subsidiary of Novolipetsk Steel	Rest and recreation services, health and rehabilitation facility	100	25 Chekhova St., Morskoye Village, Sudak, Crimea Autonomous Republic, 334886 Ukraine
26	Larmet, Limited Liability Company	Wholesale trade in steel and steel products	99.98	44/28 Studencheskaya St., Moscow, 121165 Russia
27	Vimet, Limited Liability Company	Wholesale supply of raw materials for steelmaking, wholesale supply of steel products	99.97	2 Metallurgov Sq., Lipetsk, 398040 Russia
28	Lipetsky Gipromet, Limited Liability Company	Design and survey operations	57.57	1 Kalinina St., Lipetsk, 398059 Russia
29	Nizhneserginsky Metizno-Metallurgicheskiy Zavod (NSMMZ), Open Joint-Stock Company	Production of long steel stock, hot-rolled and forged flat steel	57	3 Karla Libknekhta St., Revda, 623280 Russia
30	North Oil and Gas Company, Open Joint-Stock Company	Prospecting and exploration of oil and gas fields	51	18 3rd Yamskogo Polya St., Floor 7, Moscow, 125040 Russia
31	Maxi-Group, Open Joint-Stock Company	Consulting services, corporate financial management	50.00005	18 3rd Yamskogo Polya St., Moscow, 125040 Russia
<b>Affiliated Companies</b>				
32	Uralskiy Zavod Pretsizionnyh Splavov (UZPS), Closely-held Joint-Stock Company	Production of pig-iron, ferrous alloys, steel, hot and cold-rolled flat steel	47.99	5 Koltsevaya St., Berezovsky, Sverdlovsk Region, 623704 Russia
33	Neptune, Limited Liability Company	Wellness services	25	Office 35, 1C Adm. Makarova St., Lipetsk, 398005 Russia

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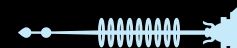
- 104 Glossary: Key products and descriptions

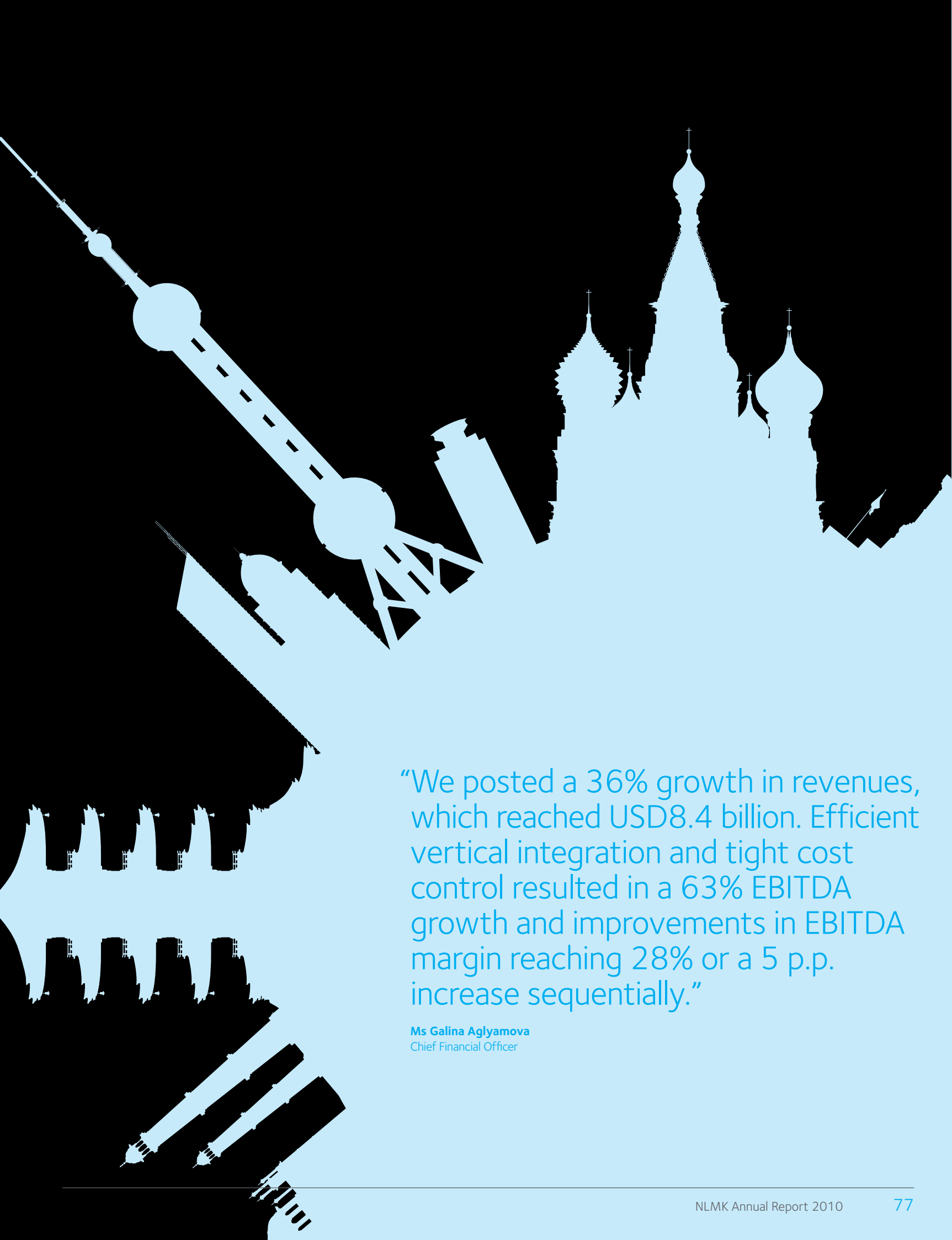


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“We posted a 36% growth in revenues, which reached USD8.4 billion. Efficient vertical integration and tight cost control resulted in a 63% EBITDA growth and improvements in EBITDA margin reaching 28% or a 5 p.p. increase sequentially.”

**Ms Galina Aglyamova**  
Chief Financial Officer



### Responsibility Statement

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

1. Preparation and reliability of the Group's consolidated financial statements, prepared in accordance with US GAAP, as of December 31, 2010, 2009 and 2008, and also for the years ended on those dates, within balance sheets, profit and loss statements, cash flow statements, equity statements and the statements on the total income of shareholders and notes to the consolidated financial statements.

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

2. The completeness and correctness of the information submitted in the NLMK Group Annual Report for 2010, specifically the information on the operational results of NLMK Group, the results of its strategic development, risks and events which in the near future may have impact on the operations of the Group.

The Company management confirms that the operational and financial indices fully reflect the outcome of NLMK Group's operations in 2010 and main changes regarding the previous periods as well as give a comprehensive representation on the development of NLMK and its subsidiaries and dependent companies.

A handwritten signature in black ink, appearing to read "A. Lapshin", with a long horizontal line extending to the right.

### A. Lapshin

President (Chairman of the Management Board), NLMK

### Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of OJSC Novolipetsk Steel and its subsidiaries (the 'Group') as at December 31, 2010, 2009 and 2008 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. 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 of these statements in accordance with the 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*ZAO PricewaterhouseCoopers Audit*

**March 30, 2011**

Moscow, Russian Federation



## Financial Statements: Consolidated balance sheets

as at 31 December 2010, 2009 and 2008

	Note	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
(All amounts in thousands of US dollars, except for share data)				
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	4	747,979	1,247,048	2,159,989
Short-term investments	5	422,643	451,910	8,089
Accounts receivable and advances given, net	6	1,259,596	913,192	1,487,847
Inventories, net	7	1,580,068	1,134,095	1,555,762
Other current assets		51,994	58,034	99,960
Deferred income tax assets	18	43,069	72,467	–
Current assets held for sale	16	–	–	34,432
		<b>4,105,349</b>	<b>3,876,746</b>	<b>5,346,079</b>
<b>Non-current assets</b>				
Long-term investments	5	687,665	468,236	815,527
Property, plant and equipment, net	8	8,382,478	7,316,180	6,826,139
Intangible assets, net	9(b)	181,136	203,490	235,283
Goodwill	9(a)	494,654	556,636	613,668
Deferred income tax assets	18	21,387	12,199	–
Other non-current assets		26,356	68,457	33,546
Non-current assets held for sale	16	–	–	194,286
		<b>9,793,676</b>	<b>8,625,198</b>	<b>8,718,449</b>
<b>Total assets</b>		<b>13,899,025</b>	<b>12,501,944</b>	<b>14,064,528</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and other liabilities	10	1,107,434	841,230	1,879,213
Short-term borrowings	11	525,559	556,563	1,079,806
Current income tax liability		18,803	19,419	10,497
Current liabilities held for sale	16	–	–	10,959
		<b>1,651,796</b>	<b>1,417,212</b>	<b>2,980,475</b>
<b>Non-current liabilities</b>				
Deferred income tax liability	18	400,601	396,306	296,875
Long-term borrowings	11	2,098,863	1,938,652	1,929,772
Other long-term liabilities	12	193,951	139,906	128,944
Non-current liabilities held for sale	16	–	–	5,393
		<b>2,693,415</b>	<b>2,474,864</b>	<b>2,360,984</b>
<b>Total liabilities</b>		<b>4,345,211</b>	<b>3,892,076</b>	<b>5,341,459</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, 2010, 2009 and 2008	15(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		98,752	112,450	52,395
Accumulated other comprehensive loss		(916,901)	(796,756)	(549,879)
Retained earnings		10,261,214	9,171,068	8,956,013
		<b>9,674,505</b>	<b>8,718,202</b>	<b>8,689,969</b>
<b>Non-controlling interest</b>	14	<b>(120,691)</b>	<b>(108,334)</b>	<b>33,100</b>
<b>Total stockholders' equity</b>		<b>9,553,814</b>	<b>8,609,868</b>	<b>8,723,069</b>
<b>Total liabilities and stockholders' equity</b>		<b>13,899,025</b>	<b>12,501,944</b>	<b>14,064,528</b>

The consolidated financial statements as set out on pages 79 to 103 were approved on March 29, 2011.

**President (Chairman of the Management Board)**

Lapshin A.A.

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

## Financial Statements: Consolidated statements of income

for the years ended 31 December 2010, 2009 and 2008

(All amounts in thousands of US dollars, except for earnings per share amounts)				
	Note	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
<b>Revenue</b>	23	<b>8,350,748</b>	<b>6,139,895</b>	<b>11,698,661</b>
<b>Cost of sales</b>				
Production cost		(4,933,236)	(3,672,245)	(5,808,780)
Depreciation and amortization		(469,418)	(478,117)	(498,994)
		<b>(5,402,654)</b>	<b>(4,150,362)</b>	<b>(6,307,774)</b>
<b>Gross profit</b>		<b>2,948,094</b>	<b>1,989,533</b>	<b>5,390,887</b>
General and administrative expenses		(263,146)	(297,246)	(366,664)
Selling expenses		(708,868)	(654,628)	(734,489)
Taxes other than income tax		(123,311)	(102,076)	(100,025)
Impairment losses	9(a)	(58,179)	(43,662)	(128,389)
<b>Operating income</b>		<b>1,794,590</b>	<b>891,921</b>	<b>4,061,320</b>
Loss on disposals of property, plant and equipment		(9,657)	(4,420)	(9,594)
Losses on investments, net		(27,991)	(10,903)	(21,319)
Interest income		45,071	59,733	100,238
Interest expense		(15,865)	(170,905)	(217,270)
Foreign currency exchange loss, net		(59,262)	(78,026)	(366,984)
Other expenses, net	26(b)	(4,598)	(92,661)	(414,694)
<b>Income before income tax</b>		<b>1,722,288</b>	<b>594,739</b>	<b>3,131,697</b>
Income tax expense	18	(390,972)	(181,784)	(703,474)
<b>Income, net of income tax</b>		<b>1,331,316</b>	<b>412,955</b>	<b>2,428,223</b>
Equity in net losses of associates	5	(107,338)	(314,859)	(151,212)
<b>Net income</b>		<b>1,223,978</b>	<b>98,096</b>	<b>2,277,011</b>
<b>Add: Net loss attributable to the non-controlling interest</b>	14	<b>31,065</b>	<b>116,959</b>	<b>1,730</b>
<b>Net income attributable to NLMK stockholders</b>		<b>1,255,043</b>	<b>215,055</b>	<b>2,278,741</b>
<b>Income per share – basic and diluted:</b>				
Net income attributable to NLMK stockholders per share (US dollars)		0.2094	0.0359	0.3802
Weighted-average shares outstanding, basic and diluted (in thousands)	17	5,993,227	5,993,227	5,993,227

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

## Financial Statements: Consolidated statements of cash flows

for the years ended 31 December 2010, 2009 and 2008  
(thousands of US dollars)

	Note	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
(thousands of US dollars)				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Net income</b>		<b>1,223,978</b>	<b>98,096</b>	<b>2,277,011</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>				
Depreciation and amortization		469,418	478,117	498,994
Loss on disposals of property, plant and equipment		9,657	4,420	9,594
Losses on investments, net		27,991	10,903	21,319
Equity in net losses of associates	5	107,338	314,859	151,212
Deferred income tax expense/(benefit)	18	33,790	34,443	(259,446)
(Gains)/losses on unrealized forward contracts	13	(4,225)	(470,930)	653,297
Impairment losses	9(a)	58,179	43,662	128,389
Settlement agreement on the dispute	26(b)	–	–	234,000
Cash in assets held for sale		–	–	(11,431)
Other		99,735	21,825	68,285
<b>Changes in operating assets and liabilities</b>				
(Increase)/decrease in accounts receivable		(356,198)	493,751	(698,002)
(Increase)/decrease in inventories		(458,033)	331,396	(364,316)
Decrease in other current assets		5,517	17,193	45,690
Increase in accounts payable and other liabilities		213,979	10,534	89,776
(Decrease)/increase in current income tax payable		(29)	5,990	(63,610)
<b>Net cash provided by operating activities</b>		<b>1,431,097</b>	<b>1,394,259</b>	<b>2,780,762</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases and construction of property, plant and equipment		(1,463,209)	(1,120,777)	(1,934,274)
Proceeds from sale of property, plant and equipment		26,362	12,719	9,789
Purchases of investments and placement of bank deposits		(832,472)	(536,098)	(33,386)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		450,255	510,336	95,803
Loans issued		–	(403,592)	(12,839)
Settlement of abandoned acquisition	26(b)	–	(234,000)	–
Acquisitions of subsidiaries, net of cash acquired of \$22 in 2010 and \$422,841 in 2008	22(a), 22(d)	(28,363)	–	(514,156)
Purchases of equity investments	5	–	–	(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
Movement of restricted cash		–	–	(1,006)
<b>Net cash used in investing activities</b>		<b>(1,847,427)</b>	<b>(1,771,412)</b>	<b>(2,398,580)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings and notes payable		933,873	1,076,756	3,735,078
Repayment of borrowings and notes payable		(802,143)	(1,540,242)	(2,248,720)
Capital lease payments		(46,356)	(69,094)	(90,675)
Dividends to shareholders		(164,501)	(1,981)	(842,792)
Dividends to non-controlling shareholders of existing subsidiaries		–	(127)	(12,324)
Prepayment for disposal of assets to a company under common control	16	–	–	258,182
<b>Net cash (used in)/provided by financing activities</b>		<b>(79,127)</b>	<b>(534,688)</b>	<b>798,749</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(495,457)</b>	<b>(911,841)</b>	<b>1,180,931</b>
Effect of exchange rate changes on cash and cash equivalents		(3,612)	(1,100)	(175,583)
Cash and cash equivalents at the beginning of the year	4	1,247,048	2,159,989	1,154,641
<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b>747,979</b>	<b>1,247,048</b>	<b>2,159,989</b>

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

## Financial Statements: Consolidated statements of cash flows *continued*

for the years ended 31 December 2010, 2009 and 2008  
(thousands of US dollars)

(thousands of US dollars)	Note	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
<b>Supplemental disclosures of cash flow information:</b>				
<b>Cash paid during the year for:</b>				
Income tax		358,419	136,378	1,020,320
Interest (excluding capitalized interest)		15,865	170,702	201,635
<b>Non-cash investing activities:</b>				
Capital lease liabilities incurred	20	97,606	83,186	107,793
Elimination of inter-company loan in business combination	22(a)	–	–	161,023
<b>Non-cash investing activities:</b>				
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of \$22 in 2010 and \$422,841 in 2008	22	28,363	–	514,156

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



## Financial Statements: Consolidated statement of stockholders' equity and comprehensive income

for the years ended 31 December 2010, 2009 and 2008  
(thousands of US dollars)

	Note	NLMK stockholders					Non-controlling interest	Comprehensive income/(loss)	Total stockholders' equity
		Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings			
<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:									
Cumulative translation adjustment	2(b)	–	–	–	(1,731,425)	–	(2,081)	(1,733,506)	(1,733,506)
<b>Comprehensive income</b>								543,505	<b>543,505</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 non-controlling shareholders of existing subsidiaries		–	–	–	–	–	(12,383)	–	(12,383)
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>								(158,364)	<b>(158,364)</b>
Disposal of assets to an entity under common control	16, 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>
<b>Comprehensive income:</b>									
Net income/(loss)		–	–	–	–	1,255,043	(31,065)	1,223,978	1,223,978
Other comprehensive income:									
Cumulative translation adjustment	2(b)	–	–	–	(120,145)	–	5,010	(115,135)	(115,135)
<b>Comprehensive income</b>								1,108,843	<b>1,108,843</b>
Change in non-controlling interest	14	–	–	(13,698)	–	–	13,698	–	–
Dividends to shareholders	15(b)	–	–	–	–	(164,897)	–	–	(164,897)
<b>Balance at December 31, 2010</b>		<b>221,173</b>	<b>10,267</b>	<b>98,752</b>	<b>(916,901)</b>	<b>10,261,214</b>	<b>(120,691)</b>	<b>–</b>	<b>9,553,814</b>

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

as at and for the years ended 31 December 2010, 2009 and 2008  
(thousands of US dollars)

### 1 BACKGROUND

OJSC Novolipetsk Steel (the 'Parent Company') and its subsidiaries (together – the 'Group') is one of the largest 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 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, coke-chemical and long products segments (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 subsidiary. Their principal business activity is the production of blast furnace coke, cupola coke, nut coke and small-sized coke;
- Steel rolling company LLC VIZ-Stahl. The principal business activity of this company is the production of cold-rolled grain-oriented and non-oriented steel.
- LLC NLMK Long Products, OJSC NSMMZ and scrap collecting companies. The principal business activities of these companies are the collection and recycling of iron scrap, steelmaking 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 steelmaking plant and five steel rolling facilities as well as a network of steel service centers (Note 5);
- Danish steel rolling company DanSteel A/S. The principal business activity of this company is production of hot-rolled plates;
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. (acquired in 2008). The principal business activity of these companies is sales of the Group's products outside the Russian Federation; and
- American hot-rolled coils producer NLMK Indiana (formerly – 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) Basis of presentation

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

#### (b) Functional and reporting currency

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

Functional currency of the majority of the Group entities is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for consolidated statement of income accounts for the year ended December 31, 2010 and 2009 (weighted average exchange rate for consolidated statement of income accounts for the year ended December 31, 2008) 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 \$(115,135), \$(256,460) and \$(1,733,506) was recorded directly in stockholders' equity in the years ended December 31, 2010, 2009 and 2008, respectively.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2010, 2009 and 2008 were 1 US dollar to 30.4769, 30.2442 and 29.3804 Russian rubles, respectively. The period weighted average exchange rates for the first quarter 2010, second quarter 2010, third quarter 2010 and fourth quarter 2010 were 29.8903, 30.2430, 30.6200 and 30.7117 Russian rubles to 1 US dollar, respectively. The period weighted average exchange rates for the first quarter 2009, two quarter 2009, third quarter 2009 and fourth 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.

#### (c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant inter-company 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.

as at and for the years ended 31 December 2010, 2009 and 2008  
(thousands of US dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Restricted cash

Restricted cash comprises 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(l)). 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 No. 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	two – 40 years
Vehicles	five – 25 years

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

as at and for the years ended 31 December 2010, 2009 and 2008  
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## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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, unless indicators exist that indicate that the goodwill of a reporting unit may be impaired at an interim date.

Prior to adoption of ASC No. 805, the excess of the fair value of net assets acquired over purchase cost was determined as negative goodwill, and was allocated to the acquired non-current assets, except for deferred taxes, if any, until they were reduced to zero. After adoption of ASC No. 805, the excess of the fair value of net assets acquired over acquisition cost represents negative goodwill which is recognized as a gain in the consolidated statement of income during the period of the acquisition.

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

### (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 loss, 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.

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(thousands of US dollars)

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when a different tax rate is enacted.

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

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

### (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 the 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 2008-2010 varied from 84% to 86%.

### (v) 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 steelmaking, production of long products, reinforcing rebar, and metalware;
- mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties; and

- 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 standards

Effective January 1, 2010, the Group adopted changes issued by the Financial Accounting Standards Board ('FASB') to accounting for variable interest entities. These changes require 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. The adoption of these changes had no impact on the Group's consolidated financial statements.

Effective from December 31, 2010 the Group adopted changes issued by FASB in respect of *Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ('ASU 2010-20') that amends Topic 310, *Receivables*, of the FASB Codification. ASU 2010-20 amends existing disclosures and requires the entity to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 also introduces a new terminology, in particular, the term financial receivables. Adoption of ASU 2010-20 didn't have a material impact on the Group's consolidated financial position and results of operations.

### New pronouncements

In December 2010, The FASB issued ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28) that amends Topic 350, *Intangibles – Goodwill and Other*, of the FASB codification. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Group will adopt ASU 2010-28 from January 1, 2011. The Group does not expect ASU 2010-28 to have a material impact on the Group's consolidated financial position and results of operations.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29) that amends Topic 805, *Business Combinations*, of the FASB codification. ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. ASU 2010-29 is effective prospectively for business combinations occurred on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group will adopt ASU 2010-29 for business combinations occurred on or after January 1, 2011. The Group does not expect ASU 2010-29 to have a material impact on the Group's consolidated financial position and results of operations.



## Financial Statements: Notes to the consolidated financial statements *continued*

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### 4 CASH AND CASH EQUIVALENTS

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Cash – Russian rubles	131,555	79,793	75,561
Cash – US dollars	117,343	125,917	48,195
Cash – other currencies	45,353	64,197	31,493
Deposits – Russian rubles	151,426	208,514	317,772
Deposits – US dollars	210,743	729,092	1,591,632
Deposits – Euros	91,147	25,778	89,683
Deposits – other currencies	3	11,474	4,832
Other cash equivalents	409	2,283	821
	<b>747,979</b>	<b>1,247,048</b>	<b>2,159,989</b>

### 5 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
<b>Short-term investments and current portion of long-term investments</b>			
Loans to related parties (Note 25(b))	–	433,171	–
Bank deposits	405,784	7,109	–
Other	16,859	11,630	8,089
	<b>422,643</b>	<b>451,910</b>	<b>8,089</b>
<b>Long-term investments</b>			
Loans to related parties (Note 25(b))	515,264	156,371	153,745
Investments in associates	170,192	311,514	660,622
Other	2,209	350	1,160
	<b>687,665</b>	<b>468,236</b>	<b>815,527</b>
<b>Total investments</b>	<b>1,110,308</b>	<b>920,146</b>	<b>823,616</b>

Investments in associates:

	As at December 31, 2010 Ownership	As at December 31, 2009 Ownership	As at December 31, 2008 Ownership	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Steel Invest & Finance (Luxembourg) S.A.	50.00%	50.00%	50.00%	164,009	305,284	654,134
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	50.00%	6,183	6,230	6,488
				<b>170,192</b>	<b>311,514</b>	<b>660,622</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 the acquisition date, 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 included in the value of investment in associate.

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); and
- effective from December 18, 2010 the Group has a perpetual option to buy, and Duferco has 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.

There were no material assets and liabilities in relation to these options, therefore no adjustments were recorded in these consolidated financial statements.

## Financial Statements: Notes to the consolidated financial statements *continued*

as at and for the years ended 31 December 2010, 2009 and 2008  
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### 5 INVESTMENTS (continued)

Summarized financial information for SIF S.A. is as follows:

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Current assets	1,538,560	1,580,750	2,289,830
Non-current assets	1,239,440	1,316,182	1,276,334
<b>Total assets</b>	<b>2,778,000</b>	<b>2,896,932</b>	<b>3,566,164</b>
Current liabilities	(1,368,598)	(1,086,909)	(2,393,931)
Non-current liabilities	(1,528,189)	(1,805,213)	(529,535)
<b>Total liabilities</b>	<b>(2,896,787)</b>	<b>(2,892,122)</b>	<b>(2,923,466)</b>
<b>Equity</b>	<b>(118,787)</b>	<b>4,810</b>	<b>642,698</b>

The revenues and net loss of SIF S.A. for the year ended December 31, 2010 and 2009 amounted to \$2,820,699 and \$(136,908), \$2,047,806 and \$(619,557), respectively. The revenues and net income of SIF S.A. for the 12 months, ended September 30, 2008 amounted to \$4,958,941 and \$182,885, respectively.

The Group's losses related to SIF S.A. amounted to \$(107,338), \$(314,859) and \$(151,212) for the years ended December 31, 2010, 2009 and 2008, respectively.

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

### 6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Trade accounts receivable	728,153	619,722	964,257
Advances given to suppliers	201,745	91,858	123,588
Taxes receivable	416,833	365,466	489,352
Accounts receivable from employees	4,035	3,407	2,709
Other accounts receivable	148,964	148,261	178,996
	1,499,730	1,228,714	1,758,902
Allowance for doubtful debts	(240,134)	(315,522)	(271,055)
	<b>1,259,596</b>	<b>913,192</b>	<b>1,487,847</b>

As at December 31, 2010 accounts receivable of \$15,373 served as collateral for certain borrowings (Note 11).

As at December 31, 2010, 2009 and 2008, the Group had other accounts receivable of \$88,951, \$126,705 and \$95,033, respectively, from companies for which a 100% allowance was recorded. These accounts receivable were mostly acquired by the Group through a business combination (Note 22(c)).

### 7 INVENTORIES

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Raw materials	870,160	613,940	833,236
Work in process	332,284	219,455	326,168
Finished goods and goods for resale	445,961	351,879	480,135
	1,648,405	1,185,274	1,639,539
Provision for obsolescence	(68,337)	(51,179)	(83,777)
	<b>1,580,068</b>	<b>1,134,095</b>	<b>1,555,762</b>

As at December 31, 2010, 2009 and 2008, inventories of \$27,898, nil and \$35,900, respectively, served as collateral for certain borrowings (Note 11).

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### 8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Land	154,225	136,596	91,553
Mineral rights	534,445	512,106	527,162
Buildings	1,532,788	1,400,208	1,385,103
Land and buildings improvements	1,322,321	1,221,530	1,213,582
Machinery and equipment	6,150,022	5,850,662	5,699,662
Vehicles	364,107	345,213	333,351
Construction in progress and advances for construction and acquisition of property, plant and equipment	3,519,758	2,817,937	2,355,259
Leased assets (Note 19)	372,405	328,204	310,534
Other	72,168	68,398	72,169
	14,022,239	12,680,854	11,988,375
Accumulated depreciation	(5,639,761)	(5,364,674)	(5,162,236)
	<b>8,382,478</b>	<b>7,316,180</b>	<b>6,826,139</b>

In December 2010, the Group made a deposit payment of \$26,249 as an admission fee for a competitive tender for the right to explore and extract coal in the mine field area no. 3 of the Usinsky coal deposit. Subsequently the Parent Company won the tender and acquired a license for exploration and extraction of coal.

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, 2010 is \$26,504.

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, 2010 is \$219,687. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2010, 2009 and 2008, property, plant and equipment of \$19,654, \$45,647 and \$272,678 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amounts of interest capitalized are \$173,402 and \$29,693 for the years ended December 31, 2010 and 2009, respectively. The amount was insignificant for the year ended December 31, 2008.

### 9 GOODWILL AND OTHER INTANGIBLE ASSETS

#### (a) Goodwill

<b>Balance as at December 31, 2007</b>	<b>1,189,459</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 of assets held for sale (Note 16)	(77,238)
Goodwill impairment	(128,389)
Cumulative translation adjustment	(157,136)
<b>Balance as at December 31, 2008</b>	<b>613,668</b>
Goodwill impairment	(43,662)
Cumulative translation adjustment	(13,370)
<b>Balance as at December 31, 2009</b>	<b>556,636</b>
Goodwill impairment	(58,179)
Cumulative translation adjustment	(3,803)
<b>Balance as at December 31, 2010</b>	<b>494,654</b>

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2008 of a controlling interest in Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. amounted to \$2,055 and was allocated to the steel segment. Resulting goodwill in NLMK Indiana 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 fully impaired. As at December 31, 2010 goodwill relating to steel, long products, mining and coke-chemical segments amounted to \$97,005, \$5,870, \$123,020 and \$268,759, respectively.

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## 9 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

### Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2010, 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 products segment (formerly Maxi-Group) was partially impaired, recording an estimated charge of \$58,179, \$43,662 and \$128,389 in 'Impairment losses' line in the consolidated statement of income for the years ended December 31, 2010, 2009 and 2008, respectively. The Group's management believes that the recent global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill.

### (b) Other intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2010	Gross book value as at December 31, 2009	Gross book value as at December 31, 2008
	Note 22				
Industrial intellectual property	LLC VIZ-Stahl	149	56,068	56,499	58,160
Customer base	LLC VIZ-Stahl	125	106,480	107,299	110,456
Customer relationships	DanSteel A/S	72	4,310	4,344	4,470
Beneficial lease interest	NLMK Indiana	38	8,700	8,700	8,700
Customer relationships (electricity)	NLMK Indiana	18	7,200	7,200	7,200
Customer base	Novexco, Novex	180	89,910	89,910	89,910
			272,668	273,952	278,896
Accumulated amortization			(91,532)	(70,462)	(43,613)
			<b>181,136</b>	<b>203,490</b>	<b>235,283</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 values. Aggregate amortization expense amounted to \$16,268, \$23,102 and \$16,276 for the years ended December 31, 2010, 2009 and 2008, respectively.

### Estimated amortization expense in subsequent annual periods

2011	(21,212)
2012	(20,618)
2013	(20,618)
2014	(20,618)
2015 and later	(95,220)

## 10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Trade accounts payable	466,988	400,236	489,486
Advances received	199,407	114,472	54,127
Taxes payable other than income tax	120,287	87,402	81,966
Accounts payable and accrued liabilities to employees	149,827	130,813	129,724
Dividends payable	2,102	2,574	4,859
Short-term capital lease liability (Note 19)	38,430	30,383	35,722
Negative fair values of unrealized forward contracts (Note 13)	–	290	495,540
Other accounts payable	130,393	75,060	587,789
	<b>1,107,434</b>	<b>841,230</b>	<b>1,879,213</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) and amount of settlement with respect to dispute with DBO Holdings Inc. totaled \$234,000 (Note 26(b)).

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

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
<b>Parent Company</b>			
Loans, EURO denominated, with interest rates from EURIBOR (6 m) +1.5% to EURIBOR (3 m) +3.5% per annum, mature 2011–2019	582,192	–	–
Bonds, RUR denominated, with interest rate from 9.75% to 10.75% per annum	835,059	502,627	–
Loans, US\$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2011–2013	1,104,707	1,506,580	1,657,105
<b>Companies of the Long products segment (Maxi-Group)</b>			
<b>Russian rubles</b>			
Loans with interest rates from MosPrime3M+2.25% to 16% per annum, mature 2010	–	317,086	908,002
Bonds with interest rates from 10% to 12% per annum	–	227	980
Other borrowings	1,844	59,315	56,065
<b>US dollars</b>			
Loans with interest rate LIBOR (1 m) +3.75% per annum, mature 2010	–	19,355	119,431
<b>Euros</b>			
Loans with interest rates from EURIBOR (6 m) +1.3% to EURIBOR (6 m) +4% per annum, mature 2011–2017	23,585	52,209	122,559
Other borrowings	4,416	11,277	19,631
	<b>2,551,803</b>	<b>2,468,676</b>	<b>2,883,773</b>
<b>Other companies</b>			
Loan, RUR denominated, with interest rate 10% per annum	29,019	26,538	81,825
Loan, US\$ denominated, with interest rate 5% per annum	28,819	–	–
Loan, EURO denominated, with interest rate EURIBOR (6 m) +5% per annum	2,910	–	43,711
Other borrowings	11,871	1	269
	<b>2,624,422</b>	<b>2,495,215</b>	<b>3,009,578</b>
Less: short-term loans and current maturities of long-term loans	(525,559)	(556,563)	(1,079,806)
<b>Long-term borrowings</b>	<b>2,098,863</b>	<b>1,938,652</b>	<b>1,929,772</b>
The Group's long-term borrowings as at December 31, 2010 mature between two to eight years.			
The payments scheduled for long-term loans are as follows:			
2012			1,480,415
2013			316,420
2014			106,483
2015			90,577
Remainder			104,968
			<b>2,098,863</b>

#### New borrowings

The amount of loans and bonds, received by the Group under the new loan agreements concluded in the year ended December 31, 2010, and outstanding as at December 31, 2010, is \$899,242.

#### 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.



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## 12 OTHER LONG-TERM LIABILITIES

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Long-term capital lease liability (Note 19)	191,102	137,592	128,712
Other long-term liabilities	2,849	2,314	232
	<b>193,951</b>	<b>139,906</b>	<b>128,944</b>

## 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 \$4,105, \$209 and nil, respectively, are included in other current assets as at December 31, 2010, 2009 and 2008.

Negative fair values of unrealized forward exchange contracts, amounting to nil, \$(290) and \$(495,540) are included in the line 'Accounts payable and other liabilities' in the consolidated balance sheets as at December 31, 2010, 2009 and 2008, respectively (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, 2010 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. 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, 2010		As at December 31, 2009		As at December 31, 2008	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	100,240	4,105	48,059	209	–	–
	<b>100,240</b>	<b>4,105</b>	<b>48,059</b>	<b>209</b>	<b>–</b>	<b>–</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, 2010		As at December 31, 2009		As at December 31, 2008	
	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>–</b>	<b>–</b>	<b>59,826</b>	<b>(290)</b>	<b>2,327,548</b>	<b>(495,540)</b>

During 2010, 2009 and 2008 gains/(losses) from forward exchange contracts amounted to \$4,225, \$(95,033) and \$(641,159), respectively. These gains and losses were included in 'Foreign currency exchange loss, 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 an additional interest of 25% in one of the above mentioned 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.

In May 2010, the Parent Company also acquired for \$20,246 an interest of 100% in an additional company controlled by Maxi-Group. As a result of this transaction between Group companies, there was an increase of non-controlling interest by \$13,698 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)).

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## 15 STOCKHOLDERS' EQUITY

### (a) Stock

As at December 31, 2010, 2009 and 2008, 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 stockholders' meetings.

### (b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at December 31, 2010, 2009 and 2008, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to \$8,990,627, \$8,154,649 and \$7,551,800, converted into US dollars using exchange rates at December 31, 2010, 2009 and 2008, respectively.

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

In September 2010, the Parent Company declared interim dividends for the six-month period ended June 30, 2010 of 0.62 Russian ruble per share for the total of \$122,218 (at the historical rate). Dividends payable amounted to \$2,102 at December 31, 2010 (Note 10).

In June 2010, the Parent Company declared dividends for the year ended December 31, 2009 of 0.22 Russian rubles per share for the total of \$42,679 (at the historical rate).

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 rubles per share for the total of \$360,142. Dividends payable amounted to \$4,859 at December 31, 2008 (Note 10).

## 16 DISPOSALS OF ASSETS

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	182,558
<b>Total assets</b>	<b>219,887</b>
Current liabilities	(12,676)
Non-current liabilities	(5,254)
<b>Total liabilities</b>	<b>(17,930)</b>
<b>Net assets</b>	<b>201,957</b>
Information on TMTP's transactions for January 2009 is as follows:	
Sales revenue	6,006
Net income	2,976

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.

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## 17 EARNINGS PER SHARE

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	1,255,043	215,055	2,278,741
<b>Basic and diluted net income per share (US dollars)</b>	<b>0.2094</b>	<b>0.0359</b>	<b>0.3802</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.

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, 2010, 2009 and 2008.

The Parent Company does not have potentially dilutive shares outstanding.

## 18 INCOME TAX

	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
Current income tax expense	357,182	147,341	962,920
Deferred income tax expense/(benefit): origination and reversal of temporary differences	33,790	34,443	(259,446)
<b>Total income tax expense</b>	<b>390,972</b>	<b>181,784</b>	<b>703,474</b>

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

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

	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
Income before income tax	1,722,288	594,739	3,131,697
Income tax at applicable tax rate	344,458	118,948	751,607
Decrease in income tax resulting from:			
changing from 9% to 0% of the tax rate applicable to income received in the 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	46,514	62,836	94,114
<b>Total income tax expense</b>	<b>390,972</b>	<b>181,784</b>	<b>703,474</b>

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### 18 INCOME TAX (continued)

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, 2010	As at December 31, 2009	As at December 31, 2008
<b>Deferred tax assets</b>			
Accounts payable and other liabilities	75,044	75,296	108,433
Non-current liabilities	43,841	33,940	30,615
Accounts receivable	5,658	11,334	17,254
Net operating loss and credit carry forwards, including:	194,957	171,183	–
– related to subsidiaries located in Russia (expiring in 2011–2020)	57,995	45,950	–
– related to subsidiaries located in the USA (expiring in 2011–2029)	136,962	125,233	–
Other	–	–	11,439
Less: valuation allowance	(54,078)	(41,566)	–
	<b>265,422</b>	<b>250,187</b>	<b>167,741</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	(537,245)	(514,911)	(399,681)
Intangible assets	(23,501)	(26,375)	(28,099)
Inventories	(39,994)	(6,777)	(27,016)
Other	(7,549)	(16,467)	(9,820)
	(608,290)	(564,530)	(464,616)
<b>Total deferred tax liability, net</b>	<b>(342,868)</b>	<b>(314,343)</b>	<b>(296,875)</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.

As of December 31, 2010 and 2009 the Group analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is more likely than not that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities.

### 19 CAPITAL AND OPERATIONAL LEASES

	Capital leases
<b>Future minimum lease payments</b>	
2011	84,114
2012	77,572
2013	65,156
2014	57,269
2015	43,346
Remainder	56,722
<b>Total minimum lease payments</b>	<b>384,179</b>
Less: amount representing estimated executory costs (including taxes payable by the lessor) and profit thereon, included in total minimum lease payments	(18,713)
<b>Net lease payments</b>	<b>365,466</b>
Less: amount representing interest	(101,307)
<b>Present value of minimum lease payments</b>	<b>264,159</b>
Short-term capital lease liability, including advances given	46,047
Less: advances given	(7,617)
Short-term capital lease liability (Note 10)	38,430
Long-term capital lease liability, including advances given	218,112
Less: advances given	(27,010)
<b>Long-term capital lease liability (Note 12)</b>	<b>191,102</b>

The average capital lease contract term is six years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2010, 2009 and 2008 mostly varied from 10.5% to 13.5%.

Capital lease charges of \$36,773, \$23,179 and \$12,867 were recorded for the years ended December 31, 2010, 2009 and 2008, respectively.

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## 19 CAPITAL AND OPERATIONAL LEASES (continued)

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2010 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, 2010, 2009 and 2008, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Machinery and equipment	96,408	120,004	139,643
Vehicles	275,997	208,200	170,891
	372,405	328,204	310,534
Accumulated depreciation	(69,661)	(57,282)	(44,501)
	<b>302,744</b>	<b>270,922</b>	<b>266,033</b>

The Group incurred expenses in respect of operational leases of \$16,585, \$3,408 and \$2,582 in 2010, 2009 and 2008, respectively.

## 20 NON-CASH TRANSACTIONS

Approximately \$102,500, \$57,500 and \$86,800 of the Group's 2010, 2009 and 2008 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 2010, 2009 and 2008 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, 2010, 2009 and 2008, were \$97,606, \$83,186 and \$107,793, 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 an active market. Fair values for these investments are determined based on discounted cash flows and approximate their book values. The fair value of long-term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates its book value.

The fair values of trading and available-for-sale securities are based on quoted market prices for these or similar instruments.

## 22 BUSINESS COMBINATIONS

### (a) Acquisition of Beta Steel Corp. (further changed its name to NLMK Indiana) shares

In October 2008, the Group acquired a 100% interest in NLMK Indiana. 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 NLMK Indiana's loans in accordance with the share-purchase agreement provisions.

The acquisition of NLMK Indiana 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 NLMK Indiana in 2008 were \$404,848 and \$(45,882), respectively.



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## 22 BUSINESS COMBINATIONS (continued)

### (b) Acquisition of international traders

In December 2007, the Group reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. 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 also gave the Group better control over export sales and further enhanced 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 (Cyprus) Ltd. in 2008 were \$4,978,904 and \$4,475, respectively.

In the course of initially conducted consolidation of international traders a 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 December 2007 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. 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 were not finalized and as the parties failed to reach an agreement, they applied to the International Commercial Arbitration Court at the Russian Federation Chamber of Commerce and Industry (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.

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## 22 BUSINESS COMBINATIONS (continued)

The following table summarizes the best estimated fair values of the assets acquired and liabilities assumed in this business combination, determined as at the date of a one-year deadline to finalize the purchase price allocation. The fair values of property, plant and equipment and intangible assets were based on estimates of an 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 October 2010, the Group acquired a 100% stake in LLC VMI Recycling Group which owns scrap collection and processing assets located in the Moscow region, for a consideration of \$28.4 million. This acquisition is in line with NLMK's vertical integration strategy aimed at enhancing the Group's self-sufficiency in main raw materials.

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 SEGMENT 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 the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The amount of investments in equity method investee and equity in net losses of associates are included in the steel segment (Note 5).

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, 2010 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	7,160,623	864,786	81,364	242,800	1,175	8,350,748	–	8,350,748
Intersegment revenue	130,044	512,208	831,257	762,945	16	2,236,470	(2,236,470)	–
Depreciation and amortization	(308,546)	(74,299)	(57,059)	(29,442)	(72)	(469,418)	–	(469,418)
<b>Gross profit</b>	<b>1,897,566</b>	<b>208,659</b>	<b>603,732</b>	<b>267,703</b>	<b>284</b>	<b>2,977,944</b>	<b>(29,850)</b>	<b>2,948,094</b>
<b>Operating income/(loss)</b>	<b>1,083,585</b>	<b>(27,811)</b>	<b>544,544</b>	<b>224,861</b>	<b>(914)</b>	<b>1,824,265</b>	<b>(29,675)</b>	<b>1,794,590</b>
Interest income	263,753	3,240	82	232	1,310	268,617	(223,546)	45,071
Interest expense	(13,688)	(225,712)	–	(11)	–	(239,411)	223,546	(15,865)
Income tax	(264,218)	17,640	(107,479)	(49,443)	(407)	(403,907)	12,935	(390,972)
<b>Income/(loss), net of income tax</b>	<b>1,372,125</b>	<b>(244,897)</b>	<b>428,173</b>	<b>175,753</b>	<b>1,571</b>	<b>1,732,725</b>	<b>(401,409)</b>	<b>1,331,316</b>
Segment assets, including goodwill	12,432,542	2,276,364	1,195,472	824,216	43,092	16,771,686	(2,872,661)	13,899,025
Capital expenditures	(1,071,036)	(254,428)	(126,241)	(8,039)	(3,465)	(1,463,209)	–	(1,463,209)

## Financial Statements: Notes to the consolidated financial statements *continued*

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### 23 SEGMENT INFORMATION (continued)

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), 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), 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)

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, 2010, 2009 and 2008, is as follows:

	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008
Russia	3,434,379	2,280,492	4,560,896
European Union	1,802,638	847,098	2,045,622
Middle East, including Turkey	1,162,157	1,301,566	1,952,551
North America	797,183	300,536	714,511
Asia and Oceania	698,167	1,225,460	1,785,518
Other regions	456,224	184,743	639,563
	<b>8,350,748</b>	<b>6,139,895</b>	<b>11,698,661</b>

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

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## 24 RISKS AND UNCERTAINTIES

### (a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation.

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilization of the exchange rate of the Russian ruble against major foreign currencies, and increased liquidity levels in the banking sector.

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

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

### (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.

### (c) 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, 2010, 2009 and 2008 were 59%, 63% and 61% 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.

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, 2010 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	328,086	134,046	3,496
Accounts receivable and advances given	78,116	388,853	38,825
Investments	110,000	785,042	–
Accounts payable and other liabilities	(65,465)	(66,658)	(3,444)
Short-term borrowings	(433,526)	(86,084)	–
Long-term borrowings	(700,000)	(527,332)	–

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### 25 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at December 31, 2010, 2009 and 2008 and transactions for the years ended December 31, 2010, 2009 and 2008 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 \$777,573, \$483,546 and \$543,682 for the years ended December 31, 2010, 2009 and 2008, respectively. Sales to other related parties were \$13,558, \$6,802 and \$24,074 for the years ended December 31, 2010, 2009 and 2008, respectively.

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled \$215,649, \$145,243 and \$193,875 as at December 31, 2010, 2009 and 2008, respectively. Accounts receivable from other related parties equaled \$5,559, \$690 and \$4,390 as at December 31, 2010, 2009 and 2008, respectively.

##### *Purchases and services*

Purchases from subsidiary of an associate (SIF S.A.) were \$1,825 and \$74,193 for the years ended December 31, 2010 and 2008, respectively. There were no such purchases for the year ended December 31, 2009. Purchases from the companies under common control, were \$37,399, \$6,683 and \$8,063 for the years ended December 31, 2010, 2009 and 2008, respectively.

Accounts payable to subsidiary of an associate (SIF S.A.) were \$7,500, nil and \$62,990 as at December 31, 2010, 2009 and 2008, respectively. Accounts payable to the related parties were \$72,072, \$117 and \$18,154 as at December 31, 2010, 2009 and 2008, 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 with an interest rate of 7.7%. In 2009, this loan was prolonged until 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 with interest rates ranging from 2.5% to 4.5% and maturing in 2010. In 2010, the loans were prolonged until 2011. The carrying amount of these loans, including interest accrued, is \$515,264, \$589,542 and \$155,648 as at December 31, 2010, 2009 and 2008, respectively.

As at December 31, 2010, 2009 and 2008, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to \$217,496, \$201,942 and \$55,693, 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 controlling shareholder (OJSC Bank ZENIT and OJSC Lipetskombank) amounted to \$94,147, \$108,722 and \$69,515 as at December 31, 2010, 2009 and 2008, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2010, 2009 and 2008 amounted to \$1,463, \$1,899 and \$388, respectively.

During the year ended December 31, 2010, the company under significant influence of the Group's controlling shareholder (OJSC Bank ZENIT) purchased bonds issued by the Parent Company of \$11,731 (as at the date of issue).

#### (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) and completed the disposal in January 2009.

#### (d) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to \$3,538, \$3,349 and \$4,786 in 2010, 2009 and 2008, respectively. The Group has no long-term commitments to provide funding, guarantees, or other support to the above mentioned funds.

### 26 COMMITMENTS AND CONTINGENCIES

#### (a) Anti-dumping investigations

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

#### (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 unfavorable 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.



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### 26 COMMITMENTS AND CONTINGENCIES (continued)

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 \$1,973,043, \$1,678,660 and \$1,510,813 as at December 31, 2010, 2009 and 2008, 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, 2010, 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, 2010, 2009 and 2008, the Group has issued guarantees amounting to \$218,553, \$214,148 and \$67,058, 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 March 2011, the Group acquired for \$29,531 (translated at the exchange rate at December 31, 2010) a license for exploration and extraction of coal in the mine field area no. 3 of the Usinsky coal deposit expiring March 1, 2031.

The Group's management has performed an evaluation of subsequent events through the date of approval of these consolidated financial statements which is also the date that they are available to be issued.

The NLMK Group maintains a diversified product portfolio, which includes pig-iron, slabs, hot-rolled and cold-rolled flat steel, pre-painted flat steel, electrical steel and long steel products. In addition to steel products, it also markets raw materials, including iron ore and coke.

Item	Target industries	Examples of use	Producer
<b>Steel Products</b>			
Pig-iron	Automotive, machine-building, steelmaking	White goods, motor casings, bedplates, pipes and tubes, BOF processing	Novolipetsk
Slabs	Steelmaking	Further processing into rolled steel flats	Novolipetsk NLMK Indiana (for in-house processing)
Hot-rolled steel	Construction, machine-building, infrastructure development, ship-building	Steel structures, guardrails, ship hulls, machine casings, road-building machinery components	Novolipetsk, NLMK Indiana, SIF assets
Hot-rolled plates	Ship-building, wind power generation, pipe manufacturing, construction, machine-building	Pipes and tubes, pressurized vessels, ship hulls, bedplates for wind power generation installations, building of bridges, pumps	DanSteel, SIF assets
Cold-rolled steel	Construction, machine-building, automotive, pipe manufacturing	Casing components for machinery and installations, frame elements, pipes and tubes, floodlight towers, agricultural machinery	Novolipetsk, SIF assets
Galvanized steel	Construction, automotive, infrastructure development	Casing components for machinery, roofing, frame elements for use in corrosive environments	Novolipetsk, SIF assets
Pre-painted steel	Construction, white goods	Roofing and finishing materials, casings for household and commercial goods	Novolipetsk, SIF assets
Dynamo (isotropic) steel	Electrotechnical industry, machine-building	Electric motor components	Novolipetsk, VIZ-Stal
Transformer (anisotropic) steel	Electrotechnical industry	Transformer cores, stationary components of electric machines	Novolipetsk, VIZ-Stal
Billets	Steelmaking	Further processing into long products	NLMK Long Products assets
Long steel (rebar, wire rod)	Construction, machine-building	Reinforced concrete structures, components of gears and machines (axles, wheels), production of screens and grills	NLMK Long Products assets; Kaluga Mini-Mill (in future)
Metalware	Construction	Wire, fittings, nails, screens	NLMK Long Products assets
<b>Raw Materials</b>			
Iron Ore	Steelmaking	Iron ore concentrate and sinter ore are used as raw materials for making pig-iron in blast furnaces	Stoilensky
Coke	Steelmaking	Coke is one of the components of charge (fuel) used to make pig-iron in blast furnaces	Sales to third parties by Altai-Koks; Production at Altai-Koks and Novolipetsk



For more detailed information on our products please visit our website ([www.nlmk.com](http://www.nlmk.com)), Products section

**P.30** For more detailed information on our sales

**P.10** For more detailed information on our products' applications

Method of production	Quality and certificates	Key markets, Sales in 2010 (ex SIF), Market position
Pig-iron is produced in blast furnaces using iron ore (in the form of sinter ore, and pellets) Fuel (natural gas, coke, etc.)	Complies with international quality standards. Product registration in accordance with EU REACH requirements	Markets: Russia, CIS, United States, EU Sales: 582,000 tonnes Share in total Group sales: 5%
BOF using pig-iron and scrap	Complies with international quality standards. Slabs for ship-building steel are certified by Lloyd's Register (LR), American Bureau of Shipping (ABS), Germanischer Lloyd, Det Norske Veritas (DNV), Bureau Veritas (BV), Registro Italiano Navale (RINA)	Markets: EU (including to SIF assets), United States, South-East Asia, Middle East Sales: 3,835,000 tonnes (1.5 million tonnes to SIF assets) Share in total Group sales: 33% Share of global market: 14%
Heated slabs are processed in hot-rolling mills	Complies with international quality standards. Hot-rolled steel is certified: • for ship-building by Lloyd's Register; • for pressure equipment in accordance with Directive 97/23/EC and Technical Rules Code AD 2000 at TUV SUD; and • for construction products in accordance with Directive 89/106/EEC at TUV SUD (CE mark)	Markets: Russia, EU, United States, South-East Asia, Middle East Sales: 2,424,000 tonnes Share in total Group sales: 21% Share of Russian market: 8%
Heated slabs are processed in reversible rolling mills	Complies with international quality standards	Markets: EU, United States, South-East Asia, Middle East Sales: 348,000 tonnes Share in total Group sales: 3% Share of EU market: 7% (incl. SIF)
HR re-rolling stock is pickled, processed in cold-rolling mills, and treated with heat	Complies with international quality standards	Markets: Russia, EU, South-East Asia, Middle East, Africa Sales: 1,527,000 tonnes Share in total Group sales: 13% Share of Russian market: 21%
CR and HR re-rolling stock is galvanized and treated with heat	Complies with international quality standards	Markets: Russia, CIS, United States Sales: 576,000 tonnes Share in total Group sales: 5% Share of Russian market: 23%
Application of polymer coats to CR or galvanized re-rolling stock	TUV CERT certified for compliance with DIN EN 10169-1 standard	Markets: Russia, EU, CIS Sales: 332,000 tonnes Share in total Group sales: 3% Share of Russian market: 21%
Pickling of hot rolled strip, cold rolling, thermal treatment and application of electric insulation coating	Complies with international quality standards	Markets: Russia, South-East Asia, EU, Middle East Sales: 268,000 tonnes Share in total Group sales: 2% Share of Russian market: 53%
Pickling of hot rolled strip, 1st cold rolling, decarburizing annealing, 2nd cold rolling, application of heat-resistant coating, high-temperature annealing, application of electric insulation coating, thermoflattening annealing	Complies with international quality standards	Markets: Russia, South-East Asia, EU, Latin America, Middle East Sales: 198,000 tonnes Share of Russian market: 94% Share in total Group sales: 2% Share of global market: 7%
EAF process using scrap	Complies with international quality standards	Markets: Russia, Middle East Sales: 263,000 tonnes Share in total Group sales: 2%
Heated billets are re-rolled using bar-rolling mills	Complies with international quality standards	Markets: Russia, Middle East, EU, United States Sales: 1,158,000 tonnes Share in total Group sales: 10% Share of Russian market: 10%
Long products are processed using special machines (drawing mills, nail makers). Finished products are treated with chemicals and heat, galvanized and bonderized	Complies with international quality standards	Markets: Russia, EU, CIS Sales: 219,000 tonnes Share in total Group sales: 2% Share of Russian market: 20%
Ore mining and dressing (removal of spoil)	Iron content: 66.5% in concentrate and 52% in sinter ore	Russia, CIS, EU, China Sales: 13,861,000 tonnes (incl. inter-Group sales)
Coking coal is processed in coke batteries		Russia, CIS, Middle East Sales: 3,363,000 tonnes (including 2,345,000 tonnes at Novolipetsk)



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